

WESTERN ENERGY MARKETS

Decision on Gas Resource Management Enhancements

Danny Johnson

Market Policy Development

WEM Governing Body meeting

General Session

December 16, 2025



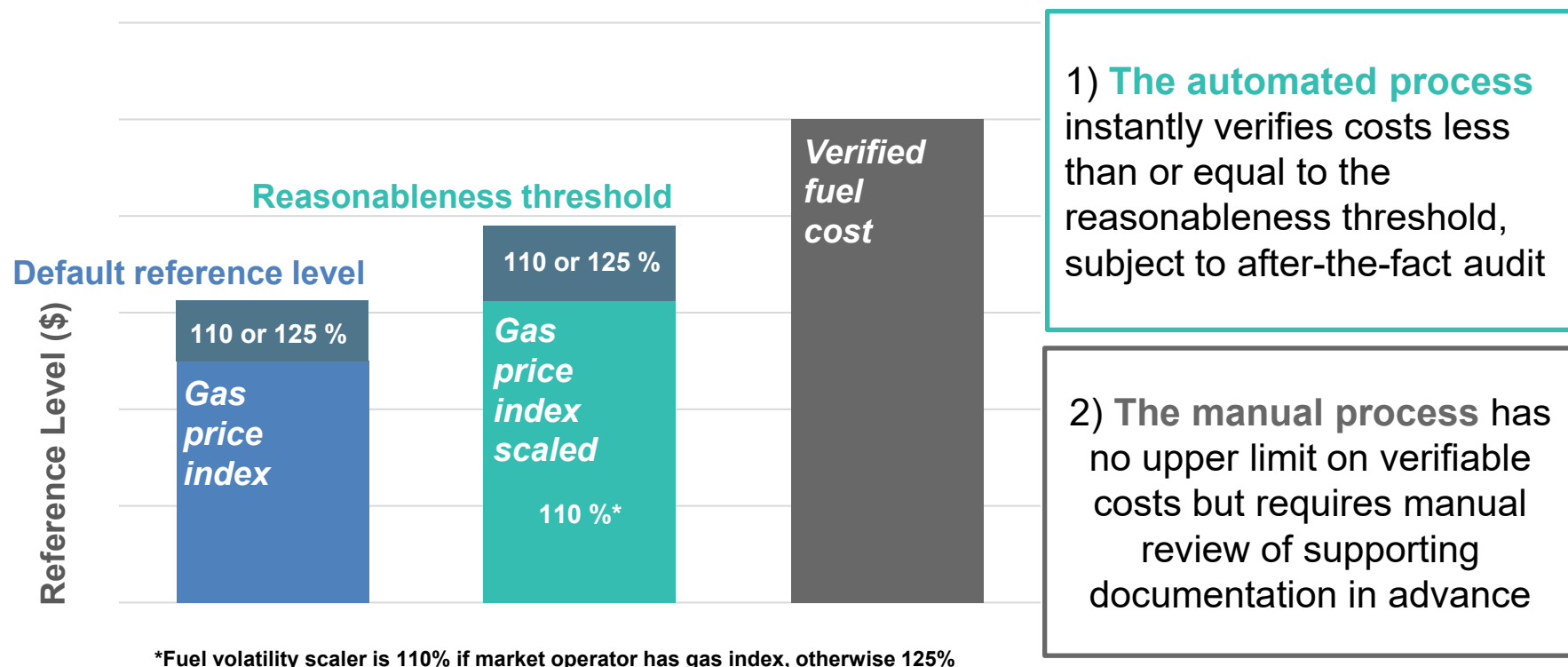
Enhancing participation for gas resources across the market footprint

- Gas resources throughout the Western Energy Imbalance Market area face different gas market and physical infrastructure conditions
- Proposed enhancements provide more accurate fuel cost recovery, reliability support and improved alignment on fuel procurement - giving gas resources flexibility to adapt to market changes
- Management's proposal is an important step towards ensuring gas generation can more successfully participate in the ISO operated Western markets

Existing reference levels and cost adjustment process

Reference levels formulas account for **resource specific costs** and consider fuel costs, physical generator characteristics, and other cost information

When gas price volatility raises costs beyond the safe harbor provided by the **default reference level**, resources have two options for temporary cost adjustment requests:



Management's proposal builds on existing tools to support market participants' ability to manage fuel supply and fuel cost uncertainty

Accommodating fuel cost volatility in reference levels

- Today, gas resources can update their reference levels to reflect expected costs
- Stakeholders support more flexibility to reflect and recover costs facing resources without storage, in high demand events, or unexpected disruptions

