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

MARKETS · RTO/ISO SERIES · EC-WP-405

Market Compliance & Governance

Senior compliance perspective on market governance and cross-regime exposure.

Four bodies can end up looking at the same market conduct, and each asks a different question with different authority on a different timeline. This reference maps what the market monitor, the RTO, FERC and NERC each do and do not do, why the boundaries between them exist, and how compliance leadership keeps a single event from turning into a multi-regime enforcement problem.

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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. A NERC Reliability Standard is a floor, not a ceiling. Compliance is something an auditor evaluates; reliability is something a system either delivers or does not. So these entities 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 and 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 was 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 same 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 much of the consulting offered to registered entities today is structured for billable hours rather than for outcomes. Every engagement is overseen by a senior practitioner. We do not bring five people to a meeting that needs one. We automate the work that should be automated and apply senior judgment to the work that requires it. If that is 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

Four bodies can end up looking at the same conduct in an organized wholesale market: the market monitor, the RTO or ISO, FERC, and, where reliability is in scope, NERC and its Regional Entities. Each one asks a different question, with different authority, on a different timeline. When a single behavior implicates more than one of them, I think the matter goes from procedural to existential fast. Senior compliance leadership at IPPs and IOUs lives inside that overlap. In my view, the difference between a managed engagement and an enforcement spiral is usually how well leadership reads the room.

The lines are written down. In the FERC-jurisdictional markets, the Market Monitoring Unit evaluates market rules, reports on market performance at least quarterly with an annual state of the market report, and refers suspected Market Violations to FERC's Office of Enforcement. Once it refers a matter, it stops acting on it independently. The RTO may not alter the monitor's reports or dictate its conclusions (18 CFR 35.28(g)(3)). FERC enforces the anti-manipulation rule in 18 CFR Part 1c, and the Federal Power Act penalty for violating Part II of the Act, as currently adjusted for inflation, is up to $1,584,648 per violation, per day. NERC and the Regional Entities enforce Reliability Standards under Section 215, subject to FERC review. In ERCOT, the Public Utility Commission of Texas oversees the independent market monitor, and the statute is explicit that the monitor has no enforcement authority of its own.

- Market manipulation and compliance violations live in different worlds, until the same enforcement action implicates both. Then they live in your conference room.
- The market monitor watches behavior. FERC enforces. NERC overlaps where reliability is in scope. Mistaking which one is on the call is a strategy error.
- Enforcement is the most consequential form of oversight and, by design, the most procedurally constrained. Procedure protects the entity that follows it.
- Behavior inside the rules but outside their spirit is a recurring oversight question. Rules cannot cover every case. Judgment fills the gap.
- In my view, the future of market oversight is closer integration with reliability standards. Programs that anticipate the convergence stay positioned. The ones that do not get caught flat.
- RTO governance committees, FERC docket activity, and NERC enforcement records each paint a different picture of the same entity. Senior leaders who watch only one channel can be surprised by the other two.

1 Institutional Purpose of Market Monitoring and Oversight

1.1 What This Reference Covers

This reference places market monitoring and enforcement inside the overall governance of an organized wholesale electric market. It explains what monitoring and enforcement can and cannot do, and why they are kept separate from the operational and reliability functions of the market. An entity that understands those boundaries, and the governance mechanisms built around them, is in a far better position to manage its own exposure when a market event draws attention.

1.2 Why Organized Markets Need a Monitor

Market monitoring and oversight protect public confidence that market outcomes reflect the rules in place at the time of each transaction. They are institutional safeguards, not operating or reliability controls. Their work is monitoring, analysis and timely reporting on market activity, carried out at a deliberate distance from real-time management of the grid.

The need comes from the nature of an organized market. A large number of participants act at once. None of them can see, in real time, how much influence the others have. Much of the trading clears automatically. Conduct that harms competition or distorts prices is a risk to the whole market, and the individual transactions behind it usually break no reliability limit or safety criterion. Something has to watch the market as a market. That is the monitor's job.

1.3 Monitoring Versus Oversight

Monitoring and oversight are not the same thing. Monitoring observes developments and flags what looks wrong. Oversight asks whether the institutions themselves are doing what they were set up to do: whether the market rules, the mitigation measures that limit the risks in those rules, and the practices of the administering bodies still line up with the statute and the orders that authorized the market. Oversight is prospective and systemic. Its goal is a market whose rules and mechanisms work as a whole, not a check on whether each transaction followed them. It operates at the institutional level, not at the level of individual trades.

1.4 Analytical Independence

Independence is the defining feature of market monitoring. Separating the monitor from the people who run the market avoids a conflict between administering market rules and assessing them. The person who may have to report a distortion should not also be responsible for the transactions that produced it. The federal rules make that concrete. The monitor reports to the RTO's board with management members removed, or to an independent board committee, and the RTO may not alter the monitor's reports or dictate its conclusions.

1.5 What Monitoring Does Not Do

Market monitoring does not assess the reliability of the transmission system. Reliability events can provide context, but the monitor's purpose is to study an event's effect on the market, not to decide whether the grid was reliable. Whether an action was required for reliability under the mandatory Reliability Standards is a question for the bodies that administer those standards. A monitor may confirm that a reliability action occurred and measure its market impact. It can also look at whether a dispatch was appropriate on market-efficiency grounds, because the federal definition of a Market Violation includes inappropriate dispatch that creates substantial concerns regarding unnecessary market inefficiencies (18 CFR 35.28(b)). What it does not decide is whether the action was required for reliability.

Oversight also does not replace regulatory authority. A monitor may recommend corrective action, publish its findings, or refer conduct for possible penalty. The enforcement authority decides whether any penalty is imposed and what corrective action is ordered. The monitor's influence rests on the quality and impartiality of its analysis, not on any power to compel.

1.6 Prevention Through Credibility

Monitoring and oversight prevent problems less by correcting them than by catching them early. Patterns, vulnerabilities and misalignments that surface early give the competent authorities time to act through their own regulatory, judicial or administrative channels. That preventive value depends on the monitor's credibility, the quality of its methods and the clarity of its mandate, not on how fast it reacts.

Why the Purpose Matters

Understanding the purpose clears up a common confusion. Market monitoring is not an operating control and not a reliability oversight authority. It is a governance tool that sustains confidence that accepted market designs and procedures are being followed, and that nobody is bending the rules to get the outcome they want.

End-of-Chapter Summary

Market monitoring and oversight watch how the market develops, analyze what they see, and report irregularities, so that trading follows the established rules and norms of conduct. The work sits outside day-to-day market administration and outside the reliability organization. It examines conduct and market structure against market rules, not the reliability of the system. Done well, it makes organized markets more stable and more transparent without displacing operational or regulatory roles.

2 Market Monitoring Functions and Analytical Scope

2.1 Continuous Analysis With a Defined Scope

Market monitoring is continuous analysis of market developments and conditions, and its scope is set on purpose. The aim is to identify conduct, developments or structures that harm competition or distort the market, without interfering with operating freedom or reliability of supply. In the FERC-jurisdictional markets the core functions are set by regulation: evaluate existing and proposed market rules and recommend changes, without implementing the proposed design itself; report on market performance at least quarterly, with a comprehensive annual state of the market report; and identify and notify FERC's Office of Enforcement of conduct that may require investigation, including suspected Market Violations.

2.2 Behavioral Analysis

Behavioral analysis is central. The monitor observes and records how participants act and whether that conduct fits the market rules and any mitigation measures. Typical subjects include bidding behavior and offer patterns, indicators of physical withholding, and economic withholding as the tariff defines it. The question is not whether a participant's business strategy is wise. It is whether the conduct complies with the rules.

2.3 Structural Analysis

Structural analysis is the second branch. Market outcomes reveal concentration, persistent or chronic congestion, and recurring scarcity. These need study whether or not anyone's behavior caused them. The point is to determine whether a problem comes from the structure of the system or from particular features of its rules, and, where it is the rules, to propose changes or adjustments to mitigation through the governance process.

