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Pricing Carbon in Wholesale Electricity Markets: RTOs/ISOs Looking at a Carbon Price to Integrate Regional Public Policy Goals

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By: Shawn Whites (Paralegal)

Close by in New York, Gov. Cuomo has proposed zero emission credits (ZEC) for nuclear generators. In response, NYISO's CEO, Brad Jones, noted that NYISO would "like to see [ZECs] be temporary in nature. . . a bridge into a future where the market can really resolve these issues."[2] NYISO is looking at pricing carbon in its markets as the better way to encourage zero carbon emissions by increasing competition and innovation to achieve the goal, and it is doing so through its 2017 Integrating Public Policy Project (IPPP). At its September 12, 2016, Budget and Priorities Working Group meeting, an NYISO presentation on the IPPP listed a "fully internalized carbon price" as a "pure market" approach "towards internalizing the value of zero-emissions" in its markets. Of the three IPPP objectives, objective two—exploring the need for a redesign of NYISO's wholesale market—will look at whether a "state policy defined cost of carbon in the wholesale market would improve the overall efficiency of the NYISO energy and capacity markets while reducing overall costs to New York consumers." NYISO is currently seeking stakeholder feedback on the intended scope and feasibility of the IPPP.

ISO-NE and NYISO's willingness to consider incorporating the cost of carbon into energy prices is largely a response to state and regional public policy goals promoting increased renewable generation and emissions reductions. Both RTOs and ISOs believe that pricing carbon would serve as an "in-market" solution to address these goals while preserving reliability, as opposed to "out-of-market" state subsidies for renewables and other forms of generation—the latter of which is causing other RTOs/ISOs to re-examine their market rules. For example, PJM's August Grid 20/20 event included presentations on market design changes to “accommodate [state] policy goals without distorting market principles.” PJM itself presented a paper noting that out-of-market subsidies designed to achieve public policy objectives have the potential to suppress wholesale market prices and identified a possible alternative to Minimum Offer Price Rules to eliminate the effect of state subsidies in its markets, which we blogged about here. The midcontinent independent system operator’s (MISO) August Market Symposium included a four-person panel discussing “Market Design Criteria in a Low-Carbon World.” Perhaps then, PJM and MISO will be the next ISOs to look at carbon pricing.

It also appears that federal lawmakers are beginning to take up this issue, as Rhode Island Sens. Jack Reed (D) and Sheldon Whitehouse (D) and Congressmen Jim Langevin (D) and David Cicilline (D) recently evidenced in their letter to the Federal Energy Regulatory Commission (FERC) calling for energy market price formulations that include shadow carbon pricing. Change is in the air, and it could land on FERC’s doorstep in 2017.

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[1] Rich Heidorn Jr., Lack of Carbon Pricing Distorting RTO Markets, CEOs, Ex-Regulator Say, RTOInsider.com (June 20, 2016), http://www.rtoinsider.com/carbon-pricing-distorting-rto-markets-28144/.

[2] *Id.*

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