

WESTERN ENERGY MARKETS

Decision on 2026 variable operations and maintenance cost review

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WEM Governing Body meeting

General Session

October 20, 2026

ISO Public



The ISO reviews default variable operations and maintenance cost adders every three years

- Management proposes the following changes in the 2026 variable operations and maintenance cost review:
 1. Update all default variable operations and maintenance cost adders to reflect increased inflation.
 2. Establish a new default variable operations cost for energy storage resources.
 3. Update tariff language to remove hard-coded default values.
- Variable operations and maintenance cost adders are included in resources' default energy bids for market power mitigation and in default commitment costs.
- Default variable operations and maintenance cost adders vary by fuel type and generation technology in the market.

Variable operations costs are used to reflect these costs in the market for storage resources

- Variable operations costs are a component of the storage default energy bid.
- Currently, there is no default variable operations cost for energy storage resources.
- Market participants must request a resource-specific variable operations cost; otherwise, a value of \$0/MWh is used.
- Creating a default variable operations cost for storage resources would reduce administrative burden and streamline the process for market participants.

Management proposes an inflation update to default variable operations and maintenance cost adders

- Consistent with previous reviews, the ISO reviewed and evaluated inflation, negotiation activity and industry-wide cost studies.
- The update increases existing default variable operations and maintenance cost adders by 9.84% to reflect inflation since the previous review in 2023.
- The inflation methodology uses Consumer Price Index data from the U.S. Bureau of Labor Statistics and is consistent with previous reviews and market participant practices.

Management proposes to establish a new default variable operations cost for energy storage resources

- Four alternatives were considered based on negotiated variable operations costs approved by the ISO:
 1. Supported by long-term service agreements (proposed option).
 2. All negotiated costs regardless of supporting documentation.
 3. All negotiated costs by manufacturer.
 4. Status quo.
- The proposed default value is \$14.74/MWh – the median of negotiated values supported by long-term service agreements.
- The proposed option provides the most transparent and reliable representation of actual variable operations costs, and a median value minimizes the influence of outliers.

Management also proposes to publish default values in the Business Practice Manual instead of the tariff

- Currently, default variable operations and maintenance cost adder values are prescribed in the tariff.
- Management proposes to publish the default values in the Business Practice Manual to avoid requiring a tariff filing each time the values are updated.
- The tariff will describe the stakeholder-driven triennial review process and refer to the Business Process Manual for the default values.

Stakeholders submitted comments on the issue paper and straw proposal which were all addressed

- Stakeholders support both the proposed inflation update to existing default values and the proposed default variable operations cost for storage resources.
- Stakeholder comments focused on the appropriateness of the negotiated values dataset, the statistical methodology and the application of an inflation adjustment.
- The ISO addressed all comments in the straw proposal and final proposal, with no remaining unresolved issues.

Management requests the WEM Governing Body approve the proposed changes

- The 9.84% inflation increase to existing default variable operations and maintenance adders enables resources to submit more accurate cost-based bids into ISO markets.
- A default variable operations cost of \$14.74/MWh decreases the administrative burden on both storage resource market participants and ISO staff by reducing the need for negotiations.
- Publish default values in the Business Practice Manual rather than the tariff; include a description of the stakeholder-driven triennial review process in the tariff.