

Comments on Rules of Conduct Enhancements June 7, 2023 Workshop

Department of Market Monitoring

June 19, 2023

Comments

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the *Rules of Conduct Enhancements - June 7, 2023 Workshop*.¹

DMM opposes eliminating rules of conduct deadlines and penalties for behavior the ISO deems important.

During the workshop, some stakeholders questioned the need for the ISO to continue to have penalties for some rules of conduct such as failing to meet meter data submission deadlines. For behavior such as data submission that the ISO values market participants continuing to perform, DMM supports the ISO maintaining, and in some cases strengthening, strict data submission deadlines and financial penalties for failing to meet the deadlines.

Some stakeholders cited the potential low amount of penalties actually levied as evidence for considering whether it would continue to be worth the ISO's efforts to monitor and enforce rules of conduct deadlines. DMM disagrees that a relative lack of historical levying of a particular penalty is an appropriate indicator of a lack of value of maintaining the penalty. A strict deadline and financial penalty for not meeting that deadline creates important incentives for market participants to perform the desired behavior by the deadline. Removing the penalty for a particular submission deadline could result in increased non-compliance of that deadline over time.

For example, the tariff has not defined a clear deadline for some data that proxy demand response providers must submit for the ISO and DMM to be able to monitor their self-reported load reduction performance. In the absence of a firm deadline, the ISO has not been able to levy penalties on the demand response providers for non-compliance with the data submission required by the tariff. Therefore, in the absence of these penalties, DMM has witnessed significant, ongoing problems with some proxy demand response providers ever submitting this required data.

DMM believes well-defined deadlines and financial penalties for not meeting those deadlines creates important incentives for market participants to perform the desired behavior. DMM supports the efforts in this initiative to design penalties that are proportionate to the impact while deterring non-compliance. DMM recommends that the ISO and stakeholders identify the

¹ *Rules of Conduct Enhancements – Stakeholder Workshop*, California ISO, June 7, 2023:

<http://www.caiso.com/InitiativeDocuments/Presentation-Rules-of-Conduct-Enhancements-June-07-2023.pdf>

behavior that it is important for market participants to comply with, and design appropriate penalties for incentivizing that behavior. DMM cautions against using the historical lack of non-compliance with a particular rule as an indication that the ISO should eliminate the non-compliance penalty for that rule.

The next two sections of these comments highlight two particular rules of conduct that DMM believes warrant stricter deadlines and penalties. It may be appropriate to strengthen other rules of conduct as well.

DMM recommends the ISO strengthen deadlines and penalties for proxy demand response providers submitting baseline and meter data.

The tariff requires proxy demand response providers to submit baseline and meter data that is necessary for the ISO and DMM to monitor the accuracy of participant-reported demand response performance. As described above, DMM has witnessed significant ongoing problems with some proxy demand response providers ever submitting this required data. DMM's understanding is that a lack of a tariff-defined deadline for submission of this data has hindered the ability of the ISO to levy non-compliance penalties.

DMM believes this data is critical for the ISO and DMM's ability to be able to monitor for potential fraudulent activity of proxy demand response providers. Therefore, DMM recommends that in this initiative the ISO review the data that should be submitted, define clear deadlines for submitting the data, and design penalties for deterring any further non-compliance.

DMM recommends the ISO strengthen penalties for late submission of resource outages.

DMM has also witnessed the failure of the current rules of conduct to appropriately incentivize resources to submit outages on time. On many occasions, DMM has witnessed resources only submitting outages to the CAISO balancing area operators after the resources received instructions to start or transition to a different configuration. Conversations with many of these resources revealed that the resource operator had knowledge that the resource may not be able to perform if called on. While there is some potential for FERC enforcement related to provision of false information, the consequences for not reporting the outage on time may often only be a warning letter. This does not seem to be appropriately incentivizing timely reporting of resource outages.

DMM's understanding is that timely reporting of resource outages is important for not only the appropriate levying of resource availability penalties, but it is also very important for the reliable operation of the grid. Therefore, DMM recommends that in this initiative, the ISO consider significantly redesigning the penalty structure to create much larger automated incentives for resources to report outages as soon as anyone at the plant becomes aware of an issue.