WESTERN ENERGY MARKETS

Briefing on spotlight policy initiative - gas resource management

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Gas resource management initiative - background

- The initiative is considering market rule changes to ensure all regional entities can successfully participate in ISO administered markets.
  - Market wide unit commitment creates uncertainty as compared to a market participant procuring fuel to meet its own needs.
  - Differences in gas providers and gas infrastructure in the regional market footprint introduces new challenges in accurately representing fuel costs.

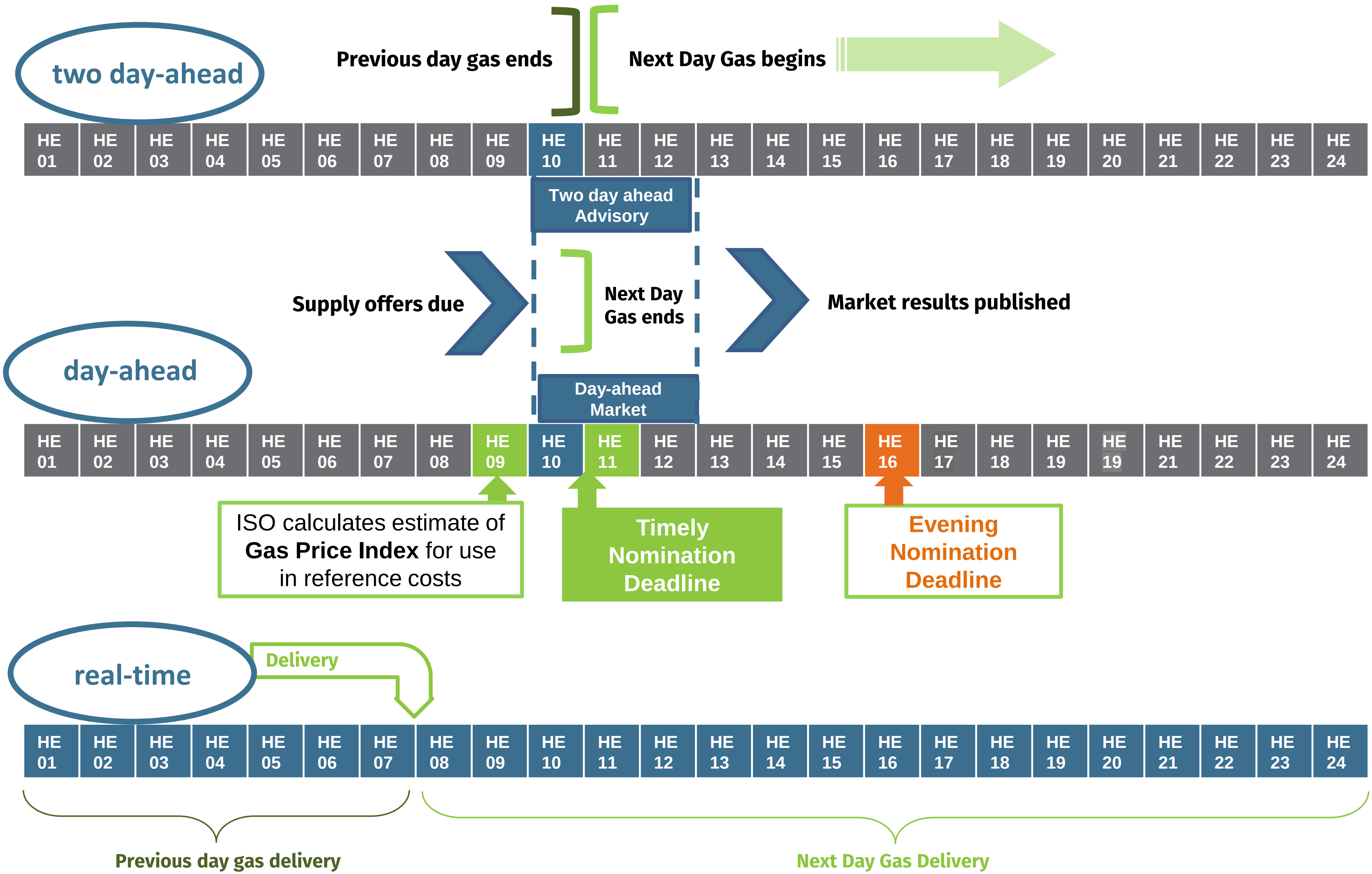
Electric and gas market timelines are not aligned; this creates challenges for resource operators

