

Comments on Gas Resource Management: Straw Proposal

Department of Market Monitoring

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Summary

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the *Gas Resource Management Straw Proposal*.¹ The purpose of the proposal is to advance the stakeholder recommendations from the Gas Resource Management working group, which aims to improve the functionality for regional market participants with natural gas-fired resources in the CAISO market, including in the Western Energy Imbalance Market (WEIM) and the Extended Day-Ahead Market (EDAM). DMM provides comments here on the following topics discussed in the straw proposal and the ISO's latest presentation:

- **Informing fuel procurement.** DMM supports the ISO's efforts to provide scheduling coordinators with accurate advisory gas burn schedules. DMM believes the ISO should 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.
- **Accommodating cost variation.** DMM supports the general direction of the ISO's proposals to allow more accurate reflection of gas costs in market bids. However, the straw proposal is missing many details necessary to fully evaluate the proposal's appropriateness and effectiveness. DMM believes the ISO should provide stakeholders with more information about how forecast uncertainty could affect the reasonableness threshold, including how much forecast uncertainty will trigger the reasonableness threshold increase, and how much the reasonableness threshold will be increased. DMM also believes the ISO should provide more details and analysis of the default fuel multiplier, including how this value will be established, and the range of potential values.
- **Negotiated commitment costs and blended fuel regions.** The straw proposal also contemplates development of negotiated commitment costs and a blended fuel region methodology. DMM supports the ISO and stakeholders continuing discussions to clarify details of these proposals. In general, DMM supports automated processes where possible to reflect resource costs in the market.
- **Managing gas burn limitations.** DMM continues to recommend not including operation flow order (OFO) costs in reference level calculations.

¹ *Gas Resource Management Straw Proposal*, California ISO, July 25, 2025:
<https://stakeholdercenter.caiso.com/InitiativeDocuments/Gas-Resource-Management-Straw-Proposal-Jul-25-2025.pdf>

Comments

DMM supports the ISO's efforts to provide scheduling coordinators with advisory gas burn schedules and prices using the D+2 report through CMRI. However, additional analysis is needed to determine the appropriate bid set to use when calculating the D+2 advisory schedules.

The ISO is proposing to replace the residual unit commitment (RUC) advisory schedules from the 48-hour RUC look-ahead process with advisory reliability capacity schedules from the D+2 and D+3 advisory runs. The inputs and assumptions of the D+2 are potential improvements over the 48-hour RUC look-ahead. Where the 48-hour RUC look-ahead and current D+2 report use bids from 7 days prior to the relevant trade date, the ISO recognizes the opportunity to use more recently submitted bids to increase the accuracy of advisory schedules and decrease gas burn uncertainty heading into real-time.

The ISO is seeking feedback on what to do when bids are not submitted in time for the D+2 market run. The straw proposal suggests 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 using either of those options at the discretion of operators as inputs to the D+2 market run.

DMM appreciates the thorough discussion in the paper to explain the pros and cons of using day-ahead bid sets versus using bids from 7 days prior, particularly about mixing weekend bids for weekday forecasts. DMM believes the ISO should 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).

One stakeholder suggestion during the straw proposal presentation on August 12 was to require resources to submit bids in time for the D+2 market run, to increase the accuracy of the advisory schedules and reliability. It was also suggested that the ISO consider multi-day settlement to help incentivize accurate bidding in this scenario. It is unclear how much traction this suggestion may garner, considering the amount of work the ISO would need to implement multi-day settlement. However, DMM believes this may introduce unintended complications for forward contracts, congestion rent, and CRRs just for the benefit of more accurate advisory schedules.

The ISO should provide stakeholders with more details on the proposal for forecast uncertainty to affect the reasonableness threshold

The ISO proposes to increase the reasonableness threshold in response to high forecast uncertainty observed between the D+2 and day-ahead market runs. Like the day-ahead, the ISO will use the most recent demand forecasts for the D+2 market run to produce a D+2 net load forecast and uncertainty requirement for each EDAM balancing area.

DMM appreciates that one of the primary concerns stakeholders had in the working group was to minimize the uncertainty around fuel procurement targets to avoid exposure to intra-day gas prices. DMM understands that the proposal to adjust the reasonableness threshold in response to higher forecast uncertainty is intended as one way to address this concern. However, to assess the effectiveness and appropriateness of this proposal, DMM believes the ISO should provide more information on the proposal. DMM suggests the ISO:

- 1) Conduct analysis to determine what specific level of forecast uncertainty is an appropriate trigger to increase the reasonableness threshold:
 - a. Is the threshold a static number between the D+2 and day-ahead markets?
 - b. Is it a dynamic trigger that depends on other factors?
 - c. Is the uncertainty level trigger balancing area specific?
 - d. Does the ISO have any discretion to determine when the reasonableness threshold is increased or not?
- 2) Define the level of reasonableness threshold increase:
 - a. Will the reasonableness threshold increase be a static number?
 - b. Will it be a dynamic value that depends on the value of observed forecast uncertainty?
- 3) Once the uncertainty level trigger is defined, provide a historic analysis that shows how often, when, and where the reasonableness threshold would have been raised:
 - a. Are there any similarities between the days where this occurs that may shed more light on what types of days, seasons, or events cause this uncertainty beyond the “exceptional circumstances” the ISO analyzed in the paper?
 - b. Is there a clear link between increased forecast uncertainty and higher inter-day gas price volatility to suggest that a higher reasonableness threshold may be appropriate in all instances of elevated forecast uncertainty?

Commitment costs and default energy bids should reflect resource costs without being unnecessarily high to allow exercise of market power or result in inefficient market prices. More information is needed to consider if the proposed reasonableness threshold increase in response to demand forecast uncertainty increases or decreases market efficiency.

