EPSA Members Renew Call for Carbon Price; See Long 'Bridge' for Gas

From left: Competitive Power Ventures President and CCO Sherman Knight; Vistra CEO Curt Morgan; LS Power Generation President Nathan Hanson; and Tenaska Power Services President Kevin Smith | © *RTO Insider LLC*

Mar 31, 2022Rich Heidorn Jr.

WASHINGTON — Competitive power generators on Tuesday renewed their calls for a national price on carbon emissions while complaining of a lack of market support for the flexible gas-fired generation they say will be needed to supplement renewables for the foreseeable future.

Top officials from Calpine, LS Power, Vistra (NYSE:VST), Competitive Power Ventures and Tenaska delivered their views at the Electric Power Supply Association's Competitive Power Summit at the National Press Club, where some of their concerns were echoed by a panel of Ph.D.s and the CEOs of *NERC*, *PJM* and *ISO-NE*.

“I think it’s worth saying one more time: national carbon price. It’s such a no brainer,” said Sherman Knight, president and chief commercial officer for Competitive Power Ventures. “It’s straightforward. It is efficient, and it gets it gets the job done.”


Sherman Knight, president and CCO, Competitive Power Ventures | © *RTO Insider LLC*

“I don’t know why we continue to have this debate about what’s the most direct way [to accomplish decarbonization]; what’s the most … even playing field; what seems to be administratively easy to do,” agreed Curt Morgan, CEO of Vistra. “And for the life of me, I’ve met with a lot of people on Capitol Hill — many you guys probably have too — and I still can’t quite get my head around why we can’t get something like a carbon price. [It’s] baffling, I think, to all of us. There is movement though; I will say I’m not as pessimistic as I was a year ago.”

“If we don’t put that price of carbon on the system, I don’t see how anything could work,” Harvard economist William Hogan said in the last session of the daylong conference. “We’re doomed to fail. So I’m very pessimistic about it.”

“I agree with everything that Bill just said,” economist Paul Sotkiewicz, president of E-Cubed Policy Associates, joked in response. “In fact, now I’m so depressed, I’m going to bring my hair dryer into my shower.”

A More Expensive Transition

“The energy transition is going to be expensive. … And it’s going to be far more expensive if we go around choosing pet projects here, here and here,” Knight said. “We feel like we’re chasing state mandates, as opposed to focusing on reliability and reducing carbon in the industry. And that gets a little bit frustrating. … We can do it, you know, but certainly it’s less effective [than] if there was a federal, or even just a regional — within an RTO — consistent, policy.”

ISO-NE CEO Gordon van Welie cited a study by the RTO that predicted the region could face negative LMPs within a decade that would “wreck the markets.”

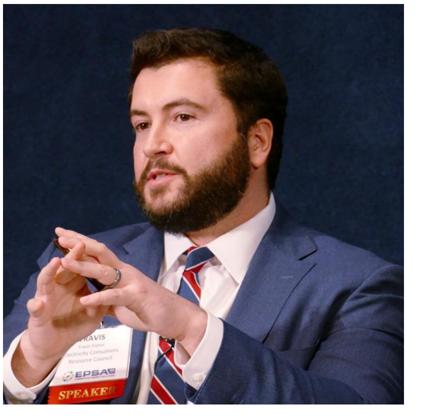
“As the states grapple with that reality, I think there’s some empathy starting to develop towards having to put a carbon price into the electricity markets. It’s probably not the right place to do it; the right place to do it is in [the economy-wide Regional Greenhouse Gas Initiative] or some national scheme. But both of those are not really politically feasible at this point. So the next best [place] is to put it into the ISO markets. And we’re going to

"It pains me to say it, but I think there is value in some incrementalism, mostly because we have no other option," said Arnie Quinn, vice president of FERC-jurisdictional markets for Vistra. He added that his company would also support a forward clean energy market like that under discussion in ISO-NE. (See *Draft Study Weighs Tradeoffs of CO2 Pricing, FCEM for ISO-NE*.)

"Incremental carbon pricing is better than none," agreed PJM Independent Market Monitor Joe Bowring, who noted RGGI has had a "demonstrable impact" on system dispatch in PJM despite the fact that only four PJM states currently belong to RGGI.

The RGGI model allows states full control over the carbon quantity and price variables. The results of those state decisions change the marginal costs of generators in the PJM market, and the impacts flow through the normal market dynamics without the RTO having to make any policy decisions about carbon.

