



January 12, 2024

The Honorable Debbie-Anne Reese
Acting Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: California Independent System Operator Corporation
Docket No. ER24-____-000**

Tariff Amendment to Enhance the Rules of Conduct

Dear Acting Secretary Reese:

The California Independent System Operator Corporation (CAISO) submits this tariff amendment to update four distinct aspects of Section 37 of the CAISO's tariff, which is called the rules of conduct.¹ These rules specify the behavior expected of CAISO market participants and establish in advance financial sanctions and other consequences for violations of these rules. Through this filing, the CAISO seeks to: (1) update the penalty formula for inaccurate submissions of meter data; (2) eliminate the calculation of a market adjustment charge for meter data reporting errors when the party in error is the only party in the relevant utility service area; (3) remove the requirement for the CAISO to seek Commission approval before distributing annual penalty proceeds to eligible market participants; and (4) clarify that entities exempt from rules of conduct sanctions are not eligible market participants for distributing penalty proceeds.

Each set of tariff amendments are discrete, severable, and not interdependent with the other aspects of the proposal. Additionally, one element

¹ The CAISO submits this filing pursuant to section 205 of the Federal Power Act (FPA), 16 U.S.C. § 824d, and Part 35 of the Commission's Regulations, 18 C.F.R. Part 35. Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the CAISO tariff, and references herein to specific tariff sections are references to sections of the CAISO tariff unless otherwise specified.

of revised tariff section 37.5.2.2.1² regarding penalties for derived load meter data, described in more detail below, is severable from the other meter data penalty revisions.³ The CAISO thus requests the Commission evaluate the justness and reasonableness of the revisions separately.

The CAISO respectfully requests the Commission issue an order accepting the proposed tariff revisions by March 22, 2024. The CAISO is targeting implementation of these provisions on April 1, 2024. However, to provide additional implementation flexibility, the CAISO requests these tariff revisions be effective, subject to the CAISO filing a notice with the Commission within 5 days of the actual effective date.⁴

I. Background

A. History and Purpose of the Rules of Conduct

The CAISO's rules of conduct establish a variety of rules for market participant behavior and defines consequences when market participants do not adhere to those rules.⁵ The rules of conduct help provide fair notice to market participants of expected conduct; redress instances of market manipulation and anticompetitive behavior; and increase the confidence of market participants, ratepayers, and the general public in the proper functioning of the CAISO markets. The CAISO developed the rules of conduct in response to the Western Energy Crisis and proposed them for Commission approval in 2003.⁶ They first took effect in 2007.

² For the sake of clarity, this transmittal letter distinguishes between existing tariff provisions (*i.e.*, provisions in the current CAISO tariff), new tariff provisions (*i.e.*, tariff provisions the CAISO proposes to add in this filing), and revised tariff provisions (*i.e.*, existing tariff provisions the CAISO proposes to revise in this filing).

³ The specific provision is: "Where a Scheduling Coordinator (under the same SCID or different SCIDs) submits inaccurate Meter Data for both a Generating Unit and Load for the same Trading Day, the CAISO does not consider the inaccurate Load Settlement Quality Meter Data for purposes of assessing Sanctions under this Section 37.5.2.2.1 if the Scheduling Coordinator demonstrates to the CAISO's reasonable satisfaction that the Load Settlement Quality Meter Data is derived from the Generating Unit Settlement Quality Meter Data and that the inaccurate Load Settlement Quality Meter Data was caused by the inaccurate Generating Unit Settlement Quality Meter Data. In such cases, the CAISO considers the inaccurate Load Settlement Quality Meter Data in calculating any applicable market adjustment pursuant to Section 37.5.2.2.4." Revised tariff section 37.5.2.2.1.

⁴ The CAISO respectfully requests the Commission grant waiver of the notice requirement of section 35.3(a)(1) of the Commission's regulations, 18 C.F.R. § 35.3(a)(1), to permit a potential effective date more than 120 days after this filing.

⁵ See existing tariff section 37.1.2.

⁶ *Cal. Indep. Sys. Operator Corp.*, Amendment No. 55 to the CAISO Tariff, FERC Docket No. ER03-1102-000 (July 22, 2003) (Amendment 55).

B. Summary of Existing Rules of Conduct

1. Substantive Rules

The rules of conduct includes ten categories of market participant rules. Six have defined sanctions, which the CAISO enforces.⁷ The Commission administers the other four rules through its enforcement process. Violations of these four rules are subject to sanctions the Commission determines through that process.⁸

The six CAISO-administered rules are:

1. **Forced Generation Outages** – Generators must report forced generation outages within 60 minutes of discovery. Violations are subject to escalating penalties, starting with a warning letter running up to \$5,000 per violation for the fifth violation in a rolling 12-month period.
2. **Maintenance Outage Approval** – Generators and transmission operators may not take a maintenance outage without receiving CAISO approval. Violations are subject to a sanction of \$5,000 for the first violation in a rolling 12-month period, increasing to \$10,000 for subsequent violations in a rolling 12-month period.
3. **Timely & Accurate Meter Data** – Scheduling coordinators that submit their own meter data must submit complete and accurate meter data by the submission deadline. The CAISO assesses penalties of either \$1,000 or \$4,000 per trading day depending on when a scheduling coordinator corrects an issue.
4. **Tariff-Required Information** – Market participants must submit tariff-required information by the applicable deadline. Violations are penalized \$500 per day the information is late.
5. **Investigative Information** – Market participants must submit information requested in a CAISO investigation. Violations are subject to escalating sanctions starting at \$1,000 per day up to \$5,000 per day.

⁷ Existing tariff section 37.1.5 (specifying which of the rules of conduct are enforced by the CAISO and which by the Commission).

⁸ All ten rules initially were enforced by the CAISO. As part of the CAISO's compliance with Commission Order No. 719, the CAISO amended its tariff to only enforce rules whose violations could be identified objectively. See *Cal. Indep. Sys. Operator Corp.*, 134 FERC ¶ 61,050, PP33-61 (2011); *Wholesale Competition in Regions with Organized Electric Markets*, 125 FERC ¶ 61,071 (2008).

6. ***Audit and Test Requirements*** – Market participants must comply with the CAISO’s audit and test procedures and provide all required audit reports. Violations are subject to escalating sanctions starting at \$1,000 per day up to \$5,000 per day.⁹

The four Commission-administered rules are that market participants must: comply with operating instructions; not contribute to a major outage due to inadequate operating and maintenance practices; operate a resource adequacy resource consistent with its market awards; and submit feasible bids to the market.¹⁰

2. Enforcement Process

The tariff creates a defined process for the CAISO to administer the six rules of conduct it enforces. If the CAISO believes a market participant may have committed a tariff violation subject to CAISO penalties, it “shall conduct a reasonable investigation seeking available facts, data, and other information relevant to the potential” violation.¹¹ The CAISO must begin the investigation within 90 days of discovering the events potentially subject to sanction.¹² The investigation must include “notice of the investigation in sufficient detail to allow for a meaningful response”¹³ and an opportunity for the market participant “to present any issues of fact or other information relevant to the potential” violation.¹⁴ Based on its investigation, the CAISO must assess any penalties resulting from the investigation within “one year after discovery of the events constituting the violation, but no later than three years after the date of the violation.”¹⁵

When the CAISO determines a penalty is warranted, the market participant “may obtain immediate review of the CAISO’s determination by directly appealing to FERC,” in which case the “penalty will be tolled until FERC renders its decision on the appeal.”¹⁶

⁹ These rules are established in existing tariff sections 37.4, 37.5, 37.6, and 37.11.

¹⁰ These rules are provided in existing tariff sections 37.2.1, 37.2.3, 37.2.4, and 37.3.1.1.

¹¹ Existing tariff section 37.8.3.

¹² Existing tariff section 37.10.1.

¹³ Existing tariff section 37.8.4.

¹⁴ Existing tariff section 37.8.5.

¹⁵ Existing tariff section 37.10.1.

¹⁶ Existing tariff section 37.8.10. Under tariff section 37.8.10, the scheduling coordinator must “also dispute the Recalculation Settlement Statement containing the financial penalty” to toll the penalty.

3. Penalty Distribution

a. *Tariff Provisions Governing Distribution of Proceeds*

Section 37.9.4 of the CAISO tariff requires the CAISO to place all proceeds of penalties collected under section 37 for a year into a trust account. After the end of the year, the CAISO allocates those proceeds, with interest, to eligible market participants. Eligible market participants are “those Market Participants that were not assessed a financial penalty pursuant to this Section 37 during the calendar year.”¹⁷ The “eligible market participant” rule ensures an entity is not rebated part of its penalty and create an additional financial incentive for compliance.

In distributing the funds, the CAISO pays eligible market participants based on the product of: (a) the amount in the trust account, including interest; and (b) the ratio of grid management charge payments by the scheduling coordinator on behalf of eligible market participants to the total of such amounts paid by all scheduling coordinators. The payment cannot be more than the grid management charge paid by the scheduling coordinator on behalf of all eligible market participants it represents. After the disposition, the scheduling coordinator distributes the amounts to the eligible market participants in proportion to their share of the grid management charge paid by the scheduling coordinator on their behalf. For example, assume a scheduling coordinator represented three market participants (MP₁, MP₂, and MP₃) for the year and each paid \$5,000 in grid management charge. If the scheduling coordinator is not charged any sanctions during the year, then the CAISO will count the scheduling coordinator as having paid \$15,000 in grid management charge for the *pro rata* distribution. It is then up to the scheduling coordinator to pass along whatever amount of the penalty proceeds the CAISO allocates based on that \$15,000 in grid management charge in equal portions to each of MP₁, MP₂, and MP₃. If, however, the CAISO assessed this scheduling coordinator a rules of conduct sanction because of conduct attributable to MP₁, then that is the ineligible market participant and the scheduling coordinator will be treated as having paid \$10,000 in grid management charge for the *pro rata* distribution, rather than \$15,000 in grid management charge had there been no sanction. It is then up to that scheduling coordinator to distribute the funds appropriately to MP₂ and MP₃.

Section 37.9.4 requires the CAISO to “obtain FERC’s approval of its determination of eligible Market Participants and their respective shares of the trust account proceeds” before distributing the penalty proceeds. The CAISO thus makes a new filing with the Commission each year seeking approval of how it applied the *pro rata* formula described above to the specific penalties charged

¹⁷ Existing tariff section 37.9.4.

for the prior year. Each filing publicly provides aggregated information about penalties charged over the year and total dollars to distribute. The CAISO files the specific distribution to each scheduling coordinator under seal and requests confidential treatment of this information.

b. Applying eligible market participant rule for entities exempt from penalty

In 2020, the CAISO issued a penalty under section 37.11 for late meter data revisions to one of the two federal power marketing administrations (PMA) that participate in the CAISO's markets. In response, the PMA asserted it was exempt from paying penalties under section 37 because imposition of the sanctions would violate the Supremacy Clause¹⁸ of the Constitution and the Anti-Deficiency Act,¹⁹ and accordingly the penalties were barred under section 22.9(a) of the CAISO tariff. This section states: "No person or federal entity shall incur any liability by failing to comply with a CAISO Tariff provision that is inapplicable to it by reason of being inconsistent with any federal statutes, regulations, or orders lawfully promulgated thereunder"

The CAISO altered its business processes so it logs potential violations by either PMA but does not assess penalties. This exemption, however, raises whether the PMAs would be eligible for a distribution of the penalty proceeds. Section 37.9.4 calls for the CAISO to distribute the section 37 penalty proceeds to "those Market Participants that were not assessed a financial penalty pursuant to this Section 37 during the calendar year." Arguably the PMAs would meet this standard even in years where they had a violation because the CAISO would never assess penalties against them. The CAISO does not believe an entity should be eligible to receive a distribution of penalty revenues when it is never at risk of paying a penalty. Accordingly, the CAISO's annual penalty distribution filing for the past few years has proposed not to allocate funds to the PMAs and the Commission has approved that proposal in each instance.²⁰

The CAISO potentially faces a similar issue when the Commission grants a market participant's penalty appeal. Where the Commission order excuses payment of the penalty, arguably that entity would be an eligible market participant even if it is clear they committed a violation. The CAISO does not believe it should treat an entity as an eligible market participant when it

¹⁸ See U.S. Const., art. vi, cl. 2.

¹⁹ See 31 U.S.C. § 1341.

²⁰ *Cal. Indep. Sys. Operator Corp.*, 181 FERC ¶ 61,199, PP 4 & 7 (2022); *Petition of the California Independent System Operator Corporation for Approval of Disposition of Penalty Assessment Proceeds and Non-Refundable Interconnection Financial Security*, at 6-7, FERC Docket No. ER24-355-000 (Nov. 2, 2023).

committed a violation but is excused from paying the penalty because, for example, the penalty is excessive under that market participant's specific circumstances. The CAISO similarly has attempted to address this issue in prior penalty waiver proceedings.²¹

C. Unique Issues with Meter Data Penalties

Meter data issues are the most frequent source of rules of conduct penalties and the most frequent source of appeals to the Commission.

1. Meter Data Submission Process

Meter data represents energy generated or consumed during a settlement interval and is the basis of how the CAISO settles its markets. An entity referred to in the CAISO tariff as a "CAISO Metered Entity" has its meter data collected and processed remotely by the CAISO. A "Scheduling Coordinator Metered Entity" (SCME) submits its meter data to the CAISO for market settlement.

The CAISO financially settles its markets through an iterative process that includes an initial settlement statement nine business days after the trading day (T+9B) followed by several subsequent recalculation settlement statements. The CAISO publishes the final recalculation settlement statement produced in the ordinary course of business 70 business days after the trading day (T+70B). A scheduling coordinator for a SCME must submit meter data by the fifty-second business day after the trading day (T+52B) for the CAISO to process that data on the T+70B recalculation settlement statement.

After the T+70B statement, the CAISO publishes the next recalculation settlement statement 11 months after the trading day (T+11M). The T+11M statement is optional. Scheduling coordinators for SCMEs may submit new or revised meter data for the CAISO to use on the T+11M statement by the two-hundred fourteenth day (T+214B) after the trading day. If the CAISO publishes a T+11M statement, it calculates those statements based on that new meter data.

2. Meter Data Penalties

a. Current Meter Data Penalties

Although scheduling coordinators may submit new or revised meter data for use on the T+11M statement, a scheduling coordinator's failure to submit any

²¹ *Cal. Indep. Sys. Operator Corp.*, Petition for Limited Waiver, at 13-14, FERC Docket No. ER23-1699-000 (Apr. 24, 2023); *Cal. Indep. Sys. Operator Corp.*, Petition for Limited Waiver, at 9 n.22, FERC Docket No. ER21-395 (Nov. 12, 2020).

meter data by T+52B²² or its submission of revised meter data for the T+11M statement violates the tariff.²³ The CAISO refers to the former scenario of submitting no meter data by the deadline as submission of *late meter data* and refers to the latter scenario of submitting revisions to previously-submitted data after the deadline as submission of *inaccurate meter data*. Whether the scheduling coordinator submits late meter data or inaccurate meter data, the violation subjects the scheduling coordinator to a penalty of \$1,000 for each affected trading day.²⁴ A scheduling coordinator that fails to submit meter data for the T+70B settlement statement and fails to submit meter data for the T+11M settlement statement faces an additional penalty of \$3,000 per trading day (totaling \$4,000 for every trading day with missing meter data). The overall purpose of these penalties is to incentivize scheduling coordinators to provide accurate and timely meter data to facilitate accurate settlement statements.

b. Market Adjustment as a Complement to the Meter Data Penalties

Where late or inaccurate meter data is not processed on the T+11M settlement statement and the initial error benefits the scheduling coordinator responsible for submission of the meter data (*i.e.*, over-reported generation or under-reported load), the CAISO calculates a market adjustment that “approximates the financial impact on the market.”²⁵ The market adjustment is the product of the difference between the correct data and the misreported hourly data and the greater of: (a) the average of the 12 five-minute prices for the hour; or (b) \$10/MWh. The funds collected from the market adjustment are “returned to the market based on the average of the *pro rata* share of Unaccounted for Energy (UFE) charged in the utility Service Area during the period of the inaccurate Meter Data event.”²⁶ The tariff separately states the market adjustment funds “shall be applied first to those parties affected by the conduct,”

²² Existing tariff section 10.3.6.3 (“Scheduling Coordinators must submit Actual Settlement Quality Meter Data for the Scheduling Coordinator Metered Entities they represent to the CAISO no later than midnight on the fifty-second (52) Business Day after the Trading Day (T+52B) for the Recalculation Settlement Statement T+70B calculation”).

²³ Existing tariff section 10.3.6.4 (“Scheduling Coordinators submitting Actual Settlement Quality Meter Data after fifty-two Business Days after the Trading Day (T+52B) have failed to provide complete and accurate Settlement Quality Meter Data as required by Section 37.5.2.1 and will be subject to monetary penalty pursuant to Section 37.5.2.2”).

²⁴ Existing tariff sections 37.5 & 37.11.

²⁵ Existing tariff section 37.11.2. Where revised data is not processed and the initial error is to the scheduling coordinator’s detriment, “then no market adjustment will be made but the Sanction of \$1,000 still shall be levied.”

