ENERGY COMPLIANCE, INC. | *Field Reference for Organized Markets*

MARKETS · RTO/ISO SERIES · EC-WP-404

Market Monitoring & Enforcement

The institutional layer that watches market behavior and refers issues to FERC.

The market monitor watches, the RTO operates, and FERC enforces. This reference covers how market monitoring is built and bounded, how a monitor's referral becomes a FERC investigation, how settlement and penalty decisions are made, and where market oversight runs into reliability obligations that NERC enforces on its own track.

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Foreword

This professional reference is one of a series Energy Compliance, Inc. publishes for registered entities and the people who run their compliance programs.

I have spent more than thirty years on every side of the bulk electric system. I have operated control centers as a Reliability Coordinator, Transmission Operator, and Power System Operator. I have audited grid facilities and signed off on findings as a senior compliance auditor. I have worked enforcement matters from inside the regulator's process. For the last several years I have advised registered entities directly through the firm I founded.

The entities that do reliability well share a habit. They take the standards seriously without confusing them with reliability itself. They know a NERC Reliability Standard is a floor, not a ceiling. They know compliance is something an auditor evaluates, while reliability is something a system either delivers or does not. They prepare for audits by building programs that survive real questions, not binders that look thick.

That is the perspective these references try to share. Each one takes a single topic, whether a standard family, an operational function, a regulatory framework, or an emerging industry challenge, and walks through how it actually works.

They are written for the compliance manager who wants to understand the system, not just memorize requirements. For the legal counsel who has to brief a board honestly. For the senior operator who has been told that compliance and reliability are the same

thing and suspects they are not. And for the new compliance hire who got handed a binder and told good luck.

These references are not marketing material disguised as content. They come from three decades of doing this work and watching it succeed and fail. I have written them in the voice I use in a control room or in front of a Regional Entity audit team: direct, grounded in evidence, and honest about what the standards do and do not require.

Energy Compliance exists because most of the consulting offered to registered entities today is structured for billable hours rather than outcomes. Every engagement is overseen by a senior practitioner. We don't bring five people to a meeting that needs one. We automate the work that should be automated, and we apply senior judgment to the work that requires it. If that approach matches what you want in a compliance partner, the back of this reference has our contact information.

If not, the reference still belongs to you. Take what is useful and apply it well. And remember the only test that ultimately matters: when the system needs to perform, does it?

Rob Smith

Founder and Principal, Energy Compliance, Inc.

Executive Summary

In my view, market monitoring exists because organized markets without oversight don't stay competitive. The market monitor is independent of the RTO that runs the market. It watches behavior, flags concerns, and refers suspected violations to FERC. The monitor doesn't enforce; FERC does. Confusing the two layers is a category error, and it has practical consequences.

The lines of authority are written down. Federal rules require every FERC-approved RTO and ISO to give its Market Monitoring Unit three core functions: evaluate market rules and design, report on market performance at least quarterly with a fuller annual state of the market report, and notify FERC's enforcement staff of behavior that may need investigation. The monitor may not administer the tariff. Outside a hybrid structure it may not run prospective mitigation. Once it has enough credible information to refer a suspected Market Violation, it refers the matter and stops acting on its own. FERC then enforces the anti-manipulation rule, the Market Behavior Rules and the tariffs, with civil penalties under Federal Power Act Section 316A that currently stand at $1,584,648 per violation per day after inflation adjustment. In ERCOT the split runs under Texas law: the monitor reports to the Public Utility Commission of Texas, and the PUCT keeps all enforcement authority.

- Scope and authority of market monitoring are deliberately limited. The limits exist to preserve the monitor's independence.
- A behavior outside monitoring scope can still be inside FERC's reach. FERC's own surveillance staff, self-reports, hotline calls and other agencies all feed its investigations. The monitor isn't the only door.
- Market enforcement is the most consequential form of oversight and the most procedurally constrained.
- Settlements in market matters are common. Trial-style adjudications are rare. FERC approved 13 enforcement settlements in fiscal year 2025, and since 2013 it has filed only 11 enforcement actions in federal district court. Knowing the difference shapes response strategy.
- A single market behavior can implicate FERC, NERC, the market monitor and the RTO at the same time. Programs that engage one body and ignore the others get surprised by the others.

1 Institutional Foundations of Market Monitoring

1.1 Why Enforcement Mechanisms Exist

Enforcement mechanisms exist to deal with misconduct that compromises market integrity or breaks the rules market participants operate under. They are not there to guide or improve market performance. Their job is to make sure every participant follows the approved rules, so that competition and system reliability are preserved, while keeping a workable balance among deterrence, proportionality and market confidence.

This reference looks at monitoring, regulation and enforcement as institutions: structural parts of organized wholesale electricity markets, not procedures to memorize. The focus is institutional design, governance, regulatory authority, and how those pieces interact with market performance and reliability. Procedural detail appears where it matters to a compliance decision, and the governing rules are cited so you can read them yourself.

1.2 Why Monitoring Became an Institution

Market monitoring grew out of market design. Organized markets had to be protected against outcomes that competition alone would not prevent, and the early market designs showed where those gaps were. The lesson that stuck is that market outcomes cannot be analyzed apart from the physical system or the regulatory framework that governs the market. Monitoring developed as markets changed and as their designers learned from the problems the first versions produced.

FERC set the current federal structure in Order No. 719 in 2008, and the requirements now sit in 18 CFR 35.28(g)(3). The regulation defines a Market Monitoring Unit as the person or entity responsible for carrying out the market monitoring functions FERC has ordered approved ISOs and RTOs to perform. The RTO's tariff carries the monitor's provisions, and FERC approves that tariff.

1.3 What the Monitor Is and Is Not

The rule builds the monitor's independence into the tariff. Its tariff provisions must be consolidated in one place and must open with a mission statement naming the monitor's goals, including protecting consumers and market participants by identifying and reporting market design flaws and market power abuses. The tariff must also carry ethics standards: no material affiliation with any market participant, no service as an officer or employee of one, no material financial interest in one, and no market transactions beyond the monitor's tariff duties.

The monitor does not operate the market and does not enforce market rules. Its work answers three questions. Are the outcomes in the market consistent with the rules FERC approved for it?

Are participants acting on legitimate economic considerations? And does the design, as written in those rules, produce results you would expect from a competitive market under the conditions that actually prevailed?

1.4 Independence Is Not Isolation

Independence is a core design feature. The monitor has to be separated from market activity and from system operations so that no operating conflict of interest can bend its judgment, and others have to see it that way too. The rule makes this concrete. The monitor reports to the RTO's board with management members removed, or to an independent committee of the board. Where an RTO has both an internal and an external monitor, the internal monitor may report to management, but only if it performs none of the core functions. And the RTO may not alter the monitor's reports or dictate its conclusions.

Independent does not mean isolated. The monitor needs transaction-level operating data, market inputs and system performance information, and most of that sits inside the RTO. So the tariff must give the monitor access to the RTO's market data, resources and personnel, and complete access to its databases of market information. Any data the monitor creates, including its own reconfiguration of RTO data, stays under the monitor's exclusive control.

1.5 Where Reliability Fits

Market monitors work inside a governance framework that includes both federal market regulation and reliability governance. The monitor applies tariff and market behavior rules to what participants actually did. The standards and operating practices for reliable operation of the grid are set and enforced through a different institution, the North American Electric Reliability Corporation, under Federal Power Act Section 215. So a monitor's determinations usually bear on reliability, whether or not they cite a Reliability Standard.

That relationship cuts both ways. Prices and dispatch can move because of what participants did, or because of system limits such as transmission constraints, resource shortfalls and operating practices. Without system knowledge you cannot tell which. A monitoring strategy therefore cannot judge individual outcomes in isolation. It has to evaluate how the whole market system is functioning and separate the effects of possible misconduct from the effects of valid system constraints and conditions.

1.6 Two Market Structures in the United States

Most of the country's organized markets sit under FERC. FERC's own description of the electric power markets profiles CAISO, MISO, ISO-NE, NYISO, PJM, SPP and ERCOT, and notes that two-thirds of the nation's electricity load is served in RTO regions. ERCOT is the exception: its wholesale market is overseen by the PUCT and the Texas Legislature rather than FERC, though FERC's Section 215 reliability jurisdiction still reaches it.

Texas built the same separation into statute. Texas Utilities Code Section 39.1515 requires ERCOT to contract with an entity the PUCT selects to act as the Commission's wholesale electric market monitor. The monitor operates under PUCT supervision, gets full access to ERCOT's main operations center and its operations, settlement and reliability records, and must report potential market manipulation and rule violations in writing directly to the Commission.

The statute says the PUCT keeps all enforcement authority and that nothing in the section confers enforcement authority on the monitor. Potomac Economics currently serves as ERCOT's Independent Market Monitor.

These institutions set the parameters of the monitoring mechanism that guards market integrity. They define the limits of responsibility, the flow of information and the scope of assessment for everyone who operates in the market, from generators and load-serving entities to the operator itself, and for the regulators who sit above them.

End-of-Chapter Summary

Market monitoring is an institution built into the RTO tariff and governed by 18 CFR 35.28(g)(3) (in ERCOT, by Texas Utilities Code Section 39.1515). The monitor is independent of the operator by design, depends on the operator for data, and has no enforcement power. Its value comes from separating participant misconduct from the effects of real system constraints, which requires that it understand the physical system as well as the market.

2 Scope and Limits of Market Monitoring Authority

2.1 A Deliberately Narrow Mandate

Market monitoring is limited on purpose. The limits preserve the separation between monitoring and everything else that happens in a market. A monitor cannot become part of the ongoing operation of the market, cannot impose its own rules or requirements, and cannot make discretionary calls on market events that the rules already govern. You need to understand that scope to judge both what monitoring accomplishes and what it cannot.

The monitor acts only within the authority the FERC-approved tariff and market rules give it. The rule lists its core functions. It evaluates existing and proposed market rules, tariff provisions and design elements and recommends changes to the RTO, to FERC staff, and to interested parties such as state commissions and market participants, but it does not put its own proposed design into effect. It reviews and reports on market performance at least quarterly and files a more comprehensive annual state of the market report. And it identifies and notifies FERC's enforcement staff of instances in which a market participant's behavior, or the RTO's own behavior, may require investigation.

Much of that review looks back at whether activity was consistent with the tariff and the market rules. That review does not involve the exercise of Commission discretion or the imposition of the monitor's own view of what prudent behavior in a wholesale market should be.

2.2 Monitoring Is Not Enforcement

The distinction between monitoring and enforcement is central to the monitor's role. A monitor has no enforcement powers and does not decide penalties. When it has reason to believe a Market Violation occurred, it makes a written, non-public referral to FERC's Director of the Office of Enforcement, with copies to the Director of the Office of Energy Market Regulation and the General Counsel. It does not have to prove the violation. It has to provide enough credible information to warrant investigation. Once it has that, it refers immediately and stops independent action on the matter. It may keep watching for repeat instances, which would be new violations. After referral it reports anything it learns that relates to the matter, but it takes no investigative steps unless the Commission or its staff tells it to.

The separation protects due process. It makes sure enforcement happens through a formal regulatory process and not as part of the day-to-day running of the market.

2.3 Operations Belong to the Operator

Monitoring authority also stops at the control-room door. The RTO alone is responsible for operational activity, including real-time operations and planning, which resources are

committed, how congestion is identified and managed, and restoration. The rule says an RTO may not let its monitor, internal or external, take part in administering the tariff. The monitor may supply inputs for prospective mitigation, such as reference levels, identified system constraints and cost calculations, and it may conduct retrospective mitigation if the RTO allows. Only in a hybrid structure may the internal monitor conduct prospective mitigation, and then the external monitor must be given the responsibility and tools to check its quality. The tariff must say which functions belong to the monitor and which belong to the RTO.

So the monitor can measure the market effects of operating actions, but it cannot direct or override those actions, even when they move market outcomes materially.

2.4 Reliability Monitoring Is Not Market Monitoring

A market monitor may note events that affect reliability as background for what it saw in the market. It is not responsible for whether generation or transmission operations comply with NERC Reliability Standards, and it does not review operating procedures against those standards. That responsibility sits with registered entities themselves, with Reliability Coordinators, and with the compliance monitoring and enforcement program that NERC and the Regional Entities run under FPA Section 215. Clear lines of responsibility keep everyone from guessing who owns what.

The boundaries around economic oversight let it serve market stability without encroaching on the competence of other authorities, which is what makes it effective.

2.5 Preserving Regulatory Boundaries

The whole governance framework depends on keeping three activities distinct: market analysis, rulemaking and adjudication. When an oversight body oversteps, whatever the reason, including efficiency, it weakens the framework it is part of.

Monitors judge compliance with tariffs and market rules from actions and outcomes. They do not write or authoritatively interpret those terms; FERC does. An analytical posture that goes beyond constructive guidance to participants starts to function as rulemaking without the procedural safeguards a real rule change requires. That is why the rule routes design concerns to FERC as a separate kind of referral, addressed to the Office of Energy Market Regulation, with a narrative of the flaw, its consequences and the rule or tariff change the monitor believes would fix it.

