

California Independent System Operator Corporation
Fifth Replacement Tariff

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Appendix P

CAISO Department of Market Monitoring

1 Introduction and Purpose

1.1 Establishment

There shall be established within the CAISO a Department of Market Monitoring (DMM).

1.2 Mission Statement

To provide independent oversight and analysis of the CAISO Markets for the protection of consumers and Market Participants by the identification and reporting of market design flaws, potential market rule violations, and market power abuses.

2 Definitions

2.1 This section intentionally left blank.

3 Independence and Oversight

3.1 Department of Market Monitoring

DMM shall report to the CAISO Governing Board on all matters pertaining to the core monitoring duties specified under Section 5 of this Appendix P, and for administrative purposes, including matters relating to the internal administration of DMM. DMM shall have direct access to the individual CAISO Governing Board members at any time. DMM shall advise the CAISO Governing Board about DMM's independent analysis of the CAISO's markets and its independent identification of market design flaws and market power abuses, and DMM also shall inform CAISO management about such matters.

3.2 The CAISO may not alter any reports generated by DMM or dictate the conclusions reached by DMM. The CAISO may, however, comment upon drafts of DMM reports where such right is otherwise conferred by this CAISO Tariff.

3.3 The employment of the Director of DMM shall not be terminated without the approval of the CAISO Governing Board.

4 Structure

4.1 DMM shall be adequately staffed by the CAISO with full-time CAISO staff with the experience and qualifications necessary to fulfill the functions referred to in this CAISO Tariff. Such qualifications may include professional training pertinent to and experience in the operation of markets analogous to CAISO Markets, in the electric power industry, and in the field of competition and antitrust law, economics and policy. Subject to the CAISO Governing Board's oversight responsibilities as defined in this CAISO Tariff, responsibility for overseeing the conduct and operations of DMM shall be conferred upon the Director of DMM.

4.2 Neither DMM nor any DMM employee shall be liable to any Market Participant under any circumstances whatsoever for any matter, including but not limited to any financial loss or loss of economic advantage resulting from the performance or non-performance by DMM of its functions under this CAISO Tariff.

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- 4.3** CAISO shall provide DMM access to the resources, personnel, and consulting assistance (internal and external) sufficient to enable DMM to carry out its duties independently as defined under this Appendix P. The CAISO shall ensure DMM personnel meet the general employment requirements applicable to CAISO employees.

5 Duties of Market Monitor

5.1 Review of Market Rules

DMM shall review existing and proposed market rules, tariff provisions, and market design elements and recommend proposed rule and tariff changes to the CAISO, the CAISO Governing Board, FERC staff, the California Public Utilities Commission, Market Participants, and other interested entities.

- 5.1.1** DMM's review shall include, but is not limited to, identification of flaws in the overall structure of the CAISO Markets that may reveal undue concentrations of market power or other structural flaws.
- 5.1.2** DMM's responsibility to propose market design changes shall not extend to effectuating its proposed market design itself.
- 5.1.3** DMM must limit distribution of its identifications and recommendations to CAISO, the CAISO Governing Board, and FERC staff in the event that DMM believes broader dissemination of its identifications and recommendations could lead to exploitation of the identified market rule or design flaw. Where DMM so limits the distribution, it shall explain to FERC staff why further dissemination should be avoided.
- 5.1.4** Section 5.1 of this Appendix P shall not be understood to impose upon DMM the obligation to conduct an independent evaluation of every existing market rule, tariff provision, and market design element. DMM need only report on market rule, tariff, or market design elements it otherwise believes merit evaluation and scrutiny.
- 5.1.5** Per a request from the CAISO, or on its own initiative, DMM may provide a draft version of any report DMM prepares under Section 5.1 of this Appendix P to the CAISO for comment. DMM may, but shall not be required to, amend its report in light of such comment.
- 5.1.6** Any report DMM makes under Section 5.1 of this Appendix P is advisory in nature and does not obligate the CAISO to effectuate the recommended market rule, tariff, or market design change.
- 5.1.7** Where the CAISO disagrees with DMM's recommendation pursuant to Section 5.1 of this Appendix P or DMM disagrees with a proposed market rule, tariff, or market design change, CAISO shall notify the FERC of such disagreement. Such notification shall be made in writing to FERC's Director of the Office of Energy Market Regulation.

