Comments on Gas Resource Management: Draft Final Proposal

Department of Market Monitoring

October 3, 2025

Summary

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the *Gas Resource Management Draft Final Proposal*.[1] DMM supports or does not oppose most elements of the draft final proposal. However, DMM has significant concerns about the proposed benchmark approach to establish default costs and reference level change request (RLCR) thresholds for units that face much higher gas price volatility than the benchmark resources.

DMM provides comments here on the following topics discussed in the draft final proposal:

- **Informing fuel procurement**. DMM supports the ISO's efforts to provide scheduling coordinators with accurate advisory gas burn schedules. DMM previously recommended the ISO provide analysis of the appropriateness of using various alternative bid sets to fill in bids for resources that do not submit in time for the two-day advisory (D+2) market run. DMM does not oppose moving forward without this preliminary analysis and views the current proposal as an incremental improvement to gas resource management. DMM recommends the ISO conduct future analysis to continue to refine things such as the appropriate inputs into the D+2 report.
- **Managing gas burn limitations**. DMM continues to support the exclusion of operation flow order (OFO) costs in reference level calculations, and supports the conditions and guidelines the ISO developed for interested market participants to follow if they want to pursue implementing a gas nomogram in the market.
- **Accommodating cost variation**. DMM supports allowing customized default costs and RLCR thresholds based on analysis of historical data on the difference between (1) available gas price indices at the most appropriate hub for each resource, and (2) the unit's actual gas procurement costs. However, DMM has major concerns about the benchmark group approach outlined in the proposal for setting default costs and RLCR thresholds for units with much higher gas price volatility. At a minimum, this approach should be developed in more detail, and subject to further review and analysis based on actual historical data on gas price volatility and the frequency of RLCR requests. If the ISO proceeds to seek regulatory approval for this proposal at this time, DMM believes that any policy or tariff changes submitted for approval must provide significant flexibility in what ultimately gets implemented through the business practice manual (BPM). DMM believes many concerns might be addressed by setting a cap on the maximum level of scalar applied to default costs and RLCR thresholds that might result from any default methodology established by the ISO.

[1] *Gas Resource Management Draft Final Proposal*, California ISO, September 17, 2025: https://stakeholdercenter.caiso.com/InitiativeDocuments/Draft-Final-Proposal-Gas-Resource-Management-Sep-17-2025.pdf

Comments

1. Informing fuel procurement

DMM does not oppose the proposal to move forward with the D+2 report without further analysis, but recommends future analysis to refine the inputs to the D+2 advisory schedules

In the straw proposal, the ISO sought feedback on what to do when bids are not submitted in time for the D+2 market run. The proposal suggested using the day-ahead bid set submitted for the day-ahead market on the day the D+2 is run (day-ahead bids), bids from 7 days prior, or—at the discretion of operators—using either of those options as inputs to the D+2 market run. DMM suggested the ISO analyze historical data to determine if using day-ahead bids or 7 day prior bids result in more accurate gas burn forecasts on average, and if there are specific situations where one set of bids outperforms the other (e.g., when weather conditions are drastically different than the previous week, or when using weekend bids would cause issues for early weekday forecasts).

The ISO is proposing in the draft final proposal to move forward with the D+2 report, without additional analyses beyond what was presented in the straw proposal. The ISO plans on performing a more comprehensive analysis sometime after extended day-ahead market (EDAM) go-live when new data becomes available. DMM acknowledges historic analyses may provide limited insight into the accuracy of the D+2 as advisory schedules once the changes for EDAM are implemented, such as expanded balancing authority area (BAA) participation and imbalance reserves. However, DMM believes an analysis that includes only the pre-EDAM CAISO BAA would still be informative.

While DMM believes additional analysis would be valuable to determine the bid set that produces the most accurate advisory forecast, DMM does not oppose the proposal to move forward with the D+2 report without further analysis as a near-term approach, and supports the ISO's commitment to assessing the difference in gas burn between the D+2 and day-ahead, and assessing the impact different bid sets have on D+2 accuracy in the future.