Regulators face their own version of the balance. Enforcing existing requirements involves interpretation, but interpretation has to stay tied to the text of the approved rule and what it was meant to do. Discretion inside enforcement of an existing rule should never be confused with making a new one. When the two blur, the system starts to look biased even when it is not.

System operators have boundaries too. Decisions made to preserve reliability can have large market effects, but they are not a basis for redesigning market mechanisms or resetting what participants can expect from market regulation. When operating practices start standing in for market design or regulatory solutions, accountability blurs and regulatory clarity is lost.

Boundaries are most vulnerable under pressure or during change. Tight deadlines, political pressure and system crises all create a temptation to merge functions. That is exactly when

holding the line matters most, because the short-term gain from crossing a boundary is paid for later in institutional credibility. Every market institution has to discipline itself as well as be disciplined by others. In practice monitoring, enforcement, operations and regulation get conflated all the time. Keeping them distinct protects due process, the rule of law, market stability and public confidence that rules are applied in an orderly way.

End-of-Chapter Summary

The monitor's scope is set by tariff and by 18 CFR 35.28(g)(3): evaluate, report, refer. It does not administer the tariff, it generally does not run prospective mitigation, it stops acting once it refers, and it does not monitor NERC compliance. Design concerns go to FERC as a separate referral rather than becoming informal rules. Those boundaries, held under pressure, are what keep enforcement inside a formal process with due process attached.

3 Analytical Methods and Market Surveillance

3.1 What Surveillance Is For

Market monitoring uses analytical techniques to find patterns, anomalies or changes in market activity that may depart from the approved rules and design, or from the principles of competition. These are not rigid models or algorithms. They are tools for working through large volumes of market and operational data in an organized way that fits the system and the institutions they are applied to. Surveillance exists to flag potential rule breaches for closer review. It is not built to reach final conclusions on its own.

Surveillance looks both ways in time. Real-time and near-real-time surveillance watches developing events that could affect market performance: unusual bids, apparent price distortion, and congestion prices far from historical or expected levels given the state of the system. Retrospective surveillance examines performance over longer periods to find trends, structural effects and recurring patterns.

3.2 Context Before Conclusions

The analysis is situational by nature. Transmission outages, resource availability, weather-driven demand and the operating measures taken to protect reliability all shape market outcomes. Good monitoring works through comparisons, scenarios and the consistency of market relationships rather than absolute thresholds. Before anyone concludes there is a market problem, system conditions and the applicable rules have to be considered.

Data integration is what makes that possible. Monitors need detailed bid data, dispatch instructions, the components of locational marginal prices, transmission constraint data and operating logs. Putting economic and operational data together is how a monitor separates manipulative effects from legitimate responses to real constraints or reliability actions. The access rights in 18 CFR 35.28(g)(3)(i) exist for exactly this reason.

3.3 Findings That Hold Up

Analytical methods have to meet the same tests of transparency and defensibility as the rest of the monitoring function. Findings must be verifiable, grounded in data and tied to the approved market rules, and they should be presented in a form that can be relied on in a later proceeding or rulemaking. Methodological rigor is what makes monitoring findings credible.

There is a disclosure constraint built into the rule as well. When a monitor identifies a design weakness and believes broader release could lead to exploitation, it must limit distribution to the RTO and FERC staff and explain why wider release should wait.

Surveillance is not there to smooth volatility or to restrain efficient trading strategies. Its role is to assess whether market developments match the structural assumptions and competition rules built into the design. That assessment is done with evidence after the fact, not as a prior judgment about how markets ought to behave.

3.4 Information Asymmetry Is Built In

Market monitoring starts from the premise that information asymmetry is a normal feature of organized wholesale markets. With many participants, some will always know more than others about operations, about specific resources, and about system conditions, especially under stress. Monitoring and enforcement have to account for that, and they have to remember that unequal access to information is not the same thing as improper use of it.

The asymmetry comes from the structure of the power system and the way generators operate. Owners and operators know things about their own units that market data feeds do not capture: the likelihood of a forced outage, fuel availability, physical limitations. Knowledge about transmission constraints that limit real and reactive power transfers, the specifics of Remedial Action Schemes and other reliability practices, and the conditions under which operators will direct units to change output is held by particular groups, and that has little to do with proximity to the equipment. You cannot design that asymmetry out of the market rules.

3.5 Where Asymmetry Becomes an Oversight Problem

For a monitor the problem is not that the asymmetry exists. It is the opportunity to exploit it. The analysis has to separate actions based on operating knowledge a business needs to run from actions that exploit gaps in what others know to capture unjustified gains. That line is often hard to draw. A transaction that looks irrational in hindsight may have been a rational decision on the information the participant had at the time, and the participant may not have known it was operating in a gap that others would later identify.

The risk rises where an information advantage coincides with structural leverage, such as a resource in a constrained location or capacity held during scarcity. In those cases the monitor may need a much more detailed reconstruction of the participant's decisions than the usual approach of inferring conduct from commercial outcomes.

Regulators in that position have to ask whether the market rules already address the imbalance, and whether the observed behavior is a consequence of the imbalance or an abuse of it. Treating a structural asymmetry as an enforcement issue instead of a design issue tends to blame participants for design flaws, and that erodes confidence in both enforcement and the market.

Some participants will always have an information advantage. Market integrity does not depend on eliminating it. It depends on preventing its exploitation while accepting that it exists. Surveillance should also be proportionate in the analysis and data it demands, so that it stays within the limits of real-time market information and the capacity of the systems that produce it.

End-of-Chapter Summary

Surveillance flags; it does not conclude. It runs in real time and after the fact, it depends on integrated market and operating data that the tariff must make available, and its findings have to be defensible enough to stand in a later proceeding. Information asymmetry is a structural feature of power markets. The oversight question is exploitation, not existence, and the line is often visible only in hindsight.

4 Oversight Relationships and Governance Structures

4.1 Reporting Paths

Market monitoring sits in a layer of governance made up of shared responsibilities, defined boundaries and dependence among institutions. Governance mechanisms decide what happens to a monitoring finding: whether it is reviewed, referred or acted on. That structure carries much of the legitimacy and accountability of an organized market.

The reporting and referral paths in 2.1, 2.2 and 2.5 give public visibility where disclosure is safe and confidentiality where it is needed.

FERC uses monitoring reports in carrying out its statutory duties, including ensuring just and reasonable rates and preventing manipulation. Monitors are not a substitute for regulatory authority. They are an analytical resource that supports regulatory judgment.

4.2 The Monitor Watches the Operator Too

The monitor's notification duty covers the RTO's own behavior, not just market participants. That is part of why its reporting line runs to the board rather than to management. RTOs, for their part, are responsible for running the markets and the transmission system securely, and they support monitoring by providing data and coordinating their procedures with the monitor. That arrangement takes discipline on both sides so that operational bias never creeps into monitoring and monitoring never creeps into operations.

FERC describes effective market monitoring as requiring close collaboration among the monitors, the RTOs and its enforcement office. In its fiscal year 2025 enforcement report, the office says that collaboration happens formally through the reporting requirements in its regulations and informally through regular dialogue, and that it assigns staff as liaisons to each RTO's monitor and to each RTO.

4.3 The Reliability Interface

Governance arrangements also have to cover the relationship with reliability oversight. Market monitoring and reliability oversight are generally carried out independently, but there are many points where data collected for one purpose is relevant to the other, or where an event cascades into both. A behavior can raise a possible Reliability Standard violation that belongs in the NERC compliance process and, at the same time, a market issue that belongs with the monitor and FERC. Neither process absorbs the other, and each has its own evidence, timelines and sanctions.

Market oversight governance depends on clearly defined roles and escalation procedures. Monitoring findings have to move through the regulatory process in a way that keeps the analysis independent, respects the autonomy of each regulatory body, and protects market integrity.

4.4 Interdependence Among Oversight Institutions

Monitoring, supervision and enforcement are not stand-alone tools. Each institution keeps its own competence, but each depends on the others through shared information, coordinated procedures and recognition of the others' authority.

The monitor depends on the system operator for operational and market information. Without that data, and without understanding the operating decisions behind it, a monitor risks drawing wrong conclusions about market activity or about how much an observed pattern matters. The operator, in turn, has to recognize that activity a monitor is watching may be inside the tariff and still carry material operating risk.

Regulatory staff build their evidence from both. The monitor brings the economic view of market behavior. Operators and planners bring operating data and the technical basis for decisions made around transmission capacity and reliability. Enforcement decisions should reflect that a market outcome is never purely economic. The physical limits of the transmission system are the foundation every market decision is made on, and they are often the justification for operating decisions taken to manage congestion or protect reliability.

4.5 Coordination Risk

Interdependence creates coordination risk. Differences in mandate, timing or focus open room for misalignment. A monitor may find something economically anomalous that was operationally unavoidable. Reliability actions with limited market implications may only surface in after-the-fact analysis. The challenge is to reconcile those views without privileging one over the other.

These relationships are governed formally through reporting requirements, data and confidentiality agreements, and dispute procedures, but they also run on informal norms. Oversight succeeds when the formal institutions hold their boundaries while acknowledging their real dependence on each other. It fails when formal interdependence is denied and informal links are left to do work they were never designed for.

No single body can police market integrity. Integrity is a system outcome, produced by independent institutions acting on different streams of information. Each monitoring and operating entity has to stay alert to how its actions and analyses affect the rest of the oversight system, and regulators have to watch how their policy and enforcement choices affect it too.

4.6 Oversight as a Governance Function

Monitoring, regulation and enforcement are often treated as technical and administrative tasks. In fact they are governance functions with a lasting effect on market integrity. Organized markets exist because of regulatory approval of their tariffs and the delegated operations that run them every day, and oversight keeps reconfirming the legitimacy of those operations.

In governance terms, oversight cares more about how the system and its institutions are working than about any single outcome. It asks whether the market's design assumptions still hold, whether the institutions are behaving within expected bounds, and whether they can still do their jobs as the system changes. It safeguards the system rather than correcting each event.

That takes a long view. Present events have to be read in historical context, because responses to immediate disruptions become part of the institutional record that gives the market its legitimacy. Every oversight decision, enforcement action or public statement either reinforces or weakens that framework.

It also takes restraint. Not every adverse event is a scandal, and systemic problems have their own forums (see 7.4). Oversight that reaches beyond its governance role undermines the clarity that effective regulation depends on.

The interaction with reliability is part of this function. Market activity always interacts with the physical system's reliability obligations, and reliability performance has to be part of any credible governance of the system. The measure of success is not the absence of disputes or surprises. It is whether the institutions provide a stable, orderly and lawful way to deal with change when it comes.

End-of-Chapter Summary

Monitoring findings move through defined paths: periodic public reports, non-public violation referrals to FERC's enforcement staff, and design-flaw referrals to FERC's market regulation office. The monitor watches the operator as well as participants, and it depends on the operator for data. Reliability issues travel their own NERC track. Oversight works as a system of separate institutions that share information without merging roles, and it earns legitimacy by taking the long view and showing restraint.

5 Enforcement Frameworks and Regulatory Authority

5.1 Enforcement Is a Separate Process

Enforcement in organized wholesale markets deals with conduct that may fall outside the rules or run contrary to them. As a formal regulatory activity it is necessarily separate from market monitoring, which is evaluative. That separation is a critical part of market governance. It reflects the rule of law and the importance of due process administered through the proper institution.

In FERC-jurisdictional markets, FERC holds the enforcement authority and the monitor holds none. The legal hooks are specific:

- **Market manipulation.** Federal Power Act Section 222, added in 2005, makes it unlawful to use any manipulative or deceptive device or contrivance in connection with the purchase or sale of electric energy or transmission services subject to FERC's jurisdiction. FERC's Anti-Manipulation Rule, 18 CFR 1c.2, adopted in January 2006, prohibits any device, scheme or artifice to defraud, any untrue statement or misleading omission of a material fact, and any act, practice or course of business that operates as a fraud or deceit on any entity.
- **Market Behavior Rules.** Under 18 CFR 35.41, a seller in a FERC-approved organized market must operate and schedule generation, undertake maintenance, declare outages, and commit or bid supply in compliance with the market's approved rules. It must give accurate and factual information, and must not submit false or misleading information or omit material information, in communications with FERC, market monitors, RTOs, ISOs and transmission providers, unless it exercised due diligence to prevent the error. It must keep the data behind its market-based rate billing and its price index reporting for five years.
- **Tariff violations.** Violating a Commission-approved tariff, order, rule or regulation is itself a Market Violation under the definition in 18 CFR 35.28(b).

FERC's enforcement office was renamed the Office of Enforcement and Regulatory Accounting in August 2025. The market monitoring rule still addresses referrals to the "Office of Enforcement," so expect both names in the documents you read.