2.4 Temporal Analysis

The third dimension is time. Monitors assess behavioral and outcome indicators across different horizons. An isolated event can be normal volatility. A recurring pattern can signal risk. That longer view is what separates market monitoring from real-time surveillance and gives it an evaluative character rather than a purely reactive one.

2.5 Outside the Monitor's Scope

Market monitoring does not assess the prudence of grid operation. Transmission reroutes, upgrades and emergency restoration can all move market conditions, but the monitor treats them as external events. Whether the operating decisions behind them were sound is a matter for reliability compliance under the Reliability Standards.

2.6 Evidence, Confidentiality and Referral

The monitor's scope is also bounded by evidence. A finding has to rest on documented data, methodology and analysis that a regulator can examine. Conjecture, or inference drawn from thin documentation, is not monitoring evidence.

Monitors see detailed participant data, and that access carries a duty of confidentiality. Public reports balance informative content against protection of confidential information, usually by omitting specifics or using anonymized or aggregated data. When the monitor has reason to believe a Market Violation occurred, it makes a non-public written referral to the Director of FERC's Office of Enforcement. It does not have to prove the violation. It has to provide enough credible information to warrant investigation. After referral, it continues to inform the Commission of related information but takes no investigative step except at the express direction of the Commission or its staff. FERC treats its own investigations as nonpublic unless the Commission directs or authorizes disclosure, the material becomes part of the public record in an adjudicatory proceeding, or the Freedom of Information Act requires disclosure (18 CFR 1b.9).

A monitor's report or referral is not a ruling. It does not by itself require regulatory or market action. Further process has to follow, and that process keeps investigation separate from enforcement.

End-of-Chapter Summary

Market monitoring looks for trading conduct or market conditions that threaten market integrity, through analysis of conduct, structure and performance. Its reach is wide, but it excludes reliability matters and questions of operating prudence. Its purpose is governance and control based on rigorous, impartial analysis, without intruding on the commercial independence of participants.

From the Field

Monitoring is permanent and analytical. It runs continuously, looks for patterns, and refers concerns to enforcement bodies. It does not enforce.

The scope of monitoring is set by the tariff and the monitor's own protocols. Knowing the scope tells you what is being watched and what is not.

A behavior outside monitoring scope can still be inside FERC's reach. Market monitoring is not the only door.

3 Oversight Roles and Institutional Separation of Authority

3.1 Complexity by Design

The institutions that oversee organized wholesale electric markets look complicated. That complexity is a design choice, not a symptom of fragmentation. Each role is deliberately narrow, to prevent concentration of control and conflicts of interest, to protect reliability, and to make sure regulatory questions land with the body that can answer them.

3.2 The Federal Regulator

Each role is rooted in statute. FERC approves the market tariffs, the market design and the allocation of responsibility for administering and policing the market. That approval defines what forms of market design are permissible, polices unintended conduct, and keeps the market tied to its statutory purpose. It does not concern the outcome of any particular trade.

3.3 The Market Administrator

The RTO or ISO administers the market under the rules the Commission has approved. Its job is to apply those rules fairly and transparently. In that capacity its role is administrative, not evaluative. It can propose rule changes to FERC through filings under Section 205 of the Federal Power Act, and it applies the financial consequences its FERC-accepted tariff sets. It does not create penalties on its own. Any financial consequence an RTO tariff applies to specific conduct exists because FERC accepted that tariff language.

3.4 The Market Monitor

The monitor works independently of the administrator so that its analysis stays objective. Its role is evaluative, not administrative. It analyzes market developments, flags risks, and communicates its assessments to the RTO and the regulator. It does not set market outcomes, impose penalties, or instruct participants. The federal rules reinforce the split: the RTO may not let its monitor participate in administering the tariff or, outside a hybrid structure, conduct prospective mitigation, though the monitor may supply inputs such as reference levels. An RTO may also allow its monitor to conduct retrospective mitigation. The monitor's authority rests on its expertise and credibility.

3.5 Reliability Oversight

Reliability oversight runs on a separate institutional track, at the same time as market monitoring and independently of it. NERC and the Regional Entities verify that users, owners and operators of the bulk-power system meet the Reliability Standards, which by statute include requirements for cybersecurity protection. Market monitoring does not monitor reliability compliance.

Economic oversight and security oversight run on separate institutional tracks, with FERC over both.

3.6 Enforcement

Enforcement is distinct from both monitoring and oversight. It belongs to public regulators, and to the bodies they authorize, that can find non-compliance and order corrective measures or sanctions. Every enforcement action carries due process, a burden of proof and the prospect of judicial review. Monitoring can inform enforcement. It is not a substitute for genuine enforcement authority exercised through a lawful process.

3.7 Why the Separation Matters

The separation serves several governance purposes. Market regulation is not concentrated in one organization, where capture could undermine its legitimacy. Economic pressure cannot erode operating authority. Reliability accountability is not subordinated to market considerations. And clear, visible boundaries give each function a legitimate and accountable share of the work.

Misunderstanding the roles causes real governance problems. Stakeholders sometimes expect a market monitor to impose immediate remedies when supply is disrupted, or a market administrator to balance supply and demand hour by hour on its own authority. Regulators then come under pressure to stretch each body's function to meet those expectations, which undermines accountability and slows action. The boundaries have to be defined and then held. Oversight is not control. Evaluation is not enforcement. Each body governs within its limits, and the system works because the functions coordinate through process rather than merge.

End-of-Chapter Summary

The integrity of organized markets depends on dividing the work among regulators, market administrators, system operators, monitors and enforcement bodies. Each mission has to be clearly defined and limited to avoid conflicts of interest and overlapping authority. That is what keeps the institutional framework legitimate and durable.

From the Field

Separation of authority is structural. The RTO operates the market; the monitor watches it; FERC oversees both. The separation prevents conflicts of interest.

4 Enforcement Authority and Procedural Boundaries

4.1 The Most Consequential, and Most Constrained, Function

Enforcement is the most consequential form of oversight in an organized wholesale electric market, and the most constrained. It addresses violations of market rules, tariffs and Commission regulations through a formal process, and it has to operate within prescriptive rules that keep it separate from market monitoring, grid operation and market administration.

4.2 From Observation to Formal Action

Observations during monitoring can suggest distortion or other aberrant conduct. Suspicion alone does not become an enforcement action. FERC acts after an investigation reaches conclusions, and its findings require adequate evidence and compliance with legal procedure. The rules give the subject a voice before that point. When FERC enforcement staff decide to recommend that the Commission bring a proceeding against an entity, they must, absent extraordinary circumstances, notify the entity with enough facts to let it respond, and the entity has 30 days to submit a non-public response. Statements of Commission policy on enforcement, or recommendations about how regulatory authority should be used, are a separate activity from an enforcement action against a named entity.

4.3 The Statutory Hooks

The substantive authority is specific. Section 222 of the Federal Power Act, added in 2005, makes it unlawful to use any manipulative or deceptive device in connection with the purchase or sale of electric energy or transmission services subject to the Commission's jurisdiction. FERC's rule in 18 CFR 1c.2 implements it, prohibiting any device, scheme or artifice to defraud, any untrue statement or misleading omission of a material fact, and any act or practice that operates as a fraud or deceit. Section 316A provides civil penalties, assessed after notice and opportunity for a public hearing, and requires the Commission to consider the seriousness of the violation and the entity's efforts to remedy it in a timely manner.

4.4 Procedural Formality and Legitimacy

The legitimacy of enforcement depends on its procedural formality. Allegations should be stated clearly, evidence disclosed fully, and respondents given a real opportunity to rebut. Enforcement should apply rules defined in advance, not punish conduct that looks blameworthy only in hindsight. That formality protects the institution's reputation, and it assures participants that any sanction will follow rules set ahead of time rather than whatever information happened to be available when the sanction was imposed.

