

**UNITED STATES OF AMERICA
BEFORE
THE FEDERAL ENERGY REGULATORY COMMISSION**

Carbon Pricing in Organized Wholesale Electricity Markets

Docket No. AD20-14-000

**POST-TECHNICAL CONFERENCE COMMENTS
OF THE PJM POWER PROVIDERS GROUP**

The PJM Power Providers Group (“P3”)¹ strongly believes that market-based mechanisms are the preferred means of achieving meaningful carbon reductions in PJM and will be a fundamental element of any sustainable market design. While there are different market-based mechanisms that can be deployed in support of that goal, these means are preferable to a patchwork of technology/resource-specific subsidies that undercut market fundamentals and inevitably lead to consumers paying more than they need to.² P3 is pleased to see FERC recognize its role in the effort to reduce carbon emissions and looks forward to future conversations about specific market-based proposals in PJM.

¹P3 is a non-profit organization that supports the development of properly designed and well-functioning markets in the PJM region. Combined, P3 members own approximately 67,000 megawatts of generation assets, produce enough power to supply over 50 million homes in the PJM region covering 13 states and the District of Columbia. For more information on P3, visit www.p3powergroup.com. The comments contained in this filing represent the position of P3 as an organization, but not necessarily the views of any particular member with respect to any issue.

² See IMM comments noting that implied carbon price in current SREC programs in PJM range from \$64.74 per tonne (PA) to \$871.90 per tonne (DC). *Comments Of Joseph Bowring, Independent Market Monitor For PJM, Carbon Pricing in FERC-Jurisdictional Organized Regional Wholesale Electric Energy Markets, FERC Docket No. AD20-14-000 (“IMM Carbon Pricing Comments”),* at p. 3.

In general, P3 agrees with FERC’s legal conclusion as expressed in the policy statement that it has authority under section 205 of the Federal Power Act to consider proposals that incorporate a state-determined price on carbon into the wholesale market rate. The Commission should consider whether any filing is just and reasonable on a case-by-case basis and it is important that cost and environmental benefits be considered as part of that evaluation. The Commission should refrain, at this time, from putting rigid requirements on any such filing from an RTO, but instead retain flexibility to respond to different flavors of carbon pricing in different regions of the country. New England and PJM could easily develop different proposals related to carbon pricing, yet both could be considered just and reasonable.

In that light, the Commission should take note that active conversations are occurring in PJM related to the pricing of carbon. Currently, New Jersey, Delaware, Maryland and Virginia are members of the Regional Greenhouse Gas Initiative (“RGGI”). Pennsylvania is actively considering joining RGGI and Illinois Governor Pritzker has endorsed a carbon price in his state.³ If Pennsylvania and Illinois begin to price carbon, 70% of the installed capacity in PJM will be subject to a price on carbon emissions. This would be a significant change from just two years ago.

At the RTO level, since July of 2019, PJM stakeholders have been engaged at the Carbon Pricing Senior Task Force to explore leakage and other issues associated with carbon pricing. While PJM has made it clear that it has no current intention to establish a carbon price, the

³ See Pennsylvania Governor Tom Wolf, Executive Order No. 2019-07, *Commonwealth Leadership in Addressing Climate Change through Electric Sector Emissions Reductions Number*, issued June 22, 2020, and Illinois Governor JB Pritzker, *Putting Consumers & Climate First Governor Pritzker’s Eight Principles for a Clean & Renewable Illinois Economy*, released August 21, 2020 (“Gov. Pritzker’s 8 Principles”), p. 7.

analytics behind different border adjustments and leakage issues has been enlightening. Recently, the task force began examining the merits of specific carbon pricing proposals. At this moment, there is no clear conclusion to the task force's work and no specific Commission filing anticipated. Any filing that would come from the task force's work will need significant input from the PJM states. P3 encourages the Commission and PJM to identify opportunities to facilitate discussion among the states on carbon pricing proposals and associated proposals to address leakage. Indeed, the Commission and PJM are natural facilitators, especially on leakage discussions, due to the direct effect such proposals have on the functioning of the wholesale market.

