



# Memorandum

**To:** Western Energy Markets Governing Body and ISO Board of Governors  
**From:** Benjamin F. Hobbs, Chair, Market Surveillance Committee  
**Date:** October 23, 2025  
**Re:** **Briefing on Market Surveillance Committee activities: August 29, 2025 – October 23, 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 worked on drafting a formal Opinion on the ISO's gas resource management initiative. The MSC also held a General session meeting to discuss that initiative on September 19, 2025.

In general, the challenges involved in coordinating gas and electricity markets have been a major concern for the ISO throughout its existence. For instance, the crucial role of gas resources to maintaining needed inertia and energy within the Los Angeles basin has been an ongoing worry in the ISO's design of nomograms to ensure sufficient local supply, and California regulator decisions concerning the basin's once-through cooled capacity. This crucial role made headlines after the Aliso Canyon storage facility failure of 2015.<sup>1</sup> As another example, during periods of gas price volatility, the general issue of how to reflect those prices and supply availability in resource offers, including commitment costs and energy, for purposes of market power mitigation, came to the fore. The problem is that if gas resource offer prices are capped by reference prices calculated by the ISO, lags in updating offer these offer caps to reflect current gas market prices, can result in inefficient scheduling of resources when caps for commitment costs and energy offers are based on materially incorrect gas price estimates. This inefficient scheduling raises the cost of meeting load, can result in cost shifts across market participants and can have adverse reliability impacts when gas cannot be procured to cover ISO schedules.<sup>2</sup>

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<sup>1</sup> California ISO, "Aliso Canyon Gas-Electric Coordination, Revised Draft Final Proposal", May 4, 2016, [www.caiso.com/Documents/RevisedDraftFinalProposal\\_AlisoCanyonGas\\_ElectricCoordination.pdf](http://www.caiso.com/Documents/RevisedDraftFinalProposal_AlisoCanyonGas_ElectricCoordination.pdf).

<sup>2</sup> See California ISO, "Commitment Costs and Default Energy Bid Enhancements, Second Revised Draft Proposal," March 2, 2018, [stakeholdercenter.caiso.com/InitiativeDocuments/SecondRevisedDraftFinalProposal-CommitmentCosts-DefaultEnergyBidEnhancements.pdf](http://stakeholdercenter.caiso.com/InitiativeDocuments/SecondRevisedDraftFinalProposal-CommitmentCosts-DefaultEnergyBidEnhancements.pdf), or J. Bushnell, S. Harvey, and B.F. Hobbs, "Opinion on Commitment Costs and Default Energy Bid Enhancements (CCDEBE)," Market Surveillance Committee of the California ISO, March 5, 2018, [www.caiso.com/documents/mscfinalopinion-commitmentcost\\_defaultenergybidenhancements-mar5\\_2018.pdf](http://www.caiso.com/documents/mscfinalopinion-commitmentcost_defaultenergybidenhancements-mar5_2018.pdf).

The ISO's gas resource management initiative is an effort to respond to the ongoing challenges of coordinating the West's gas and electric systems, which differ in gas storage and operating practices across the West. These challenges have become more important to manage for the ISO's market designs because of the expansion of the Western Energy Imbalance Market (WEIM). The launch of the Extended Day-Ahead Market (EDAM) will create additional challenges due to the timing of day-ahead schedules being posted after the timely gas market, and the expanded participation of resources in the day-ahead market in addition to the real-time markets of the WEIM.

The challenges raised by these changes in the Western markets raise concerns about whether the expectations that the initiative's draft final proposal refers to as forming the basis for the ISO's present management of gas resource participation are applicable for all market participants in the West.<sup>3</sup> The challenges concern whether the following two goals are met:

1. that the ISO offer caps allow participants to be able to provide the ISO with updated cost information to ensure that supply offers can fully reflect gas costs and availability, considering the impacts of gas system volatility, illiquidity, and constraints; and
2. that participants have the ability to recover reasonably incurred gas supply costs from either the market or ex post.

If not effectively addressed, these challenges could perhaps materially reduce the benefits from participation in the EDAM, and potentially undermine the continued ability of the WEIM to deliver market and reliability benefits across the west.

The September 19, 2025 general session meeting on the gas resource management initiative began with a presentation by Ms. Sylvie Spewak, Senior Policy Developer at the ISO. She described the initiative as proposing enhancements to the tools used by the ISO to enable participation by gas-fired generators in the ISO markets. Her presentation focused first on the ISO's preliminary assessment of how well D+2 advisory information predicts day-ahead energy schedules for gas resource. Such predictions could be useful for informing fuel procurement during the timely gas nomination cycle.

The second focus of Ms. Spewak's presentation was on enhancements to fuel cost parameters that are used in calculating default energy bids in the market power mitigation process, and commitment cost limits. Two adjustments were discussed by Ms. Spewak, MSC members, and stakeholders. One adjustment would rescale reference fuel cost levels for a resource so that the probability of an actual resource's commitment or energy costs exceeding the relevant threshold for mitigation would be consistent across resources within a

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<sup>3</sup> California ISO, "Gas Resource Management, Revised Draft Final Proposal," Sept. 17, 2025, [stakeholdercenter.caiso.com/InitiativeDocuments/Draft-Final-Proposal-Gas-Resource-Management-Sep-17-2025.pdf](https://stakeholdercenter.caiso.com/InitiativeDocuments/Draft-Final-Proposal-Gas-Resource-Management-Sep-17-2025.pdf), pp. 1, 4.

balancing authority. One tool to accomplish this would be to weight fuel costs at more than one hub in an attempt to better reflect gas purchase costs faced by a resource. The second proposed adjustment would apply broadly; when the D+2 gas burn prediction is wrong, or when forecasts prior to the day-ahead market indicate that the D+2 prediction was wrong, the ISO will give all affected resources more flexibility to update their reference level costs before the market run.

Following the staff presentation, Dr. Scott Harvey of the MSC made a presentation that addressed in detail five gas market topics. These topics included the following.

1. Challenges involved in forecasting D+2 gas burn by resources.
2. How the quality of default energy bids is affected by volatility in gas prices the resulting gas price indices used to calculate default bids, as well as by the location of resources relative to trading hubs.
3. Mitigation of energy offer prices, and how it is affected by erroneous gas price estimates. This portion of the presentation discussed, specifically, the possible interactions of those errors with transmission congestion, especially in the import direction.
4. The capping of commitment costs which in the ISO occurs regardless of whether local markets are found to be competitive or not by the ISO's pivotal supplier tests. Dr. Harvey suggested that this issue is a more serious concern than the third issue of mitigation of energy offer price issue, and that a balancing of the risks of over- and under-mitigation needs to be considered.
5. Limitations in the initiative's proposed approaches to mitigating the adverse impacts of capping commitment costs without regard to the potential for market power. Dr. Harvey stated that these limitations create a number of challenges to participation in the EDAM.