WESTERN ENERGY MARKETS

Market design initiatives update

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General Session
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California ISO

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 through Q3.
  - Identify and stakeholder any changes that may be necessary to implement the design given subsequent market design changes.
- Proposed decisional classification: TBD if decision is necessary

Demand and distributed energy market integration

- Key areas of 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; refining proposal further.
  - Update market models for demand flexibility to better reflect regional market participation, including the consideration of a new reliability-triggered demand response product.
  - Incorporate data requirements for large loads.
  - Update reliability demand response model to include minimum on time.
  - Future working group: explore real-time demand and pumped load bidding with stakeholders.
    - Issue paper on these topics posted in March.

- 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 is evaluating a set of three design concepts considering near term enhancements and a long-term design for congestion revenue allocation.
- 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.
- Monthly workshops are discussing evolution in modeling, impacts to resource adequacy processes, and bidding under different modeling designs.
- Next workshop will be scheduled for August.
- Proposed decisional classification: TBD

Storage design and modeling

- Straw proposal on default energy bids, uplift, and state-of-charge management posted July 2026.
  - Lays out a sequenced approach for policy development, targeting a draft final proposal on default energy bids, bidding enhancements, and uplift considerations by the end of 2026.
  - Details two storage default energy bid enhancement approaches, recommending the time-of-day approach for further development.
  - Proposes a “greater-of” default energy bid methodology for hybrid resources.
  - Includes a reframed storage bidding framework for discussion.
- Proposed decisional classification for the items detailed above: primary authority of the WEM Governing Body.

Price formation enhancements (PFE)

- PFE continues under a two-track framework
  - Track 1 advances near-term changes: revised straw proposal posted July 2 on BAA-level market power mitigation and incremental scarcity pricing.
  - Track 2 addresses longer-term changes: working group discussions on comprehensive scarcity pricing and BAA-level mitigation for ISO BAA.

- Stakeholder engagement informed Track 2 timing and scope
  - March 3 WEM Governing Body spotlight briefing and July 14 Market Expert briefing highlighted views on sequencing.

- Proposed decisional classification: primary authority of the WEM Governing Body

2026 market policy catalog & roadmap

- **January/February:** Stakeholders submitted proposals for new market policy initiatives
- **March/April**: Stakeholder prioritization workshops for catalog submissions + RIF roundtable
- **April/May**: Stakeholders prioritization rankings
- **June**: 2026 market policy catalog and updated 2026 market policy roadmap released
- **Early October**: Draft 2027-2029 market policy roadmap released for stakeholder review

2026 market design roadmap

		2026			
		Q1	Q2	Q3	Q4
Commitment Cost Bidding Flexibility		Public dialogue: next steps			
Demand and Distributed Energy Market Integration		Policy development			
EDAM Congestion Revenue Allocation					
	Phase 1	Implementation			
	Phase 2	Policy development			
EDAM Enhancements		As needed			
Intertie Schedule Modeling Enhancements			Policy development		
Finance Enhancements		Policy development	Decision		
Gas Resource Management				Implementation	
Greenhouse Gas Coordination				Implementation	

Implementation dates are considered “no sooner than”

2026 market design roadmap

		2026			
		Q1	Q2	Q3	Q4
Price Formation Enhancements					
	Scarcity pricing & market power mitigation	**Policy development**	**Policy development**	**Policy development**	**Policy development**
	Fast start pricing	**Postponed**	**Postponed**	**Postponed**	**Postponed**
Storage Design and Modeling					
	Topic group 1: Outage management enhancements	**Policy development**	**Policy development**	**Implementation**	**Implementation**
	Topic group 2: Uplift & default energy bids	**Policy development**	**Policy development**	**Policy development**	**Policy development**
	Topic group 3: State-of-charge management	**Policy development**	**Policy development**	**Policy development**	**Policy development**
	Topic group 4: Mixed-fuel & distribution-level resources	**Policy development**	**Policy development**	**Policy development**	
Variable Operations and Maintenance Cost: Triennial Review			**Policy development**	**Policy development**	**Decision** **Implementation**
WEIM Resource Sufficiency Evaluation Enhancements		**Postponed**	**Postponed**	**Postponed**	**Postponed**

Implementation dates are considered "no sooner than"

2026 market design roadmap: items not under primary authority of the WEM Governing Body

<table>
<tr><th></th><th></th><th colspan="4">2026</th></tr>
<tr><th></th><th></th><th>Q1</th><th>Q2</th><th>Q3</th><th>Q4</th></tr>
<tr><td colspan="2">Congestion Revenue Rights Enhancements</td><td colspan="4"></td></tr>
<tr><td></td><td>Phase 1: Enhanced loop flow modeling</td><td colspan="2">Policy development</td><td>Decision</td><td>Implementation</td></tr>
<tr><td></td><td>Phase 2: Further enhancements</td><td colspan="4">Policy development</td></tr>
<tr><td colspan="2">Resource Adequacy Modeling and Program Design</td><td colspan="4"></td></tr>
<tr><td></td><td>Track 1: Modeling and default rules</td><td></td><td colspan="2">Implementation</td><td></td></tr>
<tr><td></td><td>Track 2: Outage substitution and availability and incentive mechanisms</td><td colspan="4">Policy development</td></tr>
<tr><td></td><td>Track 3a: Resource visibility</td><td></td><td></td><td></td><td>Implementation</td></tr>
<tr><td></td><td>Track 3b: Backstop reform and long-term EDAM RSE solutions</td><td></td><td></td><td></td><td>Policy development</td></tr>
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Implementation dates are considered “no sooner than”

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

Resource adequacy design development

- Track 2: Received stakeholder feedback on the May straw proposal.
- Revised straw proposal published in July, comments due early August.

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 enhanced loop flow modeling authority to 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

Initiate

Prioritize objectives and initiatives to develop roadmap

Scope

Define opportunities and scope to reflect diverse goals and objectives

Develop

Stakeholders collaborate to develop solutions and final proposal

Decide

Obtain governance approvals and submit FERC filing as required

Implement

Complete customer readiness, market simulation and go-live

Market policy initiative schedule changes

- **Demand and distributed energy market integration**
  - Decision postponed from October 2026.
- **Price formation enhancements**
  - Track 1 decision postponed from October 2026.
- **Resource adequacy modeling and program design**
  - Track 2: Outage and Substitution & Availability and Performance Incentives decision postponed from October 2026.