

## Issue Source

Eastern Generation, LLC  
Public Service Electric & Gas  
CPV Power Holdings, LP  
NextEra Energy Marketing, LLC  
Dayton Power & Light Company

## Stakeholder Group Assignment

A new senior task-force reporting to the Markets and Reliability Committee.

## Key Work Activities

The key work activities are addressed in two general stages:

### Stage 1: Education & Analysis

1. Provide education on topics including, but not limited to:
  - a. Where appropriate, jurisdictional matters that may be relevant to different aspects of a regional or sub-regional carbon pricing construct, including potential inquiries related to interaction with the Federal Energy Regulatory Commission (“FERC”);
  - b. Where appropriate, roles and responsibilities of different public and/or private-sector organizations in local jurisdictions that may play a role in effectuating local carbon pricing policies. Potential examples include, but are not limited to, government regulatory agencies in local jurisdictions, state legislative bodies, and the Regional Greenhouse Gas Initiative (“RGGI”);
  - c. Potential mechanisms or approaches for local jurisdictions to opt-in and opt-out of a regional or sub-regional carbon pricing construct;
  - d. Options for local jurisdictions to request non-binding information and/or analysis prior to deciding to opt-in or opt-out of a regional or sub-regional carbon pricing construct. Examples of potential areas of inquiry include, but are not limited to, impacts on local and/or regional energy costs, greenhouse gas emissions profiles, marginal emissions rates, and any relationship with other local policies such as clean/renewable energy programs;
  - e. Options for ongoing reporting and analysis related to various aspects of any potential program over time. Examples of potential areas of inquiry include, but are not limited to those referenced in item 1d above;
  - f. Options for local jurisdictions participating in a regional or sub-regional carbon pricing construct to modify components or inputs over time. Examples include, but are not limited to, mechanisms to change the cost of carbon applicable in the local jurisdiction;
  - g. Transactions, contracts and other relationships between PJM market participants that take place across the border between local jurisdictions that have and have not chosen to implement carbon pricing policies;

- h. Any relationship to financial products, such as virtual transactions, Auction Revenue Rights (“ARRs”), and Financial Transmission Rights (“FTRs”);
    - i. Different approaches for local jurisdictions to determine the cost of carbon input into the energy market construct to be used in a regional or sub-regional carbon pricing approach;
    - j. Impact of potential market design on greenhouse gas emissions and energy price leakage between areas with and without carbon pricing policies;
    - k. Potential mechanisms to mitigate greenhouse gas emissions and energy price leakage; and
    - l. Other RTO/ISO strategies or practices related to carbon pricing in their respective energy markets.
2. Where appropriate, engage with local jurisdictions to assess the various policies that could impact leakage;
3. Provide feedback on the parameters of a detailed study to evaluate opportunities to integrate a cost of carbon into energy prices on a regional or sub-regional level in PJM. Examples of issues that should be addressed by this body of work include:
  - a. An assessment of a potential wholesale energy market design option to implement a regional or sub-regional carbon pricing construct;
  - b. Estimating the market impacts through the chosen analysis approach;
  - c. The impact to generator dispatch, energy prices, emissions and leakage from the chosen analysis approach; and
  - d. A standardized approach for estimating the costs of potential emission reductions and comparison with alternatives.
4. Review the results of the report with stakeholders to inform future work activities.

### Stage 2: Develop a Common Set of Rules to Implement Carbon Pricing & Manage Leakage Where Appropriate

1. Develop approaches for integrating regional or sub-regional carbon pricing mechanisms into PJM’s energy market design where appropriate;
2. Evaluate potential changes to PJM tools and processes to facilitate integration of a regional or sub-regional carbon pricing construct where appropriate;
3. Consider mechanisms that preserve the right of individual local jurisdictions to set their own policy with respect to joining any carbon program developed;
4. Develop or describe processes for local jurisdictions to opt-in or opt-out of a regional or sub-regional carbon pricing mechanism;
5. For jurisdictions that opt-in to such a construct, develop process for them to direct settlement and distribution mechanics for carbon pricing revenues collected by PJM on their behalf;
6. Preserve orderly and competitive economic dispatch throughout the entire PJM footprint;

7. Minimize, to the extent possible, the impacts of a carbon-pricing sub-region's policy choices on non-participating areas.

### Expected Deliverables

As appropriate or necessary, deliverables include:

1. Create market rules related to any potential future regional or sub-regional carbon pricing strategy for review and consideration by the MRC. Examples of issues that could be addressed in the deliverable include, but are not limited to, revisions to rules on energy market offers, offer limits, and mitigation mechanisms, as applicable; and
2. Prospective revisions to implement any recommended enhancements to the current energy market design.

### Decision-Making Method

Tier 1 consensus.

### Expected Duration of Work Timeline

The stage one education and analysis process will likely take between six to twelve months depending on factors like meeting frequency and modeling timelines. The stage two rule development process is expected to take an additional six months. This process would begin as soon as practical following stakeholder approval of this Issue Charge.

Start Date	Priority Level	Timing	Meeting Frequency
	<input type="checkbox"/> High	<input type="checkbox"/> Immediate	<input type="checkbox"/> Weekly
	<input type="checkbox"/> Medium	<input type="checkbox"/> Near Term	<input type="checkbox"/> Monthly
	<input type="checkbox"/> Low	<input type="checkbox"/> Far Term	<input type="checkbox"/> Quarterly

### Charter

<input checked="" type="checkbox"/>	This document will serve as the Charter for a new group created by its approval.
<input type="checkbox"/>	This work will be handled in an existing group with its own Charter (and applicable amendments).

*More detail available in M34; Section 6*