5.2 How a Matter Moves

FERC's fiscal year 2025 enforcement report lays out the investigative path in some detail, and it is worth reading before you ever need it. Investigations start from many sources: referrals from RTOs and their monitors, FERC's own market surveillance, other agencies, self-reports, the Enforcement Hotline, whistleblowers, and other investigations. Monitor referrals are a major

source. In fiscal year 2025 FERC's staff received 22 new monitor referrals, and 16 of them became the source of investigations opened that year.

Investigations are nonpublic. Under 18 CFR 1b.9, information and documents obtained in an investigation are treated as nonpublic unless the Commission authorizes disclosure, they become part of the record in an adjudication, or the Freedom of Information Act requires release. Section 1b.20 sets out how to request confidential treatment, and general claims of confidentiality are not enough.

Most investigations close without action. When staff finds a violation that warrants sanctions, it shares preliminary findings and the subject can respond with facts, defenses and its own theory of the case. If staff still believes sanctions are warranted, it seeks settlement authority. If settlement fails and staff intends to recommend an Order to Show Cause, Section 1b.19 requires notice to the subject, which then has 30 days to file a non-public response that goes to the Commission with staff's recommendation. An Order to Show Cause starts a contested, on-the-record proceeding with separation of functions in effect.

For a civil penalty under the Federal Power Act, the subject then chooses its forum. Section 31(d) lets it elect, within 30 days of the notice of proposed penalty, either a hearing before an administrative law judge with review in a court of appeals, or a prompt penalty assessment by the Commission followed, if the penalty goes unpaid, by an action in federal district court, where the court reviews the law and the facts de novo. FERC's report notes that aspects of its process have been challenged after the Supreme Court's 2024 decision in *SEC v. Jarkesy*, and that FERC has argued the district court option satisfies the Seventh Amendment.

5.3 Penalties, Settlement and What Drives Them

The statutory ceiling is in FPA Section 316A: up to $1,000,000 per violation per day for violations of Part II of the Act and the rules and orders under it, adjusted for inflation to $1,584,648 per violation per day in 18 CFR 385.1602. In setting a penalty FERC must consider the seriousness of the violation and the subject's efforts to remedy it in a timely way.

FERC's Revised Penalty Guidelines, issued in 2010, apply to organizations. Under them a penalty can vary widely with the market harm caused, the unjust profits gained, the organization's efforts to remedy the violation, and culpability factors such as senior-level involvement, prior violations, the existence and strength of a compliance program, self-reporting, acceptance of responsibility and cooperation. FERC's report notes that favorable culpability factors can reduce an organization's culpability score to zero and lower the base penalty by as much as 95 percent.

Settlement is how most of these matters end. In fiscal year 2025 FERC approved 13 settlements, 11 of which resolved investigations for about $36.57 million in civil penalties and disgorgement. Since 2007, settlements have totaled about $899.8 million in civil penalties. Since 2013, FERC's enforcement staff has filed 11 enforcement actions in federal district court. The math tells you where the leverage sits: in the investigation and the settlement discussion, long before any trial-type hearing.

Self-reports matter as much as anything an entity can control. FERC's staff received 153 new self-reports in fiscal year 2025, 79 of them from RTOs and ISOs. Over fiscal years 2021 through

2025, the vast majority of roughly 731 self-reports were closed without further enforcement action, generally because there was no material harm or the harm was remedied and the company corrected the problem and strengthened its compliance program.

> **The NERC Track Runs in Parallel**
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> Reliability Standard violations follow a different statute and a different process. Under FPA Section 215(e), NERC, and the Regional Entities to which it delegates enforcement, may impose penalties after notice and an opportunity for hearing, and a penalty takes effect no earlier than the 31st day after NERC files the Notice of Penalty with FERC. Under 18 CFR 39.7(b)(4), each alleged violation is nonpublic until it is filed with FERC as a Notice of Penalty or otherwise resolved. Under Appendix 4C of NERC's Rules of Procedure, a registered entity has 30 days to respond to a Notice of Alleged Violation and Proposed Penalty or Sanction, and settlement may be requested at any time. NERC's 2025 ORCP and CMEP Annual Report says about 85 percent of reported noncompliance was self-identified, and about 83 percent of filed or submitted noncompliance was processed as Compliance Exceptions and 14 percent as Find, Fix, Track and Report, neither of which involves a settlement or monetary penalty.

5.4 Proportionality

Enforcement measures are meant to be proportionate and fitted to the circumstances. In deciding the right response to an incident, the factors that matter include the nature of the conduct and whether it was anticompetitive or exclusionary; its purpose, including whether it was deliberate or simply commercial judgment; its effect on market functioning and any reliability implications; and what remedy, penalty or repayment fits the seriousness of the conduct and any history of repetition. FERC's statute and guidelines put several of those factors in writing.

5.5 Enforcement Feeds Rule Evolution

Enforcement also informs how the rules change. The results of enforcement actions can carry into later tariff revisions or interpretations, which supports adaptive governance of the market. FERC's report describes a process for exactly this: when an investigation exposes vague or ambiguous market rules that distort market performance or participant obligations, enforcement staff can raise those concerns with senior management and with the offices responsible for market regulation, legal matters and economics, even if the investigation itself closes without action.

The credibility and consistency of the enforcement framework determine its real effect. When participants can predict how enforcement will be applied, through established procedures and orderly adjudication, enforcement builds confidence in the market rather than undermining it.

5.6 Enforcement as a Signal

An enforcement action matters beyond the case itself. It is a signal. Through it the enforcing body tells other participants about its priorities, its reading of particular provisions, and the circumstances it does and does not treat as violations. FERC's settlement practice is explicit on

this point: its staff generally seeks settlement terms designed to inform the industry clearly about what conduct constitutes the violation. Those messages don't dictate behavior directly. They change participants' sense of the risks they face and of how much the regulator will tolerate.

Participants form their views of an enforcement body from the whole pattern of its actions over time, not from individual cases. What matters is when actions are taken, what conduct is targeted and how the decisions are explained. The clearer and more rule-based the rationale, the more likely participants are to adjust their compliance in a measured way rather than simply becoming cautious.

The response is not uniform. Participants with different asset portfolios, risk profiles and operational complexity react differently. One may change its bidding approach or strengthen its internal compliance to reduce its exposure. Another may reconsider how it participates at all, particularly in periods when enforcement expectations feel least certain. Enforcement doesn't act like a fine at the moment of the act. It reshapes the incentives and conditions under which participants decide.

The effect of a signal depends on market conditions. Enforcement is most visible, and participants are most alert to it, in volatile periods: scarcity, severe weather, restoration. In those periods enforcement signals can affect not just prices and quantities but the availability of the resources needed to respond to an emergency, and so they can affect reliability.

Regulators should account for those behavioral effects. Actions that look erratic, backward-looking or poorly matched to the facts spill over into other behavior. Actions that are clearly and rationally explained reinforce the view that enforcement is consistent, fair-minded and rules-based. Enforcement is punitive, but it is also communicative. It is governed by law and evidence, and also by whether participants can tell what is permitted in a market that keeps changing.

End-of-Chapter Summary

FERC enforces market rules through FPA Section 222 and its Anti-Manipulation Rule, the Market Behavior Rules in 18 CFR 35.41, and the tariffs, with penalties up to $1,584,648 per violation per day after inflation adjustment. Investigations are nonpublic. In fiscal year 2025 staff closed 17 investigations without action, and 11 were resolved by settlement. The subject gets preliminary findings, a Section 1b.19 response, and a choice of forum. Self-reporting, remediation and a working compliance program move outcomes. Reliability violations run on NERC's separate Section 215 track. Every action also signals what the regulator considers over the line.

6 Boundary Tension Between Market Outcomes and Reliability Obligations

6.1 Gray Areas

Monitoring and enforcement are tested most in gray areas, where market outcomes and reliability actions overlap and create tension at the boundary. These ambiguities arise at the margin, where economic signals and reliability responses sit close together and normal market outcomes may push against reliability limits. Enforcement does not resolve the underlying ambiguity.

Integrated markets were designed to reflect reliability constraints through price, through unit commitment and through the transmission network model. There has always been a gap between what the design was meant to reflect and what it could anticipate. Day after day operators encounter reliability conditions that the market products were never designed for. Storms, fuel supply disruptions, degraded unit performance and newly emerging transmission constraints are a few of the events operators have to handle after the market tools have done what they can. The result is that market outcomes often differ from what an unconstrained market would produce, with effects on demand response, on where price-driven demand reduction shows up, on locational prices, and on the expectations participants built from the market rules.

6.2 Who Caused the Outcome

Those reliability challenges are a different kind of problem from the behavioral questions a monitor usually examines. An observed distortion may come from the operator's actions rather than from participants. And participants who stay inside the rules may still be contributing to reliability strain. Market monitoring has to account for reliability needs that may not line up with the market's economic outcome.

This is boundary tension at its most institutional and most routine. Reliability responsibilities are set by NERC Reliability Standards and carried out by Reliability Coordinators, Transmission Operators and Balancing Authorities. Market oversight responsibilities come from federal regulation and are carried out through tariff authority. The central question is whether reliability-driven actions produced price and dispatch outcomes outside the market design, or whether they show that the normal functioning of the market needs to change to keep service reliable.

6.3 Scarcity Makes Enforcement Sensitive

Fairness during low supply is a delicate balance, and enforcement there is highly sensitive. Oversight has to tell abusive practices that exploit reliability conditions for financial gain apart from ordinary behavior in which buyers and sellers respond rationally to system constraints. If

enforcement is too heavy, it discourages legitimate participation in exactly the periods when supply is short. If it is too light, abuse can become the norm in those same periods, when reliability risk is highest.

The participant's own obligations are concrete here. The unit operation rule in 18 CFR 35.41(a) requires a seller to declare outages and commit or bid supply in compliance with the approved market rules. Reliability Standard IRO-001-4, Requirement R2, separately requires Transmission Operators, Balancing Authorities, Generator Operators and Distribution Providers to comply with their Reliability Coordinator's Operating Instructions unless the instructions cannot be physically implemented or compliance would violate safety, equipment, regulatory or statutory requirements. A unit that is physically available but not offered, or an outage declared in a way the market rules don't allow, can become a market case and a reliability question at once.

Cases in the hard zone highlight the features of organized markets that make enforcement difficult: their open and dynamic nature, the interaction of physical forces, the allocation of responsibility, and the role of official discretion. Enforcement in those cases depends on informed judgment more than on mechanical application of rules.

6.4 Oversight Under System Stress

System stress events are the most demanding scenario for monitoring, regulation and enforcement. Severe weather, widespread outages, fuel disruptions and cascading transmission constraints compress the time available for analysis and decision while engaging every major regulatory consideration at once. Effective oversight has to produce timely insight and action in those conditions without compromising its independence or effectiveness.

After a stress event it often becomes clear that outcomes bore little resemblance to what normal conditions would have produced. Scarcity pricing, emergency commitments and operator directives can produce prices and schedules that look far removed from participants' expectations. Monitoring after the fact has to reconstruct both participant behavior and the conditions around it. There is usually a significant lag before everything participants knew during the event is understood alongside all the other information that was changing quickly at the time.

Resilient oversight takes discipline. Public, political and investor reaction can erode the line between analysis and judgment. Monitors may be tempted to draw conclusions driven by the outcome of the event; regulators under political pressure may be tempted to rush to judgment before the facts are in. Preserving credibility after a crisis is as much about restraint as about speed.

These are peak periods, and reliability comes first. Decisions made to protect reliability will not always match the economics of the market, and outcomes that don't fit economic principles may follow. Regulators should be careful that relief granted for one situation doesn't create unintended harm across the broader market, and careful not to overstate the role of trader behavior in a way that leaves a lasting perception of market failure after the crisis has passed.

Post-event analysis serves two purposes. Accountability asks whether the market rules were applied as written and whether behavior stayed within acceptable limits. Learning draws lessons

for the future, and those lessons hold up best when they rest on a detailed reconstruction of what happened rather than on what the rules said should have happened. A framework that handles stress well acknowledges uncertainty while capturing the relevant facts as they stood at the time decisions were made, and it applies analytical principles that were set before the controversy began. How oversight performs under stress says a great deal about how mature the institutions are, because that is when they are watched most closely.

6.5 Continuity Between Crisis and Normal Operations

Many market abuses and failures come to light under stress, but the effectiveness and legitimacy of oversight are built on continuity through calm and stressed periods alike. There should be no perception that supervisory practice changes with the circumstances. Markets work best when participants are confident that what is acceptable in normal conditions is still acceptable under extreme stress, and that the reverse also holds.

Crisis increases time pressure and demands faster action on emergency measures, scarcity pricing and other immediate decisions. Normal assessment criteria should not be relaxed for the crisis. Crisis conduct should be assessed under the same rules and with the same evidence-based approach as normal monitoring and audit work, or the oversight bodies lose credibility.

