California ISO

Rules of Conduct Enhancements

Track 1 Draft Final Proposal

August 2, 2023

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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)

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.

- **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 Conduct[3] 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

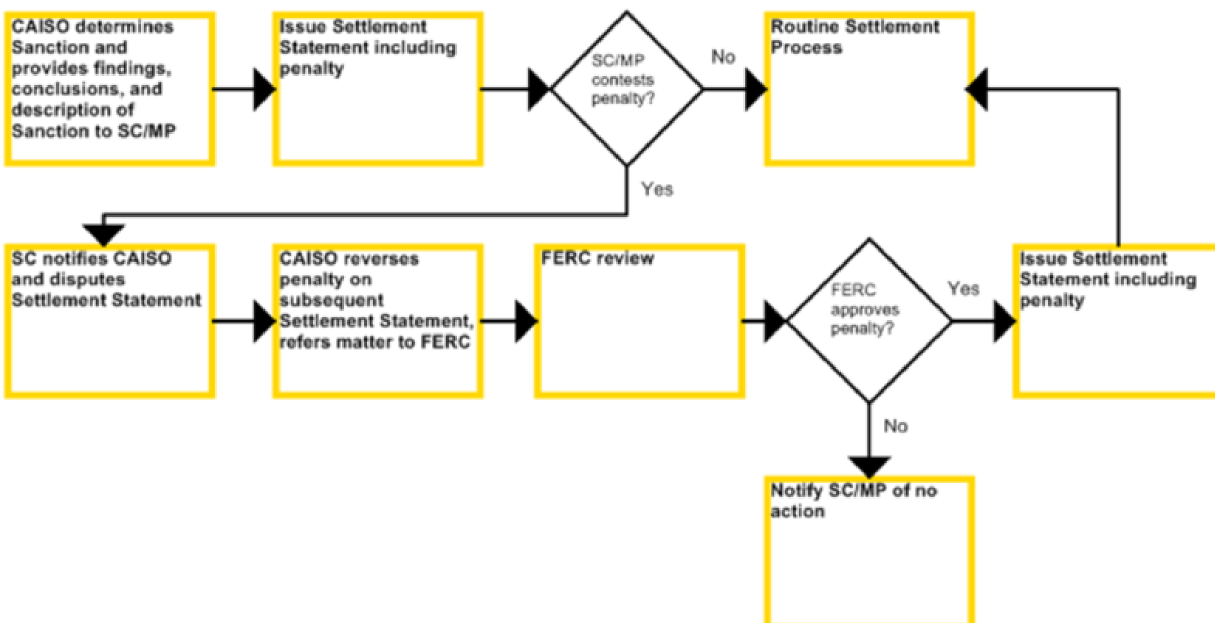
[3] CAISO tariff § 37.

[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.

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 deadline[5], 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.

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 • 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)

• 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			
Eliminate annual penalty distribution filing • Remove FERC approval requirement for distribution of Rules of Conduct proceeds. Post informational report on the ISO website	6	✓	
Clarify eligibility for penalty distribution • 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	✓	
Clarify application of market adjustment provision in the context of WEIM entities • 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	✓	
Streamline Rules of Conduct investigative process • Streamline the current three-letter process or shift aspects to the settlement dispute process			✓
Specify information submission requirements subject to "tariff-required information" penalty • Current: $500/day penalty catchall for late information submission			✓
Update penalty tolling eligibility to create a clear pathway for SC to invoke the provision • Create a process for the tolling provision to kick in without the penalty first appearing on a settlement statement			✓
Late forced outage reporting penalties • Eliminate penalties altogether or create stricter penalties by removing the free pass and/or warning letter stages			✓
Define submission requirements and penalty structure for DR customer load baseline monitoring data • Review data that should be submitted, define clear deadlines for submitting data, and design penalties to deter non-compliance			✓

***Table 2:** Rules of Conduct Enhancements Track 1 – Initiative Schedule*[7]

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)

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

<u>Inaccurate Meter Data Penalties</u>

- 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).

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

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

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.

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).

Table 3: Summary of Missing Meter Data Penalties

	$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		
Sanction Year	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

<u>Examples:</u>

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:

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

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 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:

$$\text{By Trading Day: } \$1{,}000 = 1 \text{ inaccurate trading days } * \$1{,}000$$
$$\text{30\% of Impact: } \$7{,}995 = 1200 \text{ MW} * \$22.21/\text{MW} * 0.3$$
$$\text{Conclusion: Penalty} = \$1000$$

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

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.

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

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.

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

<u>Elimination of the Annual Penalty Distribution Filing to FERC</u>

- 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)

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

<u>Eligibility for Penalty Distribution:</u>

- 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.

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.

<u>Examples:</u>

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).

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

> 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