5.2 Review of Market Trends and Performance

DMM shall review and report on market trends and the performance of the wholesale markets to the CAISO, the CAISO Governing Board, FERC staff, the California Public Utilities Commission, Market Participants, and other interested entities, on at least a quarterly basis and submit a more comprehensive annual state of the market report. Unless urgency requires otherwise, all annual and quarterly reports shall first be submitted to the MSC for review.

- 5.2.1** In conjunction with the annual and quarterly reports issued under Section 5.2 of this Appendix P, DMM shall hold conference calls with FERC staff, staff of the California Public Utilities Commission, Market Participants, and other interested entities to discuss market trends and the

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performance of the wholesale markets.

- 5.3** With the exception of those CAISO Tariff provisions enumerated in Section 11.1.3 of this Appendix P, DMM shall identify and notify the FERC's Office of Enforcement staff of instances in which a Market Participant's behavior or the behavior of the CAISO itself is suspected to constitute a Market Violation.
- 5.4** DMM shall consider any information or complaint a Market Participant may make concerning any matter that it believes may be relevant to DMM's monitoring responsibilities. Such submissions or complaints may be made on a confidential basis in which case DMM shall preserve the confidentiality thereof. DMM, at its discretion, may request further information from such entity and carry out any investigation that it considers appropriate as to the concern raised. DMM shall periodically make reports to the CAISO CEO and CAISO Governing Board on complaints received.
- 5.5** Prohibition on Tariff Administration and Market Mitigation - DMM shall not participate in the administration of the CAISO Tariff or conduct prospective market mitigation.
- 5.5.1** For the purposes of Section 5.5 of this Appendix P, the term "prospective market mitigation" shall have the same meaning as provided in FERC Order No. 719, P 375.
- 5.5.2** DMM may conduct retrospective mitigation to the extent it is otherwise permitted to do so under this CAISO Tariff.
- 5.5.3** DMM may provide the inputs required for CAISO to conduct any prospective mitigation that is otherwise permitted under this CAISO Tariff. Such inputs may include, but are not limited to, Default Energy Bids, identification of competitive Transmission Constraints, and cost calculations.

6 Duties of the CAISO

- 6.1** CAISO responsibilities not expressly assigned to the MSC, DMM, or any specific individual or entity in this Appendix P remain with the CAISO.

7 Data Access, Collection, and Retention

- 7.1** The CAISO shall provide DMM access to the CAISO's databases of market information and any other market data necessary to enable DMM to carry out its duties as defined under this Appendix P.
- 7.2** Any data created by DMM, including, but not limited to, reconfiguring of the CAISO's data, will be kept within the exclusive control of DMM. This requires that the CAISO must ensure that DMM has control over which parties have access to the data, as well as control over the format and configuration of such data.
- 7.3** DMM shall be responsible for developing an information system and criteria for evaluation that will permit it to effectively monitor the CAISO Markets to identify and investigate abuses of that market, whether caused by exercises of market power or by other actions or inactions.
- 7.4** To develop the information system set forth in Section 7.3 of this Appendix P, DMM shall initially develop, and shall refine on the basis of experience, a detailed catalog of all the categories of data it will have the means of acquiring, and the procedures it will use (including procedures for protecting confidential data) to handle such data.
- 7.5** DMM shall initially develop, and shall refine on the basis of experience, a catalog of the CAISO Market monitoring indices that it will use to evaluate the data so collected.