²⁶ *Id.*

and that “[a]ny excess amounts shall be disposed of” under the same process applicable to distributing penalty proceeds.²⁷

c. Prior Meter Data Penalty Structure

Before October 1, 2011, the CAISO’s meter data penalties were based on a percentage of the error. The penalty was 30 percent of the value of the energy in error if the scheduling coordinator identified the error and 75 percent of the error if the CAISO discovered the error. In proposing the change to a per-day penalty, the CAISO stated the percentage-based penalty was “overly burdensome for submitting corrected meter data and that an appropriate incentive for the market participants to submit accurate and timely settlement quality meter data would be a set sanction of \$1,000 for each trade day corrected.”²⁸ Imposing exorbitant penalties for meter data violations, where nearly all violations are identified by market participants and reporting issues to the CAISO relies on voluntary compliance, created a possible disincentive to correct meter data.

In response to several penalty appeals submitted by scheduling coordinators, the CAISO further explained the concerns that motivated the change. For example, Pacific Gas and Electric Company (PG&E) filed a waiver request with the Commission for penalties assessed shortly before the penalty methodology was changed.²⁹ There, the percentage-based penalty created a \$5.77 million penalty; whereas, the per-day penalty would have created an \$845,000 penalty. In response to PG&E’s waiver request, the CAISO explained that the 30 percent penalty can create “a penalty that is disproportionate to the severity of the violation” because “a single configuration error in how meter data gets reported from a particular resource can lead to flawed meter data reporting over many days.”³⁰ Shortly thereafter Exelon Corporation filed a similar waiver request. The CAISO filed similar comments in response and the Commission again approved the request.³¹

²⁷ Existing tariff section 37.5.2.3.

²⁸ *Cal. Indep. Sys. Operator Corp.*, Settlements Process Timeline Changes Transmittal Letter, at 18, FERC Docket No. ER11-4171-000 (Aug. 1, 2011) (Settlements Process Timeline filing).

²⁹ *Pac. Gas & Elec. Co.*, Request for Waiver, FERC Docket No. ER12-1009-000 (Feb. 6, 2012).

³⁰ *Pac. Gas & Elec. Co.*, CAISO Comments on Waiver, at 3-4, FERC Docket No. ER12-1009-000 (Feb. 22, 2012).

³¹ *Exelon Corp.*, 141 FERC ¶ 61,070 (2012).

d. Meter Data Penalty Waiver and Appeal Filings

In November 2020, the CAISO filed a waiver request with the Commission seeking to excuse the CAISO from assessing penalties against NV Energy, Inc. for inaccurate meter data.³² NV Energy faced a penalty of \$685,000 for meter data errors on approximately 1,400 trading days.³³ The magnitude of the meter data in error was relatively small, but NV Energy faced significant penalties because the error persisted over such an extended period.

The CAISO's filing explained its concern that the tariff-defined penalties did not create an appropriate outcome in NV Energy's instance. The CAISO's concern with the percentage-based penalty was that it created excessive penalties when there was a persistently large meter data error, whereas the per-day penalty created a more proportionate penalty and more reasonable incentives for compliance. However, the CAISO did not consider the opposite scenario—the case where a per-day penalty yielded a disproportionate penalty if there were a persistently small meter data error. The CAISO explained that in NV Energy's circumstance, the prior 30 percent penalty formula would result in a penalty of approximately \$21,000,³⁴ whereas the \$1,000 per trading day penalty created a 983 percent penalty.³⁵ The CAISO believed this level of penalty was unwarranted and requested a waiver to excuse the penalties.

The NV Energy appeal also raised a question about how the market adjustment would be allocated. NV Energy was the only party assessed unaccounted for energy in its service area during the trading days. The CAISO thus would assess the market adjustment to NV Energy and then immediately allocate the funds back to NV Energy. That process seemed to make little sense and the CAISO requested not to refund the market adjustment to NV Energy and instead add it to the rules of conduct escrow account.

After considering the CAISO's request, in April 2021 the Commission granted the waiver.³⁶ In granting the relief, the Commission also "encourage[d] CAISO to consider proposing modifications to its Tariff to better align its penalty and market adjustment allocation provisions with its stated intent to incentivize

³² *Cal. Indep. Sys. Operator Corp.*, Request for Waiver, FERC Docket No. ER21-395-000 (Nov. 12, 2020).

³³ The total penalty was limited by, among other factors, the three-year limitations period.

³⁴ NV Energy's error had a value of \$69,663.86, yielding a 30 percent penalty of \$20,899.16 [$.3 * 69,663.86$].

³⁵ NV Energy's penalty of \$685,000 was 983 percent of the \$69,663.86 error [$685,000 / 69,663.86$].

³⁶ *Cal. Indep. Sys. Operator Corp.*, 175 FERC ¶ 61,043 (2021).

compliance [and to] help CAISO avoid similar outcomes and the need to request waiver of its Tariff in the future.”³⁷

Because of the Commission’s guidance, the CAISO began preparatory work to start a stakeholder initiative including consideration of how the initiative should be prioritized compared to other initiatives. As that planning work unfolded, additional long-duration/low-value meter data penalty issues similar to those that faced NV Energy continued to arise. To provide comparable treatment to those entities and to provide time to focus in a stakeholder initiative, on April 24, 2023, the CAISO filed a waiver request with the Commission proposing to suspend application of meter data penalties pending completion of a stakeholder process.³⁸ The Commission denied that request.³⁹ Following that denial, multiple parties have submitted individualized requests to the Commission for relief from meter data penalties.⁴⁰

D. Stakeholder Process for this Tariff Amendment

The CAISO stakeholder process leading to this filing began with a stakeholder workshop on June 7, 2023 to discuss a potential stakeholder initiative addressing the rules of conduct.⁴¹ This was followed by publication of a straw proposal on July 6, 2023, and the draft final proposal on August 14, 2023. The CAISO accompanied publication of both documents with stakeholder meetings to discuss the documents and provide stakeholders a forum for discussion and feedback. The policy portion of the stakeholder process culminated with the CAISO Governing Board and the WEIM Governing Body jointly approving the policy proposal underlying this filing. On October 19, 2023,

³⁷ *Id.* at P 30.

³⁸ *Cal. Indep. Sys. Operator Corp.*, Petition for Limited Waiver, FERC Docket No. ER23-1699-000 (Apr. 24, 2023).

³⁹ *Cal. Indep. Sys. Operator Corp.*, 184 FERC ¶ 61,009 (2023).

⁴⁰ *Tacoma Power v. Cal. Indep. Sys. Operator Corp.*, Complaint Appealing Meter Data Penalties, FERC Docket No. EL24-25-000 (Nov. 21, 2023); *Tucson Elec. Power Co. v. Cal. Indep. Sys. Operator Corp.*, Complaint Appealing Meter Data Penalties, FERC Docket No. EL24-15-000 (Nov. 14, 2023); *Tacoma Power v. Cal. Indep. Sys. Operator Corp.*, Complaint Appealing Meter Data Penalties, FERC Docket No. EL24-14-000 (Nov. 13, 2023); *Direct Energy Business, LLC v. Cal. Indep. Sys. Operator Corp.*, Complaint Appealing Meter Data Penalties, FERC Docket No. EL24-11-000 (Nov. 3, 2023); *Tacoma Power v. Cal. Indep. Sys. Operator Corp.*, Complaint Appealing Meter Data Penalties, FERC Docket No. EL23-103-000 (Sep. 27, 2023); *City of Corona, Cal. v. Cal. Indep. Sys. Operator Corp.*, Complaint Appealing Meter Data Penalties, FERC Docket No. EL23-99-000 (Sep. 19, 2023); *Idaho Power Co. v. Cal. Indep. Sys. Operator Corp.*, Complaint Appealing Meter Data Penalties, FERC Docket No. EL23-94-000 (Aug. 29, 2023).

⁴¹ More information about this stakeholder initiative is available on the CAISO’s website: <https://stakeholdercenter.caiso.com/StakeholderInitiatives/Rules-of-conduct-enhancements>.

the CAISO posted draft tariff language, followed by a stakeholder call on November 2, 2023. In response to comments on the draft tariff, the CAISO posted revised draft tariff language on November 16, 2023. The major points of stakeholder feedback are discussed below.

II. Proposed Changes

A. Updating Penalty Formulation for Inaccurate Meter Data Submissions and Clarifying Provisions for Late and Missing Meter Data Submissions

1. Revising the Penalty Formula for Inaccurate Meter Data

The CAISO proposes to adjust the penalty for inaccurate meter data to reflect the lower of: (a) 30 percent of the absolute value of the error; or (b) \$1,000 per trading day.⁴² The CAISO will calculate the value of the error subject to a minimum price of \$10. This means that if the price during the period of inaccurate meter data was less than \$10, then the CAISO will calculate the value of the error as the product of the MWh difference and \$10 (rather than the actual price in that interval). A minimum price of \$10 ensures the penalty would not be inappropriately low and avoids complications if the CAISO experienced negative prices during an inaccurate meter data event. This minimum \$10 price also matches the existing minimum price for calculating market adjustments.⁴³ To ensure the CAISO has access to the data to calculate the penalty, the CAISO proposes that scheduling coordinators will be required to “provide reasonable cooperation with the CAISO in providing data needed to calculate the Sanction . . .”⁴⁴

The CAISO also offers a limitation on meter data penalties for scheduling coordinators with derived load meter data values. Some scheduling coordinators report both generation and load meter data with the load values derived, in part, based on generation meter data values. For these scheduling coordinators any revision to the generation meter data values require an update to the load values to maintain balance and accuracy. To prevent such entities from being penalized twice for a single correction, the CAISO proposes to state the scheduling coordinator will not be penalized for the revision to the load meter data “if the Scheduling Coordinator demonstrates to the CAISO’s reasonable satisfaction that the Load Settlement Quality Meter Data is derived from the Generating Unit Settlement Quality Meter Data and that the inaccurate Load Settlement Quality

⁴² New tariff section 37.5.2.2.1.

⁴³ Existing tariff section 37.11.2.

⁴⁴ *Id.*

Meter Data was caused by the inaccurate Generating Unit Settlement Quality Meter Data.”⁴⁵

The CAISO’s proposed revisions to the inaccurate meter data penalties will address the potential for the penalties to be excessive in the type of cases covered in the many recent appeal filings presented to the Commission. The current \$1,000 per trading day penalty structure creates excessive penalties in cases of long-duration/low-impact meter data inaccuracies. The proposed penalty formula revision will address that issue by creating sanctions that are more proportional to the impact on market processes and CAISO operations from untimely meter data revisions.

In limiting exposure to penalties for inaccurate meter data, the CAISO reiterates the importance of submitting accurate meter data and the need for the penalties to create incentives for compliance. The hybrid “lower of” formulation for inaccurate meter data penalties will maintain sufficient incentives for compliance by establishing a monetary penalty. At the same time, by mitigating the need for so many penalty appeals, this change should restore the meter data penalty structure to a more self-executing administrative process.

Limiting penalties on inaccurate derived load meter data similarly limits exposure to excessive penalties. Without this limitation, the CAISO effectively would charge a 60 percent penalty, rather than 30 percent, for a scheduling coordinator’s inaccuracy with reporting generation meter data because the CAISO would impose the penalty on both generation and load values derived from metered generation. The CAISO will not always know with certainty whether a scheduling coordinator’s late corrections to load meter data were triggered by changes in related generation meter data or whether the scheduling coordinator coincidentally needed to make late corrections to both generation and load meter data values. That is why the CAISO proposes to limit the penalties to where the scheduling coordinator can provide objective evidence to support that the inaccurate load meter data arises from inaccuracies in the generation meter data from which the load data is derived.

No stakeholder opposed the new inaccurate meter data penalty formulation. Stakeholders raised the above-noted issue regarding a potential double penalty for cases of derived load meter data. The CAISO adjusted its proposal to account for this concern. Some stakeholders requested broader changes to the meter data penalties. For example, one stakeholder recommended eliminating the meter data penalties altogether and others recommended the CAISO adopt provisions to allow it to waive minor violations. The CAISO has not proposed to eliminate all meter data penalties because there still needs to be some incentive to obtain timely and accurate meter data to

support market settlements. The CAISO has not proposed to reserve discretionary authority to waive small violations because such authority appears inconsistent with the Commission's prior guidance for ISO/RTO "traffic ticket" violations.⁴⁶ Also, under the new penalty formulation small violations will now be subject to relatively small penalties, which will prevent a minor revision from triggering disproportionate penalties.

2. Clarifying Existing Meter Data Penalty Provisions

Aside from the primary rule changes to the inaccurate meter data penalties, the CAISO offers several other clarifying changes to the meter data penalty provisions.

The existing tariff mentions inaccurate and late meter data as two types of meter data violations but also includes two levels of penalties for late meter data depending on whether the data is submitted before or after T+214B. Having two forms of a late meter data penalty creates confusion. The current tariff also provides the rules that scheduling coordinators must follow in section 37.5.2 but defines the penalties in section 37.11; other parts of the rules of conduct define the rule and the sanction in the same sub-section. Separating the rules from their penalties has made the rules of conduct less straightforward and more difficult to understand. The CAISO proposes revisions to address these issues.

As further summarized in Table 1, below, the CAISO proposes to define three distinct types of meter data submission violations in section 37.5.2:

1. ***Inaccurate meter data*** – submitting meter data to be used in the CAISO settlements process that later is identified as incomplete and/or erroneous
2. ***Late meter data*** – failing to submit meter data by T+52B but addressing that omission by T+214B
3. ***Missing meter data*** – failing to submit meter data by T+52B and failing to address that omission by T+214B

As specified in new tariff section 37.5.2.1.1, an *inaccurate meter data* violation occurs when a scheduling coordinator submits meter data in time to be used in the CAISO settlements process but that data is incomplete and/or erroneous. Typically, this would occur where a scheduling coordinator timely submits meter data by the T+52B deadline but that data has an error and the scheduling coordinator does not address that error by T+52B. The CAISO also clarifies that a scheduling coordinator has submitted inaccurate meter data when it misses the T+52B deadline, submits meter data for the first time by the T+214B

⁴⁶ See *Cal. Indep. Sys. Operator Corp.*, 129 FERC ¶ 61,157, P98 (2009) (citing *Market Monitoring Units in Regional Transmission Organizations and Independent System Operators*, 111 FERC ¶ 61,267, P5 (2005)) (CAISO November 2009 Order 719 Compliance Order).

deadline, but the data in place at T+214B is erroneous. The sanction for inaccurate meter data is discussed above in section II.A.1 as the lower of 30 percent of the value of the error or \$1,000.

New tariff section 37.5.2.1.2 defines a *late meter data* violation as an instance when a scheduling coordinator misses the T+52B deadline but corrects that error by submitting meter data by T+214B.⁴⁷ The CAISO provides in new tariff section 37.5.2.2.2 that the sanction for late meter data “is \$1,000 per Trading Day per [scheduling coordinator ID] with late Meter Data.” This is the same penalty exposure scheduling coordinators face for this violation today. If the data submitted by T+214B is incomplete or erroneous, the scheduling coordinator has committed two violations – inaccurate meter data and late meter data. The concept of inaccurate meter data is that a scheduling coordinator submits meter data to be used in the settlements process that later is identified as incomplete or incorrect. Because data submitted by T+214B in almost all cases would be used to recalculate settlement statements at T+11M, it is appropriate for a scheduling coordinator with late meter data to also face exposure to inaccurate meter data penalties if the data submitted by T+214B is inaccurate. In such a case, a scheduling coordinator would face a maximum penalty exposure of \$2,000 per trading day for the combined violations.⁴⁸ To ensure clarity on the potential for both penalties, new tariff section 37.5.2.2.2 states that a “Scheduling Coordinator under a single [scheduling coordinator ID] can face Sanction under this Section 37.5.2.2.2 and Section 37.5.2.2.1 for the same Trading Day.”

New tariff section 37.5.2.1.3 defines a *missing meter data* violation as an instance when a scheduling coordinator misses the T+52B deadline and fails to submit meter data by T+214B. The sanction for missing meter data “is \$4,000 per Trading Day per Trading Day per [scheduling coordinator ID] with missing SQMD.”⁴⁹ This is the same total penalty exposure a scheduling coordinator faces today if it submits no meter data by the T+214B deadline. The late meter data and missing meter data violations are defined to be mutually exclusive. The tariff further states “[f]or a given Trading Day, a Scheduling Coordinator under a single [scheduling coordinator ID] cannot be sanctioned for both a missing Meter

⁴⁷ The violation occurs when a scheduling coordinator “fails, by [T+52B], either to submit Actual Settlement Quality Meter Data for every applicable Settlement Period in a Trading Day as required by Section 10.3.6 or to replace Estimated Settlement Quality Meter Data with Actual Settlement Quality Meter Data for every applicable Settlement Period in a Trading Day as required by Section 10.3.6 but, in either case, corrects the failure by” T+214B. New tariff section 37.5.2.1.2.

⁴⁸ This total is \$1,000 for the late meter data violation plus the lower of: (a) \$1,000; or (b) 30 percent of the value of error, for the inaccurate meter data violation.

⁴⁹ New tariff section 37.5.2.2.3.

Data violation and either an inaccurate Meter Data violation or a late Meter Data violation.”⁵⁰

This additional statement means that inaccurate meter data violations would not “stack” on top of a missing meter data violation. For example, if a scheduling coordinator has missing meter data, provides the meter data to calculate the market adjustment two-hundred-twenty business days after the trade date (T+220B), but then notifies the CAISO three-hundred business days after the trade date (T+300B) that the data provided a T+220B was incomplete, the nature of the violation does not change. The scheduling coordinator still has only missing meter data. The only additional consequence for the correction at T+300B would be a recalculated market adjustment if the new data showed an error even more in favor of the scheduling coordinator. For example, if the meter data submitted at T+220B showed one level of load and the data at T+300B showed the scheduling coordinator actually had higher load, then the CAISO would recalculate the market adjustment to more accurately capture the unjust enrichment the scheduling coordinator received from its failure to provide meter data in time to be included in the CAISO settlements process.

