Carbon Pricing in Organized Wholesale Electricity Markets

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Opening Comments

Panel 2

Overview of Carbon Pricing Mechanisms and Interactions with RTO/ISO Markets

First, my thanks to the Chairman, Commissioners and Commission staff for hosting this conference. We think the wholesale markets' ability to facilitate state resource choices is critical to the markets' future. The manner in which this is accomplished will affect the means by which resource adequacy is achieved in the region.

In recent years, the New England states have become leaders in the important fight against climate change. Their primary tool to effect rapid de-carbonization has been to sponsor clean energy resources outside of the wholesale markets, which make the owners of these resources largely indifferent to market prices. Accordingly, subsequent participation by these sponsored renewable resources in the wholesale markets also has the consequence of interfering with price formation.

We know that we cannot operate a reliable power system without a healthy supply of balancing resources in addition to the new clean energy resources. Recent studies have shown that, if we are to fully de-carbonize the New England economy, we will need more of these balancing resources. Today, most of these balancing resources are unsponsored by the states and are wholly reliant on pricing in the competitive markets. The dilemma is that the out-of-market actions can cause price suppression, which may lead to the retirement of those balancing resources when they are still needed to ensure reliability.

It is clear that wholesale markets and state energy policy are not working well together, leading to work-around solutions such as the MOPR and CASPR. Unfortunately, to date, the region has not been able to agree on a solution that avoids these mechanisms while also assuring resource adequacy and just and reasonable compensation for all resources.

ISO New England has long advocated for carbon pricing as a solution that allows markets to efficiently price emissions without harming price formation. That said, we also recognize that any solution requires a coordinated effort with state and federal policymakers, and our stakeholders.

Many policymakers are concerned that carbon pricing will lead to cost increases in the wholesale markets. We believe that those increases will be significantly offset by reductions in state programs. Furthermore, we can implement a 'net carbon pricing' methodology whereby the emissions fees on resources are automatically rebated to wholesale buyers through our wholesale settlements systems, thereby minimizing the cost impact.

This methodology will create powerful incentives within the wholesale market to accelerate the clean energy transition by producing additional revenues for renewables, the nuclear units, and the most efficient balancing resources. A final bonus is that it will reduce dependency on the capacity market and eliminate the need for the MOPR and CASPR.

The ISO is working with our stakeholders to study the future of the grid and markets by conducting analyses of a range of options to better align the market and state policies. Although we consider net carbon pricing to be the most efficient solution, we recognize that there is also significant interest in a forward clean energy market. Consequently, the

Markets Committee of our Board of Directors has asked us to include the evaluation of both options in the regional initiative.

Thank you again for the opportunity to discuss these important issues.