Normal periods carry their own risk. Scrutiny drops, reasoning can get lazy and assumptions go unchallenged. The approach has to stay the same even when activity is uneventful, because patterns that develop in quiet periods can become very significant under stress and will be missed unless the surveillance posture stays steady between crises.

The transition between normal and stressed conditions is where this is tested hardest. Participants watch whether expectations hold as conditions deteriorate or whether the evaluation criteria quietly shift. Abrupt changes in emphasis suggest that the rules are contingent rather than durable. Continuity across the transition shows that governance is resilient rather than situational. Standard methods, documentation practice and a clear separation between monitoring and enforcement are what let a crisis response build on normal practice and let its effects be evaluated on comparable terms. Applying the same principles in turbulence and in calm shows that market governance rests on enforced principles and disciplined discretion, not on whatever the market happens to be doing.

6.6 Structural Constraints

Structural constraints are built into organized markets. Transmission limits, resource location, fuel dependence and geography all shape market outcomes, and none of them can be changed much by rule design or enforcement. Monitoring and enforcement have to work credibly in their presence without being seen as able to change their effects.

Structural constraints produce outcomes that can look unfair or inefficient: congestion, price spikes and volatility that raise doubts about whether pricing is fair or whether participants behaved unreasonably. Oversight bodies should explain those consequences so that they are not read as a failure of governance.

Monitoring is how those effects get documented. A monitor's analysis can confirm that prices and results in constrained conditions follow the market mechanisms written for those conditions,

which validates outcomes that may look bad on their face. That validation matters most where participants see a constraint as persistent and it becomes the subject of a long-running dispute.

Enforcement posture has to match that reality. Treating constraint-driven outcomes as enforcement problems mischaracterizes the issue and undermines confidence that oversight is fair. Failing to act when participants exploit constraints beyond what the market design intended erodes trust just as fast. Credibility depends on keeping that distinction with discipline and evidence.

Expectations are part of the problem. The public and stakeholders often assume a regulator can fix problems created by decisions made elsewhere in the system, outside its control. Clear explanation of what oversight can and cannot reach helps set the legitimate scope of audit and enforcement. Oversight that accepts the limits of what it can change is more likely to keep the trust of policymakers and the public. Working from the system as it actually is, rather than measuring it against an ideal, strengthens governance even while the underlying constraints remain.

End-of-Chapter Summary

Where market outcomes and reliability obligations overlap, the monitor has to decide who caused the outcome: the operator, participants, or the physical system. Scarcity and stress make that call harder and raise the cost of getting it wrong in either direction. Oversight holds up when it applies the same criteria in crisis and in calm, reconstructs what participants knew at the time, and explains constraint-driven outcomes instead of prosecuting them.

7 Market Design Feedback and Regulatory Adaptation

7.1 Oversight as a Design Input

Monitoring and enforcement exist to prevent improper conduct and protect market integrity, but much of what they actually produce is information about how the market design behaves in real trading. Patterns accumulated over time tell FERC and the RTOs how to modify market rules, tariffs, mitigation measures and monitoring requirements. Because these adjustments grow out of ordinary daily market activity, they are rarely labeled for what they are: a continuing process of refining the design so the market keeps delivering competitive outcomes.

Monitors often find that compliance with the rules does not guarantee the market is meeting its needs. Noncompliance is not always bad intent. It can reflect shortcomings in market or system design that the monitor brings to the attention of the RTO and its stakeholders.

Adaptation runs through formal and informal channels. FERC proceedings, stakeholder processes inside the RTOs, and rule-change proposals that come out of periodic reviews all turn monitoring findings into design changes. The monitor contributes analysis to each of these but does not decide the result, and proposed changes are not adopted automatically. They need RTO action, stakeholder process and FERC acceptance.

The cycle has to balance stability and responsiveness. Frequent rule changes reduce confidence by adding uncertainty. Infrequent changes can lock in inefficiencies and oversight blind spots. Monitoring should gather enough evidence to support change while avoiding overreaction to transient events or single occurrences.

Enforcement outcomes feed the same loop. Issues raised in enforcement can show that tariff language, mitigation thresholds or triggers need clarification. These elements mature over time through repeated interaction. Design feedback reflects the dynamic nature of organized markets: oversight is about the interaction between design assumptions and the physical system as much as it is about individual behavior. Regulation has to track that closely as system conditions, fuel mix and reliability issues change.

7.2 Market Evolution

Organized markets don't hold still. They change with resource technology, load, policy objectives and reliability risk. Monitoring and enforcement have to apply rules written for a system configuration that existed at some point in the past, and that mismatch adds complexity and reduces effectiveness.

Evolution brings new forms of supply, demand and interaction that do not always fit the oversight framework. Changes in dispatchability, inertia, and supply and demand patterns can

change how the market clears and how violations should be handled. Oversight has to understand those changes well enough to tell legitimate adaptation from attempts to exploit loopholes that no longer match the physical system. That determination is rarely quick. It usually takes several pricing periods before conclusions can be drawn.

Monitoring frameworks are calibrated to the market structure at a point in time. As the baseline moves, thresholds and screens need adjustment. What once stood out becomes normal, and the reverse. What should never happen is a retroactive change in the expectations built into the framework.

Compliance is hardest during periods of change. Applying rules retroactively to new facts raises serious questions of predictability and fairness. A regulator has to balance the need to address unforeseen circumstances against the reality that market infrastructure lags behind rule changes. Using enforcement in that gap risks penalizing adaptive behavior, which is hard to justify when much of the industry is still adjusting.

Coordination matters more as markets evolve. Monitors, operators and regulators need shared awareness of emerging system characteristics without blurring their roles. Credibility is stronger when institutions acknowledge the transition openly rather than treating evolving behavior as deviation from a static norm. Oversight in an evolving market has to be disciplined and dynamic at once: inside the rules as written, and aware of how those rules play out in a changing market.

7.3 Planning and Long-Term System Decisions

Monitoring and enforcement focus on transactions inside a given market structure. Planning sets the conditions those transactions will happen under, through transmission projects, resource adequacy measures and long-term reliability planning. Because planning shapes the conditions under which markets clear, it also shapes whether a monitor's persistent concern reflects conduct or an inherent system issue.

Monitors often see price behavior that market mechanisms alone cannot explain, and that can signal a planning problem. Frequent congestion on particular facilities, wide and persistent price separation, or heavy reliance on emergency actions can all point to a system that has not been built for the load it serves. Detailed market analysis can confirm those findings, but oversight bodies generally do not have authority to intervene in planning.

The relationship between oversight and planning is indirect but important. Monitoring findings tell planners where their assumptions diverge from market reality, and that information can inform planning discussions. The two functions should stay separate so that responsibility stays clear.

Enforcement is sensitive here too. Where the system has not been built out, behavior that looks inappropriate may be a rational response to the constraint. Treating it as individual misconduct can be unfair to the participant, damaging to the oversight body's credibility, and misleading if it is read as proof that the problem is conduct rather than infrastructure.

Expectations about future system decisions also condition current behavior. Anticipated transmission projects, regulatory signals and expected design changes all influence what participants do now. Oversight that accounts for those expectations is better placed to

distinguish a commercial strategy from abuse, especially during transitions. The broader point holds: monitoring and enforcement support the current market architecture, but they are not a substitute for investment in the system's long-term evolution.

7.4 Maturity: Stability and Change

Oversight is always balancing stability against change. It has to provide enough predictability to sustain confidence and deter unacceptable behavior, while adapting to changes in the generation and transmission system, in market rules, and in reliability risk. Maturity shows in how well that balance is struck over time.

Stable oversight means consistent evaluation criteria, clear institutional roles and restraint in enforcement. Participants can form reasonably stable expectations about how conduct will be assessed, whatever the market is doing. That does not mean the rules never change. It means they are applied rigorously, clearly and transparently.

Markets drift outside the conditions their rules anticipated. Shifts in fuel mix, operating modes and stress patterns expose vulnerabilities that were not fully considered when the rules were written. A mature oversight body recognizes those developments for what they are and routes the response through established procedures rather than through reinterpretation.

The hardest tension comes when an agency tries to solve a systemic problem through enforcement in an individual case. That is rarely the right tool. Pressure to act fast makes it tempting to stretch whatever rule can arguably be stretched to cover the facts. Good regulation resists that and keeps the line between adjudicating particular conduct and rulemaking that defines the bounds of permissible behavior.

Maturity also depends on institutional learning: analytical capability, a culture of self-examination, good records and continuity through staff and organizational change. At bottom, maturity means knowing the boundaries. Monitoring and enforcement do not guarantee optimal outcomes or satisfactory resolution of every dispute. Their task is to keep a governance framework that is stable and credible and able to adapt.

7.5 Adaptation Without Drift

Adaptation is usually treated as a virtue in market governance. The harder question is where adaptation ends and drift begins.

Adaptive oversight changes in response to new information, unexpected system behavior or shortcomings in the original approach. It adjusts analytical tools, metrics and thresholds while staying inside the regulatory framework and its principles. Drift is different. It happens when the oversight function gradually moves away from the market design, operation or dispute processes it was meant to serve, usually because it is trying to answer complaints it has no direct way to resolve.

The risk grows when markets face long-running problems. Chronic congestion, repeated emergency actions and sustained volatility create pressure on oversight bodies to do something, even where their authority is limited. Incremental interpretive expansion, informal expectation-setting and selective enforcement emphasis can look adaptive in the short term while quietly moving institutional boundaries.

Even rule-based monitoring can drift. Analytical focus can harden into practice and become a de facto rule that participants follow without it ever being written into the tariff. The motive may be legitimate, but the effect is more uncertainty and less clarity, because the governance signal has moved outside the agreed rules.

Preventing drift takes conscious attention to boundaries. Oversight bodies should periodically revisit what they oversee, on what basis, and whether their delegated mandate still covers it. Peer review and escalation inside the institution help. Adaptation that preserves legitimacy is deliberate rather than reactive. It acknowledges change and routes systemic disputes to the forums built to resolve them, such as stakeholder processes and tariff filings, rather than absorbing them into monitoring or enforcement.

End-of-Chapter Summary

Oversight produces design information as well as enforcement cases, and that information reaches the rules through RTO stakeholder processes and FERC filings, not through the monitor's own action. Markets evolve faster than their rules, so oversight has to tell adaptation from exploitation without applying new expectations retroactively. Planning problems show up in market data but are not solved by enforcement. A mature oversight body adapts its tools while keeping its mandate where it was drawn.

8 Credibility, Confidence, and Market Legitimacy

8.1 Credibility Comes From Consistency

Credibility is the hallmark of an effective market monitor, regulator or enforcement body. Markets rely on stakeholders' confidence that transactions follow fair rules and that the rules are enforced without discrimination. Without that, participants turn defensive, investment signals get distorted and markets drift away from the reliability obligations they are meant to support.

The credibility of the framework depends more on the consistency and fairness of regulatory action than on the number of enforcement actions. Participants judge legitimacy by what regulators do, how well the action is reasoned, and whether it fits the market's objectives. Inconsistent or opaque action creates uncertainty participants cannot hedge, and that pushes them toward risk-averse or uneconomic behavior.

Monitoring supports confidence in a quiet but fundamental way. Published monitoring reports are a reference point for participants, regulators and others. When they reflect sound economic analysis and restraint in interpretation, they show that oversight is active, technically capable and responsive to change, without presuming misconduct every time events go differently than expected.

Enforcement credibility depends on proportionality and institutional discipline. Excessive penalties for uncertain or debatable conduct carry the scarcity risk described in 6.3. Failing to act on clear violations invites strategic behavior by anyone who concludes the rules aren't really enforced. The right balance comes from looking at motive, effect and the rule itself together.

Legitimacy also depends on a visible separation of functions. When roles blur, even for reasons of efficiency or urgency, the legitimacy of the oversight institutions and their accountability suffer. Monitoring is not just a technical task. It is an institutional one, constrained by governance (discipline and the rule of law), by prudence (moderation in regulating conduct) and by transparency (disclosure where it is safe). Its purpose is not to eliminate risk and dispute but to provide a stable, credible framework for dealing with them.

8.2 Managing Institutional Trust

Trust is an implicit condition of organized markets. Rules, monitoring and enforcement all assume that institutions will act efficiently, consistently and within bounds. That trust is not passive. It is built through deliberate action, good analytical practice and adherence to governance norms.

Trust accumulates through evidence that similar conduct is treated similarly, that new issues are handled thoughtfully, and that conclusions rest on evidence rather than expediency. Monitoring

maintains trust through consistent analysis as conditions change. Enforcement reinforces it when actions are proportionate and clear rather than ad hoc.

Boundary management is central. Governance bodies that reach into other actors' domains threaten trust. A board that oversteps its mandate and gets into operating details, design choices or political decisions can undermine trust even with good intentions, because the effect looks like unpredictability rather than responsiveness. A board that holds back when pressed by interested parties sends a clear signal of confidence in the framework.