Table 1

	Violation	Sanction per Trading Day per Scheduling Coordinator ID (SCID)	Overlap with Other Meter Data Violations
1. Inaccurate Meter Data	Submit erroneous meter data for either T+52B or T+214B	Lower of: (a) \$1,000; or (b) 30 percent of the value of error	Same SCID can face sanction for late meter data, but not missing meter data, on same trading day
2. Late Meter Data	Miss T+52B but submit by T+214B	\$1,000	Same SCID can face sanction for inaccurate meter data, but not missing meter data, on same trading day
3. Missing Meter Data	Miss both T+52B and T+214B	\$4,000	Same SCID cannot face sanction on same trading day for inaccurate or late meter data; in case of overlap SCID only penalized for missing meter data

Allowing late meter data violations to stack on inaccurate meter data violations but not have missing meter data violations (which are more serious

⁵⁰

Id.

than late meter data violation) similarly stack on inaccurate meter data violations is just and reasonable.

Stacking inaccurate meter data penalties on missing meter data penalties is appropriate to establish proper incentives. A scheduling coordinator that missed submitting meter data at T+52B and is unsure coming to T+214B if its meter data is accurate might think it is more advantageous to forego submitting any meter data at T+214B to reduce the risk of facing two violations for the trading day. The scheduling coordinator may think it is better to face the single missing meter data violation rather than both a late meter data and inaccurate meter data violation for that trading day. The CAISO would not want to create an incentive for this scheduling coordinator to forego submitting its data at T+214B. The level of penalties involved with the three types of violations eliminate any such incentive. The maximum penalty exposure on a trading day for combined late meter data and inaccurate meter data violations is \$2,000, whereas the penalty for missing meter data is \$4,000 per trading day. This means there would be no incentive for a market participant to choose a penalty of \$4,000 over a maximum of \$2,000. The total penalty exposure still reflects that having missing meter data is much more serious of a violation than having both late meter data and inaccurate meter data.

On the other hand, stacking inaccurate meter data penalties on missing meter data penalties would not be appropriate based on the timing of the CAISO settlements process. The concept of inaccurate meter data covers a scenario where a scheduling coordinator submits meter data to be used in the regular settlements process that later is identified as inaccurate. However, the tariff does not permit data submitted after T+214B to ever be used in the settlements process.⁵¹ Because meter data associated with a missing meter data violation could never be used in the CAISO settlements process, penalizing a meter data submission made after T+214B for being erroneous would impose an additional penalty when there was not necessarily any additional market harm.

The CAISO proposes one further tariff clarification relevant to late meter data and missing meter data. Existing tariff section 10.3.6 creates a general obligation for scheduling coordinators representing SCMEs to submit meter data “for each Settlement Period in an Operating Day” This obligation is the basis of the meter data penalties further defined in section 37. Over time, the CAISO and scheduling coordinators have faced whether the obligation to submit meter data extends to intervals where the SCME had no market schedule and no meter data to report. In response to stakeholder input, the CAISO proposes to

⁵¹ Current tariff section 10.3.6.4 (“Any Actual Settlement Quality Meter Data that is submitted by a Scheduling Coordinator after T+214B, will be rejected by the CAISO and not used in settlement calculations”).

clarify section 10.3.6 to state a scheduling coordinator for a SCME need not submit meter data in intervals where the total of its expected energy is zero.⁵² Because of this amendment, a scheduling coordinator will not face penalties for late or missing meter data for failure to submit meter data in intervals where its total expected energy is zero.

In response to the clarifying edits to the meter data penalties, stakeholders largely sought confirmation that the edits did not create unexpected substantive changes to the rules of conduct. Through its stakeholder process, the CAISO clarified that the missing meter data and late meter data violations are mutually exclusive so a scheduling coordinator would face either a \$1,000 or \$4,000 per trading day penalty for missing the T+52B meter data submission deadline. The CAISO also clarified that a scheduling coordinator could face sanctions for inaccurate meter data and late meter data for the same trading day.

B. Clarifying Market Adjustment Calculation

The CAISO proposes to update the tariff provisions on market adjustments to clarify the CAISO will not calculate a market adjustment if the scheduling coordinator ID (SCID) with the meter data violation is the only SCID in the utility service area where the meter data issue occurred.⁵³ This change will avoid the need to calculate a market adjustment that the market immediately refunds back to the party charged. The purpose of the market adjustment is to approximate the financial impact of the meter data issue on the market.⁵⁴ When the error affects no other party but the one charged, the market adjustment is unnecessary. The CAISO is limiting the scope of this exception to cases where the market adjustment charge and payment would be to the same SCID and not more broadly to cases where the same scheduling coordinator is on both sides of the charge and payment under different SCIDs. Extending the rule across multiple SCIDs used by the same scheduling coordinator might create unintended retail rate impacts if, for example, the CAISO imposed a market adjustment charge against an unregulated affiliate and paid it to a regulated load serving entity. There, it is conceivable that failure to charge the market adjustment ultimately could affect how funds flow under the retail rate design of a

⁵² Expected Energy is defined in Appendix A of the tariff as: “The total Energy that is expected to be generated or consumed by a resource, based on the Dispatch of that resource, as calculated by the Real-Time Market (RTM), and as finally modified by any applicable Dispatch Operating Point corrections” and “is used as the basis for Settlements.”

⁵³ New tariff section 37.5.2.2.4 (“Provided, however, that the CAISO does not charge a market adjustment if . . . the Scheduling Coordinator, under a single SCID, is the only Scheduling Coordinator in the utility Service Area during the period of inaccurate, late, or missing Meter Data. .” An organization that serves as a scheduling coordinator can operate under several SCIDs to align with the clients for which they serve as scheduling coordinator or for regulatory reasons.

⁵⁴ Existing tariff section 37.11.2 (“The market adjustment approximates the financial impact on the market”).

jurisdiction because, for example, the market adjustment charge might be paid for out of potential profits from the unregulated affiliate whereas the market adjustment refund might be allocated to retail customers. Here, the market adjustment might have identifiable consequences so the CAISO limits the new exception to cases where the funds would be charged and allocated to the same SCID.

The CAISO also proposes to delete existing section 37.5.2.3 because it is no longer necessary. This section states the CAISO distributes market adjustment funds “first to those parties affected by the conduct” and then “excess amounts shall be disposed of” in the same manner as the rules of conduct penalty proceeds. The current “parties affected by the conduct” standard is vague and potentially raises issues of subjective judgment as to which parties were affected. Instead, the CAISO proposes to add a more concrete statement that market adjustment charges will be allocated “to Scheduling Coordinators in proportion to their charges for Unaccounted for Energy (UFE) in the utility Service Area” This direct statement of pro-rata allocation by UFE eliminates the possibility of “excess amounts.”⁵⁵

The CAISO did not receive significant stakeholder feedback on its proposed changes to the market adjustment provisions. No stakeholders opposed the proposed changes.

C. Eliminating Annual Penalty Distribution Filing

The CAISO proposes to remove the current requirement in section 37.9.4 that the CAISO must “obtain FERC’s approval of its determination of eligible Market Participants and their respective shares of the trust account proceeds” before the CAISO allocates the penalty proceeds. The current requirement requires the CAISO to file significant information under seal, which imposes burdens on CAISO and Commission staff. The filing requirement also delays market participants from receiving an allocation of penalty proceeds. The penalty allocation is a basic pro-rata allocation simpler than countless other settlement calculations the CAISO performs. The methodology, which is in the tariff, has remained consistent since 2007 and the CAISO does not propose to change the basic approach. The proposed removal of the requirement to secure Commission approval before distributing the funds will relieve administrative burden for the CAISO and the Commission and increase the speed with which eligible entities receive payment.

The CAISO appreciates that market participants and interested stakeholders may find benefit from the annual filing because it provides

⁵⁵ New tariff section 37.5.2.2.4.

information about overall rules of conduct penalty activity over the year. In place of the filing with the Commission, the CAISO proposes to post an informational report with the same information historically included in the public version of its annual penalty distribution filing.⁵⁶ This informational report will meet this interest in transparency over rules of conduct enforcement activities in a less burdensome fashion.

To provide further flexibility and help ensure eligible market participants receive their allocation as soon as feasible, the CAISO also proposes to clarify in the tariff it may make the distribution in several steps if there is an outstanding penalty appeal pending with the Commission that would not impact the *pro rata* allocation.⁵⁷ If a scheduling coordinator had a single rules of conduct violation in a year and appeals the penalty to the Commission, the Commission’s determination of the appeal could affect both the total pool of funds to allocate and that entity’s status as an eligible market participant. With that status unresolved, the CAISO cannot distribute any of the rules of conduct proceeds for the year because the appeal will influence the entire *pro rata* allocations. But if that scheduling coordinator was already an ineligible market participant for that year because it had a penalty it did not appeal, then the Commission’s resolution of the appeal will determine the total penalty funds to allocate. But it would not impact which parties are eligible or ineligible, and thus the *pro rata* percentages would not change. Table 2 and Table 3 provide examples of how this issue materializes.

Table 2

Scheduling Coordinator	GMC Paid	Allocation-- SC1 eligible	Allocation-- SC1 ineligible
SC1--appeal \$1 million penalty	\$5,000,000	33.3%	0.0%
SC2	\$8,000,000	53.3%	80.0%
SC3	\$2,000,000	13.3%	20.0%
SC4--pay \$1 million penalty	\$3,000,000	0.0%	0.0%
		100%	100%

⁵⁶ Revised tariff section 37.9.4.

⁵⁷ Revised tariff section 37.9.4 (“The CAISO distributes the penalty funds after the end of each calendar year and once no more appeals to FERC are pending that could impact an entity’s status as an eligible Market Participant for the calendar year. The CAISO may distribute the penalty funds through an initial allocation followed by supplemental allocations if an appeal to FERC is pending that would not impact an entity’s status as an eligible Market Participant for the calendar year but could impact the total pool of funds to distribute.”).

The example in table 2 reflects the CAISO has four scheduling coordinators in a year (SC1 through SC4), with each paying grid management charge over the year in the amount listed under the “GMC Paid” column. SC1 and SC4 both received single penalties of \$1 million during the year. SC1 appealed its penalty to the Commission and SC4 did not. Because SC4 did not appeal its penalty it is already an ineligible market participant. But because SC1 has appealed its only penalty, its status as an ineligible market participant is unclear. The Commission’s ruling will determine whether the CAISO allocates \$1 million or \$2 million in penalties and determine whether SC1 is an eligible market participant. This creates three permutations for the penalty distribution.

1. *Commission denies SC1’s appeal* – SC2 and SC3 share a \$2 million penalty pool based on their *pro rata* share of \$10 million paid in grid management charge, as reflected in the column labeled “Allocation--SC1 ineligible.”
2. *Commission grants SC1’s appeal on basis of no tariff violation* – SC1, SC2, and SC3 share a \$1 million penalty pool based on their *pro rata* share of \$15 million paid in grid management charge, as reflected in the column labeled “Allocation--SC1 eligible.”
3. *Commission grants SC1’s appeal on other basis* – SC2 and SC3 share a \$1 million penalty pool based on their *pro rata* share of \$10 million paid in grid management charge, as reflected in the column labeled “Allocation--SC1 ineligible.”

The nature of the possibilities means that even though the \$1 million collected from SC4 is not at issue in the appeal, the CAISO still cannot reliably allocate those funds while the appeal is outstanding because it would not know, for example, whether SC2 should receive 53.3 percent or 80 percent of that \$1 million. The CAISO would need to wait until the unrelated appeal is resolved.

Table 3

Scheduling Coordinator	GMC Paid	Allocation
SC1--appeal \$1 million penalty; pay \$500,000 penalty	\$5,000,000	0.0%
SC2	\$8,000,000	80.0%
SC3	\$2,000,000	20.0%
SC4--pay \$1 million penalty	\$3,000,000	0.0%

100%

The example in table 3 reflects a different scenario where SC1 is appealing a \$1 million penalty but already paid a \$500,000 penalty for that year

and did not appeal the lower penalty. Here, SC1's appeal will determine whether the CAISO will have \$2.5 million or \$1.5 million to distribute. But in this example, the Commission's ruling on the appeal will not impact the percentage allocations because the eligibility of each scheduling coordinator is already established. For example, in this scenario, the only question for SC3 is whether it will receive \$500,000 (*i.e.*, 20 percent of \$2.5 million) or \$300,000 (*i.e.*, 20 percent of \$1.5 million).

The CAISO proposal is that in the scenario covered under table 3, where the Commission's ruling on an appeal will not alter the percentage allocations, the CAISO should have the discretion to allocate the funds not impacted by the appeal as soon as it can. If the Commission later denies the appeal and upholds the penalty, the CAISO can then make a supplemental allocation using the previously-calculated percentage allocations with the penalty funds at issue in the appeal. So in the scenario covered under table 3, the CAISO would distribute the first \$1.5 million, with 80 percent going to SC2 and 20 percent going to SC3 as soon as feasible. Once the Commission rules on SC1's appeal of its \$1 million penalty, the CAISO, if necessary, could then make a supplemental allocation of those funds using the same percentage allocations it used to allocate the initial \$1.5 million.

The CAISO did not receive significant stakeholder feedback on this element of the proposal. One stakeholder requested the CAISO consider filing an informational report with the Commission after making the distribution. This approach does not address the existing administrative burden of the requirement to make a filing with the Commission. Another stakeholder was concerned about the sensitivity of the data the CAISO proposed to include in the public report. The CAISO explained the informational report would include the same information currently included in the public version of its annual filing with the Commission.

D. Clarifying Eligible Market Participant Standard for Penalty Proceeds Eligibility

1. Clarifying Definition of Eligible vs. Ineligible Market Participants

The CAISO proposes to clarify the definition of ineligible market participants by stating that entities exempt from penalties due to sovereign immunity are by default deemed "ineligible market participants" for annual penalty distribution purposes.⁵⁸ Additionally, parties penalized and then excused

⁵⁸

Revised tariff section 37.9.4.

for paying the penalty based on a Commission appeal will remain ineligible unless the Commission finds that no violation occurred. Where the Commission excuses the penalty as being excessive or otherwise inappropriate, the scheduling coordinator will be ineligible.

Entities exempt from paying penalties should not receive an allocation of penalty proceeds. A key benefit of distributing the rules of conduct proceeds to entities without a violation is to create additional incentives for compliance. Receiving a portion of the penalty distribution does not incentivize PMAs to comply with the CAISO tariff because these entities do not face penalties that would make them ineligible to receive a penalty distribution. Therefore, allocating penalty proceeds to these entities does not incentivize compliance. On this basis, the CAISO excluded both PMAs operating in its markets from receiving an allocation in its proposed distribution of the penalty proceeds for 2020, 2021, and 2022.⁵⁹ With the removal of the annual penalty proceeds filing, it is important for the tariff to state directly that these entities are not eligible for an allocation of the penalty proceeds.

Similarly, an entity whose penalty appeal was granted should not be an eligible market participant unless the Commission determines that no violation occurred. Where the Commission grants a penalty appeal because it finds the penalties were excessive, given the specific facts and circumstances of a matter, the violation nonetheless still occurred. That market participant should not be rewarded for its violation by receiving a share of penalties paid into the escrow account by other entities that similarly violated the rules of conduct during the year. Again, without an annual filing with the Commission, it is important for the tariff to address this issue directly.

Only one stakeholder expressed concern about the CAISO's existing approach or its clarifications. This entity suggested the CAISO assess eligibility on a daily, rather than yearly, basis. Assessing eligibility daily over-complicates administration of the rules of conduct. Penalties are relatively infrequent and not a daily occurrence. Allowing a party to be eligible for an allocation on all days of the year they were not subject to penalties also would degrade the "eligible market participant" standard to where market participants would virtually never be ineligible for a distribution. Further, no party has demonstrated the current annual eligibility approach is unjust and unreasonable, and the Commission need not consider alternative designs if the CAISO proposal is just and reasonable.⁶⁰

⁵⁹ See, e.g., *Petition of the California Independent System Operator Corporation for Approval of Disposition of Penalty Assessment Proceeds and Non-Refundable Interconnection Financial Security*, FERC Docket No. ER20-2604-000 (Aug. 3, 2020).

⁶⁰ See, e.g., *New Eng. Power Co.*, 52 FERC ¶ 61,090, at 61,336 (1990), *aff'd sub nom. Town of Norwood v. FERC*, 962 F.2d 20 (D.C. Cir. 1992) (proposed rate design need not be

2. Process Clarifications on Applying the Eligible Market Participant Standard

The CAISO also proposes two clarifications to determine whether market participants are eligible or ineligible to receive an allocation of penalty proceeds.

First, the CAISO proposes to clarify in section 37.9.4 it will use SCIDs to assess eligibility. An organization that serves as a scheduling coordinator can operate under several SCIDs to align with the clients for which they serve as scheduling coordinator or for regulatory reasons.

