



Western Power Trading Forum (WPTF)
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WEM Governing Body:
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Andrew Campbell
Anita Decker
Robert Kondziolka
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Dear WEM Governing Body Members,

The Western Power Trading Forum (WPTF) is a California nonprofit, public benefit corporation. It is a broad-based membership organization dedicated to enhancing competition in Western electric markets while maintaining the current high level of system reliability. WPTF supports uniform rules, open access transmission, and transparency to facilitate transactions among market participants. The membership of WPTF includes load serving entities, energy service providers, scheduling coordinators, generators, power marketers, financial institutions, and public utilities that are active participants in the California market, other regions in the West, and across the country.

We appreciate the California ISO's continued efforts to enhance price formation in its markets. This work is especially important in light of the August 2020 blackout events, which highlighted shortcomings in price signals during stressed system conditions. These events clearly demonstrated the need for energy prices that more accurately reflect system conditions and send strong economic signals to attract additional supply when it is most needed. Following those events, CAISO committed to stakeholders that it would develop a robust scarcity pricing design to help prevent similar reliability challenges in the future. However, we are now five years removed from 2020, and we are concerned with the current status of the Price Formation Enhancements meeting that commitment. The CAISO has an opportunity here to improve price signals during stressed system conditions to help improve reliability and we are hopeful they will make this a priority in the immediate phase of Price Formation Enhancements (PFE) - especially given there is a viable option.

The Price Formation Enhancements (PFE) initiative is a critical step toward improving reliability by enabling the market to respond more effectively during periods of tight supply. Accurate and timely price signals can help prevent emergency conditions such as load shedding, or at least reduce their severity and duration. This is particularly important as the Western electricity landscape becomes more integrated and with multiple markets operating concurrently. In such an environment, CAISO must be able to signal scarcity effectively in order to attract available supply that might otherwise be offered to other markets.

While we appreciate the CAISO's efforts to date, we are concerned that the current status of the PFE initiative does not fulfill the objectives laid out in 2021 and increases

reliability risk of the CAISO EDAM and EIM markets. The current proposal includes only limited improvements that would trigger price adjustments once scarcity conditions are already present. However, a central feature of a robust scarcity pricing design is the ability for prices to begin rising gradually as supply starts to tighten, before actual scarcity is reached. Early pricing signals are central to allow the market participants to respond in time to prevent emergencies by offering in any additional supply that may be available both internally and from outside the BAA. The proposal, as it stands, misses this critical element by delaying price signals until scarcity is already occurring, and postpones discussion of any more gradual pricing mechanism to a future, undefined phase.

CAISO has indicated that a more comprehensive scarcity pricing design may be developed following potential enhancements to the Flexible Ramping Product (FRP) and Ancillary Services (AS). While improvements to these market products may be worthwhile, relying solely on them to achieve robust scarcity pricing is insufficient. There is currently no clear timeline for these enhancements, and considering CAISO's ongoing priorities, it is unlikely these efforts will be initiated and finalized within the next one to two years. This raises the concern that a robust scarcity pricing design could be delayed by another five to ten years. More importantly, even with improvements, FRP and AS have inherent limitations that prevent them from delivering consistent and accurate scarcity signals across all markets, products, and balancing authorities.

There are, however, feasible and effective design options available today, options noted by WPTF and other stakeholders, that could be implemented in the current policy phase and would not rely on future FRP or AS changes. At a high level, this would gradually elevate energy prices as the remaining available supply in the market to meet demand decreases; as that calculated margin tightens, the prices increase. This provides predictability necessary to ensure resources are available to meet reliability needs.

We would also like to address the PFE initiative's approach to balancing authority area level market power mitigation (BAA Level MPM). Currently, CAISO applies mitigation measures to address market power due to local transmission constraints (local market power mitigation) and also applies BAA-level mitigation to non-CAISO BAAs under WEM (and EDAM at go-live) to prevent potential market power from impacting BAA-wide prices. The CAISO BAA has historically been exempt from BAA-level MPM based on a consistent determination that it is competitive, a conclusion supported by past and recent analyses from the Department of Market Monitoring (DMM). CAISO now proposes to test the CAISO BAA for market power absent any robust analysis showing that the competitiveness of the BAA has changed. This would likely result in over-mitigation, leading to artificially suppressed prices during tight system conditions, conditions when accurate and elevated prices are most critical.

Furthermore, when CAISO previously agreed to explore applying BAA-level MPM to its own footprint, it did so with the clear caveat that such mitigation would only be implemented alongside a robust scarcity pricing design. This is because any suppression of prices due to over-mitigation must be counterbalanced by a pricing mechanism that ensures prices still reflect the value of scarce supply. Without such a

mechanism, the market will be unable to attract additional resources during periods of system stress, directly undermining reliability.

For these reasons, we respectfully request that the WEM Governing Body direct CAISO to fully develop and review, in this current phase of the PFE initiative, a robust scarcity pricing design that includes mechanisms allowing prices to rise as supply begins to tighten. This design should function across all market products and BAAs and align with the original goals established five years ago to enhance price accuracy and system reliability. We also ask that CAISO staff be directed to conduct a robust, forward-looking study to evaluate the competitiveness of the CAISO BAA, as a foundation for any decision to apply BAA-level market power mitigation within the CAISO footprint.

Timely and accurate price signals are essential to ensuring reliability and efficiency in an increasingly dynamic and interconnected market. We believe CAISO can lead on this front, and we urge you to ensure that this policy effort results in meaningful and timely progress toward the shared goals of market efficiency, reliability, and fairness.

Thank you for your time and continued leadership on these important issues.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Miller", with a stylized flourish at the end.

Scott Miller, Executive Director
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