THE UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Carbon Pricing in Organized Wholesale Electricity Markets	**)**	**AD20-14-000**

COMMENTS OF THE AMERICAN COUNCIL ON RENEWABLE ENERGY

The American Council on Renewable Energy ("ACORE") submits these comments in response to the Federal Energy Regulatory Commission's Notice of Proposed Policy Statement ("Proposed Policy Statement") issued October 15, 2020, which would encourage efforts to incorporate a state-determined carbon price in organized wholesale electricity markets.[1] ACORE is a national nonprofit organization dedicated to advancing the renewable energy sector through market development, policy changes and financial innovation.

I. Executive Summary

We commend the Commission for issuing the Proposed Policy Statement, an important first step toward integrating climate externalities into RTO/ISO market rates. It follows the development of a robust record and continues FERC's tradition of enhancing market efficiency. We urge the issuance of a final policy statement and further encourage the Commission to explore whether carbon pricing that enhances market efficiency in one RTO/ISO might also enhance market efficiency in all RTO/ISOs.

[1] *Carbon Pricing in Organized Wholesale Elec. Mkts*., 173 FERC ¶ 61,062 (2020).

II. Background

On April 14, 2020, ACORE and a diverse industry coalition jointly petitioned FERC to "convene a technical conference or workshop to discuss integrating state, regional, and national carbon pricing in FERC-jurisdictional organized regional wholesale electric energy markets."[2] Recognizing the potential for near-term action at the state and regional levels, as well as our nation's climate imperatives, the coalition jointly submitted, "The unique features of organized wholesale electricity markets create an opportunity for integrating policies that directly price carbon emissions into energy market operations. And…several entities that administer organized markets regulated by the Commission have recently been considering doing so in their markets."[3]

Accepting the coalition's joint petition, the Commission held a "Technical Conference regarding Carbon Pricing in Organized Wholesale Electricity Markets" on September 30, 2020.[4] The Proposed Policy Statement correctly notes, "the record of that conference identified numerous potential benefits from incorporating a carbon price set by one or more states into RTO/ISO markets."[5] It began with then-Chairman Chatterjee opening the conference by recognizing, "[O]ur complex energy markets cannot be hermetically sealed from state environmental policies. That's just an undeniable fact."[6]

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[2] *See* "Request for Technical Conference or Workshop," Advanced Energy Economy, American Council on Renewable Energy, et al., April 14, 2020, https://acore.org/wp-content/uploads/2020/04/Carbon-Pricing_Request-for-Tech-Conf-or-Workshop.pdf.
[3] Ibid.
[4] *See* "Technical Conference Regarding Carbon Pricing in Organized Wholesale Electricity Markets," Federal Energy Regulatory Commission, September 30, 2020, https://www.ferc.gov/news-events/events/technical-conference-regarding-carbon-pricing-organized-wholesale-electricity.
[5] *Carbon Pricing in Organized Wholesale Elec. Mkts*., 173 FERC ¶ 61,062 (2020).
[6] *See Transcript of* "Technical Conference Regarding Carbon Pricing in Organized Wholesale Electricity Markets," Federal Energy Regulatory Commission, September 30, 2020, https://www.ferc.gov/sites/default/files/2020-11/AD20-14-000-Transcript.pdf.

Three ACORE members, ranging from renewable developers to electricity traders to wholesale sellers, spoke at the conference. Taken together, their comments can be summarized as follows: As states, wholesale buyers, and end-use customers increasingly align their preferences with our nation's climate imperatives, incorporating carbon prices in wholesale markets raises confidence in those markets and can facilitate the expansion of those markets. Failing to accommodate burgeoning state policies risks the opposite effect.[7] This incorporation is another logical step in FERC's long march of enhanced and increasingly competitive and efficient markets designed to preserve grid reliability well into the future, much as Order No. 841 unleashes the potential of energy storage and Order No. 2222 expands markets to aggregated distributed energy resources.[8]

III. Comments on the Proposed Policy Statement

We applaud the Commission for proposing that "it is the policy of this Commission to encourage efforts to incorporate a state-determined carbon price in RTO/ISO markets"[9] and encourage this sentiment to carry through to a final policy statement.