Second, when a scheduling coordinator appeals a sanction to the Commission, the CAISO proposes to clarify that the sanction is assessed “in the calendar year that the Sanction is first assessed.” This means that if an entity appeals a penalty in 2024 and the Commission denies the appeal in 2025, then the market participant will be considered ineligible for 2024. That penalty will not impact its status for 2025 even if it ultimately pays the penalty in 2025.

Both clarifications align the tariff with existing CAISO practices. As with the other changes regarding the “eligible market participant” standard, the CAISO addressed these matters in the CAISO’s penalty distribution filings presented for Commission approval. Without specific Commission approval of annual penalty distributions going forward, the CAISO tariff should address these issues directly.

III. Effective Date

The CAISO respectfully requests that the Commission issue an order accepting the tariff revisions by March 22, 2024. A Commission order by that date will provide regulatory certainty for the CAISO, its market participants, and stakeholders before the planned April 1, 2024 implementation. The CAISO requests these tariff revisions take effect subject to the CAISO filing a notice with the Commission within 5 days of the actual effective date.

perfect, it merely needs to be just and reasonable); *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984) (*City of Bethany*) (finding that, when determining whether a proposed rate was “just and reasonable” as required by the FPA, the Commission properly did not consider “whether a proposed rate schedule is more or less reasonable than the alternative rate designs”); *Louisville Gas & Elec. Co.*, 114 FERC ¶ 61,282, at P 29 (2006) (the just and reasonable standard under the FPA is not so rigid as to limit rates to a “best rate” or “most efficient rate” standard, but rather a range of different approaches often may be just and reasonable).

Under section 35.11 of the Commission's regulations,⁶¹ the CAISO respectfully requests the Commission grant waiver of the notice requirement of section 35.3(a)(1) of the Commission's regulations,⁶² to permit a potential effective date over 120 days after this filing. Good cause exists to grant this waiver because it will permit the CAISO and its market participants beneficial flexibility with the implementation date without facing the administrative burden of further filings with the Commission to adjust the implementation date. Without a waiver, any deviation from the planned April 1, 2024, effective date would require Commission approval and impose uncertainty on the CAISO and its market participants.

IV. Communications

Under Rule 203(b)(3),⁶³ the CAISO respectfully requests that all correspondence and other communications about this filing be served upon:

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250 Outcropping Way
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Tel: (916) 351-4400
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V. Service

The CAISO has served copies of this filing on the CPUC, the California Energy Commission, and all parties with scheduling coordinator agreements under the CAISO tariff. In addition, the CAISO has posted a copy of the filing on the CAISO website.

⁶¹ 18 C.F.R. § 35.11.

⁶² 18 C.F.R. § 35.3(a)(1).

⁶³ 18 C.F.R. § 385.203(b)(3).

VI. Contents of this filing

Besides this transmittal letter, this filing includes these attachments:

Attachment A	Clean CAISO tariff sheets
Attachment B	Redlined CAISO tariff sheets
Attachment C	Final Proposal
Attachment D	Board of Governors Memo

VII. Conclusion

For the reasons in this filing, the CAISO respectfully requests that the Commission issue an order accepting the tariff revisions in this filing by March 22, 2024, effective as of the dates specified.

Respectfully submitted,

/s/ David S. Zlotlow

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Attachment A – Clean Tariff
Tariff Amendment – Rules of Conduct
California Independent System Operator Corporation
January 12, 2024

10.3.6 Settlement Quality Meter Data Submission

Scheduling Coordinators shall submit to the CAISO Actual Settlement Quality Meter Data or Scheduling Coordinator Estimated Settlement Quality Meter Data, as provided in Section 10.3.6.2(a), for Scheduling Coordinator Metered Entities they represent for each Settlement Period in an Operating Day if the total Expected Energy for the Scheduling Coordinator Metered Entity is not zero for a Settlement Period. Scheduling Coordinators must submit the Settlement Quality Meter Data according to the timelines established in Section 10.3.6.2 and the CAISO Payments Calendar and as provided in the applicable Business Practice Manual. Scheduling Coordinators must also submit Settlement Quality Meter Data (actual and Scheduling Coordinator estimated) on demand as provided in the applicable Business Practice Manual.

* * * * *

37.5 Provide Factually Accurate Information

37.5.1 [Not Used]

37.5.2 Accurate and Timely SQMD

37.5.2.1 Expected Conduct

Scheduling Coordinators representing Scheduling Coordinator Metered Entities shall provide complete and accurate Settlement Quality Meter Data for each Trading Hour and shall correct any errors in such data no later than the Settlement Quality Meter Data submission deadline specified in Section 10.3.6.3. Failure by a Scheduling Coordinator to submit Scheduling Coordinator Estimated Settlement Quality Meter Data that is complete and based on a good faith estimate that reasonably represents Demand and/or Generation quantities for each Settlement Period as required by Section 10 shall be a violation of this rule and may be referred to DMM for investigation.

37.5.2.1.1 Inaccurate Meter Data

For the purposes of this Section 37.5.2, a Scheduling Coordinator has submitted inaccurate Meter Data and violated this Section 37.5.2 if it timely submits Actual Settlement Quality Meter Data for every applicable Settlement Period in a Trading Day as required by Section 10.3.6 but the Actual Settlement

Quality Meter Data is erroneous and the Scheduling Coordinator does not correct the error(s) by the Settlement Quality Meter Data submission deadline specified in Section 10.3.6.3. Additionally, where a Scheduling Coordinator submits late Meter Data as defined in Section 37.5.2.1.2 and the Actual Settlement Quality Meter Data submitted by the Settlement Quality Meter Data resubmittal deadline specified in Section 10.3.6.4 is erroneous, then the Scheduling Coordinator has submitted inaccurate Meter Data in addition to late Meter Data.

37.5.2.1.2 Late Meter Data

For the purposes of this Section 37.5.2, a Scheduling Coordinator has submitted late Meter Data and violated this Section 37.5.2 if it fails, by the Settlement Quality Meter Data submission deadline specified in Section 10.3.6.3, either to submit Actual Settlement Quality Meter Data for every applicable Settlement Period in a Trading Day as required by Section 10.3.6 or to replace Estimated Settlement Quality Meter Data with Actual Settlement Quality Meter Data for every applicable Settlement Period in a Trading Day as required by Section 10.3.6 but, in either case, corrects the failure by the Settlement Quality Meter Data resubmittal deadline specified in Section 10.3.6.4.

37.5.2.1.3 Missing Meter Data

For the purposes of this Section 37.5.2 a Scheduling Coordinator has missing Meter Data and has violated this Section 37.5.2 if it fails, by the Settlement Quality Meter Data submission deadline specified in Section 10.3.6.3, either to submit Actual Settlement Quality Meter Data for every applicable Settlement Period in a Trading Day as required by Section 10.3.6 or to replace Estimated Settlement Quality Meter Data with Actual Settlement Quality Meter Data for every applicable Settlement Period in a Trading Day as required by Section 10.3.6 and, in either case, does not correct the failure by the Settlement Quality Meter Data resubmittal deadline specified in Section 10.3.6.4.

37.5.2.2 Sanctions and Market Adjustment

37.5.2.2.1 Sanction for Inaccurate Meter Data

The Sanction for inaccurate Meter Data is the lower of: (a) 30 percent of the value of the error; or (b) \$1,000. For purposes of calculating the inaccurate Meter Data Sanction, the value of the error is calculated based on a minimum price of \$10/MWh. The Sanction applies per Trading Day per SCID with inaccurate Meter Data. A Scheduling Coordinator under a single SCID can face Sanction under this

Section 37.5.2.2.1 and Section 37.5.2.2.2 for the same Trading Day.

A Scheduling Coordinator must provide reasonable cooperation with the CAISO in providing data needed to calculate the Sanction for inaccurate Meter Data.

Where a Scheduling Coordinator (under the same SCID or different SCIDs) submits inaccurate Meter Data for both a Generating Unit and Load for the same Trading Day, the CAISO does not consider the inaccurate Load Settlement Quality Meter Data for purposes of assessing Sanctions under this Section 37.5.2.2.1 if the Scheduling Coordinator demonstrates to the CAISO's reasonable satisfaction that the Load Settlement Quality Meter Data is derived from the Generating Unit Settlement Quality Meter Data and that the inaccurate Load Settlement Quality Meter Data was caused by the inaccurate Generating Unit Settlement Quality Meter Data. In such cases, the CAISO considers the inaccurate Load Settlement Quality Meter Data in calculating any applicable market adjustment pursuant to Section 37.5.2.2.4.

37.5.2.2.2 Sanction for Late Meter Data

The Sanction for submitting late Meter Data as defined in Section 37.5.2.1.2 is \$1,000 per Trading Day per SCID with late Meter Data. A Scheduling Coordinator under a single SCID can face Sanction under this Section 37.5.2.2.2 and Section 37.5.2.2.1 for the same Trading Day.

37.5.2.2.3 Sanction for Missing Meter Data

The Sanction for missing Meter Data as defined in Section 37.5.2.1.3 is \$4,000 per Trading Day per SCID with missing Meter Data. For a given Trading Day, a Scheduling Coordinator under a single SCID cannot be sanctioned for both a missing Meter Data violation and either an inaccurate Meter Data violation or a late Meter Data violation. If a Scheduling Coordinator under a single SCID has missing Meter Data and inaccurate Meter Data or late Meter Data on the same Trading Day, then the CAISO only assesses a Sanction for the missing Meter Data.

37.5.2.2.4 Market Adjustment

The CAISO charges a Scheduling Coordinator a market adjustment if a Scheduling Coordinator violates Sections 37.5.2.1.1, 37.5.2.1.2, or 37.5.2.1.3, and the accurate or previously unsubmitted Meter Data is not reflected on the T+11M Recalculation Settlement Statement either because the Scheduling Coordinator provides the CAISO with the correct Actual Meter Data after the Settlement Quality Meter Data resubmittal deadline specified in Section 10.3.6.4 or because the CAISO does not issue a

Recalculation Settlement Statement T+11M for the relevant Trading Day. The market adjustment is the value of the error calculated based on a minimum price of \$10/MWh and the CAISO calculates the market adjustment for each hour with inaccurate, late, or missing data in addition to the financial Sanctions specified in either Sections 37.5.2.2.1, 37.5.2.2.2, or 37.5.2.2.3. Provided, however, that the CAISO does not charge a market adjustment if: (a) the initially inaccurate, missing, or late Meter Data was to the Scheduling Coordinator's detriment; or (b) the Scheduling Coordinator, under a single SCID, is the only Scheduling Coordinator in the utility Service Area during the period of inaccurate, late, or missing Meter Data.

A Scheduling Coordinator must provide reasonable cooperation with the CAISO in providing data needed to calculate the market adjustment.

The CAISO allocates the market adjustment charge to Scheduling Coordinators in proportion to their charges for Unaccounted for Energy (UFE) in the utility Service Area during the total period of the inaccurate, late, or missing Meter Data event.

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37.9 Administration of Sanctions

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37.9.4 Disposition of Proceeds

The CAISO shall collect penalties assessed pursuant to this Section 37.9 and deposit such amounts in an interest bearing trust account. The CAISO shall distribute the penalty amounts together with interest earned through payments to Scheduling Coordinators as provided herein. Each Scheduling Coordinator that paid GMC during the calendar year will identify, in a manner to be specified by the CAISO, the amount of GMC paid by each Market Participant for whom that Scheduling Coordinator provided service during that calendar year. The total amount assigned to all Market Participants served by that Scheduling Coordinator in such calendar year (including the Scheduling Coordinator itself for services provided on its own behalf), shall equal the total GMC paid by that Scheduling Coordinator.

The CAISO will calculate the payment due each Scheduling Coordinator based on the lesser of the GMC actually paid by all eligible Market Participants represented by that Scheduling Coordinator, or the product of a) the amount in the trust account, including interest, and b) the ratio of the GMC paid by each Scheduling Coordinator for eligible Market Participants, to the total of such amounts paid by all Scheduling Coordinators. Each Scheduling Coordinator is responsible for distributing payments to the eligible Market Participants it represented in proportion to GMC collected from each eligible Market Participant.

For the purpose of distributing the penalty funds and associated interest, ineligible Market Participants are Market Participants that: (1) were assessed a financial Sanction during the calendar year, unless the financial Sanction was excused by FERC on appeal in accordance with the procedures outlined in Section 37.8.10 and the excusal was based on a determination that no violation of Section 37 occurred; or (2) are exempt from financial Sanctions pursuant to Section 22.9. The CAISO determines if a Scheduling Coordinator is an ineligible Market Participant at the SCID level. For the purposes of applying part (1), a Sanction that initially is assessed on a Settlement Statement and then appealed to FERC is deemed assessed in the calendar year that the Sanction is first assessed. A Market Participant that is not deemed an ineligible Market Participant is an eligible Market Participant for purposes of this Section 37.9.4.

If the total amount in the trust account to be allocated exceeds the total GMC obligation of all eligible Market Participants, then such excess shall be treated in accordance with Section 11.29.9.6.3.

The CAISO distributes the penalty funds after the end of each calendar year and once no more appeals to FERC are pending that could impact an entity's status as an eligible Market Participant for the calendar year. The CAISO may distribute the penalty funds through an initial allocation followed by supplemental allocations if an appeal to FERC is pending that would not impact an entity's status as an eligible Market Participant for the calendar year but could impact the total pool of funds to distribute.

After allocating the penalty proceeds, the CAISO posts an informational report to the CAISO Website providing information about the financial Sanctions assessed for the calendar year, including the number of violations and total financial Sanctions assessed for each category of violation, and issues a Market Notice informing Scheduling Coordinators and Market Participants of the availability of the report.

* * * * *

37.11 [Not Used]

37.11.1 [Not Used]

37.11.2 [Not Used]

Attachment B – Marked Tariff
Tariff Amendment – Rules of Conduct
California Independent System Operator Corporation
January 12, 2024

10.3.6 Settlement Quality Meter Data Submission

Scheduling Coordinators shall submit to the CAISO Actual Settlement Quality Meter Data or Scheduling Coordinator Estimated Settlement Quality Meter Data, as provided in Section 10.3.6.2(a), for Scheduling Coordinator Metered Entities they represent for each Settlement Period in an Operating Day if the total Expected Energy for the Scheduling Coordinator Metered Entity is not zero for a Settlement Period. Scheduling Coordinators must submit the Settlement Quality Meter Data according to the timelines established in Section 10.3.6.2 and the CAISO Payments Calendar and as provided in the applicable Business Practice Manual. Scheduling Coordinators must also submit Settlement Quality Meter Data (actual and Scheduling Coordinator estimated) on demand as provided in the applicable Business Practice Manual.

* * * * *

37.5 Provide Factually Accurate Information

37.5.1 [Not Used]

37.5.2 Accurate and Timely SQMD

37.5.2.1 Expected Conduct

Scheduling Coordinators representing Scheduling Coordinator Metered Entities shall provide complete and accurate Settlement Quality Meter Data for each Trading Hour and shall correct any errors in such data no later than the Settlement Quality Meter Data submission deadline specified in Section 10.3.6.3. Failure by a Scheduling Coordinator to submit Scheduling Coordinator Estimated Settlement Quality Meter Data that is complete and based on a good faith estimate that reasonably represents Demand and/or Generation quantities for each Settlement Period as required by Section 10 shall be a violation of this rule and may be referred to DMM for investigation.

~~Scheduling Coordinators representing Scheduling Coordinator Metered Entities shall provide complete and accurate Settlement Quality Meter Data for each Trading Hour and shall correct any errors in such data no later than fifty-two (52) Business Days after the Trading Day (T+52B). Failure either to submit complete and accurate Actual Settlement Quality Meter Data or to replace Estimated Settlement Quality Meter Data with complete and accurate Actual Settlement Quality Meter Data by T+52B is late Actual~~

~~Settlement Quality Meter Data and shall be a violation of this rule. The failure to provide complete and accurate Actual Settlement Quality Meter Data, as required by Section 10.3.6 that causes an error to exist in such Settlement Quality Meter Data after fifty two (52) Business Days after the Trading Day (T+52B) shall be a violation of this rule. Scheduling Coordinators that fail to submit Scheduling Coordinator Estimated Settlement Quality Meter Data that is complete and based on a good faith estimate that reasonably represents Demand and/or Generation quantities for each Settlement Period as required by Section 10 shall be a violation of this rule and may be referred to DMM for investigation.~~

37.5.2.1.1 Inaccurate Meter Data

For the purposes of this Section 37.5.2, a Scheduling Coordinator has submitted inaccurate Meter Data and violated this Section 37.5.2 if it timely submits Actual Settlement Quality Meter Data for every applicable Settlement Period in a Trading Day as required by Section 10.3.6 but the Actual Settlement Quality Meter Data is erroneous and the Scheduling Coordinator does not correct the error(s) by the Settlement Quality Meter Data submission deadline specified in Section 10.3.6.3. Additionally, where a Scheduling Coordinator submits late Meter Data as defined in Section 37.5.2.1.2 and the Actual Settlement Quality Meter Data submitted by the Settlement Quality Meter Data resubmittal deadline specified in Section 10.3.6.4 is erroneous, then the Scheduling Coordinator has submitted inaccurate Meter Data in addition to late Meter Data.