DMM supports the ISO continuing to evaluate the accuracy of the D+2 and D+3 market runs after EDAM go-live to verify the value market participants get in the advisory gas burn schedules, and to determine if any changes need to be made. DMM also supports the ISO focusing on analyzing the benefits of the D+2 before considering a D+1.5.

The ISO should provide more details and analysis of the default fuel multiplier used in reference level calculations during persistent conditions

Stakeholders are more concerned with the determination of the fuel cost component of reference levels than the default multipliers, and are concerned that the current reference level change request (RLCR) process is not flexible enough to accommodate resources managing multiple fuel hubs or facing gas supply constraints. The ISO is proposing to apply a configurable default fuel (GPI) multiplier to the fuel region level, so that both default costs and the reasonableness threshold are affected, and more costs can be covered through the automated process.

DMM agrees with the ISO’s assertion in Appendix A of the issue paper that increasing the reasonableness threshold can accommodate a larger volume of gas costs, but also reduce market power protection and inflate costs. The tradeoff between increased bidding flexibility from an automated cost

recovery mechanism and reduced market power is not straightforward to predict or evaluate.² This is why it is important for proposed increases to reference levels—even those that are expansions of existing market instruments, such as the adjustments for persistent conditions discussed in the BPM for Market Instruments—to be clearly discussed and analyzed before implemented.

In the existing policy, if the ISO observes through after-market cost recovery that a resource's costs are systematically greater than the GPI used in reference level calculations, then the ISO can apply a resource-level multiplier to the reasonableness threshold for a determined period. In the current initiative, the ISO is proposing to also apply the resource-specific gas price multiplier to the default commitment costs, as well as allowing resource entities to proactively request that the ISO evaluate their costs to determine if a resource scalar is appropriate.

DMM understands that the ISO is seeking feedback from stakeholders on the specifics of how to assess and implement the resource scalar. These include how far back the ISO should look to assess if a multiplier is appropriate, how long the multiplier should be active for, how often the resource entity can request an ISO evaluation, and what level of observed volatility stakeholders would want covered. DMM encourages the ISO and stakeholders to continue discussing these details, and DMM believes the ISO should:

- 1) Provide details on how the resource-specific multiplier would be calculated.
 - a. Is there a formula to calculate the multiplier?
 - b. Is there a cap on the multiplier?
 - c. What period of time would be analyzed when determining if a resource-specific multiplier is needed?
- 2) Provide analytical examples of the impact of different options (e.g., multiplier levels, observed volatility to be covered, etc.) using historical or example data.

DMM supports automated processes to reflect resource costs where possible

In addition to the resource-specific gas multiplier discussed above, the straw proposal also contemplates development of negotiated commitment costs and a blended fuel region methodology. For the negotiated commitment costs, the ISO seeks input on deciding between a new negotiated commitment cost option that is separate from the negotiated default energy bid (DEB) process, and a negotiated resource-specific fuel cost parameter to inform commitment cost and other reference levels. For the blended fuel region methodology, the ISO seeks input on what an appropriate methodology is for determining GPI values, what time period the methodology should apply for, how many hubs can be included in the blended fuel region, and how the ISO should collect and validate volumetric gas information.

DMM supports the ISO and stakeholders continuing discussions to clarify details of these proposals. In general, DMM supports automated processes where possible to reflect resource costs in the market. If a negotiated rate is necessary to accurately reflect cost, DMM notes that in order to minimize needed negotiations, a negotiated fuel component that could serve both commitment costs and DEBs may be

² *Gas Resource Management: Straw Proposal scoping and alignment*, California ISO, April 16, 2025: <https://stakeholdercenter.caiso.com/InitiativeDocuments/Presentation%20-%20Gas%20Resource%20Management%20-%20Apr%2016%202025.pdf>

preferred over a separate commitment cost negotiation process. Should the ISO and stakeholders determine that any new negotiation of fuel costs or commitment costs would be necessary, DMM notes that the ISO would be the appropriate owner of such a process, rather than DMM.

Operational flow order (OFO) penalties should not be included in reference level calculations

Stakeholders are concerned that OFO conditions can cause gas resources to incur costs that may exceed what their reference levels reflect. As noted in the straw proposal, this can occur when a resource takes actions to avoid violating an OFO (e.g., purchasing gas under tight conditions at prices that exceed index prices), or when bid mitigation results in incremental dispatch that forces a resource to violate an OFO and incur a gas pipeline penalty. Therefore, some stakeholders want to capture OFO conditions in reference levels.

DMM continues to recommend not including OFO costs in reference level calculations. If participants can recover costs that signal gas system constraints through reference levels in the electric market, their demand for gas may not be as sensitive to these price signals. This loss of price sensitivity can negate the purpose of gas pipeline penalties and potentially contribute to gas system reliability issues.

DMM agrees with the ISO that market participants have access to existing tools for gas resources to manage intra-day nomination revisions, price volatility, and different sources of fuel in response to large price spreads and gas market illiquidity that may result during OFO periods. DMM also notes that outage cards, when used in accordance with the CAISO Tariff, are an effective tool to limit resource dispatch during periods of fuel unavailability. DMM encourages the ISO and stakeholders to continue discussions to identify any specific conditions that would force resources to violate an OFO that cannot be addressed by existing tools.

Finally, the ISO proposes to standardize the process for balancing areas to request access to the ISO's gas nomogram constraint for use under the set of conditions pre-defined by FERC. As noted in the straw proposal, the gas nomogram was approved specifically for physical constraints impacting gas and electric system reliability, under a narrow set of conditions. DMM supports continued discussion of this proposal to further improve gas-electric coordination to reduce inefficiencies in electric market outcomes during gas supply limitations.