



Carbon Pricing Update: Stakeholder Forums in ISO-NE and NYISO Continue to Assess Wholesale Carbon Pricing Proposals

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NEPOOL's¹ November 10, 2016, Integrating Markets and Public Policy (IMAPP) meeting is the latest to feature updates on carbon pricing in the ISO-NE energy market, with the Conservation Law Foundation and Exelon Corp. advocating for a carbon price. Other moving proposals include (i) a carbon-integrated, forward-capacity market (FCM), (ii) a forward clean energy market, (iii) a clean power plant solicitation proposal and (iv) an FCM two-tiered pricing construct.

NEPOOL's revised stakeholder schedule puts it on track to vote on one or more of these proposals during late Q1 or early Q2 of 2017. The New England States Committee on Electricity (NESCOE), the organization representing the interests of the six New England governors, continues to express reservations about carbon pricing. NESCOE notes in a memorandum to stakeholders that it "does not anticipate arriving at collective state support" for the current iteration of the carbon pricing proposal, given four main concerns: (i) the carbon price necessary to achieve the level of procurement needed to meet state policy goals leads to higher consumer costs, (ii) a complex cost allocation is required to ensure that one state is not funding the public policy goals of another, (iii) there is potential duplication of existing carbon-related market mechanisms, and (iv) there are jurisdictional and legal concerns regarding the incorporation of a carbon price in the locational marginal price of energy. Exelon addressed several of these concerns by revising its proposal to set the carbon price at \$32/ton rather than at \$42/ton, but noted that such a low price level would require that a clean energy procurement backstop mechanism be paired to the carbon price to adequately meet state goals.

Should a carbon price make it through the NEPOOL process and eventually land on FERC's doorstep in the form of ISO-NE tariff revisions, it might have an advocate in Commissioner Cheryl LaFleur, who stated at the ISO-NE Consumer Liaison Group meeting in early December that, "[i]n my mind, Plan A is the region that creates some kind of comprehensive plan that recognizes the state environmental goals and the [role of] pricing in the wholesale market and files it at FERC."²

In New York, NYISO's Integrating Public Policy Project has selected The Brattle Group to examine carbon pricing in NYISO's markets as a tool to assist New York in achieving its decarbonization goals more cost-effectively, with a draft whitepaper expected to be released in January 2017. The Brattle Group presented an outline for the whitepaper at NYISO's

December 14, 2016, Market Issues Working Group meeting, noting that it will look at the market-design aspects of implementing a "carbon charge,"³ carbon abatement and economic benefits, effects on consumer costs, and "lessons learned" from other jurisdictions, including NEPOOL's IMAPP initiative. But, unlike the IMAPP, which has a clear carbon pricing proposal before it—albeit one that will undergo further refinement into the beginning months of 2017—The Brattle Group seems to be tasked with designing and/or exploring all elements of a potential carbon charge, signaling a stakeholder process that is still in its infancy.

With the added endorsement of a FERC commissioner—on top of support from the CEOs of both grid operators—carbon pricing in wholesale markets is becoming more likely in New York and New England. It remains to be seen if other grid operators will adopt similar stakeholder processes examining the role of carbon pricing in their markets.

¹ NEPOOL is the participant voting organization on all wholesale electricity market matters across the New England states.

² William Opalka, *LaFleur Backs NEPOOL Market-Climate Collaborative*, RTOInsider.com (Dec. 5, 2016), <https://www.rtoinsider.com/lafleur-nepool-climate-change-34944/> (internal quotation marks omitted).

³ A carbon charge refers to a carbon offer added that is appended to a resource's supply offer to reflect the social cost of carbon of ~ \$40/ton.

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