37.5.2.1.2 Late Meter Data

For the purposes of this Section 37.5.2, a Scheduling Coordinator has submitted late Meter Data and violated this Section 37.5.2 if it fails, by the Settlement Quality Meter Data submission deadline specified in Section 10.3.6.3, either to submit Actual Settlement Quality Meter Data for every applicable Settlement Period in a Trading Day as required by Section 10.3.6 or to replace Estimated Settlement Quality Meter Data with Actual Settlement Quality Meter Data for every applicable Settlement Period in a Trading Day as required by Section 10.3.6 but, in either case, corrects the failure by the Settlement Quality Meter Data resubmittal deadline specified in Section 10.3.6.4.

37.5.2.1.3 Missing Meter Data

For the purposes of this Section 37.5.2 a Scheduling Coordinator has missing Meter Data and has violated this Section 37.5.2 if it fails, by the Settlement Quality Meter Data submission deadline specified

in Section 10.3.6.3, either to submit Actual Settlement Quality Meter Data for every applicable Settlement Period in a Trading Day as required by Section 10.3.6 or to replace Estimated Settlement Quality Meter Data with Actual Settlement Quality Meter Data for every applicable Settlement Period in a Trading Day as required by Section 10.3.6 and, in either case, does not correct the failure by the Settlement Quality Meter Data resubmittal deadline specified in Section 10.3.6.4.

37.5.2.2 Sanctions and Market Adjustment

~~Violations under this Section 37.5.2 shall be subject to Sanction described in Section 37.11.~~

37.5.2.2.1 Sanction for Inaccurate Meter Data

The Sanction for inaccurate Meter Data is the lower of: (a) 30 percent of the value of the error; or (b) \$1,000. For purposes of calculating the inaccurate Meter Data Sanction, the value of the error is calculated based on a minimum price of \$10/MWh. The Sanction applies per Trading Day per SCID with inaccurate Meter Data. A Scheduling Coordinator under a single SCID can face Sanction under this Section 37.5.2.2.1 and Section 37.5.2.2.2 for the same Trading Day.

A Scheduling Coordinator must provide reasonable cooperation with the CAISO in providing data needed to calculate the Sanction for inaccurate Meter Data.

Where a Scheduling Coordinator (under the same SCID or different SCIDs) submits inaccurate Meter Data for both a Generating Unit and Load for the same Trading Day, the CAISO does not consider the inaccurate Load Settlement Quality Meter Data for purposes of assessing Sanctions under this Section 37.5.2.2.1 if the Scheduling Coordinator demonstrates to the CAISO's reasonable satisfaction that the Load Settlement Quality Meter Data is derived from the Generating Unit Settlement Quality Meter Data and that the inaccurate Load Settlement Quality Meter Data was caused by the inaccurate Generating Unit Settlement Quality Meter Data. In such cases, the CAISO considers the inaccurate Load Settlement Quality Meter Data in calculating any applicable market adjustment pursuant to Section 37.5.2.2.4.

37.5.2.2.2 Sanction for Late Meter Data

The Sanction for submitting late Meter Data as defined in Section 37.5.2.1.2 is \$1,000 per Trading Day per SCID with late Meter Data. A Scheduling Coordinator under a single SCID can face Sanction under this Section 37.5.2.2.2 and Section 37.5.2.2.1 for the same Trading Day.

37.5.2.2.3 Sanction for Missing Meter Data

The Sanction for missing Meter Data as defined in Section 37.5.2.1.3 is \$4,000 per Trading Day per SCID with missing Meter Data. For a given Trading Day, a Scheduling Coordinator under a single SCID cannot be sanctioned for both a missing Meter Data violation and either an inaccurate Meter Data violation or a late Meter Data violation. If a Scheduling Coordinator under a single SCID has missing Meter Data and inaccurate Meter Data or late Meter Data on the same Trading Day, then the CAISO only assesses a Sanction for the missing Meter Data.

37.5.2.2.4 Market Adjustment

The CAISO charges a Scheduling Coordinator a market adjustment if a Scheduling Coordinator violates Sections 37.5.2.1.1, 37.5.2.1.2, or 37.5.2.1.3, and the accurate or previously unsubmitted Meter Data is not reflected on the T+11M Recalculation Settlement Statement either because the Scheduling Coordinator provides the CAISO with the correct Actual Meter Data after the Settlement Quality Meter Data resubmittal deadline specified in Section 10.3.6.4 or because the CAISO does not issue a Recalculation Settlement Statement T+11M for the relevant Trading Day. The market adjustment is the value of the error calculated based on a minimum price of \$10/MWh and the CAISO calculates the market adjustment for each hour with inaccurate, late, or missing data in addition to the financial Sanctions specified in either Sections 37.5.2.2.1, 37.5.2.2.2, or 37.5.2.2.3. Provided, however, that the CAISO does not charge a market adjustment if: (a) the initially inaccurate, missing, or late Meter Data was to the Scheduling Coordinator's detriment; or (b) the Scheduling Coordinator, under a single SCID, is the only Scheduling Coordinator in the utility Service Area during the period of inaccurate, late, or missing Meter Data.

A Scheduling Coordinator must provide reasonable cooperation with the CAISO in providing data needed to calculate the market adjustment.

The CAISO allocates the market adjustment charge to Scheduling Coordinators in proportion to their charges for Unaccounted for Energy (UFE) in the utility Service Area during the total period of the inaccurate, late, or missing Meter Data event.

37.5.2.3 Disposition of Sanction Proceeds

For purposes of redistributing collected market adjustments, any amounts collected under this provision

~~shall be applied first to those parties affected by the conduct. Any excess amounts shall be disposed of as set forth in Section 37.9.4.~~

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37.9 Administration of Sanctions

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37.9.4 Disposition of Proceeds

The CAISO shall collect penalties assessed pursuant to this Section 37.9 and deposit such amounts in an interest bearing trust account. ~~After the end of each calendar year, the~~ The CAISO shall distribute the penalty amounts together with interest earned through payments to Scheduling Coordinators as provided herein. ~~For the purpose of this Section 37.9.4, "eligible Market Participants" shall be those Market Participants that were not assessed a financial penalty pursuant to this Section 37 during the calendar year.~~

Each Scheduling Coordinator that paid GMC during the calendar year will identify, in a manner to be specified by the CAISO, the amount of GMC paid by each Market Participant for whom that Scheduling Coordinator provided service during that calendar year. The total amount assigned to all Market Participants served by that Scheduling Coordinator in such calendar year (including the Scheduling Coordinator itself for services provided on its own behalf), shall equal the total GMC paid by that Scheduling Coordinator.

The CAISO will calculate the payment due each Scheduling Coordinator based on the lesser of the GMC actually paid by all eligible Market Participants represented by that Scheduling Coordinator, or the product of a) the amount in the trust account, including interest, and b) the ratio of the GMC paid by each Scheduling Coordinator for eligible Market Participants, to the total of such amounts paid by all Scheduling Coordinators. Each Scheduling Coordinator is responsible for distributing payments to the eligible Market Participants it represented in proportion to GMC collected from each eligible Market

Participant.

For the purpose of distributing the penalty funds and associated interest, ineligible Market Participants are Market Participants that: (1) were assessed a financial Sanction during the calendar year, unless the financial Sanction was excused by FERC on appeal in accordance with the procedures outlined in Section 37.8.10 and the excusal was based on a determination that no violation of Section 37 occurred; or (2) are exempt from financial Sanctions pursuant to Section 22.9. The CAISO determines if a Scheduling Coordinator is an ineligible Market Participant at the SCID level. For the purposes of applying part (1), a Sanction that initially is assessed on a Settlement Statement and then appealed to FERC is deemed assessed in the calendar year that the Sanction is first assessed. A Market Participant that is not deemed an ineligible Market Participant is an eligible Market Participant for purposes of this Section 37.9.4. ~~Prior to allocating the penalty proceeds, the CAISO will obtain FERC's approval of its determination of eligible Market Participants and their respective shares of the trust account proceeds.~~

If the total amount in the trust account to be ~~se~~-allocated exceeds the total GMC obligation of all eligible Market Participants, then such excess shall be treated in accordance with Section 11.29.9.6.3.

The CAISO distributes the penalty funds after the end of each calendar year and once no more appeals to FERC are pending that could impact an entity's status as an eligible Market Participant for the calendar year. The CAISO may distribute the penalty funds through an initial allocation followed by supplemental allocations if an appeal to FERC is pending that would not impact an entity's status as an eligible Market Participant for the calendar year but could impact the total pool of funds to distribute.

After allocating the penalty proceeds, the CAISO posts an informational report to the CAISO Website providing information about the financial Sanctions assessed for the calendar year, including the number of violations and total financial Sanctions assessed for each category of violation, and issues a Market Notice informing Scheduling Coordinators and Market Participants of the availability of the report.

* * * * *

37.11 ~~Method for Calculating Penalties~~[Not Used]

37.11.1 ~~Inaccurate or Late Actual SQMD Penalty~~[Not Used]

~~There is no Sanction for the submission of inaccurate or late Actual Settlement Quality Meter Data used for Initial Settlement Statement T+9B. However, failure by a Scheduling Coordinator, under a specific SCID, to submit Actual Settlement Quality Meter Data or to replace Estimated Settlement Quality Meter Data with Actual Settlement Quality Meter Data by fifty two (52) Business Days after the Trading Day (T+52B) for one or more scheduled Resource IDs for a given Trading Day is late Actual Settlement Quality Meter Data and constitutes a Rule of Conduct violation. The Sanction is \$1,000 and the Scheduling Coordinator is required to submit Actual Settlement Quality Meter Data by the Meter Data Resubmittal Deadline of T+214B for Recalculation Settlement Statement T+11M. Where a Scheduling Coordinator fails to submit Actual Settlement Quality Meter Data or to replace Estimated Settlement Quality Meter Data with Actual Settlement Quality Meter Data by T+52B for one or more scheduled Resource IDs for a given Trading Day, and that Scheduling Coordinator also fails to submit Actual Settlement Quality Meter Data by the Meter Data Resubmittal Deadline of T+214B for Recalculation Settlement Statement T+11M, then the Scheduling Coordinator shall also be levied a Sanction of \$3,000. The submission by a Scheduling Coordinator of Actual Settlement Quality Meter Data that causes an error to exist in such Actual Settlement Quality Meter Data after T+52B shall constitute inaccurate Actual Settlement Quality Meter Data and is a Rule of Conduct violation. The Sanction is \$1,000. All violations of this Section 37.11.1 shall be found per SCID per Trading Day and all Sanctions assessed under this Section 37.11.1 shall be levied per SCID per Trading Day. Accordingly, for any given trade date, one Scheduling Coordinator may be found to have committed multiple violations of, and may be assessed multiple Sanctions under, this Section 37.11.1.~~

37.11.2 Inaccurate or Actual SQMD Penalty without Recalculation Settlement Statement [Not Used]

~~If the CAISO does not perform a Recalculation Settlement Statement or re-run, for cases of inaccurate Actual Settlement Quality Meter Data, the penalty will be a market adjustment and a Sanction. The Sanction shall be \$1,000. The market adjustment approximates the financial impact on the market; however, it does not completely reflect all the Settlement consequences of inaccurately submitted Meter Data. The approximated value of the inaccurate Meter Data in question will be calculated and returned to the market based on the average of the pro-rata share of Unaccounted for Energy (UFE) charged in the utility Service Area during the period of the inaccurate Meter Data event. If the error is to the detriment of~~

~~the responsible Scheduling Coordinator (e.g., under-reported Generation or over-reported Demand), and the CAISO does not produce a Recalculation Settlement Statement or perform a re-run, then no market adjustment will be made but the Sanction of \$1,000 still shall be levied.~~

~~For the market adjustment, the applicable price will be the greater of: (1) the simple average of the relevant twelve (12) five-minute LMPs for each hour in which inaccurate Meter Data occurred; or (2) \$10/MWh. The LMP used will be the value posted on OASIS for each Trading Hour of the applicable Trading Day.~~

Attachment C – Final Proposal
Tariff Amendment – Rules of Conduct
California Independent System Operator Corporation
January 12, 2024



Rules of Conduct Enhancements

Track 1 Draft Final Proposal

August 2, 2023

**Rules of Conduct Enhancements
Track 1 Draft Final Proposal**

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1. Executive Summary

On March 22, 2023 the ISO Board of Governors and the Western Energy Imbalance Market (WEIM) Governing Body approved the 2023-2025 Policy Initiatives Roadmap,¹ which included “Rules of Conduct Changes to Address Metering Penalty Issues” as an upcoming initiative. In response to internal and external input, the ISO expanded the scope to create the “Rules of Conduct Enhancements” initiative.

This initiative comprises two tracks. Track 1 focuses on meter data penalties, with three additional procedural topics. Track 2 enhances the Rules of Conduct through penalty redesign and process improvements. The ISO plans to present Track 1 items to the ISO Board of Governors and the WEIM Governing Body for approval on September 20, 2023. The ISO plans to launch Track 2 in Q3 of 2023.

Track 1 proposes to:

1. Adjust meter data penalties;
2. Eliminate the annual penalty distribution filing;
3. Clarify eligibility for the penalty distribution; and
4. Clarify application of the market adjustment provision in the context of WEIM entities.

Before October 1, 2011, inaccurate settlement quality meter data penalties were based on 30% of the error cost when scheduling coordinators identified and reported the error to the ISO.² These penalties were changed to \$1,000 per trading day because the 30% of error cost design led to significant penalties for large load-serving entities. However, the per trading day penalty design has led to disproportionate penalties for small, long-term inaccuracies with penalties upwards of 983% of market impact. With consideration of verbal and written stakeholder feedback in response to the initiative workshop and Straw Proposal, the ISO continues to propose changing the inaccurate meter data penalty from \$1,000 per trading day to the lower of: a) 30% of the error’s absolute value; or b) \$1,000/trading day. The ISO introduced a minimum \$10 hourly LMP price for calculating the 30% of the error’s absolute value at the Track 1 Straw Proposal Meeting. Given no opposition, the ISO continues to propose the \$10 minimum LMP. In response to stakeholder feedback on the Straw Proposal, the ISO now proposes penalizing meter data non-submittal only when a resource has non-zero Total Expected Energy (TEE) for a settlement interval. In response to stakeholder feedback, the ISO also stipulates that for WEIM entities that must balance load and supply, the inaccurate error value calculation applies solely to the generator inaccurate meter data, to avoid double penalizing. The ISO continues to propose maintaining the \$1,000 per trading day penalty for “late” post-T+52B meter data submissions and an additional \$3,000 per trading day penalty for “missing” meter data after the T+214B deadline. Based on stakeholder feedback from the workshop that encouraged the ISO to provide a courtesy notice to support accurate and timely meter data submission, the ISO continues to propose sending a courtesy notice to scheduling coordinators missing meter data at T+44B to promote T+52B meter data submission compliance.

¹ [Final 2023-2025 Policy Initiatives Roadmap](#)

² [CAISO tariff § 36.43, \(09/09/2011\)](#)

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In addition to meter data penalties, Track 1 also addresses three procedural topics that the ISO identified as easily-implementable process improvements that would broadly benefit stakeholders. Currently, the ISO must receive FERC approval prior to distributing the Rules of Conduct penalty funds. The ISO believes posting an informational report to the ISO website would provide sufficient transparency while reducing administrative burden. Additionally, the ISO proposes two clarifications to the Rules of Conduct. First, by default, entities exempt from penalties or receiving a penalty waiver in a given year should not receive proceeds from that year's penalty distribution. Second, the ISO will not apply a market adjustment for inaccurate meter data if there are no additional scheduling coordinator IDs in a given utility distribution company (UDC) area.

Each chapter is informed by stakeholder input from the June 7, 2023, workshop, the July 13, 2023, Straw Proposal meeting, and subsequent written comments. In total, the ISO received 20 written comments from 14 stakeholders. The ISO will hold a virtual stakeholder call on August 9, 2023 from 1:00pm to 3:00pm (PST) to discuss the Track 1 Draft Final Proposal. Written comments on the Draft Final Proposal are due by August 15, 2023.

2. Changes from Straw Proposal and Responses to Stakeholder Feedback

The ISO published the Rules of Conduct Enhancements Straw Proposal on July 6, 2023. The ISO held a virtual meeting to discuss the Straw Proposal on July 13, 2023, with written comments on the Straw Proposal due July 20, 2023. Two stakeholders requested that the ISO accelerate Track 1. One stakeholder requested that the ISO not wait for the joint WEIM Governing Body and ISO Board of Governors meeting in late September but instead convene an earlier conference call. Another stakeholder asked the ISO to expedite the tariff filing process. The ISO considered these requests, and found it infeasible to accelerate the initiative due to resource constraints at this stage. In the event of WEIM Governing Body and ISO Board of Governors approval, the ISO plans to file with FERC to facilitate approval of Track 1 by the end of the year.

Stakeholder feedback is the foundation for the modifications and clarifications to the Draft Final Proposal, which builds on the Straw Proposal in the following ways:

- **Clarifies 30% of impact methodology for entities that provide linked generator and load data:** For a WEIM entity, both generator and load Settlement Quality Meter Data (SQMD) must be updated to maintain balance and accuracy between a WEIM entity's supply and demand. Without clarifying the original straw proposal methodology, one could interpret that a WEIM entity could face a 60% of error value meter data inaccuracy penalty: 30% for inaccurate generator SQMD and 30% for inaccurate load SQMD. This change clarifies that the 30% of error value calculation applies to only inaccurate generator meter data in this situation, and not to the corresponding load meter data.