Quantity uncertainty: When day-ahead market energy schedules are published, the first cycle for nominating gas quantities to flow on pipelines has closed.

- Suppliers may not have purchased enough fuel to cover their binding day-ahead commitments.

Price uncertainty: The electric market dispatches based on resource bids that may represent the cost of gas already procured or expectations of real-time gas cost.

- Suppliers do not have certainty about the cost of revising their gas positions.
- Suppliers can account for this uncertainty in their offers.
- The ISO estimates the resource costs to use in lieu of supply offers if the ISO determines a resource has market power.


two day-ahead
Previous day gas ends
Next Day Gas begins
HE 01 HE 02 HE 03 HE 04 HE 05 HE 06 HE 07 HE 08 HE 09 HE 10 HE 11 HE 12 HE 13 HE 14 HE 15 HE 16 HE 17 HE 18 HE 19 HE 20 HE 21 HE 22 HE 23 HE 24
Two day ahead Advisory
Supply offers due
Next Day Gas ends
Market results published
day-ahead
Day-ahead Market
HE 01 HE 02 HE 03 HE 04 HE 05 HE 06 HE 07 HE 08 HE 09 HE 10 HE 11 HE 12 HE 13 HE 14 HE 15 HE 16 HE 17 HE 18 HE 19 HE 20 HE 21 HE 22 HE 23 HE 24
ISO calculates estimate of Gas Price Index for use in reference costs
Timely Nomination Deadline
Evening Nomination Deadline
real-time
Delivery
HE 01 HE 02 HE 03 HE 04 HE 05 HE 06 HE 07 HE 08 HE 09 HE 10 HE 11 HE 12 HE 13 HE 14 HE 15 HE 16 HE 17 HE 18 HE 19 HE 20 HE 21 HE 22 HE 23 HE 24
Previous day gas delivery
Next Day Gas Delivery

Direction is shaped by input from stakeholders and the market surveillance committee

- Market surveillance committee emphasized need for additional bidding flexibility for gas resources in the west, to reduce unnecessary mitigation of gas resources.
- ISO has identified potential reforms for which it is requesting stakeholder feedback.
- ISO sharing additional analysis on how well existing thresholds capture regional volatility of gas costs.
- ISO invites stakeholder feedback on these results and whether the proposed reforms strike the right balance, which may lead to additional proposed reforms.

Propose to update the two day-ahead market processes to provide advisory estimates of resource schedules

- Utilizing the latest forecast data and supply offers will improve the accuracy of market results

- The ISO has conducted analysis showing that two day-ahead schedules are on average within 5% of day-ahead schedules, so these schedules should be able to inform fuel procurement.

Propose to provide additional flexibility in representing costs during conditions of elevated uncertainty

- Increase bidding flexibility during periods of elevated uncertainty, to allow hedging of procurement risks.

- Allow negotiated commitment costs or a blended fuel region to better capture volatile or non-traditional fuel arrangements.

- Create a new parameter that addresses fuel costs at hubs where generators consistently experience volatile and illiquid conditions.

Propose to standardize and extend existing reliability tools to the entire market footprint

- In the past FERC has stipulated that scheduling coordinators are responsible for their fuel procurement and that risks associated with procurement should be represented through supply offers.
- FERC has previously limited expanded use of gas nomograms absent a clear demonstration of need and channels of coordination between the ISO as a balancing authority and gas-pipeline operators.
- The ISO is proposing to standardize this coordination and make reliability-based usage of this functionality available across the regional market footprint.