4.5 The Limits of Scope

Enforcement is effective only within its scope. It responds to violations of market rules, agreed mitigation measures and regulatory requirements. It is not a tool for judging whether a business arrangement was prudent, absent a clear rule violation, and it should not substitute for policy decisions or operating control.

The line between enforcement and reliability authority is drawn on purpose. Actions taken under the mandatory Reliability Standards are handled through the reliability compliance framework, not through market enforcement. The market effects of a reliability action are not, by themselves, an enforcement trigger. That keeps entities from being punished for exercising reliability authority when the circumstances required it.

Remedies have limits too. Civil penalties and compliance undertakings impose specific consequences for specific violations. They do not restructure the market or rewrite a company's internal governance. Changes of that kind require a regulatory decision through the proper proceeding.

4.6 Transparency and Restraint

In my view, enforcement should be conducted clearly and transparently. Outcomes should be made public with appropriate confidentiality, because that deters misconduct and builds participant confidence in the process. Consistency from one case to the next reduces the room for ambiguity and discourages anyone from trying to exploit it.

Overreach creates institutional risk for the regulator. Enforcement is overextended when it is triggered by political pressure, sharp price movements or public concern about individual transactions rather than by a clear rule violation. The remedy for a gap in the rules is a change to the rules through the regulatory process, not stretched enforcement. Regulators exercise restraint as a form of accountability. Enforcement means applying rules. It does not mean making the rules, managing the infrastructure or guaranteeing market stability. It contributes to an efficient market only by applying the rules within strictly defined limits.

End-of-Chapter Summary

Enforcement in organized markets sanctions violations of Commission-approved market rules through formal procedures. It is distinct from monitoring, regulation and market administration, with a defined scope and a defined set of sanctions. Disciplined enforcement keeps participants' trust in market governance, and it does that without reaching into the commercial and regulatory work of the market operators.

5 Interaction Between Market Oversight and Reliability Governance

5.1 Same System, Separate Logic

Market oversight and reliability governance share the same system environment, but they operate independently, with carefully defined interfaces that preserve clear authority while allowing coordination. Their interaction matters, but it is limited, and getting the boundaries right avoids both over-regulation and under-regulation.

Market oversight watches conduct and adherence to the market rules set in the market design. Reliability governance watches performance against the Reliability Standards that apply to users, owners and operators of the bulk-power system. These are different risks with different measures. Market oversight is about fairness, integrity and rule compliance. Reliability governance is about operating capability, contingency response and reliable operation. Neither replaces the other.

5.2 Context, Not Control

Most interaction between them is contextual, not directive. Reliability events can shape market outcomes, and market conditions can form the background to an analysis of operating stress. A regulator may use reliability context to judge whether a market action was opportunistic or constrained. A reliability analysis may use market schedules and commitments as context. Neither analysis takes precedence over the other.

5.3 The Boundary at Operational Intervention

The critical boundary sits at the point of operational intervention. Whether a decision made under reliability authority was needed for reliability is judged under the Reliability Standards, through reliability compliance and oversight. The market effects of that dispatch stay within the monitor's review, because inappropriate dispatch that creates substantial concerns regarding unnecessary market inefficiencies is a Market Violation the monitor must refer (18 CFR 35.28(b) and (g)(3)(ii)(C)). The monitor does not decide whether the action was needed for reliability. The market impacts of an operational intervention are consequences, not violations. That boundary preserves operating discretion and keeps operators from hesitating over market consequences when the system needs action.

5.4 Structural Signals

Market oversight can still surface structural interaction problems. Repeated reliance on actions outside the market, or persistent price distortion caused by technical constraints or settlement design, can signal that part of the market design needs review. In that case the monitor's

findings feed the governance discussion. They are not grounds for a sanction. The purpose is to learn from the pattern without assigning blame.

Reliability governance can benefit in turn from what market oversight finds. Patterns of participant behavior, chronic congestion, or misaligned incentives can inform reliability planning and operating preparedness. That is information sharing through a formal process. It does not cost either framework its authority.

5.5 Pressure to Consolidate

Price spikes, emergencies and enforcement actions all produce calls to put everything under a single command. A well-run regulatory system resists that. It keeps the organizations separate and achieves coordination through process rather than by eroding the boundaries between roles. The risk is highest when public attention is highest.

Making the relationship work takes procedural discipline: clear referral procedures, defined information flows and reporting arrangements that inform without creating dependence. Intelligence should pass between functions without diluting anyone's authority. Independence does not mean isolation. Market oversight and reliability governance should know what the other is doing. They should not intervene in each other's work. Reliability is better served by a set of complementary, bounded institutions than by one large one.

End-of-Chapter Summary

Market oversight and reliability governance exchange information within agreed rules while remaining institutionally independent. Oversight addresses the conduct and structure of the market; reliability governance addresses the security of the system. Clear lines at the points of intervention and enforcement let operators act fast without worrying about how the market review will read it later.

From the Field

Market oversight and reliability governance share infrastructure. They do not share the same logic. A behavior that is a market issue can also be a reliability issue, with different consequences in each frame.

The interfaces between markets and reliability are increasingly active. Capacity performance obligations, ride-through requirements (PRC-029-2 took effect October 1, 2026, replacing PRC-029-1) and fuel security all sit at the boundary.

Programs that engage one frame at a time miss the cross-cutting findings. In my view the framework is moving toward more integration of these regimes.

Market oversight exists to detect specific behaviors, withholding and manipulation among them. Manipulation is defined in 18 CFR 1c.2; withholding is defined in the RTO tariffs.

6 Limits of Oversight in Preventing Reliability Risk

6.1 Not Designed to Prevent Every Risk

Oversight is important for market integrity and institutional accountability, but it was never designed to prevent all reliability risk. Its analytical, procedural and timing characteristics put limits on what it can achieve. Understanding those limits keeps expectations realistic and lets reliability governance do its own job fully.

6.2 Retrospective by Nature

Oversight is mainly retrospective and analytical. Market monitoring examines conduct and outcomes after they happen. Regulatory oversight weighs the effect of market rules through a deliberate process. None of these functions intervene in real time or steer events as they unfold. Fast-moving reliability risk needs operating authority.

6.3 Limited by Scope

Oversight is also limited by scope. Compliance oversight verifies that an entity's actions meet applicable requirements and agreed operating procedures. It does not examine infrastructure adequacy, margins or emergency preparedness except where a requirement specifically calls for it. Many reliability challenges come from system conditions that are entirely legal under current rules but hard to operate. Oversight can shed light on those interactions. It will not resolve them until the underlying rules change.

6.4 Limited by Evidence

Oversight findings depend on evidence, and the threshold of evidence needed to support a finding depends on the data and analysis available. Sometimes that evidence does not exist until after the system has already failed. Reliability governance therefore has to rely on conservative judgment and foresight in operations, so that it is not waiting on oversight to tell it something is wrong.

6.5 Correlated Risk and False Comfort

Market oversight sees little of correlated risk. Failures from structural dependencies, common-mode failures, or widespread external stress often do not look like improper behavior or market abuse, and they are not necessarily violations of any requirement. In those conditions the market behaves exactly as designed while the system's exposure grows. A regulator can note that exposure, but without a violation it is difficult to require preventive measures in advance. That is why independent reliability assessment and mitigation planning are needed.

The presence of oversight can also create false comfort. When there is no enforcement action and no adverse finding, people read that silence as proof that system risk is low. It is not. Oversight silence does not confirm that conditions are safe. Reliability governance should treat oversight findings as one input among several.