Trust also depends on candor about limits. Oversight bodies build trust when they deal openly with uncertainty, jurisdictional limits and the limits of evidence. Claims of control or predictive power that the system cannot support end in disappointment and cannot sustain trust. Single enforcement actions, public statements and especially the response to shocks all shape how trustworthy an institution looks.

8.3 Managing Expectations

Much of oversight's influence comes not from formal authority but from managing the expectations it creates. The premise of an organized market is that rules, monitoring and penalties will work predictably and fairly over time, including under stress when drastic action may look tempting. When those expectations are not met, credibility suffers even if every action was technically correct.

Expectation gaps open in stressful or turbulent periods. Participants, policymakers and the public often expect regulators to prevent outcomes that are permitted under the approved framework. They tend to overestimate how far the system can police behavior, and the limits need to be made clearer.

Monitors help by framing what happened. By separating compliant outcomes that reflect a well-designed market from outcomes that reflect design limits, their reports set expectations in terms of what is institutionally possible rather than what might seem fairer. Framing oversight in terms of rules rather than outcomes reinforces the rule-based nature of the market.

Enforcement expectations are the hardest. A high-profile action can create the impression that similar action will follow in similar circumstances, even where the facts differ substantially. Oversight bodies should make clear that their enforcement decisions rest on context, likely effect and the quality of the evidence, so that the program is not caricatured by its most visible case.

Expectations have to be managed internally too. Overconfidence about what oversight can achieve leads to defensive or reactive postures. Underconfidence leads to complacency. Consistently restating the limits of authority and the rules that govern monitoring and enforcement keeps expectations matched to the real arrangements. Stability comes from expectations that fit the actual governance in place, not from meeting every expectation.

8.4 Credibility as a Long-Horizon Asset

Credibility builds slowly and can collapse suddenly. Like formal legal authority, it is a long-term institutional asset grounded in memory, continuity and self-control, and it carries oversight through situations the rules do not fully resolve.

It is built by process, not promise. The cumulative pattern of analyses, referrals and enforcement decisions shapes how the public and participants see the regulator. Over time participants form expectations not only about what compliance requires but about how the regulator uses discretion in unclear cases, and those everyday expectations are a strong source of compliance.

The risk is asymmetric. One poorly reasoned decision, inconsistent with earlier ones, can undo years of careful work. Rebuilding confidence after a scandal or crisis takes a long, consistent record of firmer and more consistent oversight. Caution matters most when a regulator is trying to address a real problem quickly, especially an unprecedented or politically charged one.

Credibility also affects leverage. A credible institution can change behavior through analysis without frequent or heavy penalties. A less credible one tends to rely on more frequent and heavier enforcement, often with less effect. Protecting credibility means remembering that individual decisions shape the narrative of past actions, that communications reach further than intended, and that today's actions will be reviewed later. Oversight that treats long-term credibility as secondary during a crisis will struggle to get it back afterward.

8.5 Legitimacy Under Political Pressure

Markets are never fully insulated from politics. High prices, shortages, outages and emergencies almost always bring political, media and public attention. Keeping the oversight regime legitimate means handling pressure to explain or excuse events while keeping an objective posture.

Politics focuses on outcomes; oversight has to focus on process. A price spike, an emergency measure or an outcry over shortages produces urgent questions. Monitors and regulators need to answer in terms of the market rules and the institutional division of authority, rather than getting drawn into a cycle of complaint and counter-complaint. Otherwise political pressure ends up rewriting the terms of reference for the rules that are supposed to guarantee fairness and efficiency, and due process suffers.

To protect legitimacy, regulators have to keep explaining the boundaries among market design, conduct rules and system conditions. They need to explain how prices form in scarcity and that conduct within the approved rules may produce outcomes people dislike without being a violation. Above all, they need to be clear about where their own authority starts and stops. That keeps public debate anchored to institutional facts and preserves credibility through turbulent periods.

Enforcement posture is especially sensitive in a politicized environment. High-profile events can create pressure to act in individual cases even when the evidence is doubtful or the law's application unclear. That pressure can come from elected officials, the media, advocacy groups or other stakeholders. Public anger is not illegality. Enforcement driven by the politics of the moment rarely strengthens enforcement over the long run, even if it provides short-term relief.

Monitoring contributes legitimacy through analytical continuity across political cycles. Applying the same tools consistently shows that monitoring follows rules and procedures, not circumstances. Politicization is not an exception in regulation; it is part of the job. Frameworks

have to be designed to withstand it, so that regulators' judgments are not undermined by the process of being held to account.

End-of-Chapter Summary

Credibility, trust and legitimacy come from consistency, proportionality, visible separation of functions and honesty about limits, not from the number of enforcement actions. Expectations have to be set to what the rules actually allow. Credibility is slow to build and quick to lose, and political pressure is the moment it is tested hardest. Oversight that explains outcomes in terms of rules and keeps its analysis steady across political cycles keeps its standing.

9 The Structural Limits of Oversight

9.1 Oversight Is Not a Precision Instrument

Monitoring and enforcement are often imagined as precision tools, where every transaction and every second is accounted for. Oversight institutions get held to a standard that may be beyond what people and technology can achieve. Wholesale electricity markets are complex systems. They are dynamic, hard to predict and made of many different parts, and the underlying resources keep changing. Enforcement has to work through several layers of regulation. There are structural limits to what monitoring and enforcement can do, and no amount of data processing removes them all.

The first is abstraction. Market rules translate the physical behavior of the system into economic variables, and that translation compresses a fuller picture of reality into a smaller set of numbers. Nodal prices, commitment algorithms and mitigation measures all approximate the state of the system and miss nuances of how it is actually operating. Monitoring sees behavior through that abstraction and cannot capture moment-to-moment dynamics. A finding of misconduct will always be an approximation.

The second is timing. Much market activity happens in real time, while oversight looks back weeks, months or years later. By the time staff can examine the pattern and decide what to do, if anything, the conditions behind it are often gone. Oversight can provide notice and deterrence over time, but it arrives too late to act as a real-time control. It is mostly a rear-view mirror.

The third is jurisdiction. Wholesale markets are regulated federally (or, in ERCOT, by the state), run by regional operators, and overlaid by reliability oversight. None of these bodies sees or regulates every aspect of market and grid behavior. FERC oversees tariff compliance and market conduct in its markets, the PUCT does so in ERCOT, and NERC and the Regional Entities oversee compliance with Reliability Standards. Seams between those regimes are unavoidable and complicate enforcement against conduct that touches more than one.

The fourth is data. Monitors see a great deal, but operating judgments made in the moment and asset-specific constraints that never make it into an after-the-fact record may be invisible. That makes inferring motive, or judging what would have happened otherwise, speculative, which is why restraint and rigor in evidence matter.

9.2 Accepting the Limits

Oversight bodies need to know these limits. They do not make regulation less important, but they define what it can achieve. Market oversight does not guarantee that markets will be free of misconduct or that every wrongdoer will be caught. It sets and enforces a perimeter of permitted behavior and gives participants confidence about the rules that apply to them.

Accepting constraints is a sign of institutional maturity. Good oversight works with complexity rather than denying it, and it relies on consistency, transparency and proportionate reasoning in place of a command over detail it can never have.

9.3 The Limits of Measurement

Oversight is often judged by visible impact, yet many of its most important effects are hard or impossible to measure. Integrity, stability and behavior don't reduce neatly to metrics, and trying to force them into metrics oversimplifies relationships that are imprecise and dynamic.

Counting inspections, fines or publicity does not tell you much. Low enforcement activity does not mean deterrence has failed. It may mean the rules are vague or that violations are going undetected. High enforcement activity does not prove enforcement is strong or credible, because structural weaknesses can remain untouched.

Monitoring is largely preventive. As long as potential offenders see it as credible, it influences conduct before harm occurs, and that effect rarely shows up in monitoring data. The absence of detected misconduct does not mean the surveillance was unnecessary.

System factors complicate measurement further. Weather, fuel markets, transmission conditions and resource availability mask much of oversight's effect, and even where it could be estimated, separating oversight from those factors is hard. Metrics in oversight organizations are better at ensuring consistent practice than at measuring performance precisely.

Accountability is qualitative as well as quantitative. Oversight is judged on the soundness of its reasoning, the stability of its frameworks and the match between stated goals and actual conduct. Those criteria build confidence even when individual interventions are disputed. Monitoring and enforcement are not performance indicators. They are tools that keep markets working: they define the rules of the game, sanction clear abuse and maintain the confidence of the public and participants. Their impact shows in the stability of market governance over time.

9.4 The Practical Limits of Deterrence

Deterrence is often cited as a central goal of monitoring and enforcement, but its limits get less attention. Enforcement aims to make lawful conduct more rewarding than unlawful conduct. It does not have the same effect on every participant, under every condition, at every time, and many of the factors that drive its effectiveness are outside the enforcer's control.

Perception of risk varies. A large participant may see enforcement risk as a modest cost of doing business; a small one may see the same risk as existential. Neither reaction necessarily produces the behavior the regulator wants. Monitoring can raise awareness, but it cannot make deterrence fall evenly.

Time weakens deterrence. Enforcement can come years after the conduct, and reconstructing data and circumstances takes work. A participant may act for a long period before any meaningful sanction arrives, so the deterrent effect rests more on the enforcer's accumulated reputation than on any single penalty.

Ambiguity is a major constraint. Where rules are discretionary or open to interpretation, participants can reasonably disagree about whether enforcement will follow in a given situation.

Threatening severe penalties after the fact does not fix that ambiguity. Deterrence that relies on uncertainty distorts behavior as much as it disciplines it.

Monitoring still deters, indirectly. Knowing that conduct is being tracked and reviewed restrains improper behavior even when the consequences are uncertain. That observational deterrence works through professional and reputational pressure as much as through punishment. In my view, deterrence is credible only when its limits are recognized. Monitoring and sanctions cannot by themselves prevent strategic behavior. Their role is to establish enforceable reference points that define unacceptable conduct clearly, and then to police that conduct.

9.5 Oversight and the Perception of Market Power

Monitoring and enforcement are usually described as detecting and punishing misconduct. That is true but incomplete. They also shape how market power is exercised and the norms around it. Even when no action is taken, the prospect of enforcement influences participants' sense of where competitive behavior ends and abuse begins.

Market power in organized markets is not determined by concentration or structural indicators alone. It is situational, driven by resource characteristics, transmission constraints and system conditions. Monitoring reflects that view, treating market power as short-term and contingent rather than permanent. That is why RTO tariffs build in mitigation tied to specific constrained conditions, and why the rule lets the monitor supply the reference levels and constraint identifications that prospective mitigation runs on.

The presence of monitoring is itself a preventive signal. Participants know that situational advantages in constrained or high-demand conditions will be examined, even when their conduct is within the tariff. Enforcement decisions that define the boundary of permissible conduct, and explain how context, purpose and effect are weighed, educate the market about when market power is a concern even without a bright-line test.

Perception matters because confidence rests on the belief that outcomes come from competition, not from abuse. Oversight that looks disengaged or lenient risks turning occasional situational advantage into routine abuse. Oversight that looks heavy-handed suppresses the very activity it regulates in the conditions where the market is most strained. Oversight does not eliminate the market power inherent in a constrained system. It limits how that power is exercised and draws the line between acceptable and unacceptable uses of it.

> **End-of-Chapter Summary**
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> Oversight works through an abstraction of the system, after the fact, across jurisdictional seams and with incomplete data. Its effects are hard to measure, deterrence falls unevenly, and ambiguity weakens it. Those limits define what oversight can achieve without diminishing it. Monitoring's preventive presence and clear boundary-setting do much of the work, including on how situational market power gets exercised.

10 Judgment, Predictability, and Precedent

10.1 The Limits of Predictability

Participants want to know in advance how conduct will be treated and how rules will be applied. Predictability is important to fair and credible enforcement, but it is often treated as the only test, and that is a mistake. Organized markets carry uncertainty that no forecast can remove, and regulatory judgment has to play a role.

Market rules are written for known contingencies and normal behavior. The unforeseen sits outside that design. More complex resource portfolios, more frequent extreme weather and fast-arriving new technologies make it more likely that the market will operate outside the parameters its rules assumed. Monitoring can show where abuse is more likely because circumstances have moved past what the rules contemplate, but it is rarely an on-off switch. It takes discretion and judgment.

That judgment operates within boundaries: statute, Commission precedent and evidence. Within them, enforcement still has to deal with real and often unforeseen circumstances, which means questions of intent, foreseeability and materiality. Discretion introduces some uncertainty, because participants cannot always know how a regulator will treat a new strategy or an unprecedented situation.

Replacing discretion with more determinate rules carries its own risks, including treating as aberrant what is actually normal and missing design gaps nobody has seen yet. Monitoring helps here. Continuous analysis, a consistent analytical framework and clear reasoning give regulators a reference point that limits subjective enforcement. Over time that aligns expectations, even if full legal certainty is impossible. Effective regulation is not about eliminating discretion. It is about exercising it in a disciplined, transparent way with full regard for its effects on the market.

