

WESTERN ENERGY MARKETS

Market design initiatives update

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WEM Governing Body meeting
General Session
October 20, 2026

ISO Public



Commitment cost bidding flexibility

- Revisiting with stakeholders the 2018 *commitment cost and default energy bid* changes that expanded the ability for resources to bid in their commitment costs, paired with a new test for market power associated with those offers.
 - Changes have not been implemented nor filed with FERC.
- The ISO is working with stakeholders in 2026 to:
 - Provide education of approved changes including potential commercial impacts – workshops were held in March and June and are expected to continue as we work to refine the implementation design.
 - Vet with stakeholders proposed implementation to validate consistency with approved policy.
- Proposed decisional classification: TBD if decision is necessary.

Demand and distributed energy market integration

- Design focus in 2026:
 - Recognize end-use customer exports within a demand response aggregation so long as the aggregated resource does not export.
 - Draft final proposal published in July; we are taking some time to address stakeholder feedback, outstanding policy and implementation issues, and to explore the implications of recent legislation such as SB913.
 - Growing large-load needs warrant reprioritizing and resequencing the remaining work.
 - Policy development on demand flexibility enhancements is paused and expected to resume in 2027.
 - Working group: Timing being assessed for the real-time demand and pumped-load bidding working group.
 - The ISO's near-term focus will shift to market visibility, forecasting, and integration of large loads.
- Proposed decisional classification: primary authority of the WEM Governing Body.

Extended day-ahead market (EDAM) congestion revenue allocation

- Phase 2 of the initiative focuses on development of a long-term durable congestion revenue allocation design and potential near-term enhancements.
- This phase of the initiative began in December 2025.
- Working group has established broad consensus on design principles as reflected in stakeholder comments.
- Working group held a series of meeting dedicated to evaluation of discrete design concepts, including more recently two meetings to discuss a simultaneous feasibility framework across the EDAM footprint for congestion revenue allocation.
- Now targeting a straw proposal in Q1 2027, to allow more time for additional working group meetings through Q4 2027 to continue to develop and shape a viable design to inform a formal proposal.
- Proposed decisional classification: TBD

Intertie schedule modeling enhancements

- FERC approved tariff clarifications on April 8 regarding intertie schedule modeling on ISO balancing area interties supporting a transitional design for EDAM launch.
- The ISO launched stakeholder workshops in March to consider evolution of the design for modeling intertie schedules for the CAISO balancing area.
- Recurring workshops are discussing modeling of schedules at CAISO balancing area interties and phasing out of intertie bidding at CAISO EDAM internal interties.
- Next workshop will be scheduled in October.
- Proposed decisional classification: TBD

Storage design and modeling

- Revised straw proposal on default energy bids posted September 2026.
 - Further develops the time-of-day approach, a methodology that can be readily used by WEIM-only resources and applies a time-of-day multiplier that supports state-of-charge management efforts and captures changing opportunity costs.
 - Refines the greater-of default energy bid methodology for hybrid resources and provides data on the hybrid fleet's composition.
 - A hybrid resource's default energy bid would be equal to the greater-of the default energy bid values applicable to each of the components that make up 30% or more of that hybrid resource.
- Proposed decisional classification for the items detailed above: primary authority of the WEM Governing Body.

Price formation enhancements (PFE)

- PFE has operated under a two-track framework
 - Track 1 advanced near-term changes on balancing authority area (BAA)-level market power mitigation and incremental scarcity pricing; a revised straw proposal was posted July 2.
 - Track 2 considered longer-term changes, including comprehensive scarcity pricing and BAA-level mitigation for the ISO BAA.
- Based on stakeholder feedback and further design work, the ISO is taking additional time to develop a more integrated PFE proposal
 - The next phase will consider interaction among BAA-level market power mitigation, treatment of the ISO BAA, and broader scarcity pricing enhancements.
 - Given these interactions, the ISO expects to bring the track 1 and track 2 concepts together in the next phase of policy development, rather than continue advancing them on separate paths.
- Next stakeholder milestone
 - Stakeholder meeting in November to preview and discuss the concepts under consideration.
 - Discussion paper targeted for December, informed by stakeholder input from that meeting.
- Proposed decisional classification: primary authority of the WEM Governing Body

2026 market policy catalog & roadmap

- **September 24:** Draft 2027-2029 market policy roadmap released for stakeholder review
- **September 24 - October 30:** Stakeholder comment period
- **October 1:** Stakeholder meeting
- **October 5:** Regional Issues Forum briefing
- **October 10:** Body of State Regulators briefing
- **Mid-November:** Final 2027-2029 market policy roadmap released
- **November 17:** Stakeholder meeting

Informational updates for ongoing market design initiatives not under primary authority of the WEM Governing Body

Resource adequacy design development

- Track 2: Second revised straw proposal published end of September, received comments mid-October.

Track 1: Modeling & Default Rules

- Loss of load expectation modeling.
- Updated default planning reserve margin and default counting rules.

Track 2: Outage and Substitution & Availability and Performance Incentives

- Updating outage and substitution processes.
- Reforming availability and performance incentives.

Track 3: Visibility and Backstop Reform

- Increase the ISO's visibility into available backstop capacity (3A).
- Increase transparency to stakeholders on backstop decision making.
- Update the current backstop product.
- Create longer-term solutions for the CAISO balancing authority area around curing deficiencies and assigning costs related to the EDAM resource sufficiency evaluation.

Decisional classification: ISO Board of Governors

Congestion revenue rights (CRR) enhancements

- The design development is focusing on key challenges:
 - Improving revenue adequacy and auction efficiency.
 - Updating how CRR products are defined to better align with evolving hedging needs.
 - Breaking existing on-peak period into more granular “time of use” periods.
 - Allowing storage locations as a sink to hedge storage charging.
- Initiative activity:
 - Phase 1 is pursuing informing CRR releases with enhanced loop flow modeling authority, which will improve revenue adequacy
 - Phase 1 was approved by the ISO Board of Governors in July 2026, allowing implementation in time for the 2027 annual CRR process
 - Phase 2 will continue discussions in Q3 2026 on auction efficiency, product definition, and additional measures for improving revenue adequacy
- Proposed decisional classification: ISO Board of Governors

Market design initiative process

