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Members Launch Discussion of Carbon-Pricing Market Design

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PJM members have begun a conversation about whether adjustments to the PJM market design should be employed on a regional or sub-regional level as states adopt carbon pricing mechanisms.

Michael Borgatti of Gabel Associates introduced a problem statement and issue charge at the March 21 meeting of the Markets & Reliability Committee (MRC) that builds upon a [2017 PJM white paper that analyzed potential carbon-pricing frameworks](#).

That white paper "posited that reflecting the cost of carbon in energy market prices could leverage the wholesale energy markets to advance the energy and greenhouse gas reduction policies adopted by some of the PJM states," according to the [problem statement](#).

Since the paper was released, Borgatti noted, New Jersey and Virginia have begun the process of joining the Regional Greenhouse Gas Initiative carbon reduction compact. Delaware and Maryland are already members.

Borgatti presented the issue on behalf of the Independent Energy Producers of New Jersey, a trade association representing wholesale electricity generators in that state. While the group is not a PJM member, Borgatti said several of the PJM member companies it represents are prepared to move the issue to a vote at the next meeting of the MRC.

Starting a Discussion

The concept of whether and how to price carbon emissions is a controversial topic, Borgatti acknowledged. Some states are actively talking about these environmental policies, others are not and some may even oppose such proposals.

The purpose of the exercise is not to indict or endorse any of those positions, he said.

"It's just reality. This is a discussion that is simply happening now," Borgatti said. "It's being had whether we want to or not."

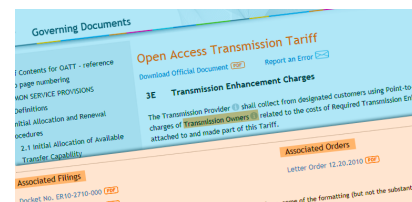
PJM and its members have the opportunity to create a tool to accommodate state policy decisions that already are being made, Borgatti said.

PJM already is undertaking detailed modeling and analysis of what carbon pricing could look like throughout the PJM footprint, including its potential impact and revenue stream, said Stu Bresler, senior vice president – Operations and Markets.

"The timing is fortuitous, and PJM supports engaging stakeholders in this discussion," Bresler said.

As proposed, the motion would create a senior task force reporting to the MRC. Borgatti suggested the work be spread over one or two years.

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A significant portion of the education and analysis would address “leakage,” a dynamic that occurs when energy produced by higher-emitting generators in a non-carbon-priced region is imported into a carbon-priced area, displacing lower-emission resources. Unchecked, leakage can impact generator investment decisions and consumer costs in all areas, according to the problem statement.

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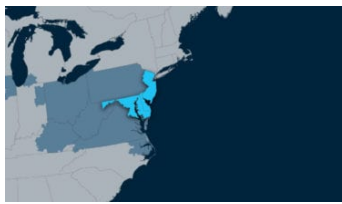
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