6.6 The Cost of Overreach

When Congress, FERC or a state commission tries to close a perceived gap by tightening oversight, the effect on the broader governance picture can be counterproductive. In my view, broadening enforcement to conduct that no rule prohibits, or that has never been formally identified as a violation, tends to politicize oversight and weaken the procedural protections owed to individuals and organizations. There is a similar danger in expecting supervisory bodies to anticipate operational risk for the entities they supervise, which confuses risk assessment and audit with the proper functions of oversight. Any move to tighten oversight should keep its boundaries clear rather than try to turn oversight into a reliability function.

6.7 Knowing Where Each Function Ends

Knowing the limits of each function makes institutions more disciplined. Oversight looks for anomalies in behavior and design. Planning examines whether the system is adequate and resilient. Operations control the power system in real time. Reliable performance comes when each function works within its design and does not take on roles that belong to the others. Oversee markets to keep them legitimate, but recognize that operating authority and planning discipline are different from oversight, and know where oversight ends so the right institutions handle reliability risk.

End-of-Chapter Summary

Oversight is limited analytically and procedurally and cannot protect against every reliability risk. It works after the fact, within a defined scope and evidentiary threshold, and it cannot replace operating decisions or contingency planning. Understanding those limits keeps oversight within the boundaries and functions it was built for.

7 Governance Discipline During High-Visibility Market Events

7.1 When Everyone Is Watching

High-visibility market events are among the hardest governance situations. Price spikes, emergencies, broad market interventions and enforcement actions all draw close attention from regulators, competitors, policymakers and the public. While participants work to restore reliability and market integrity, oversight, compliance and governance have to be carried out with the same professionalism and discipline as on a quiet day.

7.2 Pressure on Participants

Visibility puts pressure on market participants to act on issues that could cause them significant financial or reputational loss. Distortions, disruptions and political sensitivity can demand rapid explanations or corrective action. That pressure does not always track what is actually within the firm's control. Good governance means resisting the push to act precipitously, to step outside a defined role, or to reach conclusions before the facts are examined and the proper procedures followed.

7.3 Pressure on the Monitor and the Regulator

Market monitors are under the microscope during periods of heavy media interest. They are often expected to produce analysis quickly, while events are still unfolding and the data is incomplete. Timeliness matters, but conclusions have to be supported by sound analysis and evidence. A hasty conclusion about market motives can damage the monitor's credibility at the worst moment and weaken any enforcement action or policy measure that follows.

Regulators face the same pressure. Media and stakeholders call for rule changes, enforcement action or policy intervention. Good governance balances explaining the facts with following procedures that are adequate to the complexity of the issue. The temptation to answer the current story should give way to a more deliberate approach that produces better and more durable results.

7.4 Reliability Actions Under Hindsight

High visibility strains the line between governance and operations. Reliability actions taken under stressed conditions can have large market effects, and judgments made under stress will later be examined with the benefit of hindsight and through an economic lens. Those actions have to be assessed on reliability principles, not economics. Get that wrong and the speed and quality of future operator responses will suffer.

7.5 Compliance Integrity

The same pressure reaches the compliance function inside each organization. There is a temptation to spend time shaping documentation to avoid suspicion, fitting the record to what will not draw attention. A sound governance culture is about accurate recordkeeping, truthful reporting and adherence to defined procedures. It is not about building a justification after the fact. Compliance integrity is what keeps an investigation credible and lets the organization learn from what happened.

7.6 Communication Discipline

Communication discipline is central to a sound governance posture during a high-profile event. The words an organization uses to describe a power outage or a cyber incident matter, because the public will read them in ways that either support or undercut the organization's authority and affect its liability. Keep the focus on the system, its management and the sequence of actions taken to protect people and the environment, rather than on financial impact.

7.7 Post-Event Review

Post-event processes can carry disproportionate weight after a high-profile event. Reviews should be as open and candid as possible, but they have to balance enough information for accountability against premature conclusions and inflammatory language. Governance frameworks that put learning and structural review ahead of individual blame help organizations build strength and withstand criticism.

A high-visibility event is no excuse to abandon the rules. It should push the organization toward greater compliance. Clear roles, followed procedures and proportionate responses build market confidence and strengthen governance.

> **End-of-Chapter Summary**
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> High-visibility market events put heavy pressure on regulators, internal compliance and external governance bodies. Effective governance holds to separation of duties and keeps a complete documentary record, even with the public and policymakers watching. Discipline during these events sustains the credibility of the governing bodies and their decisions and builds long-term institutional trust.

8 Compliance Functions Within Market and Reliability Institutions

8.1 What Compliance Is For

Compliance translates external governance constraints into discipline inside an organization. In a market and reliability context, compliance is not about writing the rules, running the systems or imposing consequences. Its objective is to make sure the organization, and the people in it, understand their obligations, are able to meet them, and record their actions as required. It does that without becoming part of day-to-day operating decisions.

8.2 Compliance in Market Institutions

In market institutions, the compliance function makes sure the tariffs the regulator approved are applied, monitoring procedures are carried out, confidentiality is respected and reporting obligations are met. It protects market integrity by confirming that administrative actions follow the regulatory approvals and that monitoring runs as prescribed. It does not assess market outcomes or judge participants' conduct.

8.3 Compliance in Reliability Entities

In entities with reliability responsibilities, compliance serves a bounded purpose:

1. Compliance with the mandatory Reliability Standards.
2. Retention of evidence.
3. Interaction with the regulatory bodies.

Compliance is not meant to drive operating decisions or replace engineering judgment. It defines the boundary conditions for operating authority, so that operations can be carried out in a way that is both trusted and verifiable.

Authority Versus Compliance

Compliance should enable the exercise of authority, not obstruct it. When operators have to make decisions under pressure and uncertainty, a good reliability compliance program does not make them hesitate to act conservatively. It records the circumstances, the decision and the authority under which it was made.

8.4 Preparing for Scrutiny Without Steering It

Compliance has to stay in balance with oversight. It prepares the organization to be examined, audited or investigated. It should not try to influence the outcome of an audit or an investigation, and it does not interpret the law for the regulator. Its role is to present the records and

procedures and explain how the requirements were met. The oversight body decides whether compliance was adequate.

8.5 Confidential Information

Market and reliability information carries sensitivity of its own. Business-confidential data, grid operating records and participant data all demand discretion. Compliance programs set controls that prevent unauthorized access while still permitting authorized disclosure under the applicable confidentiality obligations.

8.6 Culture and Adaptation

Culture decides whether a compliance program succeeds. A program seen as adversarial or penalty-driven produces a defensive, minimalist posture where everyone keeps their head down. A program seen as a support function produces openness, learning and continuous improvement. That culture matters especially in market and reliability compliance, where ongoing operating performance and institutional integrity are both at stake.

Responsibilities change with experience. Market design, Reliability Standards and regulatory requirements evolve. Effective programs respond through training, process adjustment and regular feedback rather than by piling up rules and procedures. Adaptive compliance keeps the function resilient.

Seen as a governance support function, compliance puts market and reliability institutions in the right perspective. It is an instrument for carrying out the authorities' decisions and holding people accountable for their actions. It has no role in making operating decisions or delivering outcomes. Its contribution to reliability and market integrity comes through how well it supports the operating and monitoring functions it serves.

End-of-Chapter Summary

Compliance provides governance support inside market and reliability institutions. It confirms that applicable rules are followed, that records of authorized actions are kept, and that the organization engages properly with governance processes. It does not direct operations or outcomes. It holds the people who make operating and management decisions accountable for them, and a compliance function aligned with operations strengthens both reliability and public confidence.

9 Enforcement Boundaries and the Preservation of Institutional Trust

9.1 Where Review Becomes Consequence

Enforcement has an outsized effect on institutional trust because it is the moment review turns into consequence. For enforcement to be credible in an organized market, the investigation has to be done correctly and it has to be clear that the boundaries of enforcement were respected. Effective enforcement is certain, relevant to its role, and limited so that it does not reach beyond what is legitimate.