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- **Modifies Tariff Section 10.3.6:** Non-submittal of Settlement Quality Meter Data will be penalized only when a resource has a non-zero Total Expected Energy (TEE) value for a settlement interval. This addition responds to stakeholder concerns that entities were expected to provide settlement meter data and face penalties for non-compliance even in settlement intervals with zero TEE.
- **Applies \$10 hourly minimum LMP when calculating error value:** This addition was introduced in the July 13 Straw Proposal stakeholder meeting to ensure a minimum penalty threshold. For each hourly settlement interval, if the locational marginal price (LMP) is less than \$10, the ISO will base the error value calculation off of an LMP of \$10. This element was derived from the pre-2011 methodology.
- **Provides additional meter data penalty examples:** Stakeholders requested further clarification on how the new penalty methodology would work. The ISO has provided those examples in the “Meter Data Penalty” section. The ISO has also provided examples to the “Clarify Application of Market Adjustment Provision in the Context of WEIM Entities” section.

3. Initiative Background

The ISO Rules of Conduct³ are guiding principles for ISO market participants intended to: provide fair notice to market participants of expected conduct; foster an environment in which all parties may participate on a fair and equal basis; redress instances of market manipulation and anticompetitive behavior; and increase the confidence of market participants, ratepayers, and the general public in the proper functioning of the ISO markets.

The tariff establishes data submission deadlines and informational requirements to support market administration and timely market settlement. In the event of non-compliance, the ISO investigates and administers prescribed sanctions for pre-determined objective violations of the Rules of Conduct. If the ISO cannot make an objective determination of: 1) whether an entity violated the Rules of Conduct; and 2) what the sanction should be, the ISO defers to the Federal Energy Regulatory Commission’s (FERC) judgement. Ultimate authority surrounding the Rules of Conduct rests with FERC, including ruling on tariff waiver requests.

The ISO employs a three-letter process to investigate potential Rules of Conduct violations. The three letters are the Notice of Review, the Results of Review, and the Description of Penalty. The Notice of Review must be provided by the ISO to market participants within 90 days of the ISO discovering a Rules of Conduct event. Though responses are optional, market participants have 30 days from the date of the notice to respond by opening a CIDI case.⁴ If the ISO receives a violation concession or receives no response within 30 days, the Results of Review letter is sent. Typically, the ISO will send the Results of Review within two weeks after concession or conclusion of the CIDI case. Market participants have 30

³ [CAISO tariff § 37](#).

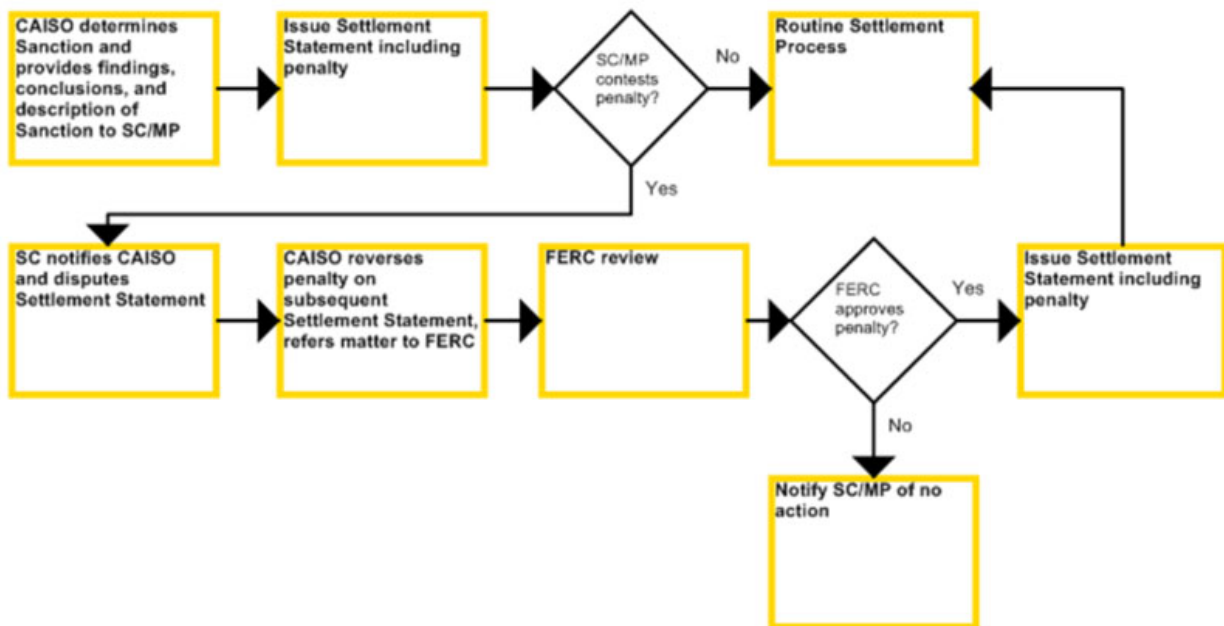
⁴ The Customer Inquiry, Dispute & Information (CIDI) system is used to log and track market inquiries and settlement disputes. [CIDI User Guide](#), V. 2.5, April 2023.

Rules of Conduct Enhancements Track 1 Draft Final Proposal

days to respond to the Results of Review by opening a CIDI case. After concession or conclusion of the review, the Description of Penalty letter can be sent.

Exhibit 1 illustrates the ISO process after a Rules of Conduct violation has been identified. Under the three-letter process, the ISO notifies the scheduling coordinator/market participant's (SC/MP) pre-designated contacts of the event, findings, and conclusions. Sanctions with financial penalties are subsequently invoiced through the ISO settlement processes and timelines. After the settlement statement has been issued, the penalty may be contested to FERC. If the penalty is disputed with the ISO and the penalty is appealed to FERC, both by the dispute deadline⁵, then the ISO tolls the penalty settlement temporarily pending FERC's ruling on the appeal. The ISO must follow FERC's subsequent order. The potential streamlining of these processes will be discussed under this initiative's Track 2.

Exhibit 1: ISO Administration after Rules of Conduct Violation



On March 22, 2023 the ISO Board of Governors and the WEIM Governing Body approved the 2023-2025 Policy Initiatives Roadmap which included the “Rules of Conduct Changes to Address Metering Penalty Issues” Initiative. This initiative was included in the Policy Roadmap in response to stakeholder requests and subsequent FERC waiver requests outlining that meter data penalties were disproportionately high for small, long-term meter data inaccuracies. After identifying additional potential enhancements to the Rules of Conduct, the ISO expanded the initiative’s scope and renamed it the “Rules of Conduct Enhancements” initiative. Track 1 remains focused on the initiative’s original scope of addressing meter data penalty issues, with most additional Rules of Conduct enhancements included in Track 2’s scope.

⁵ Currently, the dispute deadline is the statement publication date plus 22 business days.

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Stakeholders provided two rounds of feedback, in response to the initiative workshop and in response to the Straw Proposal and subsequent meeting.

Stakeholder input during the June 7, 2023 workshop and 10 written stakeholder comments (due June 20, 2023) informed the Track 1 Straw Proposal. Additional stakeholder input during the July 13, 2023 Straw Proposal meeting and 10 subsequent written comments (due July 20, 2023) informed this Draft Final Proposal. In total, the ISO received 20 public written comments from 14 different stakeholders. Stakeholder feedback is fundamental to good policy development, and the ISO thanks each stakeholder who has shared their perspective and provided written comments. We look forward to continuing to engage with stakeholders on Track 2 through a transparent, respectful, and inclusive stakeholder process.

4. Initiative Scope and Schedule

The Rules of Conduct Enhancements initiative currently evaluates a total of nine topics over two tracks (Table 1). Track 1 is narrowly scoped, with a primary focus on evaluating the meter data penalty design in response to stakeholder feedback and FERC encouragement.⁶ The ISO plans to present Track 1 to the WEIM Governing Body and the ISO Board of Governors for approval on September 20, 2023 (Table 2). The four Track 1 topics are described in Chapters 5-8.

Track 2 considers Rules of Conduct penalty redesign and process enhancements with broader scope. These topics will benefit from additional time for deeper stakeholder engagement and exploration. The Track 2 Straw Proposal will discuss the five topics currently included in Track 2’s scope, and topics may be added in response to stakeholder feedback or internal input. The Track 2 timeline will be developed in Q3 2023.

Table 1: Rules of Conduct Enhancements – Summary of Topics

<u>Rules of Conduct Enhancements</u> Track 1: Narrow scope, focus on meter data penalties Track 2: Broader exploration of topics	Chapter:	Track 1 Joint Board Decision: Sept 2023	Track 2 Joint Board Decision: TBD
Meter data penalties <ul style="list-style-type: none"> • Redesigned penalty for inaccurate meter data submissions: Lower of: (a) 30% of error value (min. interval LMP \$10); or (b) \$1,000/trading day • Retain late meter data penalty (post T+52B) at \$1,000/trading day • Retain “missing” meter data penalty (post T+214B) at additional \$3,000/trading day 	5	✓	

⁶ Federal Energy Regulatory Commission, Order Granting Waiver Requests, Docket No. ER21-395-000 (April 15, 2021)

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<ul style="list-style-type: none"> Establish that non-submittal of SQMD will be penalized only when a resource has a non-zero TEE value for a settlement interval. New notice: Extend T+44B (pre-deadline) internal automatic notice for missing meter data to applicable scheduling coordinators 			
<p>Eliminate annual penalty distribution filing</p> <ul style="list-style-type: none"> Remove FERC approval requirement for distribution of Rules of Conduct proceeds. Post informational report on the ISO website 	6	✓	
<p>Clarify eligibility for penalty distribution</p> <ul style="list-style-type: none"> In addition to entities that have received a penalty, by default, entities that have received a penalty waiver or are exempt from penalties in a given year are ineligible for that year's penalty distribution. 	7	✓	
<p>Clarify application of market adjustment provision in the context of WEIM entities</p> <ul style="list-style-type: none"> The ISO will not apply a market adjustment if there are no additional scheduling coordinator IDs in a given utility distribution company (UDC) area. 	8	✓	
<p>Streamline Rules of Conduct investigative process</p> <ul style="list-style-type: none"> Streamline the current three-letter process or shift aspects to the settlement dispute process 			✓
<p>Specify information submission requirements subject to "tariff-required information" penalty</p> <ul style="list-style-type: none"> Current: \$500/day penalty catchall for late information submission 			✓
<p>Update penalty tolling eligibility to create a clear pathway for SC to invoke the provision</p> <ul style="list-style-type: none"> Create a process for the tolling provision to kick in without the penalty first appearing on a settlement statement 			✓
<p>Late forced outage reporting penalties</p> <ul style="list-style-type: none"> Eliminate penalties altogether or create stricter penalties by removing the free pass and/or warning letter stages 			✓
<p>Define submission requirements and penalty structure for DR customer load baseline monitoring data</p> <ul style="list-style-type: none"> Review data that should be submitted, define clear deadlines for submitting data, and design penalties to deter non-compliance 			✓

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Table 2: Rules of Conduct Enhancements Track 1 – Initiative Schedule⁷

Date	Milestone
June 7, 2023	Stakeholder workshop: Rules of Conduct Enhancements Scope and Tracks
June 20, 2023	Due date for stakeholder comments on workshop
July 6, 2023	Publish Track 1 Straw Proposal
July 13, 2023	Stakeholder meeting to discuss Track 1 Straw Proposal
July 20, 2023	Due date for stakeholder comments on Track 1 Straw Proposal
August 2, 2023	Publish Track 1 Draft Final Proposal
August 9, 2023	Stakeholder call to discuss Track 1 Draft Final Proposal
August 15, 2023	Due date for stakeholder comments on Track 1 Draft Final Proposal
September 20, 2023	WEIM Governing Body and ISO Board of Governors joint decision on Track 1

5. Meter Data Penalties (Sections 37.11.1, 10.3.6)

Background and objectives

Meter data represents the energy generated or consumed during a settlement interval. ISO metered entities and scheduling coordinator metered entities follow prescribed processes and procedures to ensure the data is settlement quality. Entities that do not submit Settlement Quality Meter Data (SQMD) by T+52B or revise their SQMD post-T+52B are subject to meter data penalties, as defined by the Rules of Conduct. Entities that do not submit SQMD by T+214B are deemed subject to an additional penalty for “missing” data submission.

Originally, inaccurate meter data penalties were based on 30% of the error’s cost if self-reported to the ISO. This penalty structure led to disproportionate penalties for load serving entities with significant load. The ISO changed the penalty structure to \$1,000 per trading day on October 1, 2011. However, the per trading day penalty design has led to disproportionate penalties for small, long-term errors. For example, in 2020, the ISO submitted a FERC waiver request on behalf of an entity’s meter data penalty of \$685,000--over 983% of the error’s cost to the market.⁸ In April 2021, FERC approved this meter data penalty waiver request. In their order, FERC “encouraged CAISO to consider proposing modifications to [the] Tariff... to help CAISO avoid the need to request wavier of its Tariff in the future.”⁹ On May 2, 2023, the ISO submitted another waiver request for 16 meter data penalty events with total penalty exposure of approximately \$2.5 million. This extended waiver request was also spurred by disproportionate penalties from small, long-term inaccurate SQMD submission. In the filing, the ISO

⁷ This timeline is tentative. Milestone dates are not finalized until the ISO issues a market notice.

⁸ *Cal. Indep. Sys. Operator Corp.*, Request for Waiver, FERC Docket No. ER21-395-000 (Nov. 12, 2020).

⁹ *Federal Energy Regulatory Commission*, Order Granting Waiver Requests, Docket No. ER21-395-000 (April 15, 2021)

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stated that it expected to begin a stakeholder process on Rules of Conduct improvements in 2023.¹⁰ On July 13, FERC denied this waiver request because it was too broad in scope.¹¹

The ISO proposes to redesign the inaccurate SQMD penalty such that the sanction is more proportional to the market impact and the ISO's operations. The ISO believes penalties are important for deterring non-compliance, and the inaccurate SQMD penalty amount can be lowered to the proposed hybrid model while maintaining a similar effect on compliance.

Track 1 proposal

Inaccurate Meter Data Penalties

- Current Rule: inaccurate meter data submissions are subject to a \$1,000/trading day penalty.
- Proposed Rule: inaccurate meter data submissions are subject to a penalty that is the lower of: a) 30% of the error's absolute value (min. \$10 LMP); b) \$1,000/trading day, with the following stipulations:
 - The error's absolute value is calculated by multiplying the greater of: a) the average of the 5 minute LMP for the hour; or b) \$10/MWH; by the MW difference between the final SQMD before the T+52B deadline and the final SQMD before the T+214B deadline. For inaccurate SQMD corrected post-T+214B, the manual penalty and any applicable market adjustment will occur upon each SQMD update.
 - If inaccurate meter data exists in settlements past the Resubmittal Meter Data deadline (T+214B), and the inaccuracy is to the detriment of the market, the market adjustment is manually calculated as the product of the difference between the correct data and the misreported hourly data and the greater of: (a) the average of the 12 five-minute prices for the hour; or (b) \$10/MWh. Market adjustments from SQMD updates after T+214B will not lead to a credit to the market participant.
 - The penalty is in addition to the applicable cost or credit of the error's value which will appear on the T+11M settlement statement if submitted before T+214B,
 - For a WEIM entity, both generator and load (SQMD) must be updated to maintain balance and accuracy between a WEIM entity's supply and demand. Without clarifying the original straw proposal methodology, one could interpret that a WEIM entity could face a 60% of error value meter data inaccuracy penalty: 30% for inaccurate generator SQMD and 30% for inaccurate load SQMD. In this situation,

¹⁰ *Cal. Indep. Sys. Operator Corp.*, Petition for Limited Waiver of the CAISO, FERC Docket No. ER23-1699-000 (Apr. 24, 2023).

¹¹ *Federal Energy Regulatory Commission*, Order Denying Waiver Request, FERC Docket No. ER23-1699-000 (Jul. 13, 2023).

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the 30% of error value calculation only applies to the updated generator meter data, and not to the corresponding updated load meter data.

$$\text{Inaccurate MDP} = \text{Min}\left(\left|\text{Max}\left(\text{avg. of 5 min. prices for the hour}, \frac{\$10}{\text{MWH}}\right) \times \text{MW Difference} \times 30\%\right|, 1,000\right)$$

Late Meter Data

- Current Rule: \$1,000/trading day penalty is applied if no SQMD is submitted by T+52B.
- Proposed Rule: Maintain current penalty at \$1,000/trading day. Non-submittal of SQMD will be penalized only when a resource has a non-zero Total Expected Energy (TEE) value for a settlement interval.¹²
 - The ISO considered extending the 30% of error value methodology to the late meter data penalty in addition to the inaccurate meter data penalty. However, the hybrid methodology would delay when the late meter data penalty amount could be issued, thereby undermining its effectiveness as an incentive for compliance. Under the current design, the Notice of Review is sent within 90 days after discovery. This letter is followed by the Results of the Review and the Description of the Penalty letters. The ISO must sanction the entity no later than 1 year after ISO discovery. If the 30% of market impact design was extended to the late meter data penalty, the Notice of Review would still be sent soon after discovery. However, both the ISO and entities would wait until after T+214B to calculate the 30% impact. With inaccurate meter data, waiting until the T+214B settlement re-run is necessary because that is when updated data can be re-run in the market. For late meter data, this delay in penalty issuance would otherwise be unnecessary.
 - If an entity with an expected zero TEE does not submit SQMD, the ISO will by default treat the “null value” as “0”. In each scenario below, the TEE will be 0 MW. No penalties shall apply for non-submittal of SQMD:
 - If the resource has a day-ahead market award, but in real-time the resource is dispatched at 0 MW due to market economics
 - If the resource has a day-ahead market award, but in real-time the resource is dispatched at 0 MW due to outage
 - If the resource has no awards in either the day-ahead or real-time market.
 - If the resource is on outage and the scheduling coordinator extends the outage preventing market award fulfillment
 - If the resource is registered in the ISO’s Master File and the resource has no market awards

¹² CAISO Tariff §10.3.6 of refers to this requirement. This section would be modified accordingly.