10.2 The Role of Precedent

Precedent complicates market oversight. Much of the market needs consistency to support price stability and reliable transactions, yet each enforcement decision turns on facts that differ: grid conditions at the time, the nature of the alleged conduct, and the agency's own regulatory considerations. Precedent is relevant, but it is one factor, not a template.

Orders, Commission findings and their reasoning become reference points that participants and regulators use to assess similar conduct later. They clarify intent, effect and circumstances, and they guide the assessment of related conduct even when the facts differ. FERC's practice of publishing settlement orders that explain the violation, and its annual enforcement report with illustrative matters closed without action, exist partly for that reason.

Precedent is also a monitoring tool. A monitor's analytical framework is built on accumulated experience and past surveillance results, and it is updated continually. But analysis cannot be limited to checking new developments against old ones. Many developments do not match any known precedent, and that does not make them irrelevant.

Precedent itself ages. As resources, operating practices and information change, assessments made years ago may no longer fit. Regulators have to judge when precedent still holds. Treating it as fixed leaves them stuck with outdated analysis.

Consistency and fairness have to be balanced carefully. Applying earlier findings to circumstances that have since changed risks creating retroactive rules. Departing from earlier decisions without explanation undermines predictability and invites suspicion of arbitrary action. Careful enforcement explains how it uses precedent and why a decision outside established precedent is justified. Precedent works best as a directional guide. It gives regulators room to address new situations while maintaining continuity.

10.3 Judgment Under Uncertainty

Nearly every participant in an organized market acts under significant uncertainty. Load, resource performance, transmission and fuel constraints cannot be fully known when decisions are made. Monitoring and enforcement therefore review conduct that happened when participants had partial information and an evolving picture of operating conditions.

Exercising judgment in that setting takes caution and vigilance together. The question is whether conduct was permissible given what was known at the time, not what became clear afterward. Hindsight makes the right course look obvious, especially after a bad outcome, and that bias can produce unfairly harsh conclusions.

Intent is harder still. Many decisions rest on probabilities rather than certainties. Actions that later look aggressive may have been attempts to reduce risk and exposure in the situation as it was perceived. Actions that look neutral in hindsight may have been strategic. Reconstructing the decision environment takes care and attention to detail. Inferring intent after the fact is easy, and it is easy to get wrong.

Rule structure matters. Many market rules give general guidance on what is permitted and prohibited rather than specifying the right action in every situation. That leaves considerable room for interpretation when enforcement decisions are made. The regulator then has to judge whether a participant crossed the line by exploiting gaps and ambiguities to influence an outcome artificially. Those judgments are fact-dependent and cannot be reduced to mechanical standards.

Humility matters. Oversight credibility does not come from claiming to see the future. It comes from recognizing where the evidence is weak and being able to justify the choice made anyway. Being candid about uncertainty, which is built into the structure of these markets, and about how choices are made despite it, produces more defensible decisions than projecting certainty that does not exist. Frameworks that account for it are more likely to stay credible when the surprise comes.

10.4 The Enduring Role of Judgment

Complaints that market oversight involves too much discretion miss the point. Markets have extensive formal rules, surveillance and enforcement mechanisms, and complex markets will always require human judgment in applying them. Effective oversight does not eliminate discretion. It exercises it in a constrained, visible and accountable way.

Judgment is needed where rules meet circumstances they do not clearly cover. Conduct within the letter of the tariff may still conflict with market, reliability or pricing objectives. Conduct that looks questionable on its face may turn out to be justified by system conditions or the information available. Oversight has to weigh those circumstances while applying established criteria rather than personal preference.

Institutional culture shapes judgment. It is applied more consistently in institutions that value technical analysis, diverse viewpoints and transparent methods. In institutions that prize speed, consensus or outcomes, judgment is more likely to be erratic or hidden, and the difference becomes visible over time.

Procedure disciplines judgment. Documentation, peer review, escalation and regulatory review all limit discretion and reduce the room for individual bias. They do not remove judgment, but they make it collaborative and auditable. No rulebook can anticipate every situation or remove every uncertainty from the data. An oversight system that admits the role of judgment, rather than hiding it, is more transparent, more flexible and more legitimate. What matters is that the reasoning behind each decision is prudent, consistent and bounded by clear institutional parameters.

10.5 Where Law Meets Economics

Monitoring and enforcement translate economic conduct into legal questions while keeping markets and law distinct. Credibility depends on handling that relationship carefully and with a light touch.

An economic outcome is not automatically a regulatory problem. Prices, congestion patterns and dispatch results come from the interaction between system conditions and participants' choices within an approved design. The regulator has to decide whether an outcome falls inside or outside the rules. That takes economic understanding and legal awareness, not intervention based on the character of the outcome alone.

A rule is the foundation of enforcement authority, but it does not guarantee that any economic outcome is optimal. A market rule constrains behavior to keep participants within the market's principles. It does not tell them what the best decision is in a given situation. A regulator earns credibility by resisting the urge to substitute regulatory decisions for economic analysis, especially when a market is under political or media attack.

The reverse error is real too. Markets are legal constructs, but treating them only as legal constructs, divorced from incentives and constraints, misunderstands the activity being regulated. Oversight has to be grounded in economics without claiming control over outcomes.

The balance shows most clearly in enforcement reasoning. Reasoning that connects economic conduct to legal standards supports legitimacy in both domains. Reasoning that loses either

connection undermines it, even when the process was formally correct. The relationship between law and economics is something to manage, not a problem to solve. Oversight works when it rests on informed discretion that knows its limits and powers.

End-of-Chapter Summary

Market rules cannot anticipate everything, so oversight relies on disciplined judgment bounded by statute, precedent and evidence. Precedent guides but does not dictate, and it ages. Conduct has to be judged on what was known at the time, with intent inferred carefully. Judgment is legitimate when it is visible, procedurally checked, and grounded in both the economics of the market and the text of the rule.

11 Transparency, Signals, and Restraint

11.1 Transparency and Confidentiality

Transparency is widely accepted as a foundation of effective market regulation. In organized markets the balance between transparency and confidentiality is difficult. Some information needed for monitoring and enforcement could harm businesses or grid security if disclosed. Yet regulators' credibility depends on explaining their actions and findings in a form others can follow and check, even when the underlying sensitive information cannot be released.

Monitoring reports show this tension. Public reports summarize the analysts' conclusions and leave out sensitive details such as individual offers and internal system specifics. Design-flaw findings get limited distribution for the same reason (see 3.3). The goal is to show whether the market behaves as expected without giving anyone a roadmap to exploit what the monitor saw. Transparency here means transparency of reasoning, not disclosure of all the data.

Confidentiality shapes enforcement too. Investigations are nonpublic under 18 CFR 1b.9, and on the reliability side, alleged violations are nonpublic until filed or resolved under 18 CFR 39.7, with dispositions involving Cybersecurity Incidents or information that would jeopardize security kept nonpublic unless FERC directs otherwise. A published order may state a finding and summarize the reasoning without the detail outsiders need to judge the legal conclusion or apply it to future cases. That can be frustrating, and it is part of the design.

Partial visibility creates its own risk. If disclosed information does not fully explain the conclusions, the action can look illegitimate even when it is sound. More detailed disclosure can reduce participants' willingness to self-report weaknesses, expose information that affects market stability, or compromise investigations by discouraging cooperation. Oversight bodies manage that balance through procedure and consistent reasoning. Legitimacy comes from a clear method, the same reasoning applied to analogous cases, and an explanation of how conclusions follow from the evidence. Transparency means neither full disclosure nor secrecy. It means explaining why a decision was made and showing it was made impartially.

Reliability adds another layer. Disclosing some operational information could worsen security and reliability risks. That is why market monitoring has to stay connected to the reliability framework, and why restraint is sometimes needed even when there is a case for openness. Oversight transparency is always contextual and limited by competing obligations. Credibility comes from careful discretion among those obligations, not from chasing unrealistic standards of openness.

11.2 Signal Clarity and Market Interpretation

Monitoring and enforcement communicate with participants mostly through indirect signals: monitoring reports, enforcement actions, public statements and institutional practice. How clear and relevant those signals are can shape behavior as much as the text of the rules.

Participants need coherence, not rigid regularity. Coherent signals let them understand what is expected even in unusual situations. Noisy or episodic signals leave them guessing, and their behavior becomes correspondingly scattered.

Ambiguity is most dangerous under stress. During high-profile investigations, tight timelines and intense regulatory attention, any posture that looks less than neutral can have serious effects. A rapid response that looks driven by the outcome rather than by procedure tells the market that conduct expectations are shifting without any formal rule change. That can deter participation or push participants into risk-averse behavior that hurts market efficiency.

The answer is not oversimplification. Signals can carry complexity and uncertainty while still conveying constancy. Spelling out the criteria for contextual judgment, how intent is assessed and which system states matter supports stable interpretation while allowing different conclusions in different contexts. People accept outcomes they dislike more readily when the reasoning is clear and fits their experience.

Signal discipline matters between institutions as well. When the monitor, the operator and the regulator describe the same events differently, the confusion obscures what the market's rules actually require. They don't have to agree on every point, but their accounts need to be consistent in how they present the facts. Oversight works best with steady, reliable signals rather than dramatic ones. The aim is not to display power but to let participants read, over time, what will be treated as misconduct.

11.3 Restraint and the Value of Institutional Silence

Most accounts of oversight focus on what agencies do. Significant influence also comes from what they decline to do. Restraint and silence can carry market-wide effects comparable to enforcement actions and investigative findings.

Silence is most visible when the market produces outcomes that look unacceptable but comply with the rules: very high prices, wide price separation between zones, prolonged stress. The public looks to regulators to react. A regulator's initial restraint signals respect for the market mechanism and recognition that market dynamics, not misconduct, may be the cause. Not every problematic-looking outcome is a regulatory failure.

Every assessment should operate under restraint. Premature conclusions based on incomplete information or speculation can prejudice the final analysis. Good monitoring needs time to verify data, reconstruct context and align judgments across agencies. Restraint makes it more likely that findings will be right when they are issued.

Restraint has risks. If silence is used repeatedly in response to the same troubling conduct, it can look like indifference or tolerance. Disciplined silence needs consistent behavior and clear context. Institutions that communicate the principles and periodic analysis that guide their assessments can exercise restraint without losing accountability.

Restraint also protects boundaries. By not prejudging policy questions that belong elsewhere, oversight bodies keep their mandate clear and focus attention where it does the most good. Restraint in a mature system reflects confidence that the rules, processes and authority of the system are legitimate, and it signals that participants are operating in a market governed by process.

11.4 The Cumulative Nature of Oversight Influence

The effect of monitoring and enforcement is rarely visible in any one decision, report or action. It comes from applying the same analytical principles over time, explaining the rules consistently and keeping enforcement disciplined. That cumulative effect shapes participant behavior more durably than any single case.

Participants are gradually socialized into expectations about oversight. They learn what is likely to draw attention from signals that are mostly implicit, carried through process and routine more than through statements. Those routines affect how they assess risk, characterize their own actions and manage ambiguity. Consistent analysis lets them make informed judgments about how their conduct will be viewed, even when the scrutiny it draws depends on circumstances.

The institution's own legitimacy accumulates the same way, from consistent conduct, moderate demands and clear reasoning. The same audit, sanction or statement can land differently in different years, with different participants, or in calm versus crisis. Legitimacy built over years can wear away through repeated inconsistency or overreach.

Because the influence is cumulative, attributing specific market effects to specific regulatory actions is almost impossible. When markets are stable, oversight's contribution is hard to separate from the market's other design features. When confidence falls, oversight is easy to blame even if the drivers are long-term and structural. That calls for patience and perspective in judging oversight. It also means continuity across time and across the individuals doing the work matters. Changing analytical methods from one period or one analyst to the next can dilute oversight's influence. Methods don't have to stay frozen, but the effect of changing them on the market should be considered. Monitoring and enforcement influence markets more through their steady presence than through individual measures.

End-of-Chapter Summary

Oversight has to explain its reasoning while protecting information that could harm markets, investigations or grid security, and the rules build both obligations in. Participants read oversight through its signals, so coherence across cases and across institutions matters more than volume. Restraint, used consistently and explained, is a form of vigilance. Oversight's influence accumulates slowly, through steady presence and consistent method.

12 Institutional Memory, Continuity, and Oversight Failure

12.1 Institutional Memory and Long-Term Integrity

Monitoring and enforcement operate over time horizons far longer than any single event, person or decision. Institutional memory, an agency's capacity to keep, analyze and apply knowledge over long periods, is what lets oversight keep perspective on markets that never stop changing.

Memory changes the meaning of behavior. Conduct that looks harmless in isolation may look different in light of what came before. Monitors draw on past conduct, past enforcement actions and past rule changes to decide whether something is genuinely new. That guards against overreaction and inconsistency.