9.2 Trust Rests on Clear Rule Violations

Institutional trust rests on the expectation that regulators act when there is clear evidence of a rule violation, not because of market volatility, price impact or media controversy. Those features of market activity do not, on their own, justify enforcement. When enforcement appears driven by something other than the rules, it undermines trust in market governance. Participants respond to unpredictable enforcement by becoming overly cautious, institutions become more hesitant, and efficiency and market stability suffer.

9.3 Fair Notice

Clear enforcement boundaries are part of due process. The specificity of the rules, the clarity of the procedures and the consistency with which they are applied give affected entities fair notice of what is expected and what penalties non-compliance can bring. Enforcement outside established boundaries, whether because the boundaries were expanded after the fact or because the facts and the wording of a provision have been read differently over time, creates unpredictability and undermines both compliance and fairness. In governance terms, disciplined enforcement means enforcement according to the text of the provision at issue.

9.4 Discretion and Legitimate Competition

The relationship between enforcement and discretion is sensitive. Market rules allow a range of legitimate behavior within defined limits. The enforcement challenge is to draw the line between lawful and unlawful competitive conduct without discouraging useful, innovative competition. Without a clear line, the result is overcaution and less trading, not more reliable and efficient markets.

9.5 Enforcement and Reliability Decisions

Section 5.3 sets out where the line between reliability decisions and market review sits. What matters here is the operator. An operator who has watched a reliability action treated as an

enforcement trigger will hesitate the next time the system needs the same action, and that hesitation is a reliability risk in its own right.

9.6 Disclosure, Consistency and Learning

Transparency supports trust, but disclosure has to be managed. Disclosure of enforcement activity serves accountability and deterrence. Selective or sensational disclosure distorts how the public sees each agency's role. In my view, communication about enforcement should explain the grounds for the action fully, tie it to the applicable rules, and keep the economic impact of an event distinct from the alleged rule violation.

Consistency over time builds trust. Participants judge enforcement by its overall pattern, not case by case. Enforcement that looks inconsistent, selective or shifting erodes the effectiveness of governance institutions regardless of the merits of any single action. Adherence to precedent, proportionality and fair procedure should be core to enforcement.

Enforcement also shapes how much an institution learns. When enforcement is seen as fair and proportionate, the affected entity is more likely to accept the findings and change what it does. When it is seen as punitive or overbroad, the response is denial instead of learning. Good enforcement corrects problem practices decisively while staying as unobtrusive as possible and preserving constructive dialogue with the entity it polices.

Protecting enforcement boundaries is not an abstract governance concern. It affects participation, transparency and the capacity of institutions to act within their authority. Enforcement can promote accountability only if it is not seen as a way of governing by penalty.

End-of-Chapter Summary

Boundaries around the enforcement of rule violations are necessary to keep institutional trust in organized markets. Enforcement must be rule-based, consistent and free from outcome-driven bias. When those boundaries fail, the whole market and the governance of reliability suffer through lost due process, blurred separation of authority, and weakened trust between market and reliability organizations.

10 Evolution of Oversight Frameworks Without Role Expansion

10.1 Change Without Expansion

Oversight of organized wholesale electric markets changes over time in response to changes in the bulk power system, new risks and lessons learned. That evolution should not push oversight into operating, planning or enforcement work. Good governance keeps oversight methods and tools current while respecting each institution's boundaries, so that authority, accountability and reliability decision making stay where they belong.

10.2 Refining the Analytical Lens

Market monitoring usually evolves by refining its analytical focus. Monitors adjust indicators, thresholds and analytical tools in response to changes in participant behavior, participation levels or market structure. The purpose of the monitoring does not change. Evolution means sharper observation, not more intervention.

Regulatory oversight evolves mostly through rule review and interpretation, not through engagement in the market itself. As markets mature and the system changes, regulators assess whether the existing rules still meet statutory requirements and protect system security. Sometimes that leads to a formal rule change. It does not involve the regulator trading in the market or influencing prices outside the processes the rules define.

10.3 The Temptation of Direct Intervention

A central governance challenge is the pressure to fix persistent problems immediately. Demands that regulators intervene directly in specific market events or individual operations peak during volatility and stress. Giving regulators more direct intervention powers can be a false temptation. It can weaken due process, compromise existing mechanisms, and blunt the incentive for reliability providers to take the decisive action that prevents emergencies and resolves them quickly. Evolving through established processes, institutions and procedures keeps the system legitimate and keeps expedient but dysfunctional measures out.

10.4 Information Sharing

Information sharing has also evolved. More transparency, more frequent reporting and closer communication between agencies can all be part of an oversight framework. Coordination still is not control. Shared information should be relevant to decisions at the governance level and should not let one official interfere with another's operating duties.

10.5 Learning From Enforcement

Enforcement experience feeds the evolution. Across cases, patterns emerge: ambiguities in the rules, missing mitigation measures, incentives nobody anticipated. Those lessons can refine the rules so they better protect market integrity, as long as the resulting rule changes stay separate from enforcement against any individual entity.

10.6 Pace and Perspective

The pace of change has to be managed. Reactive responses to single incidents do not make for stable governance. Incremental change based on analysis and stakeholder input is more stable and gives participants the certainty they need.

Evolution of oversight is not the same as resilience. A better regulatory system does not by itself make the underlying infrastructure more reliable. Oversight strengthens integrity and accountability, but it does not replace maintenance, operating readiness or sound planning. Confuse the two and oversight starts to look like a substitute for operating reliability responsibilities.

Institutions have to evolve to stay relevant, and they have to do it without compromising their functional integrity. Good oversight analyzes, illuminates and makes things transparent, and it supports efficient markets and reliable supply. Oversight that tries to control operating details undermines both.

End-of-Chapter Summary

Oversight advances through ongoing analysis, rule review, information sharing and careful refinement of its own mechanisms, without adding regulation for its own sake. That approach balances market integrity, separation of governance functions, due process and regulatory accountability while letting oversight adapt to a changing energy system. Disciplined evolution keeps oversight, operations and reliability governance in their proper relationship.

11 Institutional Accountability Across Oversight, Compliance, and Enforcement

11.1 Three Distinct Accountabilities

In a decentralized industry with centrally organized markets, every function needs clear institutional accountability. That requires knowing who is responsible for what, in what capacity and to what degree, across oversight, compliance and enforcement. All three are essential and all three are distinct. Accountability holds when they are delineated rigorously, so each can be judged on its own responsibility.

11.2 Oversight Accountability

Oversight accountability is analytical and evaluative. Oversight bodies are accountable for analyzing market developments, trends, risks and the functioning of market infrastructure, for identifying distortions relative to the market framework, and for disclosing significant issues through established procedures. They are judged on the quality of their analysis, methods and presentation, not on the absence of market disruption. Oversight does not guarantee market stability. It makes sure developments are watched and that institutions stay aware of the markets they run.

11.3 Compliance Accountability

Compliance accountability is internal and administrative. The compliance function is responsible for making sure the organization has the knowledge and tools to comply, has the necessary documentation in place, and cooperates with audits and investigations. It is judged on readiness for review, documentation of compliance-relevant procedures and decisions, and use of discretion within applicable procedures. Compliance does not answer for the business consequences of the activities it covers.

11.4 Enforcement Accountability

Enforcement accountability is legal and carries real-world consequence. Enforcement agencies must apply laws and regulations fairly, effectively and proportionately, within their statutory powers and subject to the rule of law, procedural fairness, the standard of proof and the principles of statutory interpretation. They are also accountable for the effect of their actions on the public and on their own credibility. Enforcement outcomes matter to maintaining public trust in the integrity of the system.

11.5 When the Lines Blur

A core accountability risk arises when the boundaries between these functions become unclear. Oversight bodies that suggest enforcement conclusions for regulators to adopt, compliance functions that reinterpret rules after the fact to fit a particular transaction, and enforcement actions that punish outcomes instead of violations of specific rules all blur accountability. They create confusion about who must do what and let a body stretch its jurisdiction after deciding the conduct was improper.

