

WEM Governing Body Initiative Spotlight Price Formation Enhancements – Scarcity Pricing

PRESENTED ON BEHALF OF:

Bay-Area Municipal Transmission Group, California Community
Choice Association, Northern California Power Agency, Pacific Gas
and Electric Co., San Diego Gas & Electric Co., Six Cities, and
Southern California Edison Co.

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Scope and Timing of Reform: Key Points

- Now is not the time for comprehensive price formation reform
- Comprehensive scarcity pricing mechanisms, if considered, should be assessed only after implementation of and experience with the Day Ahead Market Enhancements and the Extended Day Ahead Market
 - Reduces risk of unintended consequences
 - Enables new and expanded data under revised market rules to inform policy changes
 - Allocates stakeholder and CAISO resources appropriately and accommodates implementation limitations
- The Joint California LSEs support moving forward with the incremental improvements identified and agreed upon in the CAISO Straw Proposal

Comprehensive Changes Are Premature

- A scarcity pricing mechanism based on ancillary services would be limited to the CAISO balancing authority area, at least until ancillary service optimization is broadened
 - Co-optimization of ancillary services important to minimize differences in market scope and potential for inconsistent pricing signals
- Further changes to the reserve demand curve are not appropriate because ancillary services are not co-optimized across regional footprint
- New reserve products should not be introduced until the impacts of imbalance reserves are fully understood
- Moreover, there is no urgent need for comprehensive reform:
 - We have scarcity pricing measures in the market already
 - Unnecessary to encourage new resource investment – California resource adequacy program enables capacity payments that support generation development
 - EDAM expected to provide significant reliability benefits to EDAM participants and the CAISO balancing authority area

Recommended Next Steps

1. Move forward with finalizing incremental scarcity pricing measures and market power mitigation elements identified in Straw Proposal
 - Stakeholders noted data needs in comments – the focus should be here and on assessment and refinement of Straw Proposal elements
 - Scarcity pricing is not a necessary prerequisite for market power mitigation changes
2. Postpone discussion of additional scarcity pricing measures until EDAM and DAME have been implemented and market participants have experience with new and redesigned products, market elements, and market dynamics
 - Will allow for a more informed and thoughtful discussion
 - Additional data will be available
 - Represents most productive use of CAISO and stakeholder resources given level of 2026 activities and resource and implementation constraints

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