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- 7.6** DMM shall evaluate and reevaluate on an ongoing basis the data categories and market monitoring indices that it has developed under Sections 7.4 and 7.5 of this Appendix P, and the information it collects and receives from various other sources, including and in particular the CAISO's operation of the CAISO Markets. Such ongoing evaluations shall provide the basis for its reporting and publication responsibilities as set forth in this CAISO Tariff, for recommendations on proposed changes to this CAISO Tariff and CAISO Business Practice Manuals and other potential rules affecting the CAISO Markets, and for the development of criteria or standards for the initiation of proposed corrective or enforcement actions. In evaluating such information, the DMM may consult the MSC or such external bodies as may be appropriate.

8 Information Sharing

- 8.1** Tailored Requests for Information from a State Commission to DMM - DMM shall consider requests from a State Commission for specifically identified information or data concerning general market trends and the performance of the wholesale markets. DMM may deny a request when it determines, in its sole discretion, that complying with a request would be unreasonably burdensome or if it would interfere with the core market monitoring functions of DMM as defined in Section 5 of this Appendix P. For the avoidance of doubt, this Section 8.1 of Appendix P shall not apply to otherwise enforceable subpoenas, court orders, or any other form of compulsory process issued by, or on behalf of, a State Commission.
- 8.1.1** DMM may agree to provide information about general market trends or performance. If DMM determines, in its sole discretion, that this information either is market sensitive or identifies an individual Market Participant, then the information may be shared only if the State Commission with which the information will be shared agrees in writing with the CAISO that the information will not be disclosed unless the State Commission has been directed to do so by a court of competent jurisdiction. The written agreement also must specify that if a State Commission is so directed to disclose such information, the State Commission will notify the CAISO before such information is disclosed. Once the CAISO receives such notification, the CAISO must notify the affected Market Participant promptly.
- 8.1.2** DMM may agree to release to a State Commission raw CAISO data, but only after the information is redacted to satisfy any concerns that DMM may have about the need to maintain confidentiality.
- 8.1.2.1** If DMM agrees to provide a State Commission with raw data that pertains to a specific Market Participant, DMM shall notify the affected Market Participant and give it the opportunity to contest the accuracy of the data. The affected Market Participant may provide to DMM a written statement providing context to the data. So long as the process of providing such a written statement does not unduly delay release of the data to the State Commission, DMM shall provide an unedited copy of such written statement to the State Commission concurrently with DMM's submission of the data to the State Commission.
- 8.1.2.2** If the affected Market Participant asserts that the data to be provided is commercially sensitive, DMM shall share such sensitive information or data only if the State Commission with which the information will be shared agrees in writing with the CAISO that the information shared will not be disclosed unless the State Commission has been directed to do so by a court of competent jurisdiction. The written agreement also must specify that if a State Commission is so directed to disclose such information, the State Commission will notify the CAISO before such information is disclosed. Once the CAISO receives such notification, the CAISO must notify the affected Market Participant promptly.
- 8.1.3** DMM shall not provide any requested information or data that is designed to aid an enforcement action by an instrumentality or political subdivision of any state of the United States of America.

