



# Memorandum

**To:** Western Energy Markets Governing Body and ISO Board of Governors  
**From:** Benjamin F. Hobbs, Chair, Market Surveillance Committee  
**Date:** December 12, 2025  
**Re:** **Briefing on Market Surveillance Committee activities: October 24, 2025 – December 12, 2025**

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***This memorandum does not require Western Energy Markets Governing Body or ISO Board of Governors action.***

During the period of time covered by this memorandum, the Market Surveillance Committee (MSC) of the California ISO prepared a formal Opinion on the ISO's gas resource management initiative.<sup>1</sup> The MSC held a general session meeting on December 12, 2025 in which we summarized the Opinion, discussed stakeholder questions regarding that initiative, and voted to adopt the Opinion.

In this Opinion, we discussed three of the market design enhancements that are in the initiative's Final Proposal:<sup>2</sup>

1. Changes to the calculation of reference levels (default energy bids, commitment cost caps) for resources with atypically high levels of gas cost variability relative to the standard default energy bid calculation, providing these gas-fired generators with more ability to reflect gas costs in their Extended Day-Ahead Market (EDAM) offer prices. The availability of this offer price flexibility is proposed to be conditioned on the ISO's evaluation of how often resource gas costs fall outside the range covered by the default calculation. This evaluation could be based on historical Reference Level Change Request or other information such as historical fuel cost data. We note some challenges in the Opinion, for instance to doing this consistently across resources in the west. The details of the design matter: too much flexibility might increase risks of local market power. But on the other hand, if the ISO does not provide EDAM market participants sufficient offer price flexibility to manage EDAM

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<sup>1</sup> J. Bushnell, S. Harvey, and B.F. Hobbs, "Opinion on Gas Resource Management", Opinion of the California ISO Market Surveillance Committee, December 12, 2025,

<https://www.caiso.com/meetings-events/topics/market-surveillance-committee>

<sup>2</sup> California ISO, "Gas Resource Management, Final Proposal," Nov. 14, 2025,

<https://stakeholdercenter.caiso.com/InitiativeDocuments/Gas-Resource-Management-Final-Proposal-Nov-14-2025.pdf>.

gas risks this may slow or deter participation in EDAM, or result in greater than intended use of the EDAM export constraint, reducing benefits of EDAM participation.

2. The second enhancement discussed includes additional rules to enable after-the-fact recovery of gas costs during supply disruptions
3. Changes to advisory market runs to improve fuel procurement forecasts available within gas nomination timelines, through day D+2. In the Opinion, we discuss several challenges that need to be reckoned with, including the accuracy of D+2 forecasts for subregions of the West, the effect of varying gas prices, and the desirability of evaluations of predictive accuracy prior to go-live. If an analysis of historical data shows that the ISO could develop reasonably accurate D+2 forecasts on a daily basis at the LAP level, then EDAM participants would be able to make some use of these forecasts, at least on days when they expected the gas price to be relatively stable. On the other hand, if the ISO is unable to develop accurate forecasts of D+2 schedules, then we shouldn't expect EDAM participants to rely much on those forecasts when buying gas in the timely gas market. We would need to factor that reality into rules impacting gas purchases and gas-fired generation offer prices, and operating practices.

In summary, the MSC believes that these changes should help provide some more information and flexibility to market participants, and therefore are worth pursuing as long as implementation costs are not significant.

At the same time, there are ongoing concerns concerning gas resource management that should be addressed in the future. We highlight several in the Opinion, including the following:

1. Market participants have raised concerns about the usability of the Reference Level Change Request process for requesting adjustments to gas costs, noting that it is complex and tedious. We are not market participants and have no visibility into the complexity of the bidding process, nor of the ability of gas-fired generators to use automated processes to submit the information required for Reference Level Change Requests for multiple units within the ISO timelines, and so can only point out the concerns that have been expressed. After considering those concerns, we support the ISO's commitment to enhance Scheduling Infrastructure Business Rules to make it easier for scheduling coordinators to submit reference level adjustments.
2. There remains an inability to easily account for cost changes associated with unit fuel switching.
3. Possible imperfections in the after-the-fact recovery process make it likely that some gas costs will be left unrecovered through that process. Moreover, the bulk of the

out-of-market cost recovery would be allocated to balancing area load and bilateral exports, thereby shifting costs incurred to support export schedules onto either balancing area loads, loads both of the balancing area operator and other load serving entities, or exports within the balancing area. We do not view this as an acceptable design for allocating unrecovered gas costs attributable to ISO reference levels.

4. Our biggest concern is the ongoing absence of a test for supplier market power in capping commitment costs. This means that the commitment costs of all gas units will continue to be mitigated in every dispatch interval in real-time and every hour in the day-ahead market. This lack of a test means that units lacking market power will be subject to potentially inefficient mitigation. On the other hand, the flexibility offered in this proposal may provide units that truly possess market power with overly generous offer bounds. We believe that the development of a workable test for market power in commitment cost is overdue. We welcome the ISO's commitment to hold a stakeholder process next year to address commitment cost cap changes. Its importance to long-run EDAM and WEIM success means that it should move forward on a fast track.