A. Efficiencies from Pricing Carbon in RTO/ISO Markets

The practical effects of pricing carbon in RTO/ISO markets are twofold: Carbon pricing improves wholesale market operation by achieving more economic dispatch decisions in the short term and investment and retirement decisions in the long term. In the short term, lower-emitting resources will receive dispatch signals over higher-emitting resources more often than

[7] Ibid.
[8] Ibid.
[9] *Carbon Pricing in Organized Wholesale Elec. Mkts.*, 173 FERC ¶ 61,062 (2020).

they would otherwise. In the long term, pricing carbon in RTO/ISO markets sends market signals to highest-emitting resources that they should retire, and it also drives investment in new, low-carbon resources by showing that they can more effectively compete to earn revenue. Investors currently have to guess at the value of electricity based on widely varying state-based values of high-, low-, or zero-carbon emitting resources. Markets do not work well without clear price signals. Prices on carbon can allow states to rely increasingly on a common, technology-neutral policy, rather than a wide variety of technology-specific policies.

FERC-approved rates in RTO/ISO markets that mirror state goals will improve market efficiency. Carbon pricing in RTO/ISO markets will continue a standard of cooperative federalism and allow state policies and wholesale markets to work together. Currently, one state's carbon policy, without carbon pricing at the RTO/ISO market-level, may only lead to "leakage" where carbon is shifted elsewhere. Carbon pricing at this broader, RTO/ISO market level can help prevent leakage and facilitate state policies.

B. Commission Authority for Potential Future Action

Unlike the consensus regarding the incorporation of state carbon prices into RTO/ISO market tariffs under Section 205 of the Federal Power Act, the Commission's authority to implement carbon prices under Section 206 of the Federal Power Act warrants further examination. Understanding that the Proposed Policy Statement addresses filings pursuant only to Section 205, we encourage the Commission to clarify in its final policy statement that nothing in it should be construed as precluding the Commission from assessing its authority to proactively implement prices on carbon emissions via Section 206. The Commission should not take a position on this issue in its final policy statement, either explicitly or by implication. It

should be left to subsequent analysis of the particular facts and circumstances of any future Section 206 complaints lodged by the public or the Commission.[10]

Finally, if the Commission determines that rates which internalize the real cost of generation by pricing carbon emissions are just and reasonable, and that such internalizing results in enhanced market efficiency, ACORE believes that the Commission should explore the benefits of extending such market efficiencies across RTO/ISO markets via a Section 206 proceeding.[11] Allowing climate externalities priced elsewhere to escape inclusion in pricing anywhere raises concerns about the justness and reasonableness of those rates which do not include prices on carbon.

Respectfully Submitted,

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[10] New York University School of Law's Institute for Policy Integrity concisely lays out the Commission's potential authority to price carbon with a section 206 proceeding in its March 2020 report, "Carbon Pricing in Wholesale Electricity Markets: An Economic and Legal Guide." In summary, FERC would first ascertain that existing market rules were "unjust, unreasonable, unduly discriminatory, or preferential, because there is an uninternalized externality that is limiting the economically efficient operation of the organized wholesale market(s). FERC would then have to determine that a (new) carbon-pricing rule would remedy the problem identified with the existing market rules, either on its own or in combination with other measures."

[11] Furthermore, Section 202(a) of the Federal Power Act highlights the connection between environmental considerations and the RTO/ISO construct. *See* 16 U.S.C. §824a, "For the purpose of assuring an abundant supply of electric energy throughout the United States with the greatest possible economy and with regard to the proper utilization and *conservation of natural resources* [emphasis added], the Commission is empowered and directed to divide the country into regional districts for the voluntary interconnection and coordination of facilities for the generation, transmission, and sale of electric energy, and it may at any time thereafter, upon its own motion or upon application, make such modifications thereof as in its judgment will promote the public interest."