Gas-electric coordination for reliability

- WEIM/EDAM balancing authorities should also have access to Market Operator tools that facilitate management of gas system limitations,
 - *i.e.*, use of a specialized constraint in electric markets to help manage gas system reliability issues

Informing fuel procurement (not a decisional item)

- Better information prior to the day-ahead market can reduce fuel procurement
- Builds upon EDAM changes that provide additional information to market participants

Management proposes providing gas resources more opportunities to manage fuel cost volatility

- Ensure default reference levels capture conditions and prices that resources are regularly exposed to
 - Proposed gas price index adjustment would reduce the need for frequent use of cost adjustment process
- Increase flexibility to reflect the costs of meeting unanticipated commitments
 - Additional flexibility for automated cost adjustments is appropriate when changing conditions drive changes in demand for same-day gas
 - Increasing the reasonableness threshold in these conditions will ensure more costs can be reflected in the market
- Ensure cost recovery when cost adjustments cannot be reflected through the existing processes
 - For example, a physical supply disruption will qualify a resource to seek after-the-fact cost recovery

Gas price index adjustment example

Resource A

Resource B

Reasonableness
threshold

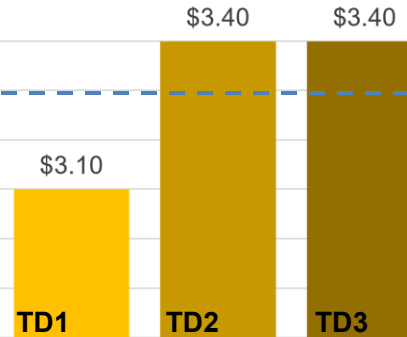
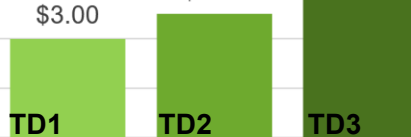
\$3.63

Reasonableness
threshold

Default
reference level

\$3.30

Default
reference level



Reasonableness
threshold

\$3.63

\$3.84

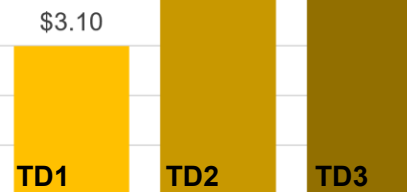
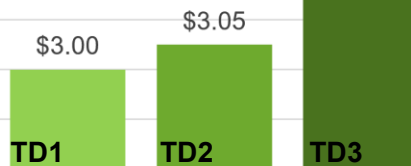
Adjusted Reasonableness
threshold

Default
reference level

\$3.30

Adjusted default
reference level

\$3.50



Management proposes expanding access to use of gas constraint in the electric market to support reliability

- When a gas limitation threatens gas and electric system reliability, the balancing authority and the gas pipeline operator must consider how they can maintain reliability on their respective systems
 - The Market Operator can use specialized constraints to ensure the aggregated gas consumption of a group of gas resources does not exceed available pipeline capacity
- Authorize the Market Operator to seek FERC approval to use this gas constraint to address a specific gas limitation
 - Subject to standardized set of criteria and guidelines that must be met to ensure use as a reliability tool and compliance with FERC standards of conduct

Management will pursue process enhancements that provide useful advisory day-ahead market results to inform fuel procurement

- The Market Operator runs an advisory two-day-ahead market, known as the “D+2”, which will be available to EDAM market participants
- The proposal will enhance the D+2 process to provide better resource-specific potential gas schedules:
 - Use available bids for the relevant market
 - Provide more granular information to improve market results transparency
 - Provide advisory information beyond two days ahead to support planning over weekends and holidays
- All within existing tariff authority

Position of stakeholders

- Stakeholders supported the proposal to provide more flexibility in representing costs, but some raised concerns about misuse
 - Proposed methodology balances implementation feasibility and needed flexibility sought by stakeholders
 - As part of the audit process, the ISO will monitor for any adverse or unintended consequences
- Supported making gas constraint available for use more broadly within the market footprint
- Broadly support the Market Operator providing advisory schedules
- Stakeholders and the Market Surveillance Committee support pursuing implementation of commitment cost mitigation changes
 - Management will pursue implementation of Commitment Costs and Default Energy Bid Enhancements (CCDEBE) and will explore if policy changes are needed with stakeholders

Management recommends approval of the proposed changes to gas resource management tools

- The proposal provides more flexibility for gas resources to reflect their costs within the market dispatch
 - Provides gas resources participating in EDAM an equitable opportunity to reflect their costs and minimizes reliance on after-the-fact cost recovery
 - Does not preclude future work to lessen frequency of mitigation
- All participating balancing areas should have equitable access to the Market Operator's reliability and coordination tools