"There has to be more state cooperation — whether it's in the form of a carbon price, or in recognizing the value of transmission — to help meet state renewable energy and other goals along with resource adequacy," said John Moore, director of the Natural Resources Defense Council's Sustainable FERC Project.



Travis Fisher, president, Electricity Consumers Resource Council | © *RTO Insider LLC*

Travis Fisher, president of the Electricity Consumers Resource Council (ELCON), said state targets "that say you have to get to this place 30 years from now [is] a very expensive way to do it."

Instead, policymakers should say, "'We are going to minimize the cost of the entire system — generation, transmission, all parts of it — we're going to minimize the cost of it, subject to all the other policy constraints.' … It's got to be reliability, at least cost."

The Length of the Natural Gas 'Bridge'

The role of natural gas also was a recurrent theme in the discussions, with NERC CEO Jim Robb and PJM CEO Manu Asthana joining generators in insisting that natural gas will be needed to supplement intermittent resources and ensure reliability.

"In a world where policymakers don't want gas — gas has become the new coal in many areas — what do we think is going to provide that balancing capability?" Robb asked. "It could be hydrogen, but that's a long, long way away. It could be batteries, but we don't have a battery technology that can perform cost-effectively at the scale we would need it to with the durations that we would need. It could be small nuclear reactors [with] flexible characteristics. But that's a long, long way off."

Robb said he agreed with those who see natural gas as a "bridge" to a low-carbon future. What "terrifies me in this transition [is] a lot of people think that the bridge is about this long," he added, spreading his hands a few inches apart. "And I think most people in this [conference] room would say this bridge extends from that wall to that wall. Your point of view on the length of that bridge dictates an awful lot as to what you do in terms of investing in infrastructure."

The inability to invest in gas infrastructure or electric transmission, Robb said, "is really going to cripple our ability to meet any of the emission-reduction targets that we have."

"I think it is a long bridge," Asthana responded. "In fact, PJM is on the record as saying that we think we need access to our thermal generation until and unless there's replacements of assets in place."

Devin Hartman, energy and environmental policy director for R Street Institute, said NERC and others need to address a "reliability and cost education problem."

"There are folks — a sizable population — that genuinely believe that we can just force all natural gas off the system nationwide [in] this decade, replace it with renewables, and costs will go down and reliability will be maintained," he said. "We have a stronger role to play in educating policymakers and others in understanding these mechanisms. How do markets drive [generator] entry and exit? How do they manage risk?"

Where's the Market Support?

Asthana said capacity markets may be increasingly important in providing incentives to gas generators as energy markets respond to renewables with zero marginal costs. "And you know, maybe there's an answer in the form of other ancillary services that we procure for ramping or some other form of flexibility."

Generators said that while they continue to support competitive markets, they are not providing price signals for new gas units.

Vistra's Morgan said the industry is "at a crossroads," with reliability at stake.

Vistra Corp. CEO Curt Morgan | © *RTO Insider LLC*

"I may be the boy that cried wolf, but that's OK. I'm telling you … there is a big disconnect in places like PJM and in places like ISO New England if we don't do something about this," he said. "We've got to have an analysis done that figures out that marginal resource that is necessary, under the most extreme circumstance, with the intermittent resources out, that will ensure reliability. And the ISOs have to be the ones to step up and do this because they're the objective person. [If] we come to the table, people say, 'Oh, they're those greedy generators, or 'they're just talking their book again.'

"I don't know how to build a gas plant today, in a competitive market, with not knowing how long it's going to be around," he continued. "I don't know how you can say that $50/MW-day, or $2 or less a kilowatt-month on a capacity clear supports new build of a gas plant. … Look, competitive markets have brought better reliability, lower costs. … But we've got a lot of hands in these markets, and a lot of forces are [attempting] to drive lower and lower capacity" prices.

CPV's Knight agreed that "price signals do not currently support investment in new dispatchable generation in most of the country."

"I think that what we have to be careful about is saying competitive markets aren't incentivizing investment. And I think that is absolutely not true. I think what we're talking about here is tweaking the competitive markets … as the infrastructure transition occurs … so that it can unleash the power of private capital to come in and make investments — or not have private companies preserve capital by retiring perfectly good assets that are needed for the transition."

Generators said the move to effective load-carrying capability should help the most flexible gas units.

"If it takes you 24 hours to start up, that's not that useful to the grid with intermittent resources," Morgan said. "So combined cycle plants that have much more flexibility ought to have a higher effectiveness rating than … a gas steamer that takes 24 hours to start up. … We can't just come in always pushing our own [generation]. We have to admit that some of our dispatchable resources are less effective."