11.6 Timing and Cross-Institution Accountability

Accountability also has a time dimension. Oversight and enforcement usually look backward. Compliance and operations happen in real time and look forward. Accountability mechanisms have to account for that timing, so that after-the-fact review of discretion exercised under uncertainty does not undermine the lawful activity it is meant to govern.

Accountability across institutions adds complexity. Market operators, monitors and system operators may answer to different bodies and stakeholders. Clarifying each institution's accountability for its own mandate keeps responsibility from diffusing across entities and allows each to be assessed independently while still coordinating.

11.7 Transparency and Clarity

Transparency supports accountability only when roles are clear. Reporting oversight findings, compliance activities and enforcement actions requires the right balance between openness and an accurate account of each organization's scope. Public portrayals that misstate an organization's oversight responsibilities can undercut legitimate accountability even when the transparency system itself is well designed.

People act with more confidence in their roles when they understand how their actions will be judged and who will judge them. Without that clarity, they shift risk to others or become overly defensive in their decisions, and neither helps. Clear accountability rules keep governance legitimate and support the reliable operation of the assets and networks those frameworks cover. Reliability and market integrity are secured not by shared accountability but by rule-based, role-specific accountability built into the structure of each institution.

> **End-of-Chapter Summary**
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> Accountability in organized markets depends on keeping monitoring, compliance and enforcement separate. Clearly defined functions, each with its own accountability standard, keep the process clear, preserve integrity, and make the system more efficient and credible.

12 Governance Lessons from Oversight Failure and Success

12.1 Tested Under Stress

Any oversight mechanism is best tested under stress, and critical market events are relatively rare. Oversight failures and successes teach the people who govern markets, compliance organizations and regulators something, and they feed a learning process that lets market structures, compliance procedures and regulatory practice last without putting the reliability and credibility of the whole at risk.

12.2 Failure Is Usually Role Confusion

Oversight failure is usually a matter of role confusion, not weak analysis. Oversight breaks down when regulators are treated as operators, when oversight bodies are treated as enforcement agencies, or when compliance is pushed beyond documentation into advocacy. Rarely is the problem a lack of skill. It is that the roles are constantly reshaped under operating pressure, time pressure or outside criticism.

12.3 Outcome-Driven Escalation

A common thread in enforcement failures is outcome-driven escalation, covered in Sections 4.6 and 9.2. What it adds over time is a lesson participants learn: when enforcement follows outcomes instead of evidence, they start managing appearances instead of complying.

12.4 Missing the Structural Problem

Another common failure is not recognizing a structural problem. Focusing on participant behavior instead of the underlying structure can cause problems that come from a design mismatch to be misread as misconduct, or dismissed as ordinary stress. Oversight is technically doing its monitoring job, but it is not giving the governance level useful information. The failure is inadequate structural analysis and too little feedback into rulemaking.

12.5 What Success Looks Like

Oversight that withstands pressure is effective oversight. Effective oversight bodies stay constructive, exercise restraint, refuse to draw premature conclusions from limited information, and insist on proper procedure. They build an understanding of the situation, stay within their mandate, and draw conclusions only when the basis for them is established. Those habits preserve both their credibility and their operating effectiveness.

Adaptation without role expansion is governance. An oversight institution can change its tools in response to observed misconduct. Its rules can become more precise or more transparent. But it does not extend itself into control or enforcement. It makes its existing rules clearer.

Coordination is another sign of success. Appropriate information exchange between oversight bodies and the reliability, governance and compliance functions lets each make informed decisions without intervention. Oversight is compromised when coordination turns into influence, or when information sharing is used to steer outcomes.

12.6 Measuring Effectiveness

Several indicators show whether oversight is working:

- Investigation outcomes are translated into practice by the entities involved.
- Findings sharpen later rounds of monitoring on the governance issues that matter most, or bring clarity that streamlines later accountability efforts.
- Governance bodies act on oversight findings. Where a steady stream of findings produces no governance change despite good oversight work, oversight has stagnated.

12.7 Drawing the Right Lesson

Be cautious about blame, and more cautious still about what you infer from an oversight failure. Oversight systems fail not for lack of authority but for lack of clarity, discipline or a proper place in the governance structure. Giving regulators more authority after a failure tends to reproduce the same failures at a larger scale.

My own time as an overseer reinforced that lesson. Effective oversight needs a steady hand that balances analysis, procedure and institutional boundaries, even in a crisis. Reliability and market integrity are best preserved not by punitive regulation but by regulatory systems that participants find trustworthy, predictable and respected.

End-of-Chapter Summary

Experience with oversight shows that most failures come from role confusion, outcome-driven enforcement pressure, and too little attention to institutional and structural causes. Oversight is effective when it shows restraint, rigorous analysis, clear roles and adaptability through governance mechanisms. The trust, credibility and long-term integrity of markets depend more on discipline than on the scope of authority.

13 Long-Term Governance Stability in Market-Based Systems

13.1 Absorbing Change Without Shifting Roles

Long-term governance stability in organized wholesale electric markets depends on institutions that can absorb change while keeping roles, authority and accountability steady. Technology, policy and the system itself keep changing. Governance has to stay stable enough to preserve trust, predictability and adequate supply without becoming rigid.

13.2 Stability Comes From Structure

Stability comes from the structure of the institutions more than from the rules. A clear division of market administration, monitoring, regulation, compliance, enforcement and reliability keeps any one institution from being overloaded and spreads pressure across the system. Clear boundaries let change come through planned procedure rather than through crisis, and keep new powers from being handed to institutions in the middle of one.

13.3 Creeping Role Expansion

A major source of instability is creeping role expansion. Regulators get asked to comment on firms' operating efficiency. Compliance departments get asked to predict what sanctions regulators may impose. Oversight bodies get asked to step in and correct behavior they consider improper. Each request seems reasonable at the time. Over the years they add up to a slow erosion of boundaries and of effective regulatory functioning. Stability takes continuous effort to push back.

13.4 Procedural Legitimacy

Durability also depends on procedural legitimacy. Shareholders and other stakeholders accept adverse outcomes more readily when they are confident that everyone is subject to the same rules, applied fairly and predictably. Frameworks that rely on established procedures and standards rather than individual discretion reinforce confidence in an impartial system that does not overreact to particular incidents.

The ability to adapt is itself a stability factor. Formal rulemaking, stakeholder participation and post-implementation review provide the mechanism for orderly change. In real-time operations, changes should not get in the way of the immediate exercise of operating judgment.

13.5 Institutional Memory

Institutional memory underpins stability. Monitor recommendations, enforcement actions that set precedent and the regulator's day-to-day decisions build a shared understanding, over time, of what is expected, what is permitted and what is prohibited. Heavy staff turnover or

organizational upheaval can erase that memory and lead to repeated mistakes and arbitrary interpretation. Good recordkeeping, staff training and organizational stability reduce the risk.

13.6 External Pressure and Culture

External pressure tests stability. Political, economic or media pressure after an incident can demand rapid change. Brittle governance structures respond by changing the scope of responsibility or shortcutting procedure. Resilient ones reassert roles, explain the context of their decisions and agree on a review process rather than restructuring on the spot.

Stability is also cultural. Institutions that communicate clearly about the purposes and limits of oversight, compliance and enforcement shape expectations among stakeholders and within their own walls. That reduces tension under stress and guides behavior across the system.

Why Organized Markets Last

This explains why organized markets can survive for decades through major change. Stability under change does not mean the rules stay the same. It means the rules sit inside a stable institutional framework that allows orderly adaptation, preserves accountability and protects the credibility of the bodies that police the market. A stable governance structure can absorb considerable change in market structure without undermining the integrity and security of trading.

> **End-of-Chapter Summary**
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> Long-term stability in market governance requires precise institutional boundaries, resistance to functional drift, procedural legitimacy, and rules that allow measured adaptation. That stability gives stakeholders confidence in the authorities responsible for the market. It comes not from freezing how things work but from durable, orderly channels for change.