To date, carbon reductions in PJM have been significant and those reductions will only continue to grow as market forces and environmental pressure continue to reduce the number of coal facilities in PJM. Since 2005, carbon emissions are down 35% in PJM and will certainly decrease even more with the recent closures of major coal facilities in PJM.⁴ Moreover, additional coal closures in PJM are expected over the next 5 years which will even further reduce the carbon emissions from the power sector.⁵

⁴ <https://insidelines.pjm.com/emissions-continue-to-drop-throughout-pjm-footprint/>.

⁵ On September 29, 2020, P3 Member Vistra announced it was closing over 6500 MWs of coal facilities in PJM and MISO. See, <https://investor.vistracorp.com/investor-relations/news/press-release-details/2020/Vistra-Accelerates-Pivot-to-Invest-in-Clean-Energy-and-Combat-Climate-Change/default.aspx>. Also, on November 10, 2020, P3 Member, Talen Energy, announced it would cease coal-fired operations at all of its wholly-owned facilities no later than the end of 2025 (the end of 2028 for one unit). See, <https://talenenergy.investorroom.com/2020-11-10-Talen-Energy-Announces-Transformational-Move-Toward-a-Sustainable-ESG-Focused-Future>

It is important to note that these carbon reductions in PJM have occurred without sacrificing the benefits of markets. As carbon emissions have fallen in PJM, so have energy prices. Energy prices in the first half of 2020 were the lowest in the history of PJM and followed 2019 which also set new lows for historic energy prices.⁶ Over the same time, reserve margins have improved and there is sufficient capacity in PJM to meet projected demand.⁷ The Commission and PJM should rightfully be proud that price, reliability and emissions reductions, the metrics by which markets should be measured, all have grown stronger over the last decade.

In order for these market successes to be preserved, the Commission must remain vigilant and protect the market from the impact of market-distorting state subsidies. While changes to the Minimum Offer Price Rule were controversial and have yet to be implemented, the focus of state level conversations has changed in the wake of the decision. State level policy discussions are less focused on technology-specific subsidies and more focused on market-compatible solutions such as carbon pricing. As an example, Governor Pritzker recently rejected subsidy-backed efforts to remove his state from the PJM capacity market via an FRR proposal, but instead implored his state to create, "... a market-based program that incorporates the social cost of carbon, including long-term damage from CO₂, into generation costs."⁸

⁶ See, https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2020/2020q2-som-pjm-sec1.pdf

⁷ See, <https://www.pjm.com/-/media/committees-groups/subcommittees/raas/20191008/20191008-pjm-reserve-requirement-study-draft-2019.ashx>

⁸ Gov. Pritzker's 8 Principles, *supra*, p. 7.

Moving forward, PJM looks forward to continued engagement with PJM and its stakeholders to develop a just and reasonable, market-based means of pricing carbon in the PJM markets. The timing of such a proposal remains difficult to gauge at this moment and Commission leadership regarding timing might be appropriate. If the Commission desires to see a proposal from PJM, it should require PJM to make an informational filing that includes the following:

- estimates of emission reductions relative to some baseline;
- estimates of emissions and cost leakage under both (1) the current sub-regional implementation of RGGI, and (2) a scenario where a subset of the PJM states were to pursue higher carbon valuations such as the social cost of carbon or a value designed to achieve those states' carbon reduction goals;
- any concerns PJM may have regarding the functioning of its markets in the absence of a leakage mitigation proposal under either of the above scenarios; and
- any concerns PJM may have regarding the functioning of its markets in the absence of carbon pricing and in the context of some of its states' carbon reduction and clean energy goals.

That information filing could also include an explanation as to why PJM is not in a position to make a filing to address any market function concerns.

Overall, PJM is well-positioned to preserve reliability, maintain low power prices and effectively reduce carbon emissions. The progress to date has been extraordinary and this progress can indeed continue if the Commission remains committed to the embracing the benefits of competitive markets and protecting these same markets from the distortion caused by

out of market subsidies. The building blocks are in place for a successful market construct. A price on carbon could be all that is needed to finish the job.

November 16, 2020

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 16th day of November, 2020.

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