Federal Energy Regulatory Commission Technical Conference on Carbon Pricing in Organized Wholesale Electricity Markets

Opening Remarks of Clare Breidenich, Carbon and Clean Energy Committee Director
Western Power Trading Forum

9/11/2020

The Western Power Trading Forum[1] (WPTF) is pleased to provide our views on carbon pricing in organized wholesale electricity markets and on the role of the Federal Energy Regulatory Commission (FERC) in overseeing efforts of regional transmission organizations(RTOs) and Independent System Operators (ISOs) in facilitating state carbon pricing programs.

WPTF considers a federal or regionally coordinated multi-sector carbon pricing programs, such as cap and trade, to be the most cost-effective and efficient means of achieving greenhouse gas reductions. For the electric sector, carbon pricing aligns well with the operation of competitive electricity markets, because it enables the cost of carbon to be factored into generator dispatch.

In the absence of federal regulation, carbon policies are appropriately the purview of state legislatures and environmental regulators – not RTOs or ISOs. However, depending on the design of state program, these entities may play an important role in facilitating implementation. In particular, where carbon pricing programs impose border adjustments on electricity imported to the state or region to address emissions leakage, involvement of the market operator would be necessary to ensure appropriate inclusion of carbon prices in energy offers, to attribute electricity imports to state or regional load, and to support accounting of carbon emissions associated with these imports.

Where RTOs or ISOs facilitate carbon pricing in their markets, FERC's role should be to ensure that these efforts maintain the competitiveness and efficiency of the wholesale electricity markets. To this end, WPTF considers the following principles to be critical.

- **Carbon pricing should be transparent**. Market operators must ensure transparency in how the overall carbon price per ton is derived and how it is applied for individual resources. Additionally, market design should consider how carbon pricing impacts locational marginal prices (LMPs) both inside and outside the carbon control area, and how these LMPs would differ from a counter-factual scenario without carbon pricing.

- **Market design should ensure that similarly situated resources within and outside the carbon control region are treated equivalently**. Resources should

[1] WPTF is an organization of over 90 power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the West.

not be competitively disadvantaged on the basis of their location.

- **Market design should ensure a nexus between carbon responsibility and resource control**. The entity that bids the resource should bear responsibility for carbon emissions or receive the carbon premium for zero or low emitting resources.

- **Market design should support the environmental effectiveness of carbon program.** While some shifting of generation and associated emissions may be an unavoidable consequence where carbon pricing is undertaken in a limited geographic area within a broader energy market, to the extent possible, market design should avoid causing dispatch distortions that increase emissions within the market footprint relative to a scenario without carbon pricing.

- **Market design should not impose costs on market participants outside the carbon control area.** Resource bidders must be able to avoid being deemed to serve load within the carbon control area and carbon costs should not increase LMPs outside the carbon control area.

.