14 Executive and Board-Level Accountability for Oversight Effectiveness

14.1 A Different Tier of Accountability

Executives and board members sit in a higher tier of accountability for market oversight, compliance and governance. They are not directly involved in monitoring, investigations, enforcement or day-to-day compliance. Their job is to make sure the oversight function itself is properly set up, funded and shielded from distortions that could compromise its mandate and performance. Accountability at this level is systemic, not transactional.

14.2 Independence, Capability and Access

Chief executives and boards are accountable for making sure internal monitoring functions have enough independence, analytical capability and access to information to do their work. That includes where those units sit in the organization, their reporting lines and their resources. Oversight is compromised when a monitoring function depends on, or reports to, the activities it is supposed to monitor. It is the same principle FERC applies to RTO market monitors (Section 1.4).

14.3 Holding the Perimeter Under Pressure

Leaders also have to police the perimeter of the compliance role. Oversight results, whether from internal review, external auditors, regulators or the media, will sometimes produce disagreement, controversy or heavy pressure on management and the board to act. That is when discipline matters most. Senior management and boards should not give in to pressure to reach into operating decisions, the exercise of enforcement discretion, or compliance matters outside the controls and procedures built to contain them.

14.4 The Boardroom Narrative

Boardroom discourse shapes governance culture, and leaders are responsible for the tone they set. Boards are the governance mechanism that protects stakeholders. Leaders should not put the business at risk by portraying oversight as something to be feared. A negative narrative suppresses critical thinking and honest disclosure, and if oversight is seen as political or threatening rather than as part of the institution's governance, it becomes harder to do well. Leaders should communicate that governance and oversight protect the institution's integrity, and actively promote awareness, education, accountability and proportionate response.

14.5 Resourcing to the Mandate

Resourcing is a leadership decision. An oversight function without adequate analysis, stable staffing and access to data may exist on paper but does not operate in practice. An oversight office resourced far beyond its mandate creates the opposite risk: pressure to expand into operating control. Executives have to match capacity to the function's terms of reference.

14.6 Enforcement Posture, Post-Incident Review and Continuity

Board oversight of enforcement posture is delicate. A board should not determine the facts of particular enforcement matters. It should make sure the policies governing them stress fairness, consistency and proportionality. Boards should look at general enforcement policy, the use of precedent and the overall approach to disclosure, without getting involved in individual enforcement decisions. Involvement in individual cases risks undermining both the legitimacy of the enforcement process and the board's own governance integrity.

Executive accountability does not end when an incident does. After an incident, executives must make sure investigations are thorough, impartial and true to each function's role. Pressure to rush to conclusions or assign blame should be channeled into the organization's governance procedures, not acted on directly. Otherwise leadership loses public trust.

Executives and boards are also accountable for continuity. Turnover from succession, reorganization or outside change can erode the board's governance memory and its clarity about organizational boundaries. Executives are responsible for continuity of board knowledge, board documentation and board training, so the board stays effective as its composition and policies change.

Effective oversight depends on technical analysis and on leadership that upholds integrity, independence and discipline.

End-of-Chapter Summary

Executive and board accountability for oversight is about structure: independence, resources, scope of responsibility and culture. Leadership must shield the oversight function from interference, resist pressure to take on roles that belong elsewhere, and protect the continuity and legitimacy of the oversight body. That leadership is what makes oversight sustainable and institutions trusted.

15 Enduring Governance Boundaries in Market Oversight Regimes

15.1 Why the Boundary Is the Point

A market oversight regime is sustainable only if its boundary holds over time. The boundary is the set of constraints the oversight body must respect. It defines the domain of oversight, meaning which aspects of market conduct are subject to scrutiny, and the scope of discretion, meaning what the body may recommend, what it may recommend only with qualification, and how its recommendations reach the decisions of others. The boundary is not an incidental design feature. It is what lets the regime justify its existence, hold participants accountable and protect the integrity of the rules it oversees.

15.2 Evaluation Versus Control

At the center is the difference between evaluation and control. Oversight evaluates whether behavior, rules and activities fall within the limits set by regulation. Control, whether in the market, in an enforcement agency or in a reliability organization, sits elsewhere. When an oversight body tries to influence the outcome of what it examines, it undermines its own evaluation and the integrity of the controls exercised further down the line.

15.3 Governance Versus Discretion

A second long-standing boundary separates governance from the exercise of delegated discretion. Compliance audits evaluate management against rules and goals. Enforcement addresses the choices of people who hold delegated operating or enforcement authority. Neither is a means of second-guessing the delegation itself. Regulation that intrudes on discretion legitimately exercised within a delegation oversteps an important administrative boundary.

15.4 Time Boundaries

Time boundaries matter just as much. Oversight operates after the fact, on events that have already happened. It neither can nor should steer current decisions or imminent operations. Blurring that line turns oversight into supervision, with the risk of interference in live operations that can paralyze fast action.

15.5 Jurisdictional Boundaries

There is also a boundary of jurisdiction. Market oversight examines the behavior and design of the market within approved tariffs and regulations. It does not cover system adequacy, resource adequacy or operating prudence unless its mandate says so. Reliability governance supplies

the standards, planning and operating tools for those questions. The division has to be respected to avoid overlap and duplication.

15.6 Informational Boundaries

Boundaries can be informational. Oversight bodies often hold information that others do not. Governance discipline requires using that information only for the purpose it was collected and sharing it only through formally prescribed channels. Informal or selective disclosure can distort others' decisions and undermine the neutrality of oversight. The federal rules reflect this: a market monitor limits distribution of its recommendations to the RTO and Commission staff when broader dissemination could invite exploitation, and its referrals of suspected violations are non-public.

15.7 Holding the Line Under Pressure

Pressure to breach formal boundaries peaks in crisis and conflict. When a crisis amplifies market forces, agencies and regulators feel pushed to act faster or negotiate in ways that effectively erase the formal lines. Enforcement disputes and intense media attention after a major event create the same pressure to be seen acting quickly. Holding the boundaries in those moments, and accepting the consequences of doing so, preserves institutional legitimacy and prepares institutions for the next challenge.

Maintaining boundaries is an active condition, not a passive state. It needs constant reaffirmation through leadership messages, processes and a board culture that supports them. New staff, changing market conditions and new legislation all test it. Governance stability comes from the deliberate effort that keeps the boundaries active.

Understanding enduring boundaries explains why market oversight regimes succeed or fail. Success is not about avoiding controversy. It is about performing predictably and credibly under pressure, and that requires authority, accountability and trust to be anchored within those boundaries.

End-of-Chapter Summary

Enduring governance boundaries define the legitimacy and effectiveness of market oversight regimes. The essential lines run between evaluation and control, between governance and delegated discretion, between after-the-fact review and real-time decisions, and between market monitoring and reliability authority. The long-term sustainability of a market oversight regime depends on the discipline with which those lines are kept.

16 Synthesis of Oversight, Compliance, and Governance in Market Environments

16.1 Interrelated, Not Merged

Market oversight, compliance and governance are interrelated, and together they exist to make sure the market works fairly. The RTO does hold exclusive authority for maintaining the short-term reliability of the grid it operates (18 CFR 35.34(j)(4)), but that authority comes from its operating role and its NERC registrations, not from its oversight, compliance or governance functions. The three differ in purpose, time horizon and authority, and those differences need deliberate mechanisms so the functions interact effectively. Synthesis does not mean merging them into one. It means placing each within an institutional framework where they reinforce each other.

16.2 What Each Function Contributes

Oversight provides an external, after-the-fact assessment of participants' behavior and of market design. Its role is detection, not correction. Compliance translates external rules and guidance into internal rules that govern conduct, so the authorities' decisions are carried out continuously. Governance is the set of arrangements that frames oversight and compliance so that regulating the market does not obstruct its operation. Together, they let markets carry out their tasks credibly and flexibly.