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Missing Meter Data

- Current Rule: An additional \$3,000/trading day penalty is applied if no settlement quality meter data is submitted by T+214B.
- Proposed Rule: Maintain current penalty at \$3,000/trading day. Non-submittal of SQMD will be penalized only when a resource has a non-zero Total Expected Energy (TEE) value for a settlement interval.
 - Upon stakeholder request, the ISO considered extending the 30% of market impact to the “missing” meter data penalty in addition to the inaccurate meter data penalty. However, given that no data has been submitted, the ISO would be unable to identify what the “value of the error” of the missing data would be.

Missing Measurements Data Notice (T+44B)

- Current Rule: The Notice of Missing Measurements is sent by the ISO on T+53B
- Proposed Rule: Create a notice for missing SQMD at T+44B for applicable scheduling coordinators. Maintain the Notice of Missing Measurements on T+53B.
 - Upon stakeholder request, the ISO explored adding a new notice for market participants in danger of not submitting any settlement quality meter data by T+52B. Internally, the ISO systems provide a pre-deadline automatic notice for missing settlement quality meter data at T+44B. The ISO proposes to extend this notice to the applicable scheduling coordinator(s). This notice is a courtesy notice. Each market participant remains responsible for submitting SQMD on-time, including if the courtesy notice is not received for any reason.
 - Upon stakeholder request, the ISO explored adding a notice immediately after T+52B. The ISO already issues the “Missing Measurements” notice to market participants by email, generally on T+53B.
 - Any waiver or leniency on the rules of conduct penalty must be granted by FERC through a tariff waiver request, even if the data is submitted after T+52B but within a timeframe that would have minimal impact on the market. The vast majority of missing meter data penalties are resolved by T+214B (Table 3).

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Table 3: Summary of Missing Meter Data Penalties

Sanction Year	\$1,000 Events Failure to submit meter data by meter data deadline - T+52B			\$3,000 Events Failure to submit meter data by resubmittal deadline - T+214B		
	Events	# Trade Dates	Sanction \$	Events	# Trade Dates	Sanction \$
2018	15	29	\$29,000	0	-	
2019	34	64	\$64,000	0	-	
2020	22	31	\$31,000	3	4	\$12,000
2021	40	98	\$98,000	0	-	
2022	29	44	\$44,000	4	7	\$21,000

Examples:

Example 1: An engineer at Utility A’s generator notices a discrepancy between the amount of energy flowing into the grid and the amount of energy that is being reported to the ISO. The scheduling coordinator (SC) investigates and finds that this error impacted 20 trade dates, of which three are past the T+52B deadline but before the T+214B deadline. The new meter data daily total was 4 MW off from what was originally submitted, and the locational marginal price (LMP) over the trading days was \$25/MW. The two methods of penalty calculations are highlighted below:

By Trading Day: $\$3,000 = 3 \text{ inaccurate trading days} * \$1,000$
 30% of Impact: $\$90 = 4 \text{ MW} * \$25/\text{MW} * 0.3 * 3 \text{ inaccurate trading days}$
 Conclusion: Penalty = \$90

Under the current Rules of Conduct, the penalty would be the \$3,000, as the penalty is \$1,000 for each of the 3 inaccurate trading days. Under the proposed change, the penalty would be \$90, since the penalty would be the lower of a) \$1,000 per trading day (\$3,000) or b) 30% of the impact of the error (\$90). As the updated data was submitted prior to T+214B, the market resettlement would automatically calculate the new data’s market impact. Utility A would be charged or credited through Settlements on the T+11M statement for the difference between the inaccurate value and the accurate value.

Example 2: Generator Z (BAID 3333) provides inaccurate meter data for all 24 hours of trading day 1/1/2023. The original meter was 100MW per hourly interval and the corrected meter data

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submitted post-T+52B is 50MW per hourly interval or 1200MW for the trading day. The average real-time dispatch locational marginal price for 1/1/2023 was \$22.21 (rounded). The two methods of penalty calculations are highlighted below:

By Trading Day: \$1,000 = 1 inaccurate trading days * \$1,000

30% of Impact: \$7,995 = 1200 MW * \$22.21/MW * 0.3

Conclusion: Penalty = \$1000

Under the current Rules of Conduct, the penalty would be the \$1,000, as the penalty is \$1,000 for the inaccurate trading day. Under the proposed change, the penalty would be still be \$1000, since the penalty would be the lower of a) \$1,000 per trading day (\$1,000) or b) 30% of the impact of the error (\$7,995). As the updated data was submitted prior to T+214B, the market resettlement automatically calculated the market impact of the new data. Generator Z would be charged or credited through Settlements on the T+11M statement for the difference between the inaccurate value and the accurate value. The table below demonstrates the calculation that would be conducted to arrive at the conclusion. The ISO has also posted spreadsheet examples from the Straw Proposal meeting.

Table 4: Example 2 30% of Error Value Calculation

HE	Original MWhs	Corrected MWhs	Delta MWhs	OASIS Average RTD LMP	Applicable Price (max of OASIS or \$10)	Approx. Cost of Error	30% of Approx. Cost of Error
1	100	50	50	\$15.00	\$15.00	\$750.00	\$225.00
2	100	50	50	\$25.00	\$25.00	\$1,250.00	\$375.00
3	100	50	50	\$30.00	\$30.00	\$1,500.00	\$450.00
4	100	50	50	\$35.00	\$35.00	\$1,750.00	\$525.00
5	100	50	50	\$20.00	\$20.00	\$1,000.00	\$300.00
6	100	50	50	\$30.00	\$30.00	\$1,500.00	\$450.00
7	100	50	50	\$15.00	\$15.00	\$750.00	\$225.00
8	100	50	50	\$20.00	\$20.00	\$1,000.00	\$300.00
9	100	50	50	\$25.00	\$25.00	\$1,250.00	\$375.00
10	100	50	50	\$30.00	\$30.00	\$1,500.00	\$450.00
11	100	50	50	\$15.00	\$15.00	\$750.00	\$225.00
12	100	50	50	\$12.00	\$12.00	\$600.00	\$180.00
13	100	50	50	\$16.00	\$16.00	\$800.00	\$240.00
14	100	50	50	\$18.00	\$18.00	\$900.00	\$270.00
15	100	50	50	\$19.00	\$19.00	\$950.00	\$285.00
16	100	50	50	\$21.00	\$21.00	\$1,050.00	\$315.00
17	100	50	50	\$22.00	\$22.00	\$1,100.00	\$330.00
18	100	50	50	\$15.00	\$15.00	\$750.00	\$225.00

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19	100	50	50	\$20.00	\$20.00	\$1,000.00	\$300.00
20	100	50	50	\$25.00	\$25.00	\$1,250.00	\$375.00
21	100	50	50	\$30.00	\$30.00	\$1,500.00	\$450.00
22	100	50	50	\$35.00	\$35.00	\$1,750.00	\$525.00
23	100	50	50	\$28.00	\$28.00	\$1,400.00	\$420.00
24	100	50	50	\$12.00	\$12.00	\$600.00	\$180.00
			1200	(avg. \$22.21)		\$26,650.00	\$7,995.00

Example 3: Generator Z (BAID 3333) provides inaccurate meter data again for hours 1 and 2 of trading day 1/2/2023 and submits the update pre-T+214B. The average real-time dispatch locational marginal price over the period was \$11. However, Hourly Interval 1 had an RTD LMP of \$9.00. The 30% of approximate cost of error calculation would be as follows:

Table 5: Example 3 30% of Error Value Calculation

HE	Original MWhs	Corrected MWhs	Delta MWhs	OASIS Average RTD LMP	Applicable Price (max of OASIS or \$10)	Approx. Cost of Error	30% of Approx. Cost of Error
1	100	50	50	\$9.00	\$10.00	\$500.00	\$150.00
2	100	50	50	\$13.00	\$13.00	\$650.00	\$195.00
			100	(avg \$11)		\$1150	\$345

Because the RTD LMP price is below \$10 for Hourly Interval 1, the minimum \$10 LMP is triggered. Under the current Rules of Conduct, the penalty would be the \$1,000, as the penalty is \$1,000 for the inaccurate trading day. Under the proposed change, the penalty would be \$345, since the penalty would be the lower of a) \$1,000 per trading day (\$1,000) or b) 30% of the impact of the error (\$345). As the updated data was submitted prior to T+214B, the market resettlement automatically calculated the market impact of the new data. Generator Z would be charged or credited through Settlements on the T+11M statement for the difference between the inaccurate value and the accurate value in addition to their penalty from the Rules of Conduct.

Example 4: An application failure at Utility B’s SC leads to a failure to provide settlement quality meter data by T+52B for trade dates January 7, 8, and 9. The relevant data is submitted on T+65B. Meter data for each day is 500 MW. The average LMP across the market during this period was \$25.

By Trading Day: $\$3,000 = 3 \text{ trading days missed} * \$1,000$

Under the current and proposed Rules of Conduct, the penalty would be the \$3,000, as the penalty is \$1,000 for each of the 3 trading days missed.

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Example 5: Utility C never submits SQMD for its generation facility for trading day January 4, even after multiple letters from the ISO. After a last attempt, T+214B rolls through with no word from Utility C.

$$\$4,000 = 1 \text{ trading day missed} * (\$1,000 + \$3,000)$$

Under the current and proposed Rules of Conduct, the total penalty would be a combined \$4,000, as the first penalty is \$1,000 for missing T+52B and the second penalty is \$3,000 for missing T+214B. Even if the ISO wanted to extend the 30% of impact methodology to the missing data circumstance, the ISO would be unable to calculate what the “impact of the error” was because there is no data for calculation. If the ISO suspected market manipulation, the ISO would forward this case to the Department of Market Monitoring for further review.

Example 6: A human-error at WEIM Entity D leads to the SC not reporting any meter data by trade day T+44B. Under the current Business Practice Manual (BPM), the ISO would not send a notice until the SC potentially misses the deadline at T+52B. However, due to recent changes, the SC is notified at T+44B that their settlement quality meter data is missing. The SC submits meter data prior to T+52B, and the ISO does not levy a penalty.

Stakeholder comments

All stakeholders who commented are supportive of modifying the inaccurate meter data penalty such that the penalty is the lower of a flat per-day instance or a percentage of market impact. No stakeholders opposed the meter data penalty proposal, although one stakeholder recommended removing “traffic ticket” violations for late and inaccurate SQMD, and another stakeholder suggested adding a provision for minor penalty waivers. Any waiver or leniency on the rules of conduct penalty must be granted by FERC through a tariff waiver request, even if the data is submitted after T+52B but within a timeframe that would have minimal impact on the market.

Two stakeholders shared concerns about the potential for “late” and “missing” meter data penalties being applied to entities with zero Total Expected Energy, like non-generating resources in the master file. The ISO thanks the stakeholders for their recommendation and adapted the Draft Final Proposal to address this concern. Two WEIM stakeholder were concerned that the error-value based methodology for calculating the inaccurate meter data penalty could lead to a double penalty amount, since generator and load meter (ELAP) data submissions are directly linked and both must be resubmitted if one is updated. These stakeholders recommended that the assessed penalty should be based on the net error. The ISO agrees with the stakeholders’ concern and has modified the Draft Final Proposal accordingly.

Stakeholders were curious to learn more about the percentage value of the error methodology and whether it could be extended to the “late” and “missing” SQMD penalty. The ISO considered this

suggestion. However, given that in this scenario no data has been submitted, the ISO would be unable to identify what the “value of the error” of the missing data would be.

All stakeholders who commented on the topic supported the creation of a market notice for missing meter data prior to the T+52B deadline. Most supported the T+44B date, with one stakeholder requesting a date closer to T+52B. Given this feedback and the potential for faster implementation by leveraging existing processes, the ISO continues to propose the T+44B date for the courtesy notice.¹³

6. Eliminate Annual Penalty Distribution Filing (Section 37.9.4)

Background and objectives

The Rules of Conduct require the ISO to deposit collected penalties into an interest-bearing escrow account. At the end of each calendar year, the ISO allocates these proceeds, with accrued interest, to the scheduling coordinators of eligible market participants. Funds are distributed by the ratio of the grid management charge payments by each scheduling coordinator on behalf of eligible market participants to the total grid management charge payments by all scheduling coordinators. The distribution amount cannot be greater than the grid management charge paid by the scheduling coordinator on behalf of the eligible market participant represented.

Every year, the ISO must obtain FERC approval to distribute these penalty proceeds. The ISO must secure the approval through a formal FERC filing which imposes administrative burden on ISO staff. Additionally, the process may take several months to complete, which delays the ISO’s ability to distribute funds to market participants. The methodology for distributing the funds is objective and has remained consistent since 2007. Instead of a FERC filing, the ISO proposes to post an informational report on the ISO’s website, pursuant to the allocation formula in the tariff. The proposed change is intended to relieve administrative burden and increase the speed with which eligible entities receive payment.

Track 1 proposal

Elimination of the Annual Penalty Distribution Filing to FERC

- Current Rule: The ISO must receive FERC approval prior to distribution of penalty proceeds.
- Proposed Rule: The ISO distributes penalty proceeds without FERC approval
 - To maintain transparency, the ISO will post an informational report to the ISO website containing the same data that has been publicly submitted to FERC in the past. This data includes the breakdown of the calendar year’s penalties by tariff section, number of violations, and amount.

¹³ Written comments and a full workshop recording can be viewed on the Rules of Conduct Enhancements initiative webpage

Stakeholder comments

Of the 14 stakeholders who submitted written comments, 4 stakeholders provided comments on the elimination of the annual penalty distribution filing in favor of an informational report posted to the ISO website. Two stakeholders supported the proposal. One stakeholder expressed favor for an informational filing at FERC in response to the workshop. This stakeholder did not provide public comments in response to the Straw Proposal, which clarified the informational report would be posted on the ISO website. One stakeholder was concerned about the sensitivity of the contents of the informational report. The ISO continues to propose that the informational report contains the same data that has been made public via the FERC filing in the past. No new information would be included. Upon further explanation, the stakeholder was satisfied with the ISO's proposal.

7. Clarify Eligibility for Penalty Distribution (Section 37.9.4)

Background and objectives

The ISO tariff establishes eligibility requirements for the penalty distribution. Scheduling coordinator IDs (SCIDs) who pay for grid management charges (GMC) are by default considered eligible for the annual penalty distribution. If an entity pays a penalty for non-compliance with the Rules of Conduct, they are deemed ineligible for the annual penalty distribution. Table 4 shares further data on eligible SCIDs per year. This proposal clarifies two exceptions to this rule:

Federal power marketing agencies are exempt from penalties due to sovereign immunity, as part of the federal government. In the event that the federal power marketing agencies are out of compliance, the ISO tariff contains a separate process in which the ISO provides a report to the Secretary of Energy.¹⁴ Receiving a portion of the penalty distribution does not incentivize federal power marketing agencies to comply with the ISO tariff because these entities can never be charged with a penalty that would remove them from the penalty distribution. Since the goal of the penalty tolling and distribution is to incentivize compliance with the Rules of Conduct, providing a portion of the distribution to the federal power marketing agencies instead of to penalty-bound entities works against the distribution's goal.

Similarly, entities that have been granted a penalty waiver from FERC are eligible for a pro-rata distribution from the penalty fund, unless exempted during the waiver process. In practice, unless the entity has been found not to have violated the tariff during the penalty waiver process, the entity will also be found to be exempt from the penalty distribution.

¹⁴ CAISO Tariff § 22.9 (Consistency with Federal Laws and Regulations)

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Table 6: Summary of Ineligible SCIDs as a Percent of Total

Year	# of Ineligible SCIDs	# of SCIDs Paid GMC	% of Ineligible SCIDs
2022	80	523	15%
2021	68	487	14%
2020	82	427	19%
2019	56	402	14%
2018	43	395	11%
2017	18	338	5%
2016	21	303	7%
2015	31	247	13%
2014	23	230	10%
2013	15	273	5%
TOTAL	437	3,625	12%

Track 1 proposal

Eligibility for Penalty Distribution:

- Current Rule: Participants not assessed a penalty in a year are eligible for a pro-rata distribution from the penalty fund
- Proposed Rule: Participants not assessed a penalty in a year are eligible for a pro-rata distribution from the penalty fund with the following clarifications:
 - Entities exempt from penalties due to sovereign immunity or a penalty waiver are by default deemed “ineligible market participants” for annual penalty distribution purposes.
 - Entities who have received a penalty waiver and also been found to have not violated the Rules of Conduct by FERC will be eligible for the penalty distribution, so long as other Rules of Conduct penalties have not been assessed for other Rules of Conduct violations in the same calendar year.

