

Comments on Gas Resource Management: Straw Proposal Scoping and Alignment

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 Issue Straw Proposal Scoping and Alignment* presentation.¹ The purpose of the presentation is to review the policy objectives and approaches stakeholders prioritized during stakeholder meetings, discuss next steps for policy development and timeline feasibility, and review lower-priority scope items to determine if any should be re-considered for near term policy development. DMM provides comments here on the following topics discussed in the ISO's latest presentation:

- **Informing fuel procurement.** DMM believes the ISO and stakeholders should continue discussions on the D+2 advisory model inputs, outputs, and accuracy assessment, particularly regarding the appropriateness of bids used to inform advisory schedules that inform gas procurement in extreme conditions. DMM also agrees with the ISO that scheduling coordinators are in a better position than the ISO to forecast gas burn based on advisory schedules for individual resources.
- **Accommodating cost variation.** DMM believes reference levels should allow resources to reflect their costs accurately, without being unnecessarily high for all hours. The ISO should focus on targeted approaches to cover gas cost variation as opposed to general increases in reference levels which can result in inefficiently high prices.
- **Managing gas burn limitations.** DMM supports continued discussion on improving gas-electric coordination to reduce inefficiencies in electric market outcomes during gas supply limitations, however DMM continues to recommend not including operation flow order (OFO) costs in reference level calculations.

Comments

The ISO and stakeholders should continue to develop the D+2 model inputs, outputs, and accuracy assessment

Stakeholders seek accurate information from the ISO to inform fuel procurement for market awards, while making sure Western Energy Imbalance Market (WEIM) participants are treated equitably. DMM supports the ISO assessing the accuracy of the D+2 advisory report to inform gas procurement targets during the timely gas nomination cycle, and to determine if there are opportunities to improve the report's alignment with the day-ahead and real-time markets. DMM also supports the ISO identifying

¹ *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>

market inputs that could be improved by a “D+1.5” report, but agrees this can be left as a future policy enhancement.

DMM appreciates the goal of aligning the D+2 report as closely as possible to the next day’s day-ahead market run to inform fuel procurement decisions. However, the modeling assumptions regarding using historic bids outlined in the ISO’s recent presentation may not result in accurate outputs. Using historic bids from seven days prior to the relevant trade date (or sooner as suggested by PacifiCorp) may be appropriate inputs to a model during typical system conditions, when loads and gas prices aren’t expected to be drastically different within a week.

However, stakeholders are interested in the D+2 accuracy during stressed conditions, pipeline restrictions, and specific weather events when the system conditions in the days leading up to these events may not be an accurate representation of what bids will be like for the relevant trade date. For these days, the ISO may want to explore modelling expected real-time bids based on similar historic observations, or simply using the bids from historic observations that match anticipated system conditions. Such estimations may be more accurate than using bids from seven days prior.

DMM agrees with the ISO that forecasting gas burn for individual resources is an exercise better left to scheduling coordinators than the ISO. Any gas burn calculations the ISO can make would be an approximation based on CAISO MasterFile data. Some of the inputs to the calculation, such as the incremental heat rate curve in the CAISO MasterFile, are approximations themselves. These approximations are necessary for the ISO to use as inputs to the market, but calculating a gas burn value that is accurate enough to inform gas purchase is not the intent of the data generating process. DMM believes that scheduling coordinators have more detailed knowledge of their resources and therefore are in a better position to calculate gas burn from advisory schedules.

Targeted approaches to accommodate gas price variation are preferable to general reference level price increases

DMM agrees with the stakeholder objectives that gas resource management policies should incentivize the procurement of gas at least cost, and should incentivize resources to provide accurate cost information. DMM further agrees that cost adjustment processes should not impede resources’ ability to provide that information. DMM supports the suggested changes to SIBR to allow requests to be made at the fuel region level and for multiple resources at a time. DMM also supports continued discussions to educate stakeholders in how to utilize all the tools available to accommodate gas cost variation.

Many stakeholders want the ability to recover intra-day gas purchases and purchases made outside of active fuel zones under extreme conditions. Some of the suggested approaches to do so include a weather triggered protocol to temporarily adjust threshold values, temporary modifications to the manual reference level change request (RLCR) process, and negotiated commitment costs for unique supply arrangements.

Accurate reflection of gas costs is important to ensure accurate application of market power mitigation procedures, and DMM recognizes that entities around the West may face a variety of different challenges in accurate gas cost reflection during extreme conditions. However, DMM would like to reiterate that 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. DMM

recommends the ISO and stakeholders focus on ways to make targeted changes to reference level calculations and default energy bids to accommodate gas price variation in extreme conditions. This approach would be preferred to general increases in reference levels or reasonableness thresholds that may cover gas price spikes in specific circumstances, but overestimate costs the rest of the time.

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

Stakeholders have recommended capturing gas limitations in price formation, such as incorporating expected OFO penalties in the opportunity cost component of default energy bids (DEBs). DMM supports continued discussion on improving gas-electric coordination to reduce inefficiencies in electric market outcomes during gas supply limitations. However, 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.

DMM supports the ISO creating a “User Guide” to address immediate stakeholder requests regarding gas nomograms, the interplay between regional gas pipeline practices and electric system reliability, and managing intra-day gas limitations using available tools.