



Carbon Pricing in Organized Wholesale Electricity Markets

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Opening Comments

**Panel 3
Considerations for Market Design**

Mr. Chairman, Commissioners, and Commission staff, thank you for the opportunity to speak today.

I'm sure the Commission will find it no surprise to hear yet another economist observe that, to decarbonize the power sector, pricing carbon emissions would be a trifecta: simple, cost-effective, and transparent. Equally importantly, it would work harmoniously with wholesale electricity markets.

To see all of that, we need look no further than the pricing of sulfur dioxide emissions, which has been in place for nearly three decades. That market, which is well documented, has effectively curbed acid rain, done so at far lower cost than initially expected, and presented no impediments to the nation's electricity markets – or to their market designs.

From a practical standpoint, ISO-NE could certainly implement and administer carbon pricing across our footprint. In simplest terms, implementing carbon pricing involves two basic things: (1) measuring what power plants do, and (2) settling payments based on those measurements, at the applicable rate. Fundamentally, those are two data-intensive activities that ISOs are very good at. After all, in the electricity markets, we do similar things every day, 365 days a year, for over two decades now.

Ultimately, we can have electricity that is clean, reliable, and cost-effective. But we have to be smart about how we do it. The recent experience in California has highlighted the importance of ensuring that a regional transition to a lower-carbon power system preserves its reliability. And in New England, the path we are presently on – with states sponsoring intermittent resource development through out-of-market mechanisms, and a Minimum Offer Price Rule that largely precludes their capacity market participation – does not work harmoniously with the wholesale electricity markets.

In short, the current state of affairs is not simple, it is not transparent, and it will ultimately cost New England consumers far more than necessary.

Fortunately, there is a better path. We can have a clean, reliable, and cost-effective system – if we are smart about it. And, from the standpoint of reducing carbon emissions in a manner consistent with sound market design, the smartest move would be to implement carbon pricing.

Thank you.