Regulatory continuity matters too, for the reasons in 6.5. The law may change, but abrupt and unexplained shifts in enforcement practice undermine compliance and create needless regulatory risk. Memory ties each action to general principles rather than to the conditions of the moment.

Staff turnover, reorganization and growing market complexity all erode memory, so agencies need records, methods and procedures that carry continuity. The lessons of monitoring and enforcement should feed into market design durably, without becoming a rulebook participants have to navigate or an ad hoc reaction to each event. Long-term integrity is not about perfect regulation at a point in time. It is about sustained regulatory competence as reliability challenges, resource mix and policy evolve.

12.2 Continuity Across Personnel and Organizational Change

Frameworks are designed by institutions and administered by people. Personnel changes, restructuring and shifting leadership priorities all affect how enforcement is applied and how the public sees it. Continuity through those changes is often overlooked, and it is fundamental.

Continuity does not depend on any one person's expertise. It depends on procedure: analytical methods, record-keeping, review mechanisms and reporting procedures. When those are institutionally stable, oversight is carried out the same way regardless of who sits in a key seat. Without them, the approach shifts with each arrival and departure, and the market is left uncertain.

Organizational change can also shift emphasis. Changes made for efficiency can alter reporting lines, budgets or the scope of analysis. Changes in monitoring or enforcement practice can be read as more or less vigilance, or as new disclosure expectations, even when the formal rules and accountability have not changed. Oversight institutions need to watch for the signals their own reorganizations send.

Loss of experienced staff erodes perspective. Combined with the natural tendency to treat first-time observations as novel, it makes it harder to tell genuine innovation from a repeat of familiar conduct. Documentation and deliberate knowledge transfer preserve the analytical view.

Audited entities are very sensitive to these shifts. An unintended change in audit approach can change how auditees behave or make them wary because they can't predict how the auditors will react. Continuity in audit procedure tells auditees that audits follow established methods rather than individual preference. Programs that build continuity mechanisms protect long-term credibility by embedding judgment in process rather than in individuals.

12.3 Oversight Fatigue and Normalization

As markets grow and change, oversight bodies risk normalizing conditions they once treated as abnormal. Oversight relies on spotting deviations from the norm. Repeated exposure to stress, repeated interventions and structural constraints accepted as permanent can dull that sensitivity. This is less complacency than desensitization.

After enough repetitions, high-demand periods, scarcity pricing and recurring constraint patterns start to look normal. What first raised concern stops being noticed unless it is deliberately monitored. Normalization should be a prompt for more vigilance, because it often means chronic problems rooted in design or infrastructure have not been solved.

Fatigue compounds with workload. Monitors and regulators process a constant flow of reports and event analyses, and they have to triage daily. The most serious and obvious threats get attention; smaller, slower trends get less.

Enforcement can normalize too. When the same conduct is repeated and not meaningfully addressed, the population comes to treat it as tolerated, still prohibited on paper but effectively unenforced. Behavior adjusts to perceived enforcement priorities without any formal rule change. Agencies facing the same enforcement problems again and again have to keep their signals credible and balanced, avoiding both complacency and overcorrection.

Reliability-driven normalization adds another layer. As system stress becomes routine, interventions with material market effects stop being seen as extraordinary. What began as emergency measures can come to function like standard operating procedure, and their consequences deserve close attention.

Getting ahead of fatigue takes institutional self-awareness: periodically re-examining assumptions, noticing when the baseline for normal has moved, and being willing to break familiar patterns. The goal is steady attention, not a reaction to whatever feels different from last time.

12.4 Fatigue at the Institutional Level

Sustained monitoring and enforcement take a lot of capacity, and over time the demands can produce institutional fatigue that is distinct from failure or neglect. It dulls analysis, turns focus into routine and favors simplified explanations over rethinking basic assumptions.

Fatigue affects judgment. Faced with many similar questions and no clear answers, regulators come to rely on judgments that reduce uncertainty and give their decisions stability. That is not bad faith; it reflects real limits on people and organizations. It can still erode credibility.

Countermeasures should be built in rather than triggered by criticism or volatility. Periodic analytical resets, internal challenges to current thinking and deliberate revisiting of past conclusions keep the safeguards rooted in the institution. Credibility lasts only as long as the institution keeps asking questions. The governance risk from fatigue is not the pace of oversight. It is the weakening of the institution's ability to question its own assumptions and models.

12.5 Accountability and Self-Assessment

Monitoring and enforcement bodies are scrutinized too. They act under delegated authority with considerable discretion and limited visibility, and that brings a responsibility for internal self-assessment and reporting. A well-functioning market depends as much on how the overseers are overseen as on how participants are monitored.

Institutional accountability is not mainly punitive. Monitors, regulators and operators periodically check whether they are meeting their objectives, whether their methods still fit, and whether their frameworks still match market and reliability conditions. That work is usually internal and low-profile, often continuous rather than a single event, and it shapes how accountability evolves.

Metrics are elusive here as well. Oversight risk cannot be reduced to a handful of performance indicators. The useful indicators are qualitative: consistency of analysis, stakeholder confidence and the resilience of participation in turbulent periods. They require deliberate internal reflection rather than adjustment on the fly.

External accountability exists but is limited. Commission proceedings, judicial review and public comment processes can call specific decisions into question, but they address particular events rather than the overall performance of an oversight body. They do not replace internal learning about whether procedures remain adequate.

Accountability also means owning the consequences of oversight choices. Choices about enforcement, focus and disclosure send durable messages about how the market is organized. Institutions should consider those consequences before they choose and reflect on them afterward. In the end accountability is cultural. Frameworks that value scrutiny, intellectual independence and caution endure. Accountability is not achieved by insisting that oversight is infallible. It comes from the capacity to think and adapt in conditions that are inherently volatile.

12.6 Failure Modes and Institutional Risk

Oversight frameworks reduce specific risks, but they are not failsafe. Their failure modes are more often institutional than technical. They come from incentives, role confusion and the erosion of analytical discipline, and they have to be watched for continuously.

Mandate overreach is one. A monitoring or enforcement body's mandate is defined by statute, regulation, tariff and procedure. It overreaches when its findings or enforcement practice rely on a market design that was never written into those instruments. The motive is understandable,

because real designs have gaps. But evaluation becomes regulation when a body issues what amount to binding rules based on a design that was never adopted. The short-term result may look right. Over the long term it invites stakeholder resistance and legal challenge, and it damages the body's credibility.

Passivity is another. A regulator may fail to act on a recurring pattern of concerns because each instance seems too minor to justify action, or because the underlying problem is politically difficult or would require major operational change to fix. An institution that does not respond to a recurring problem ends up tolerating it, and that tolerance gradually erodes the market's pricing discipline even when no single instance seems worth a case.

Analytical degradation is quieter. Assumptions get reused, baselines go stale, and earlier analyses get applied uncritically. The monitoring system loses its ability to detect change. Because the output still looks normal and consistent, the degradation is hard to see from inside.

Coordination failure is the fourth. Poor alignment among monitors, operators and regulators produces fragmented, opaque responses that obscure accountability. Each institution can be working hard while gaps remain because none sees what the others are doing.

Naming these failure modes does not mean they will happen. It means oversight has to account for internal and external pressures on both institutional and participant behavior. A system that recognizes its own vulnerability, and becomes more vigilant as a result, can often deter unacceptable conduct and prevent harm before significant damage is done.

12.7 Discipline and the Avoidance of Reactive Governance

Oversight is a considered activity, not a rush response to events. Reactive governance happens when an agency changes its analytical stance or enforcement strategy because of a short-term event, interest-group pressure or a single incident. Some responsiveness is necessary, but reactive regulation creates uncertainty by shifting expectations without any corresponding change in rules or authority.

The pattern usually follows a highly visible event. Prices spike, emergency resources are dispatched, or an unexpected outage occurs, and suddenly stakeholders have hundreds of questions. Regulators come under heavy pressure to show their authority. They should be wary of reaching conclusions designed to relieve political pressure rather than conclusions based on consistent principles.

Disciplined monitoring separates the event from the rule. It does not treat every extreme outcome as evidence of market failure or misconduct. It works back step by step to determine whether the outcome came from inherent properties of the market or from specific, substantial departures from the rules. Without that discipline, ad hoc enforcement can degrade market standards and create lasting uncertainty.

Avoiding overreaction also takes a time perspective. Regulators cannot respond to each bad outcome case by case based only on the damage done. Markets are subject to fluctuations and events that are sometimes alarming or politically sensitive. A regulator that acted solely to avoid bad outcomes would undermine the regulatory certainty markets depend on. Review processes, materiality thresholds and a clear separation between analysis and enforcement help keep

transient conditions from turning into strong regulatory signals, especially under stress, when pressure to act is greatest. Markets function best with measured, proportionate oversight that can absorb periodic volatility and still assure participants that the rules were followed.

End-of-Chapter Summary

Oversight depends on memory and continuity that live in procedures and records, not in individuals. Its most common failures are institutional: normalization, fatigue, overreach, passivity, analytical drift and poor coordination, plus reactive governance after high-profile events. The safeguards are deliberate: periodic resets, internal challenge, documented methods, honest self-assessment, and the discipline to separate the event from the rule.

13 Consistency, Participation, and Institutional Balance

13.1 Consistency Across Market Regions

The organized markets in the FERC-jurisdictional regions share the same federal framework but differ in market rules, resource mix and grid configuration, and ERCOT runs under its own state framework. Oversight has to strike a balance among those regions so that participants trust similar conduct will be treated comparably.

Regional variation is not an oversight failure. It reflects real differences in generation and transmission characteristics and in market design. Transmission topology, load patterns, exposure to fuel markets and operating practice all shape market behavior and risk. Oversight has to account for the regional context and avoid rigid criteria that ignore meaningful differences.

Consistency in this sense is about shared principles: a context-based approach, proportionality and sound conduct analysis. Enforcement can then reflect local conditions without forcing uniform results where uniformity would itself be unfair.

Participants active in several markets feel this most. They may find that the focus or depth of oversight differs between markets, which creates uncertainty about how their conduct will be viewed. Coordination, information sharing and Commission decisions that set principles applicable across regions, while allowing different regional implementations, can reduce that concern.

Perceived inconsistency erodes trust even where differences are justified by the facts or by different tariff provisions. A credible oversight body has to be able to explain, in principled terms, why the same conduct is treated one way in one market and differently in another, and do it without appearing arbitrary. Fairness is not served by blind uniformity. Informed enforcement keeps common principles while staying sensitive to local conditions.

13.2 Oversight in an Interconnected System

Interregional coordination and interdependence are central to how wholesale markets work now. Power moves across market boundaries and enforcement horizons, and enforcement choices made in one place have more effect elsewhere than they used to. The challenge is to address those connections without losing focus on each region.

Interconnection complicates analysis because the cause of an outcome may not sit in the region where the outcome appears. Conditions or events in one region can drive results in another: interchange schedules that shift across a seam, transmission constraints that keep one region from accessing lower-cost supply in another, or a resource outage in one area that moves

prices next door. Monitors need a system-level view in which network effects can mask, or mimic, local market abuse.

Authority, however, is regional. Tariffs are enforced within particular market jurisdictions, even when the facts behind a concern span several markets. A clear analytical framework is needed to determine where facts should be established and which authority applies. Reliability Standard IRO-014-3 (Coordination Among Reliability Coordinators) adds its own coordination layer for operations across Reliability Coordinator boundaries, which keeps the physical coordination question separate from the market enforcement question.

Greater interconnection makes institutional coordination more important. Information, methods and understanding of regional events need to be shared so that evaluation does not fragment and lessons from one market inform others. Participants active in several markets watch how regulators respond in each. Disparities in response affect how they behave, price risk and choose where to participate. Consistency here is about credibility and integrity, not identical penalties or identical interventions. Interconnection doesn't make regulation less necessary. It makes it more complicated, and it calls for a broad systemic view combined with clarity about each authority's mandate.

13.3 Oversight and Market Participation

Oversight affects not only conduct but whether and how participants enter and stay in a market. Those decisions depend on perceived opportunity, risk and the credibility of market governance. Through the predictability of enforcement and the perceived impartiality of the institutions, oversight shapes participation in subtle ways.

Investors weigh the oversight environment when they commit capital, resources or operating capacity. Markets with clear rules and credible oversight tend to be more stable and can sustain a broad participant base through volatile periods. Uncertainty and inconsistent regulation can deter investment, particularly during system stress when the market most needs supply.

The effect is uneven. Larger, more diversified or more experienced participants may tolerate uncertainty better. Smaller or newer participants may find the same conditions burdensome. Discretionary elements in oversight can widen that gap and limit participation in ways that affect competition and stability.

The balance is most visible in scarcity. Participants weigh the revenue available in stressed markets against the regulatory risk of a misconduct complaint, and 6.3 covers what happens when that risk is unclear.

