



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.