

October 28, 2025

Rebecca Wagner, Chair
Andrew Campbell, Vice Chair
Anita Decker
Robert Kondziolka
Deborah Smith
Western Energy Markets Governing Body
250 Outcropping Way
Folsom, CA 95630

Re: Comments of the Joint Load-Serving Entities (“LSEs”) on the Price Formation Enhancements Initiative – Scarcity Pricing

Dear Chair Wagner, Vice Chair Campbell, and Members of the WEM Governing Body:

In response to communications submitted by Vitol Inc. (“Vitol”)¹ and the Western Power Trading Forum (“WPTF”),² the California Community Choice Association (“CalCCA”), the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (the “Six Cities”), the Northern California Power Agency (“NCPA”), Pacific Gas and Electric Company (“PG&E”), and Southern California Edison Company (“SCE” and, together with CalCCA, the Six Cities, NCPA, and PG&E, the “Joint LSEs”) encourage the Governing Body to refrain from adopting any directive for CAISO to take immediate action to develop expansive revisions to scarcity pricing mechanisms and, in particular, to refrain from endorsing the type of scarcity pricing approach described in Vitol’s submission. Rather, the Joint LSEs support the CAISO’s focus on implementation of the Extended Day-Ahead Market (“EDAM”) and Day-Ahead Market Enhancements (“DAME”) with potential consideration of any need for broad modifications to scarcity pricing mechanisms and the appropriate design for any such mechanisms found to be needed following evaluation of initial operations under the EDAM and DAME designs.

Contrary to the views expressed by Vitol and WPTF, the Joint LSEs do not believe there has been a demonstration of need for adoption of substantial modifications to scarcity pricing measures currently in place and included in the EDAM/DAME design. Since the 2020 scarcity events, CAISO has integrated 13 GW of storage capacity on its system. While Vitol asserts that scarcity pricing enhancements are needed to encourage investment in resources, the CAISO’s interconnection queue currently contains proposed projects that would provide new capacity totalling several times the volume of forecast demand. The primary challenges at this time lie in

¹ The presentation by Vitol is available at: <https://www.westerneim.com/Documents/Briefing-on-Spotlight-Initiative-Price-Formation-Enhancements-Vitol-Presentation-Oct-2025.pdf>.

² The WPTF letter to the WEM Governing Body is available at: <https://www.westerneim.com/Documents/WPTF-Public-Comment-Letter-Price-Formation-Enhancements-Initiative-Oct-2025.pdf>.

processing the numerous requests in the queue and providing for deliverability of resources under development.

In addition, the Joint LSEs oppose consideration of any scarcity pricing mechanism that would apply only within the CAISO Balancing Authority Area (“BAA”), such as the framework described by Vitol. A scarcity pricing mechanism based on Ancillary Services would be limited to the CAISO BAA, because the CAISO-operated markets do not procure Ancillary Services for other BAAs participating in the Western Energy Imbalance Market (“WEIM”) or expected to participate in the EDAM. There are fundamental challenges and a high potential for unintended and inequitable consequences associated with implementing market-based scarcity pricing signals in the context of a regional market that involves multiple BAAs with varying approaches to procurement of reserve products and operational responses to scarcity conditions. It is critical that any design changes to scarcity pricing measures create incentives and pricing impacts applicable throughout the market footprint and avoid disproportionate impacts on different sub-areas of the market. Indeed, WPTF’s letter acknowledges that any scarcity pricing mechanism should operate across all BAAs participating in the markets, and the framework described by Vitol would not meet that standard.

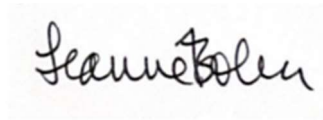
Contrary to Vitol’s presentation, the Joint LSEs have concerns with and are not currently supportive of using Value of Lost Load (“VOLL”) estimates to set scarcity pricing. Moreover, in the context of EDAM, we are unpersuaded that VOLL provides enhanced accuracy in measurement of the economic cost of load shedding or otherwise offers a superior methodology for pricing during scarce conditions. Among other concerns, the VOLL concept does not appear to be limited to any particular market conditions that are reasonably reflective of scarcity. It also appears to be incompatible with any notion of assuring just and reasonable rates for consumers. For example, the revised pricing elements that comprise the MISO pricing example included in the Vitol presentation are alarmingly high, and the Joint LSEs would be concerned with implementation of these values within the CAISO operated markets without significant data showing that these measures would not harm ratepayers and would, in addition, produce tangible and measurable economic and reliability benefits. VOLL does not address or consider conditions in which the pricing of supply should reflect the cost to provide that supply and is vague with respect to the concept of valuing avoided demand curtailment. There also is no clear link between an escalating VOLL and effective attraction of additional supply. A high level of VOLL will not lead to additional supply if there is no additional supply available. The questions raised by the CAISO during the stakeholder process regarding determination of VOLL within the CAISO and within the broader WEIM/EDAM footprint and the limitations on the CAISO’s ability to determine these values without relying on external studies illustrate the challenge and complexity of implementing VOLL in a way that achieves just and reasonable outcomes.

A more prudent course is to focus CAISO and stakeholder resources on successful implementation of the EDAM design and preservation of the benefits of the WEIM. Any consideration of scarcity pricing enhancements during the initial implementation period should

be limited to focused improvements applied to the currently approved design. If subsequent evaluation of market performance following implementation of EDAM reveals a need for additional scarcity pricing mechanisms, then any mechanisms considered should apply throughout the integrated market footprint and create consistent price signals and incentives for all market participants.

Thank you for your consideration of this issue.

Sincerely,



Leanne Bober,
Director of Regulatory Affairs and Deputy
General Counsel
CALIFORNIA COMMUNITY CHOICE
ASSOCIATION

/s/ Bonnie S. Blair
Bonnie S. Blair
Margaret E. McNaul
Thompson Coburn LLP

bblair@thompsoncoburn.com
mmcnaul@thompsoncoburn.com

*Attorneys for the Cities of Anaheim, Azusa,
Banning, Colton, Pasadena, and Riverside,
California*

/s/ Lisa G. Dowden

Lisa G. Dowden
Jeffrey M. Bayne
Amanda C. Drennen
Samuel B. Whillans

Spiegel & McDiarmid LLP
1818 N Street NW
8th Floor
Washington, DC 20036
(202) 879-4000

*Attorneys for the Northern California Power
Agency*



Jeffrey Nelson
Director, FERC Rates and Market Integration
Southern California Edison Company
Jeff.nelson@sce.com

/s/ Scott Ranzal

Director of Market Policy & Analytics
Pacific Gas and Electric Company
sdri@pge.com