Monitoring supports more confident participation by defining the scope of permitted and prohibited conduct without prescribing specific actions. The rules and criteria used in analysis can be made public even if the outcome of any particular review cannot be predicted. That lets participants decide how far to engage and, over time, supports a participant base that is broad and flexible rather than rigid and defensive. Oversight does not set the level of participation, but it shapes the terms on which participants decide.

13.4 Oversight Boundaries in an Era of Expanding Complexity

Organized markets have become more complex. More diverse resources, more operating uncertainty and more interregional dependence all press on existing regulatory boundaries. Monitoring and enforcement remain necessary to keep fair rules in place and followed, but they cannot substitute for market design, operation or policy decisions.

Complexity changes what needs to be supervised. Rules written for a relatively homogeneous fleet do not fit as well when resources differ widely in performance and response. New constraints and unexpected consequences in managing transmission make it harder to maintain analytical frameworks that once worked. The task is to assess whether observed conduct fits established rules without expanding those rules in the process.

Boundary pressure is strongest where complexity creates ambiguity. Some actions are neither clearly prohibited nor clearly permitted under current policy. When the consequences are dramatic or politically embarrassing, there is pressure to monitor or enforce ad hoc. Enforcing by discretion rather than rule is a loss for the regulatory system.

Managing complexity means accepting tradeoffs. Not every irregularity is worth reporting, and not every design constraint can be policed. Monitoring is most valuable where complexity reveals a fundamental incompatibility in the market design. In those cases the answer is a design change (see 7.4).

Complexity inside oversight institutions is also a risk. New analytical tools, data integration and the need for more coordination have accompanied the wider scope of the markets being overseen. The result can be institutions that are over-extended, pulled away from their core mission toward an aim of full coverage or control. Holding boundaries under growing complexity takes deliberate governance. Clear roles, and frameworks that let each role develop with the market, keep monitoring and enforcement credible, stable and predictable.

13.5 Oversight as an Element of Market Stability

Monitoring and enforcement have a broad, latent and incremental effect on market stability that is hard to observe directly. Stability here does not mean low volatility or suppressed prices. A stable market absorbs fluctuations and occasional price spikes, adjusts to changing conditions and stays within its governance rules in a way that keeps participants' trust and prevents market failure.

Oversight promotes stability by reinforcing the expectation that rules will hold. Investment, hedging and risk management all assume that market structures will be stable over time. Monitoring and enforcement that reinforce that expectation discourage participants from exploiting loopholes or one-off conditions.

How oversight handles failure also matters. Disruptions, equipment failures and enforcement cases are inevitable when weaknesses cannot be fixed in real time. Oversight contributes to stability when it treats them as opportunities to learn, events that do not call the legitimacy of the system into question, so participants are not unduly unsettled.

Transitions test this. As system parameters change, markets may go through periods of high volatility and new interactions between market and reliability variables. Effective oversight treats

departures from nominal conditions during a transition as a normal process rather than as misconduct.

Enforcement strategy matters here. There is a temptation to overreact to a sudden burst of troubling conduct, even when conditions are likely to settle on their own. Overreaction encourages retrenchment or aggressive behavior. Failing to act against flagrant conduct has its own cost, because participants lose faith that the rules will be enforced. Enforcement has to be proportionate and composed to capture the benefit of a well-designed monitoring strategy with clear areas of focus. Oversight's contribution to stability is hard to quantify. Its loss is easier to see: confidence in governance breaks down, and participation becomes conditional or strategic.

13.6 Market Oversight as an Exercise in Institutional Balance

Monitoring, oversight and enforcement are, at bottom, a balancing act. Organized markets are governed by rules and structures that have to balance competition, security of supply and consumer protection while leaving room for the market to evolve. Enforcement institutions have to balance influencing conduct against maintaining a governance framework flexible enough to let the market develop.

Balance shows first in how competing goals are handled. Oversight has to prevent participants from exploiting the market without discouraging needed investment, policy objectives or legitimate price adjustments. The rules being enforced must not become a substitute for the market itself. These goals often conflict and can only be resolved case by case. Credibility depends on handling them deliberately, not simplistically.

Balance is also about the distribution of authority among monitors, system operators, regulators and reliability organizations. Their responsibilities differ and sometimes overlap. Each has to exercise its role with respect for the others and without becoming so focused on one dimension that it ignores the effect on the rest. Concentrating authority in too few hands, or leaving necessary functions unfilled, makes governance less clear and more contentious.

Time has to be balanced too. Regulators have to deal with current conditions without letting present pressure erode what is right for the future. Decisions made in the heat of the moment become institutional practice that shapes later behavior, and those individual choices compound into lasting signals about the character of the system.

Market oversight is not about eliminating market tension. Some tension is necessary for markets to coordinate economic activity within the system's constraints. Good oversight lets that tension be resolved within the framework of market rules and regulation, in a controlled way, rather than through manipulation. Seen this way, monitoring and enforcing the market is not a corrective imposed from outside. It is part of how the market is governed, and keeping competing forces in balance is what allows orderly, credible trading through turbulence and change.

End-of-Chapter Summary

Oversight has to be consistent in principle across regions that legitimately differ, and coordinated across an interconnected system where authority remains regional. It shapes who participates and on what terms, especially in scarcity. As markets grow more complex, oversight keeps its credibility by holding its boundaries, treating transition as normal, and balancing competing goals, authorities and time horizons rather than trying to control outcomes.

Glossary

Term	Meaning in this paper
Balancing Authority (BA)	The responsible entity that integrates resource plans ahead of time, maintains Demand and resource balance within a Balancing Authority Area, and supports Interconnection frequency in real time (NERC Glossary).
Bulk Electric System (BES)	Unless modified by the inclusions and exclusions in the definition, all Transmission Elements operated at 100 kV or higher and Real Power and Reactive Power resources connected at 100 kV or higher. It does not include facilities used in the local distribution of electric energy (NERC Glossary).
Bulk-Power System	Facilities and control systems necessary for operating an interconnected electric energy transmission network, and electric energy from generation facilities needed to maintain transmission system reliability. It does not include facilities used in the local distribution of electric energy (NERC Glossary; FPA Section 215).
Congestion	A condition in which transmission limits prevent the least-cost dispatch of resources to serve load, so that resources are redispatched and locational prices separate. Used here in its general market sense.
Federal Energy Regulatory Commission (FERC)	An independent regulatory commission established within the U.S. Department of Energy (42 U.S.C. 7171). It regulates interstate transmission and wholesale sales of electricity, approves RTO and ISO tariffs, enforces its market rules, and approves and enforces NERC Reliability Standards under FPA Section 215.
Market Behavior Rules	FERC's rules in 18 CFR 35.41 governing sellers' unit operation and bidding in organized markets, accuracy of communications with FERC, market monitors, RTOs, ISOs and transmission providers, price index reporting, and five-year records retention.
Market Manipulation	Conduct prohibited by FPA Section 222 and 18 CFR 1c.2: in connection with jurisdictional purchases or sales of electric energy or transmission services, using a device, scheme or artifice to defraud, making an untrue statement or misleading omission of a material fact, or engaging in any act, practice or course of business that operates as a fraud or deceit.
Market Monitoring Unit (MMU)	The person or entity responsible for carrying out the market monitoring functions that FERC has ordered Commission-approved ISOs and RTOs to perform (18 CFR 35.28(b)). Often called the independent market monitor.
Market Participant	A generator, load-serving entity, marketer or other entity that buys or sells in an organized market under the RTO's or ISO's tariff.

Term	Meaning in this paper
Market Violation	A tariff violation, violation of a Commission-approved order, rule or regulation, market manipulation, or inappropriate dispatch that creates substantial concerns regarding unnecessary market inefficiencies (18 CFR 35.28(b)).
Notice of Penalty	NERC's filing with FERC of a penalty imposed for violation of a Reliability Standard. Under FPA Section 215(e) the penalty takes effect no earlier than the 31st day after the filing and is subject to FERC review.
Operating Instruction	A command by operating personnel responsible for the Real-time operation of the interconnected Bulk Electric System to change or preserve the state, status, output, or input of an Element or Facility of the Bulk Electric System (NERC Glossary).
Order to Show Cause	A FERC order, issued after an investigation and notice under 18 CFR 1b.19, directing the subject to explain why it did not commit the alleged violation and why proposed penalties or other remedies are not warranted. It begins a contested, on-the-record proceeding.
Reliability Coordinator (RC)	The entity that is the highest level of authority responsible for the Reliable Operation of the Bulk Electric System, has the Wide Area view of the Bulk Electric System, and has the operating tools, processes and procedures, including the authority to prevent or mitigate emergency operating situations in both next-day analysis and real-time operations (NERC Glossary).
Reliability Standard	A requirement, approved by FERC under Section 215 of the Federal Power Act, to provide for Reliable Operation of the Bulk-Power System (NERC Glossary).
Transmission Operator (TOP)	The entity responsible for the reliability of its local transmission system, and that operates or directs the operations of the transmission Facilities (NERC Glossary).

NERC Glossary definitions are quoted or summarized from the Glossary of Terms Used in NERC Reliability Standards for informational purposes only. They do not supersede or replace the official NERC Glossary of Terms.

How Energy Compliance Can Help

A monitor's question may be a FERC matter, a NERC matter, both or neither. EC sorts that out.

Enforcement response and audit defense

EC provides audit and enforcement support (non-advocacy) and audit defense with Notice of Penalty response and settlement posture. That includes mitigation planning, Self-Report development, data request strategy, and RSAW production by the senior practitioner who will answer the follow-up questions.

Programs that survive real questions

A regulator-perspective program review tests whether your program would hold up if a referral became an investigation; reliability governance and program assessments ask the same of governance. Compliance program design and improvement, operational and engineering reliability alignment between market desk and control room, and registration and applicability analysis follow from the findings.

Advisory and training

NERC reliability and compliance advisory support; NERC compliance program support, interpretation, and audit preparation; senior advisory on complex reliability questions; training and executive briefings on reliability frameworks; and industry engagement in standards development and working groups. Each engagement is scoped to the entity's role, function, and bulk system impact.

WattOps Compliance

When a matter turns on what you can prove, the evidence has to be ready before anyone asks. WattOps Compliance is EC's NERC compliance evidence platform (wattopscompliance.com). EC will run one standard at one facility through WattOps at no cost (CIP standards excluded).

RenewOps

For renewable and storage owners, a monitor's question often comes down to the operations data behind an outage declaration or an offer. RenewOps is EC's renewable operations monitoring and analytics platform, with a Data Center module.

If you have never mapped which of your market behaviors touch FERC, NERC, the monitor and the RTO, start there.

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About the Author

Rob Smith is the Founder and Principal of Energy Compliance, Inc., with more than thirty years in the industry on every side of the system. He began in control-room operations as a Reliability Coordinator, Transmission Operator, and Power System Operator across RTO/ISO and utility control centers. On the regulator side, he was a senior compliance auditor and subject matter expert for NERC Reliability Standards. He audited grid facilities, evaluated mitigation adequacy, participated in risk-based oversight of utility mitigation activities, and supported the development of violation notifications and settlements in FERC-directed enforcement actions. He conducted a regulatory audit in the Sultanate of Oman against the Sultanate's Sector Law and Grid Code.

He founded Energy Compliance, Inc. to deliver senior regulator-side compliance authority without the layered staffing and billable-hour overhead of larger firms.

Education:

- MBA, Energy Management, University of Mary
- MSL, Compliance Law, Fordham Law University
- BAS, Energy Management, Bismarck State College
- BAS, Mechanical Engineering, Metallurgy minor, University of Florida
- BAS, Criminology, St. Petersburg College (State Law Enforcement Certification)
- AAS, Power Plant Technology, Bismarck State College
- AAS, Electrical Transmission System Technology, Bismarck State College

Certifications: NERC Lead Auditor training; previously NERC-certified at the Reliability Coordinator level; 1st Class A Boiler Engineer License, Minnesota.

About Energy Compliance, Inc.

Energy Compliance, Inc. is an independent consulting and advisory firm based in Bloomington, Minnesota, focused exclusively on electric reliability, cybersecurity reliability, and regulatory compliance for organizations connected to the North American Bulk Electric System.

We support registered entities, including Generator Owners and Operators, Transmission Owners and Operators, Reliability Coordinators, Balancing Authorities, and Distribution Providers. Our work spans NERC Reliability Standards, FERC orders, RTO/ISO market participation rules, Regional Entity oversight, and state regulatory frameworks.

We do this work differently than larger consulting firms. A senior practitioner with regulator-side experience oversees every engagement. We staff for outcomes, not billable hours. Our deliverables are written to be operationally executable and audit-defensible, structured for the auditor's question rather than the consultant's binder. Where automation can replace manual work, we build the automation. Where senior judgment is required, the senior is in the room.

Energy Compliance is not affiliated with, sponsored by, or endorsed by the North American Electric Reliability Corporation, the Federal Energy Regulatory Commission, or any Regional Entity.

Learn more at energycomplianceinc.com.

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