In addition to these future analyses, the ISO is proposing to expand the D+X reporting from the current practices. First, the ISO proposes to publish advisory energy schedules and RUC awards separately as opposed to combined. Second, the ISO is proposing to publish descriptive statistics to indicate the accuracy of market results, such as the balancing area (BA) level uncertainty requirement. Third, the ISO is proposing to publish residual unit commitment (RUC) advisory results from the D+3 and D+4 reports, which should be useful for Mondays and holidays. DMM supports all these proposals to expand the D+X reporting practices to improve transparency for market participants.

2. Managing gas burn limitations

DMM supports the ISO providing guidelines to extend the use of the gas nomogram constraint to areas outside the CAISO balancing area

The ISO proposes a process to allow use of the gas nomogram constraint to regions outside the Southern California Gas Company (SoCal Gas) and San Diego Gas & Electric gas regions. Market participants outside the CAISO balancing area who want to make use of a gas nomogram to reflect gas limitations in the market for specific zones must meet certain conditions informed by the ISO's previous experiences seeking FERC approval for gas nomograms. These conditions include:

- Establishing a relationship between the BA and the gas pipeline operator,
- Demonstrations from the BA and gas pipeline operator that a gas system limitation can impact electric system reliability,
- Determination by the gas pipeline operator, BA, and the ISO that a gas nomogram constraint is needed and a reasonable approach, and
- Confirmation from the ISO that the requested procedure is consistent with existing operational procedure.

DMM supports this proposal to further improve gas-electric coordination to reduce inefficiencies in electric market outcomes during gas supply limitations. DMM would monitor use of any gas nomograms for any indication of potential capacity withholding.

3. Accommodating gas cost variation

DMM supports allowing customized RLCR thresholds based on analysis of historical data on the difference between (1) available gas price indices at the most appropriate hub for each resource, and (2) the unit's actual gas procurement costs. Ideally, such analysis should be based on data for a significant time period (e.g., at least 1 year, but longer if possible, since it is often 2 to 4 years in between major gas price spikes). While DMM supports this general framework, DMM has concerns about some aspects of the specific approach described in the draft final proposal.

The proposed initial screening approach to request volatility scalar adjustment may be susceptible to gaming

DMM appreciates the ISO's desire to set some kind of screen to determine units for which RLCR thresholds above current levels may be appropriate. A resource will pass the proposed screen if the frequency of their RLCRs exceeds the average of the benchmark resources. To prevent gaming, the ISO is proposing to not publish the benchmark RLCR frequency, and require resources that request a fuel cost parameter adjustment but do not pass the initial screen to wait a year to re-request evaluation. However, DMM notes there is still potential for gaming by frequently submitting automated RLCR requests just below the threshold to ensure a resource's RLCR request frequency is above the average of the reference group. DMM recommends the ISO commit to auditing all, or at least a significant random sample of, RLCR requests after an individual resource requests a fuel volatility scalar adjustment that the ISO had not audited before the request in order to mitigate this potential gaming risk.

DMM does not believe it is appropriate to use the benchmark group approach as outlined in the proposal to determine fuel cost adjustments for units with much higher gas price volatility

DMM has major concerns about the benchmark group approach outlined in the proposal for determining fuel cost adjustments for units with much higher gas price volatility.

DMM's sense is that the frequency of gas units in the CAISO using RLCRs may be extremely low (e.g., potentially less than 1 percent of intervals throughout the year). If so, the approach outlined in example 1 of the fuel cost adjustment determination section of the draft final proposal would seek to set customized default costs and RLCR thresholds so that each unit's potential procurement cost may

exceed the threshold in less than 1 percent of cases (e.g., at the 99th percentile of observed percentage differences between a unit's reported fuel costs and the most relevant gas hub price).[2] In areas outside of the CAISO with much greater gas price volatility, setting default costs and RLCR thresholds in this way could result in extremely high thresholds that are driven by a very small number of extreme outcomes. DMM believes this issue might be addressed by setting a cap on the maximum level of scalar applied to RLCR thresholds used in automated cost verification, as discussed later in these comments.