16.3 How an Issue Moves Through the System

The integration shows in how an issue moves through the institutional system. An anomaly detected by monitoring may enter the governance discussion. Governance decides whether the finding, together with any other information, calls for a clarification or amendment of the rules. Compliance makes sure any change is implemented properly and uniformly across the organization, and it documents the basis for actions taken in the interval between deciding on a change and the change taking effect. Where appropriate, enforcement then addresses violations of the amended rules. Each step happens in sequence and within defined boundaries, which preserves due process and the rights of participants.

16.4 Restraint and Controlled Communication

Restraint is part of the synthesis. In practice it means no body picks up another body's function because that is convenient in the moment, and a regulator reviewing an entity's compliance records does not use them to start directing the entity's decisions. The institutions and the people who make up the system have to show restraint to keep it intact.

Communication between functions should flow, but under control. Insights should be offered with appropriate qualification, not as unconditional instructions. Compliance communication should be strictly factual, so it does not read as defensive. Governance communication should avoid signaling what others ought to do, so it does not blur roles or steer behavior. Following those rules allows real collaboration without confusion about who is giving instructions and who owns the decision.

16.5 A Learning Framework

The synthesis is also a learning framework, with feedback loops that are indirect and structured. Oversight identifies patterns. Operations and planning interpret what those patterns mean within their own domains. Governance decides whether structural change is warranted. That distributed learning keeps the system out of reactive redesign while letting it adapt on evidence.

16.6 When Synthesis Fails

Failure of synthesis is usually a sign of serious boundary erosion. When oversight starts to shape operating decisions, when compliance turns into advocacy, or when a market dysfunction provokes a regulatory overreaction that tips the balance the other way, market stability and functioning start to erode. Accountability erodes with them, as uncertainty multiplies and participants hesitate.

No single function guarantees market integrity or reliability. Integrity comes from the interplay of bounded roles under shared governance principles. A market stays credible when oversight is independent, compliance is supportive, governance is disciplined and enforcement is measured. Oversight, compliance and governance are not control instruments. They are guarantees that institutions work as intended. They work best when each one is clear about its job and stays in it year after year.

End-of-Chapter Summary

Oversight, compliance and governance are distinct but connected mechanisms that protect market integrity through disciplined conduct rather than consolidation. Independent after-the-fact evaluation, internal controls and governance procedures operate in sequence and with restraint. Integrated well, they keep accountability where it belongs and let the system learn from its own record.

17 Closing Perspective on Oversight, Compliance, and Governance Boundaries

17.1 Boundaries Are a Design Choice

The scope of oversight, compliance and governance is a design choice. The limits on these functions in organized wholesale electric markets exist to preserve the ability to provide reliable service, to protect due process, and to protect the integrity of market institutions under intense and changing regulatory scrutiny. This closing chapter is more descriptive than prescriptive.

17.2 What Oversight Is For

Oversight is not about guaranteeing outcomes or eliminating every risk. What matters is the quality of the evaluation: transparency, and the identification of potential or actual departures from the rules. Oversight fails when it is treated as a risk control or stability mechanism, as a way to manage current operations, or as a substitute for risk prevention, governance or contingency planning. Real oversight is a governance mechanism that strengthens the market's legitimacy.

17.3 What Compliance Is For

Control and justification are not the purposes of compliance. Compliance is the system that lets an organization exercise its authority safely and effectively, in line with regulatory expectations. Compliance that tries to influence operating discretion, or to manage the risk of detection, undermines reliability and accountability. Compliance that supplies the records, support and explanation needed to show authority was exercised appropriately strengthens the organization's legitimacy.

17.4 What Governance Is For

Governance defines who holds authority, from leadership through management to staff, and the organization's commitment to that structure is what makes it hold. Governance does not eliminate conflict or controversy. It is the mechanism through which disagreements surface and get resolved without compromising established authority. Effective governance converts pressure into process, holds boundaries under pressure, and makes sure any necessary adaptation happens within a defined framework rather than as a reaction.

17.5 Boundary Preservation Is Work

The theme that keeps surfacing in this reference is that boundary preservation takes continuous effort (Section 15.7). Boundaries can fail through formal assertions of authority, and they can

also fail through quieter shifts in expectations, especially during major events. Institutions survive by reaffirming their boundaries when it is least comfortable to do so.

Seen that way, oversight, compliance and governance support reliability rather than interfere with it. Because they make no operating decisions, they do not get in the way of operators who have to act quickly under uncertainty. And they keep fast decision making from sliding into arbitrary behavior. System security and institutional legitimacy both depend on that balance.

17.6 The Last Word

As market conditions keep changing, there will always be pressure to respond by moving authority from one body to another. Experience with oversight, compliance and governance suggests that good solutions to hard problems are rarely about who holds which power. More often they come from sharper responsibilities, stronger controls and more discipline about staying within normal boundaries.

Market oversight, compliance and governance are not peripheral to market design. They are structural safeguards that reconcile the objectives of the market with those of the reliability functions and keep the two complementary. Using them well means knowing what each one is supposed to do, and what it is not.

End-of-Chapter Summary

Oversight, compliance and governance are bounded safeguards. They frame market conduct and support the reliability mandate through monitoring, correction and management. The boundaries are strategic. Keeping them intact, especially under pressure, is what sustains effective reliability operations, sound governance and stable organized markets.

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).
Electric Reliability Organization (ERO)	The organization certified by FERC under Section 215 of the Federal Power Act to establish and enforce reliability standards for the bulk-power system, subject to Commission review (16 U.S.C. 824o(a)). NERC holds this certification.
Independent Market Monitor (ERCOT)	The market monitor ERCOT contracts with under Texas Utilities Code Section 39.1515 to detect and prevent market manipulation. It works under PUCT supervision; the PUCT keeps all enforcement authority.
Market Manipulation (FERC)	Conduct prohibited by 18 CFR 1c.2 in connection with FERC-jurisdictional sales of electric energy or transmission services: a scheme to defraud, a material misstatement or misleading omission, or an act that operates as a fraud or deceit.
Market Monitoring Unit (MMU)	The person or entity responsible for carrying out the market monitoring functions that the Commission has ordered Commission-approved ISOs and RTOs to perform (18 CFR 35.28(b)). Often called the independent market monitor.
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)).
Reliability Coordinator (RC)	The entity that is the highest level of authority who is 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).
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).

Entries cite their source. This glossary does not replace or supersede any official definition.

How Energy Compliance Can Help

When the call comes from more than one regulator

A monitor inquiry, a FERC data request and a Regional Entity audit can land in the same quarter about the same facts. EC provides audit and enforcement support (non-advocacy), audit defense with Notice of Penalty response and settlement posture, mitigation planning and Self-Report development, data request strategy, and RSAW production, written by the senior practitioner who will answer the follow-up questions.

Governance that holds under pressure

Reliability governance and program assessments and regulator-perspective program reviews test whether your boundaries between operations, compliance and the market desk survive a high-visibility event. Compliance program design and improvement, ongoing compliance program management, and registration and applicability analysis follow from the findings.

Senior advisory and briefings

NERC reliability and compliance advisory support; NERC compliance program support, interpretation and audit preparation; senior advisory on specific, complex reliability questions; operational and engineering reliability alignment; training and executive briefings on reliability frameworks for boards and leadership; and industry engagement in standards development and working-group participation. Each engagement is scoped to the entity's role, function, and bulk system impact.

WattOps Compliance

When the same conduct is examined in two regimes, the evidence has to tell one story. 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 fleets, the operating record behind a dispatch decision is what both the market monitor and the auditor will ask for. RenewOps is EC's renewable operations monitoring and analytics platform, with a Data Center module.

If your market desk, your control room and your compliance team have never walked one event through all three regimes together, 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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