Stakeholder comments

Of the 14 stakeholders who submitted written comments, 5 stakeholders provided comments on this proposal. Two stakeholders expressed support for and one stakeholder was not opposed to the proposal. One stakeholder felt the general eligibility criteria is not fair and the materiality of the non-compliance impact should be considered. This stakeholder proposed that an entity with a penalty on a specific trade date should be deemed ineligible for that specific trade date only instead of for the whole year. As shown Table 6, since 2013, 88% of entities did not face penalties under the Rules of Conduct in a given year on average. As most of the entities are in-compliance at a yearly eligibility criteria, the ISO believes the current penalty eligibility criteria is fair and reasonable. Any penalty distribution proceeds should be seen as an additional bonus for compliance, not an expectation.

Another stakeholder requested clarity that an entity providing market services and scheduling resources for other Market Participants who are ineligible for their pro-rata share of the proceeds should not be viewed as a Market Participant but as a Scheduling Coordinator and therefore be eligible for its share of distribution proceeds. That understanding is consistent with the existing tariff, and this proposed change will continue to honor the pro-rata distribution in this scenario. One stakeholder requested additional clarification about what percent of entities face a penalty in a given year. The ISO has provided this data in this section's background information.

8. Clarify Application of Market Adjustment Provision in the Context of WEIM Entities (Sections 37.5.2.3 & 37.11.2)

Where inaccurate meter data is not processed on a T+11M settlement statement and the initial error was to the scheduling coordinator's benefit (*i.e.*, over-reported generation or under-reported load), the ISO calculates a market adjustment that "approximates the financial impact on the market."¹⁵ The market adjustment is the product of the difference between the corrected hourly data and the inaccurately reported hourly data and the greater of: (a) the average of the 12 five-minute prices for the hour; or (b) \$10/MWh.¹⁶

The tariff stipulates the market adjustment is "returned to the market based on the average of the pro-rata share of Unaccounted for Energy (UFE) charged in the Utility Service Area during the period of the inaccurate Meter Data event."¹⁷ The tariff separately states the market adjustment funds "shall be applied first to those parties affected by the conduct," and that "[a]ny excess amounts shall be disposed of as set forth in Section 37.9.4."¹⁸ Section 37.9.4 requires the ISO to place penalties collected under

¹⁵ CAISO tariff § 37.11.2.

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ CAISO tariff § 37.5.2.3.

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Section 37 into an escrow account and distribute those funds after the end of each calendar year to SCIDs that were not assessed a penalty during that year.

Several data events in WEIM have raised questions about how these provisions should apply both in the WEIM context and in the CAISO BAA. The ISO intends to clarify these provisions.

One issue, described in a 2020 meter data waiver request,¹⁹ is that WEIM entities frequently are the only party paying UFE in their service area. Applying the formula in Section 37.11.2 would involve the ISO simultaneously charging and refunding the WEIM entity the market adjustment. The ISO believes it is administratively burdensome and inefficient to quantify a market adjustment and immediately refund the amount to the same entity that paid the adjustment.

Track 1 proposal

- **Current Rule:** When inaccurate meter data is submitted but not processed through the settlements system, the ISO calculates a market adjustment and distributes funds pro-rata by UFE in the impacted utility area. However, WEIM entities can opt out of UFE or are the sole UFE payers in an area.
- **Proposed Rule:** The ISO will not apply a market adjustment if there are no additional scheduling coordinator IDs in a given utility distribution company (UDC) area.
 - The ISO believes that the proposed inaccurate meter data penalty is sufficient to encourage compliance. The purpose of the market adjustment is to provide recourse to impacted entities. Since no additional parties are affected by the conduct, a market adjustment would not serve its purpose. The proposed penalty is described in the Meter Data Penalty section of this Draft Final Proposal.
 - Some WEIM entities have multiple scheduling coordinator IDs (SCIDs) in a given UDC area. If one SCID is subject to UFE, the market adjustment will be taken from the responsible SCID and given to the impacted SCID(s), even if all SCIDs are part of the same entity.
 - As part of this change, the ISO also seeks to clarify that the existing reference in Section 37.5.2.3 to “parties affected by the conduct” is a reference to the specific UFE-based calculations in Section 37.11.2. The ISO proposes to strike the reference in Section 37.5.2.3 to “excess amounts” because the formulation in Section 37.11.2 would not create the potential for such excess.

Examples:

Example 1: PRSC (BAID 8888) and EESC (BAID 9999) are the two entities that share a utility distribution company (UDC) area, and both pay for UFE. After T+214B, PRSC realizes that they over reported their generation by 24 MW over the trading day 1/1/2023. The average price is \$22.21 (rounded). Under the current Rules of Conduct, the penalty would be the \$1,000, as the penalty is \$1,000 for each inaccurate trading day. Under the proposed change, the penalty would be \$159.90,

¹⁹ *Cal. Indep. Sys. Operator Corp.*, Request for Waiver, FERC Docket No. ER21-395-000 (Nov. 12, 2020).

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since the penalty would be the lower of a) \$1,000 per trading day (\$3,000) or b) 30% of error's value (\$159.90). For more information on how the penalty would be calculated, see Chapter 5: Meter Data Penalties. Since PRSC submitted the data after T+214B, the market adjustment must be manually calculated and applied, using the same impact of the error formula (\$533.00).

Under the current and proposed market adjustment scenario, the market adjustment would be applicable. PRSC would therefore allocate 100% of the market adjustment to EESC.

Example 2: EESC (BAID 9999) is the sole BAID in a utility distribution company (UDC) area. After T+214B, EESC realizes that they under reported their load by 24 MW over the trading day 1/1/2023. The average price is \$22.21 (rounded). Under the current Rules of Conduct, the penalty would be the \$1,000, as the penalty is \$1,000 for each inaccurate trading day. Under the proposed change, the penalty would be \$159.90, since the penalty would be the lower of a) \$1,000 per trading day (\$3,000) or b) 30% of the error's value (\$159.90). Under the current Rules of Conduct, since PRSC submitted the data after T+214B, the market adjustment must be manually calculated and applied, using the same impact of the error formula (\$533.00). Under this proposal, since the BAID associated to the inaccurate SQMD, and the BAID which paid the UFE amount are the same (BAID 9999), the ISO will not calculate and assess a market adjustment.

Stakeholder comments

Of the 14 stakeholders who submitted written comments, 4 stakeholders provided comments on this proposal. Two stakeholders were supportive of the proposal. One stakeholder was supportive of the workshop proposal, but did not provide comment on the Straw Proposal, which had a significantly different proposal. One stakeholder agreed with the topic's scope and did not provide further comment.

9. Governance Classification: Joint Authority

This initiative proposes changes to the "Rules of Conduct" in the ISO tariff as they relate to meter data and procedural elements. The ISO believes that the WEIM Governing Body has joint authority with the ISO Board of Governors over the proposed tariff rule changes.

The ISO Board of Governors and the WEIM Governing Body have joint authority over any:

proposal to change or establish any CAISO tariff rule(s) applicable to the WEIM Entity balancing authority areas, WEIM Entities, or other market participants within the WEIM Entity balancing authority areas, in their capacity as participants in WEIM. This scope excludes from joint

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authority, without limitation, any proposals to change or establish tariff rule(s) applicable only to the CAISO balancing authority area or to the CAISO-controlled grid.²⁰

All of the tariff rule changes proposed in this initiative would be “applicable to WEIM Entity balancing authority areas, WEIM Entities, or other market participants within WEIM Entity balancing authority areas, in their capacity as participants in WEIM.” None of the proposed tariff rules would be applicable “only to the CAISO balancing authority area or to the CAISO-controlled grid.” Accordingly, this initiative falls entirely within the scope of joint authority.

This proposed classification reflects the current state this initiative and could change as the stakeholder process proceeds. Stakeholders are encouraged to submit a response to this proposed decisional classification in their written comments, particularly if they have concerns or questions.

10. Next Steps

The ISO will host a virtual stakeholder call on August 9, 2023 from 1:00pm to 3:00pm (PST) to discuss the Rules of Conduct Enhancements Track 1 Draft Final Proposal. Attendees may choose to participate virtually or provide written comments based off the meeting recording and Draft Final Proposal. Written comments on the Draft Final Proposal are due August 15, 2023. The ISO plans to present Track 1 to the ISO Board of Governors and the WEIM Governing Body for approval on September 20, 2023.

²⁰ Charter for EIM Governance § 2.2.1

Attachment D – Board Memoranda
Tariff Amendment – Rules of Conduct
California Independent System Operator Corporation
January 12, 2024



Memorandum

To: ISO Board of Governors and Western Energy Imbalance Market Governing Body
From: Anna McKenna, Vice President, Market Design and Analysis
Date: September 13, 2023
Re: **Decision on Rules of Conduct Enhancements Track 1**

This memorandum requires ISO Board of Governors and WEIM Governing Body action.

EXECUTIVE SUMMARY

Management proposes limited changes to the ISO Rules of Conduct, which are defined in the tariff and govern all behavior in the ISO markets and stipulate sanctions for violations of those rules. The proposed changes are to eliminate disproportionate meter data penalties from accruing for small, long-term inaccuracies. Management also proposes three procedural enhancements that will broadly benefit market participants and reduce administrative burden.

Management proposes to change the inaccurate meter data penalty from \$1,000 per trading day to the lower of: a) 30% of the error's absolute value; or b) \$1,000 per trading day. This penalty design will ensure meter data penalties for small, long-term meter data inaccuracies are proportional to their market impact while still deterring non-compliance.

Management also proposes three procedural Rules of Conduct enhancements to improve operational efficiency: (1) Replace the ISO's annual penalty distribution filing to the Federal Energy Regulatory Commission (FERC) with an informational report posted on the ISO's website in order to reduce the administrative burden of distributing Rules of Conduct penalty funds; (2) clarify existing eligibility requirements for penalty distribution; and (3) clarify how market adjustments for when inaccurate meter data is submitted but not processed through the settlement system apply in the Western Energy Imbalance Market (WEIM) context.

ISO Board of Governors and WEIM Governing Body motion:

Moved, that the ISO Board of Governors and WEIM Governing Body approve the Rules of Conduct enhancements as described in the memorandum dated September 13, 2023; and

Moved, that the ISO Board of Governors and WEIM Governing Body authorize Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the change proposed in this memorandum, including any filings that implement the overarching initiative policy but contain discrete revisions to incorporate Commission guidance in any initial ruling on the proposed tariff amendment.

BACKGROUND

The ISO Rules of Conduct establish guiding principles for participating in the ISO markets, delineate specific rules market participants must follow, outline procedures for the ISO to investigate potential rule violations, and create penalties for violating rules if the violation can be determined without subjective judgment. Determining a violation of some of the rules requires subjective judgment, such as establishing what a market participant knew or should have known at a specific point in time. The FERC enforces the rules that require such subjective determinations, as well as FERC's standalone market behavior rules that complement the ISO's Rules of Conduct.

This initiative was included in the Policy Roadmap by request from stakeholders and based on guidance from FERC in response to several penalty waiver requests for small, long-term meter data inaccuracies that resulted in disproportionately large penalties. After identifying additional potential enhancements to the Rules of Conduct, the ISO expanded the initiative's scope and renamed it the "Rules of Conduct Enhancements" initiative. Track 1 of this proposal is focused on the initiative's original scope of addressing meter data penalty issues. Track 1 also includes three procedural Rules of Conduct enhancements that broadly benefit stakeholders, reduce administrative burden, and are easily implementable. The remaining Rules of Conduct enhancements will benefit from additional time for deeper stakeholder engagement and are included in the scope of Track 2 of this initiative.

PROPOSAL

Meter Data Penalties

Meter data represents the energy generated or consumed during a settlement interval. There are two types of meter data entities under the tariff: an ISO metered entity and a scheduling coordinator metered entity. The ISO directly reads the meter data values for ISO metered entities. In contrast, scheduling coordinator metered entities submit their meter data directly to the ISO. Such entities follow prescribed processes to ensure the

meter data they report is settlement quality. Entities that do not submit Settlement Quality Meter Data (SQMD) by 52 business days after the trade date or revise their SQMD after that time, are subject to meter data penalties as defined by the Rules of Conduct. Entities that do not submit SQMD by 214 business days after the trade date are subject to an additional penalty for missing data submission.

Inaccurate Meter Data Penalties

Management proposes to redesign the inaccurate SQMD penalty such that the sanction is more proportional to the market impact and the ISO's operations. Before October 1, 2011, inaccurate settlement quality meter data penalties were 30% of the value of misreported meter data when scheduling coordinators identified and reported the error to the ISO. These penalties were changed to the current \$1,000 per trading day penalty because the 30% penalty sometimes led to disproportionate penalties for large load-serving entities. The current per trading day penalty design, however, has created disproportionate penalties for small, long-term meter data inaccuracies. Currently, inaccurate meter data events are subject to a \$1,000 per trading day penalty. Management now proposes that inaccurate meter data submissions be subject to a penalty that is the lower of: a) 30% of the error's absolute value, or b) \$1,000 per trading day. Further, Management proposes to use a minimum \$10/MWh hourly locational marginal price (LMP) for calculating the 30% of the error's absolute value. To avoid double-penalizing WEIM entities that must balance load and supply within their balancing authority area, in cases where a WEIM entity reports inaccurate generator meter data, the inaccurate error value calculation applies solely to the inaccurate generator meter data. Otherwise, the WEIM entity would have to make a corresponding correction to its meter data for load, which would trigger a second penalty for the same amount.

Late Meter Data Penalties

Under this proposal, the ISO will continue to maintain the current \$1,000 per trading day penalty for late meter data submissions that come in more than 52 business days after the trade date and the additional \$3,000 per trading day penalty for submissions beyond 214 business days after the trade date. Non-submittal of SQMD will be penalized only when a resource has a non-zero total expected energy value for a settlement interval.

Missing Measurements Data Courtesy Notice

Currently, the ISO sends a Notice of Missing Measurements on the 53rd business day after the trade date. In response to stakeholder concerns, Management has agreed to extend an internal automatic notice for missing SQMD on the 44th business day after the trade date to market participants in addition to the current notice on the 53rd business day. This will enhance market participant compliance with data submission deadlines by providing an alert prior to the first deadline and will particularly alert those at risk of failing to submit on the 52nd business day after the trade date.

Procedural Improvements

Management also proposes the following three procedural Rules of Conduct enhancements that are easily-implementable, improve operational efficiency, and are of broad benefit to all market participants.

Eliminate Annual Penalty Distribution Filing

Currently, the ISO must receive FERC approval prior to distributing the Rules of Conduct penalty funds, which can take several months to complete. Funds are distributed by the ratio of the grid management charge payments by each scheduling coordinator on behalf of eligible market participants to the total grid management charge payments by all scheduling coordinators. Instead of a FERC filing, Management proposes posting an informational report to the ISO website that contains the same data that heretofore has been publicly submitted to FERC. The methodology for distributing the funds is objective and has remained consistent since 2007. Management believes the proposed method will provide sufficient transparency while reducing administrative burden and expediting the distribution.

Clarify Eligibility for Penalty Distribution

The tariff establishes eligibility requirements for penalty distribution. Management proposes to clarify that entities exempt from penalties or receiving a penalty waiver in a given year should, by default, not receive proceeds from that year's penalty distribution.

Clarify Application of Market Adjustment Provision in Context of WEIM Entities

Currently, when inaccurate meter data is submitted but not processed through the settlements system, the ISO charges a market adjustment to the scheduling coordinator with the inaccurate meter data and distributes the funds pro-rata based on the unaccounted for energy (UFE) charged in the impacted utility area. In some cases, the WEIM entity may be the sole entity in the utility area that paid UFE, which means the market adjustment is refunded back to the same entity that paid for it. Management proposes that it will not charge a market adjustment for inaccurate meter data if there are no additional scheduling coordinator IDs in a given utility distribution company (UDC) area besides the party that submitted the inaccurate data. This modification will eliminate the administrative burden in cases where the WEIM entity is the sole UDC in the WEIM area.

STAKEHOLDER ENGAGEMENT

The Rules of Conduct Enhancements Track 1 proposal incorporates two rounds of stakeholder feedback. The ISO held an initial workshop on June 7, 2023, to solicit stakeholder input on the initiative scope and received 10 sets of written stakeholder comments, which informed the development of the Track 1 straw proposal. Additional stakeholder feedback during the July 13, 2023, straw proposal meeting and the

subsequent submission of an additional 10 sets of written stakeholder comments informed the draft final proposal.

Stakeholders were broadly supportive of the meter data penalty proposal, with no stakeholders opposed. Two stakeholders were concerned about late and missing meter data penalties being applied to entities with zero total expected energy. Management's proposal includes their recommendation and specifies that non-submittal of SQMD will be penalized only when a resource has a non-zero total expected energy value for a settlement interval. In response to concerns from two WEIM entities that the error-value based methodology for calculating the inaccurate meter data penalty could lead to a double penalty amount, Management's proposal specifies that an entity will not be charged twice for the same error in cases where accounting for one error requires the entity to adjust other meter data to maintain balance in reported generation and load.

In response to stakeholder requests for additional clarity, the ISO included detailed examples of calculated penalties under the relevant sections in the draft final proposal.

Stakeholders were also broadly supportive of the three proposed procedural changes, with the ISO providing clarification on several points as requested.

CONCLUSION

Management requests the ISO Board of Governors and WEIM Governing Body approve Management's Rules of Conduct Enhancements Track 1 proposal described in this memorandum. These enhancements will ensure meter data penalties for small, long-term meter data inaccuracies are proportional to their market impact while still deterring non-compliance.