

# Carbon Pricing in Organized Wholesale Electricity Markets: Federal Energy Regulatory Commission Proposed Policy Statement



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The Federal Energy Regulatory Commission (“FERC”) proposed on October 15th a policy statement titled:

*Carbon Pricing in Organized Wholesale Electricity Markets (“Policy”)*

See Docket No. AD20-14-000.

The FERC characterizes the proposed Policy’s objective as encouragement of efforts to incorporate a state-determined carbon price in organized wholesale electricity markets.

Carbon pricing is sometimes described as a policy tool whose objective is to reduce the amount of carbon dioxide entering the atmosphere. Two methods of accomplishing that can include imposition of a fee or cap on the tons of carbon dioxide released. Carbon pricing in relation to the electricity sector addresses the relative cost of operating generators in terms of carbon emitted.

States are characterized as taking the initiative in addressing climate change through policies to reduce carbon emissions. Eleven such states are stated to have imposed some type of carbon pricing. Further, regional markets are described as examining such an approach.

The FERC has determined that regional market rules incorporating a state-determined carbon price fall within its jurisdiction over wholesale rates. Rules proposed in a particular Federal Power Act (“FPA”) Section 205 filing will be based on specific facts and circumstances.

The FERC is seeking comment on issues such as:

- How do the relevant market design considerations change depending on the manner in which the state or states determine the carbon price? How will that price be updated?
- How does the FPA section 205 proposal ensure price transparency and enhance price formation?
- How will the carbon price or prices be reflected in locational marginal pricing?
- How will the incorporation of the state-determined carbon price into the regional market affect dispatch? Will the state-determined carbon price affect how the regional market co-optimizes energy and ancillary services?
- Does the proposal result in economic or environmental “leakage,” in which production may shift to more costly generators in other states, without regard to their carbon emissions? How does the proposal address any such leakage?

A copy of the proposed Policy can be downloaded [here](#).

