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Vistra appreciates the opportunity to submit these comments to add to this important discussion. As a threshold matter, Vistra continues to believe that carbon pricing is the right path forward for the region, as it seeks to find a market design that facilitates the clean energy transition and promotes the states' decarbonization efforts. Studies have made it clear that dispatchable generation resources will be critical to facilitating the clean energy transition, and thus any design should recognize those resources contributions. Carbon pricing is the only construct, as currently contemplated, that allows these resources to compete on the basis of carbon-intensity and creates incentives for ensuring the retention of the lowest cost, lowest emitting resources.

The Analysis Group study (the "Study") analyzed four potential pathways for achieving decarbonization and based on relative merit, the study demonstrated that Net Carbon Pricing is the superior construct for achieving the region's aggressive emissions reduction goals in the most cost-effective manner. In reaching this conclusion, the Study neglects to consider innovation benefits. As we have seen repeatedly, pricing the externality triggers tremendous innovation benefits.

Most critically, the Study makes it abundantly clear that the status quo is simply untenable for the region. Of the four studied options, the status quo is the least effective for lowering carbon dioxide (CO<sub>2</sub>) emissions and is the least effective in establishing incentives in clean energy investment. Therefore, moving away from the status quo is critical to achieving decarbonization goals in the most cost-effective manner. Indeed, the Analysis Group evaluated the total social cost of each of the four approaches and concluded that the present value (through 2040) of maintaining the status quo will cost the region approximately \$1.7 billion to \$2.1 billion more than any one of the other three policy approaches. Further, this analysis does not account for the fact that, under the status quo approach, ratepayers would likely be responsible for stranded costs associated with the long-term contracts. For these reasons, we believe all stakeholders should reject the status quo and look for a better way to achieve the regional decarbonization goals.

While Vistra continues to prefer carbon pricing, we remain open to other constructs under consideration, if such constructs are enhanced. Vistra recognizes that NESCOE recently announced that the states continue to prefer the FCEM design as the path forward for incorporating state decarbonization goals into the wholesale markets. Vistra also appreciates that NESCOE requested that the Analysis Group study the hybrid construct as a potential alternative. Vistra is open to further engagement on both the FCEM and hybrid constructs, if reforms are made to FCEM to ensure that the contributions of the most efficient, dispatchable resources are recognized. Vistra believes that the FCEM (whether it's a stand-alone design or part of the hybrid construct), must be well-designed, non-discriminatory, and reflect the procurement of a single resource-neutral, location-neutral product. Under such design, clean energy technologies would be able to compete on a level-playing field in a competitive environment with the objective of procuring the lowest-cost resources that meet the decarbonization objectives, without bias to technology type or location. Indeed, the study's evaluation of FCEM and hybrid model used those same assumptions. Vistra believes that the truly competitive FCEM must be improved to facilitate

the region's clean energy transition. As Vistra explains above, any market design intended to facilitate the clean energy transition should incorporate incentives for efficient dispatchable resources that will be so critical to such transition. Yet, the studied design assumes that only net zero emitting resources are eligible for FCEM participation. This restriction provides no method to sort the balance of the existing fossil fleet by carbon intensity. Vistra urges the region to consider enabling lower emitting resources such as efficient natural gas fueled resources to be eligible to participate. The FCEM design could be tweaked to enable such resources to receive partial credit for their measurable contribution to decarbonization. Such reforms would better serve the region by enabling fuel switching that will enhance regional decarbonization efforts.

Even assuming the most-market friendly version of the FCEM, the Analysis Group generally concluded that Net Carbon Pricing provides relative advantages over both the FCEM and the hybrid constructs. Vistra is concerned about a possible FCEM construct that allows purchasers to buy multiple products to reflect the individual desires of specific states, municipalities, or even private parties. Such an approach is less effective in reducing carbon and is more expensive to consumers. That flavor of an FCEM construct was not even studied by the Analysis Group, and is one we could not support.

Vistra also believes that stakeholders now need to have the opportunity to evaluate the legal and jurisdictional implications of each of these proposed policy approaches. This effort is critical, since any proposal that cannot be implemented due to a lack of legal or jurisdictional basis, should not be the focus, regardless of the relative economic and market benefits. In particular, rules regarding governance of these constructs are crucial in evaluating jurisdictional questions and ensuring legal durability for the chosen construct. Thus, Vistra believes that stakeholders should turn to answer these questions before or at least in parallel to additional discussions to the details of any specific proposal.

Finally, if the region further explores Net Carbon Pricing, as Vistra implores the region to do, the region should study the potential interplay between a regional carbon price and the state carbon regimes. It is critical that both a state and regional carbon price are not both applied to the same resources, as it will necessarily create competitive disadvantages for those resources governed by the most aggressive state carbon regimes while creating emissions leakage for that state. Ultimately, a carbon strategy that reduces only within a state's borders but increases overall emissions is not a successful strategy