Also, as a matter of principle, DMM does not believe that it makes sense to seek to limit the frequency with which participants in areas with very high gas volatility may need to request use of gas prices in excess of the RLCR threshold, based on the frequency of RLCR requests in excess of the threshold in areas with very low gas price volatility (such as the CAISO). DMM thinks it is reasonable to expect that units in areas with very high gas volatility may submit RLCRs in excess of the thresholds more often than units in areas with very low gas price volatility. Instead, the RLCR thresholds should be set so that the frequency that non-automated mechanism for gas cost review and justification is manageable for participants and the ISO. For example, just because units in areas with low gas price volatility may submit RLCRs in excess of their threshold only 1 percent of days, it may still be reasonable for units facing extremely high gas price volatility to submit RLCRs in excess of their threshold 3 percent of days.

DMM also notes that the higher the RLCR is set (e.g., in terms of headroom above actual fuel costs on most days), the greater the need for the ISO to perform review of RLCRs *under* the thresholds, which are automatically "verified" prior to the market process, but subject to potential audit. Thus, if the ISO sets thresholds for automated verification extremely high, the ISO may need to be prepared to devote significantly more resources to *ex post* review of RLCRs that are automatically approved. The ISO and stakeholders should consider this potential tradeoff.

More analysis of actual data is needed

DMM believes there is a wealth of data currently available that could be used to assess the feasibility and implications of the general framework outlined in the draft final proposal. Such analysis may help identify very different variations of this general approach than those suggested in the draft final proposal. For example, such analysis might indicate the potential for some extremely high or unexpected RLCR thresholds under the approach currently envisioned by the ISO, and might help identify ways of mitigating these potential outcomes.

As noted above, one mitigation measure might be to set a hard cap on threshold scalars that results from any default methodology (e.g., 150 to 175 percent). With this approach, participants could also seek higher scalars under the negotiated option of the tariff when necessary. The tariff could also be changed to allow the negotiated option to be used for gas prices used in setting commitment costs, as well as default energy bids. Presumably, if the default methodology and cap are set appropriately, use of this negotiated option should still be quite limited.

If the ISO proceeds to seek regulatory approval for this proposal at this time, DMM believes that any policy or tariff changes submitted for approval must provide significant flexibility in what ultimately gets

[2] *Gas Resource Management Draft Final Proposal*, California ISO, September 17, 2025, p 16: https://stakeholdercenter.caiso.com/InitiativeDocuments/Draft-Final-Proposal-Gas-Resource-Management-Sep-17-2025.pdf

implemented through the BPM. And any approach specified in the BPM should be based on further analysis of actual data available to the ISO, and consideration of approaches that may vary significantly from the draft final proposal, as discussed above.

DMM supports expanding after-the-fact cost recovery rules to physical supply disruptions in certain documented circumstances

The ISO requires resources to submit a cost adjustment request before the day-ahead market to be eligible for after-the-fact cost recovery. Since physical supply disruptions can occur after the cost adjustment deadline, the ISO is proposing to allow resources to be eligible for after-the-fact cost recovery if they can demonstrate with supporting documentation that a physical supply disruption occurred after the day-ahead bidding deadline on the fuel region actively indexed in the resource's reference levels, and provide documentation on the incurred fuel costs that were not covered in the market.

DMM supports this proposal to expand after-the-fact cost recovery for physical supply interruption circumstances that were not foreseeable in advance of the day-ahead market timeline. DMM supports the level of granularity of the documentation requirement the ISO outlined in the guidelines and conditions that must be met for resources to qualify for after-the-market cost recovery for physical disruptions.