

WESTERN ENERGY MARKETS

Briefing on spotlight initiative - gas resource management

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Differences in how gas resources are situated warrant re-calibrating tools for managing gas generation

- Gas resources outside the ISO balancing authority area are subject to different gas market conditions and physical infrastructure
- The ISO must expand tools for gas resources to adapt to changes in market participation and market expansion
 - Without modification, existing tools may limit the ability to fully participate in the EDAM
- The proposal serves as an initial step in ensuring all gas generation across the western market footprint can successfully participate in the ISO's markets

The latest draft final proposal builds on existing tools to support market participants' ability to manage fuel supply and fuel cost uncertainty

Accommodating fuel cost volatility in reference levels

- Gas resources can update their cost estimates to reflect expected costs
- Stakeholders support more flexibility to reflect and recover costs facing resources without storage, in high demand events, or unexpected disruptions

Gas-electric coordination for reliability

- The balancing authority and gas pipeline jointly manage gas system limitations that cannot be resolved through normal market participation or manual action
- All WEIM/EDAM balancing authorities should also have equitable access to ISO market operator tools

Informing fuel procurement (Not Decisional)

- Better information prior to the day-ahead market can reduce fuel cost uncertainty
- Builds upon EDAM changes that provide additional information to market participants

Stakeholder process has focused on expanded opportunities to manage fuel cost volatility in three main elements

- Changes to reflect persistent inaccuracies in ISO calculated cost estimates
- Changes to increase flexibility for reflecting the potential cost of meeting unexpected unit commitments
- Ensuring cost recovery eligibility after a physical disruption

Focus has been on new processes to better reflect observed costs in ISO cost estimates

- The ISO reference level change request process allows resources to automatically reflect costs approximately 137.5% above ISO calculated cost estimates in the market
 - This amount of flexibility was tuned to the notably stable gas hubs used by ISO balancing authority area resources
- Stakeholders have highlighted their more volatile hubs may require the process be used more frequently, and the cost thresholds may limit their ability to easily represent their costs
 - The proposal provides adjustments to ISO calculated cost estimates should a market participant use the process more often than an ISO balancing authority area resource, **OR** the market participant shows ISO calculations underestimate their costs

Driving to automatically increase flexibility to reflect the costs of meeting unexpected commitments

- In a diverse regional market, significant forecast uncertainty for variable energy resources and load may exist 2 days prior to real-time
 - Gas procurement occurs starting during this period
 - Uncertainty impacts the expected scheduling of thermal resources
- The ISO is providing additional D+2 advisory information and stakeholders are also attempting to predict their potential resource schedules
- When the ISO observes significant forecast uncertainty from *D+2→D+1* **OR** *D+1→real-time*, it will provide additional flexibility
 - Increasing flexibility in these conditions will ensure more costs can be reflected in the market

Aim to provide access to cost recovery when cost adjustments cannot reasonably be made through existing processes

- Eligibility for cost recovery, under existing rules, requires a resource have utilized the existing reference level change request process prior to running the market
 - Physical supply disruptions may occur after the adjustment deadline
- Aiming to allow a resource, following a physical disruption, to be eligible for after the fact cost recovery

Seeking to expand access to using a gas constraint to support reliability

- When a gas limitation threatens gas and electric system reliability, the balancing authority, gas pipeline operator, and ISO are responsible for deciding how to maintain reliability
 - Today, the ISO has the authority to use the gas constraint only in the southern part of the ISO balancing authority area
 - Seeking authority to apply the gas constraint in other parts of the ISO market footprint
 - Developed standardized set of criteria and guidelines that must be met prior to deploying in other parts:
 - Limited to be used as a reliability tool, consistent with existing FERC precedent for approval of such authority

The proposal includes D+2 enhancements to ensure results are useful for informing fuel procurement

- The ISO runs advisory two-day ahead market, known as the “D+2”
 - The ISO as part of EDAM plans to make these results available to market participants for use in forecasting potential resource schedules
- The following process enhancements not requiring tariff modification will ensure the D+2 is more precise to resource-specific gas schedules:
 - Use bids for the relevant market today if market participants have submitted them ahead of time
 - Offer advisory information up to three days in advance to support planning over weekends and holidays

Also pursuing implementation of enhancements already approved by the ISO Board of Governors and WEM Governing Body that provide greater bidding flexibility for commitment costs when resources lack commitment cost market power

- The *commitment cost and default energy bid* policy was approved in 2018 but was never implemented
 - Stakeholder process will now turn to evaluating when and how the approved design can be implemented
- Changes contemplated in stakeholder process thus far in the gas resource management initiative remain valuable as they ensure more accurate cost estimates when uncompetitive conditions are determined