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- 8.1.4** DMM shall not provide any requested information or data that would impinge on FERC's confidentiality rules regarding referrals to FERC pursuant to Sections 11 or 12 of this Appendix P.
- 8.2** When publicly available reports are made to one regulatory agency with competent jurisdiction, such as the FERC, DMM may simultaneously make such reports available to other regulatory agencies with legitimate interests in their contents, such as the California Public Utilities Commission, the California Energy Commission and/or the California Attorney General.
- 8.3** The final results of DMM's ongoing evaluations under Section 7.6 of this Appendix P shall routinely and promptly be submitted to the MSC for comment.
- 8.4** The catalogs of data and indices developed pursuant to Sections 7.4 and 7.5 of this Appendix P shall be duly published on the CAISO Website and disseminated to all Market Participants.
- 8.5** Collection and Dissemination of Information Specific to a Market Participant
- 8.5.1** DMM may request that Market Participants or other entities whose activities may affect the operation of the CAISO Markets submit any information or data determined by DMM to be potentially relevant. This data will be subject to due safeguards to protect confidential and commercially sensitive data. Failures by Market Participants to provide such data shall be treated under Section 37 of the CAISO Tariff. In the event of failures by other entities to provide such data, the CAISO may take whatever action is available to it and appropriate for it to take, including reporting the failure to the pertinent regulatory agency, after providing such entity the opportunity to respond in writing as to the reason for the alleged failure and may include possible exclusion from the CAISO Markets or termination of any relevant CAISO agreements or certifications. Before any such action is taken, the CAISO Market Participant shall be provided the opportunity to respond in writing as to the reason for the alleged failure.
- 8.5.2** Any Market Participant may request that the CAISO provide data, including data that DMM has collected under Section 8.5.1 of this Appendix P, that the CAISO has collected concerning that Market Participant. Subject to constraints on the CAISO's resources, subject to Section 7.2 of this Appendix P, and at the CAISO's sole discretion, such data may be provided by the CAISO subject to due safeguards to protect confidential and commercially sensitive data. Where such activity imposes a significant burden or expense on the CAISO, the data may be provided on the condition that a reasonable contribution to the cost incurred by the CAISO is made to the CAISO by the requesting party.
- 8.6** Information related to the Transmission Planning Process in accordance with Section 24 of the CAISO Tariff the release of which DMM determines may harm competitive markets shall be deemed confidential.
- 9 Ethics.**
- 9.1** DMM employees shall have no professional or commercial affiliation with a Market Participant where such affiliation would tend to affect, or give the appearance of affecting, their judgment in the performance of their duties.
- 9.2** DMM employees shall not serve as officers, employees, or partners of a Market Participant.
- 9.3** DMM employees shall have no material financial interest in any Market Participant or affiliate, with the exception of mutual funds and non-directed investments.
- 9.4** DMM employees shall not engage in any market transactions other than in the performance of their duties under the CAISO Tariff.

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- 9.5** DMM employees shall not be compensated, other than by CAISO, for any expert witness testimony or other commercial services in connection with any legal or regulatory proceeding or commercial transaction relating to the CAISO.
- 9.6** DMM employees shall not accept from a Market Participant any item with a value in excess of \$25.
- 9.7** DMM employees shall advise a supervisor (or in the case of the Director of DMM, the CAISO Governing Board) in the event they seek employment with a Market Participant, and must disqualify themselves from participating in any matter that would have an effect on the financial interest of the Market Participant.
- 9.7.1** For the purposes of this provision, the term "seeking employment" shall have the same meaning it does in 5 CFR § 2635.603, or its successor provision.
- 9.8** DMM employees shall comply with the CAISO Code of Conduct for employees, as amended from time to time.
- 10 CAISO-Specific Provisions.**
- 10.1** This section intentionally left blank.
- 11 Protocol on Referrals of Investigations to the Office of Enforcement.**
- 11.1** DMM shall make a non-public referral to FERC in all instances where DMM has reason to believe that a Market Violation has occurred. DMM's non-public referral shall provide sufficient credible information to warrant further investigation by FERC. Once DMM has obtained sufficient credible information to warrant referral to FERC, DMM shall immediately refer the matter to FERC and desist from independent action related to the alleged Market Violation. DMM may, however, continue to monitor for any repeated instances of the activity by the same or other entities, which would constitute new Market Violations. DMM shall respond to requests from FERC for any additional information in connection with the alleged Market Violation it has referred.
- 11.1.1** The decision to make such a referral is committed to the sole discretion of DMM. In all such cases of direct referral, DMM shall promptly inform the CAISO Governing Board, the MSC and the CAISO CEO of the fact of and the content of the referral.
- 11.1.2** For the avoidance of doubt, the CAISO itself is subject to referral by DMM.
- 11.1.3** Section 11.1 of this Appendix P notwithstanding, DMM shall not refer to FERC a suspected violation of the following provisions of Section 37 of this CAISO Tariff: 37.4.1, 37.4.2, 37.4.3, 37.5.2, 37.6.1, 37.6.2, and 37.6.3. Where conduct also constitutes a Market Violation that DMM shall not refer to FERC and DMM has reason to believe that the same conduct represents a Market Violation other than a Market Violation that, per this Section 11.1.3, DMM shall not refer to FERC, then DMM shall make a non-public referral to FERC only of the Market Violation that it is not prohibited from referring to FERC.
- 11.2** All referrals to FERC of alleged Market Violations are to be in writing, whether transmitted electronically or by fax, mail, or courier. DMM may alert FERC orally in advance of the written referral.
- 11.3** The referral is to be addressed to FERC's Director of the Office of Enforcement, with a copy also directed to both the Director of the Office of Energy Market Regulation and the General Counsel.
- 11.4** The referral is to include, but need not be limited to, the following information.

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- 11.4.1 The name[s] of and, if possible, the contact information for, the entity[ies] that allegedly took the action[s] that constituted the alleged Market Violation[s];
- 11.4.2 The date[s] or time period during which the alleged Market Violation[s] occurred and whether the alleged wrongful conduct is ongoing;
- 11.4.3 The specific rule or regulation, and/or tariff provision, that was allegedly violated, or the nature of any inappropriate dispatch that may have occurred;
- 11.4.4 The specific act[s] or conduct that allegedly constituted the Market Violation;
- 11.4.5 The consequences to the market resulting from the acts or conduct, including, if known, an estimate of economic impact on the market;
- 11.4.6 If DMM believes that the act[s] or conduct constituted a violation of the anti-manipulation rule of Part 1c, a description of the alleged manipulative effect on market prices, market conditions, or market rules;
- 11.4.7 Any other information DMM believes is relevant and may be helpful to FERC.
- 11.5 Following a referral to FERC, DMM is to continue to notify and inform FERC of any information that DMM learns of that may be related to the referral but DMM shall not undertake any investigative steps regarding the referral except at the express direction of FERC or FERC Staff.

12 Protocol on Referrals of Perceived Market Design Flaws and Recommended Tariff

Changes to the Office of Energy Market Regulation.

- 12.1 DMM is to make a referral to FERC in all instances where it has reason to believe market design flaws exist that it believes could effectively be remedied by rule or tariff changes. DMM must limit distribution of its identifications and recommendations to CAISO, the CAISO Governing Board, and to FERC in the event it believes broader dissemination could lead to exploitation of the market design flaw, with an explanation of why further dissemination should be avoided at that time.
- 12.2 All referrals to FERC relating to perceived market design flaws and recommended tariff changes are to be in writing, whether transmitted electronically or by fax, mail, or courier. DMM may alert FERC orally in advance of the written referral.
- 12.3 The referral should be addressed to FERC's Director of the Office of Energy Market Regulation, with copies directed to both the Director of the Office of Enforcement and the General Counsel.
- 12.4 The referral is to include, but need not be limited to, the following information.
 - 12.4.1 A detailed narrative describing the perceived market design flaw[s];
 - 12.4.2 The consequences of the perceived market design flaw[s], including, if known, an estimate of economic impact on the market;
 - 12.4.3 The rule or tariff change(s) that DMM believes could remedy the perceived market design flaw;
 - 12.4.4 Any other information DMM believes is relevant and may be helpful to FERC.

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- 12.5** Following a referral to FERC, DMM is to continue to notify and inform FERC of any additional information regarding the perceived market design flaw, its effects on the market, any additional or modified observations concerning the rule or tariff changes that could remedy the perceived design flaw, any recommendations made by DMM to CAISO, stakeholders, Market Participants or state commissions regarding the perceived design flaw, and any actions taken by CAISO regarding the perceived design flaw.