Vistra Corp. Comments
New England Energy Vision Technical Forum
Wholesale Market Design

February 24, 2021

Vistra Corp. (Vistra) is submitting these comments to provide its perspective on the direction of regional conversations regarding potential paths forward for our regional wholesale energy markets. Vistra is very supportive of the region's efforts to reduce carbon emissions. Given the states increased focus on integrating renewables to meet state clean energy goals, Vistra supports efforts to incorporate those clean energy goals into the markets in a manner that preserves the benefits of markets for customers.

Introduction

Vistra is an integrated competitive electric generation and electric and natural gas retail company. Vistra owns approximately 39,000 MW of generation and operate in six of the seven competitive ISO/RTO markets. We offer over 250 competitive retail electricity and natural gas products in 20 states and the District of Columbia with over 40 green offerings. Vistra owns and operates a diverse set of generation with an emphasis on natural gas, nuclear, renewables, and batteries. Overall, 60% of Vistra's electric generation is covered by retail electricity load with 75% at the peak in ERCOT, our biggest market. Our strategy is built on integrated operations, strong balance sheet, low cost, and sophisticated business capabilities to optimize a diverse set of assets and businesses. In New England, Vistra owns and operates over 3,000 MW of NGCC generation resources that participate in the ISO-NE competitive markets.

Vistra's corporate goal is to achieve a greater than 60% reduction in CO_2 equivalent emissions by 2030 with a long-term objective to achieve a greater than 80% reduction in CO_2 equivalent emissions by 2050, each as compared to a 2010 baseline, with aspirations of reaching net-zero carbon emissions by 2050, assuming necessary advancements in technology and supportive market constructs and public policy. We believe carbon pricing, specifically a national, economy-wide carbon price is one component of the needed market and policy changes that are needed to reach our aspirational goal. As a result, we are Founding Members of the Climate Leadership Counsel, an international policy institute that advocates for a national fee on carbon, with proceeds returned to the American people as a quarterly, lump-sum payment.

In short, Vistra is committed to making meaningful progress to reduce carbon emissions. Where we may depart from other stakeholders is *how* to achieve that goal. We do not believe a state "go it alone" strategy will be able to achieve the level of decarbonization needed to arrest climate change. We support regional methods to jointly optimize reliability, cost, and environmental attributes to cost-effectively achieve carbon emission reduction goals at the lowest cost.

Comments

Recent regional discussions demonstrate that the New England states continue to see real benefit from preserving, and relying upon, the wholesale energy markets to provide the greatest value to consumers. The regional wholesale markets have effectively preserved resource adequacy and ensured reliability in the region, while providing real cost savings for ratepayers. We agree with the states that the best path forward for comprehensive reform would seek to preserve the real benefits of the regional wholesale markets. At the same time, the states continue to utilize out-of-market mechanisms to achieve their clean energy goals despite the fact that such actions are placing increased pressure on wholesale markets. Thus, it is critical that the region move forward on comprehensive and durable market reform that enables states to achieve their clean energy goals while preserving the benefits of the regional markets.

Indeed, the recent "Net-Zero New England: Ensuring Electric Reliability in a Low-Carbon Future" study demonstrates that, even with a de-carbonized electricity grid in 2050, a continued reliance on thermal generation at current levels will be required to ensure a reliable grid.[1] Such gas generation would operate less hours and contribute less energy than current levels, but such resources would still need to be retained to ensure reliability. Thus, a durable market design must provide the right price signals to ensure that such resources are available to provide that needed reliability.

Experience in recent years demonstrates that the only sustainable approach for preserving the benefits of the wholesale markets is to achieve state clean energy goals within the wholesale markets. Indeed, consensus appears to be developing in the region regarding that view. There are only two options for achieving state carbon emissions reduction goals within the wholesale markets: carbon pricing or a clean energy standard. Vistra believes carbon pricing is the far superior option. The carbon price would be incorporated into generator offers like any other costs, with day ahead schedules, real-time dispatch and LMPs changing accordingly. The associated change in net energy revenues would be incorporated into capacity market offers and capacity market outcomes would then also change.

Carbon pricing can help produce the investment signal needed to support new carbon emission free resources. Vistra believes a successful carbon price would eliminate, or at least significantly reduce, the need for any state resource or technology preference. Even if carbon pricing does not entirely replace state preferences, the additional revenue zero emitting resources would earn through the energy market would reduce the impact of any remaining mitigation and thus make it less relevant. Thus, carbon pricing can largely diminish or even eliminate the ongoing controversy regarding the mitigation approach in the capacity markets.

We urge the states to consider the benefits of a region wide carbon price to achieve their state clean energy goals in the most expeditious and most cost-effective manner. We do recognize that there is significant opposition to carbon pricing at this time. Such opposition likely takes two forms. First, states continue to desire to maintain control over technology

[1] https://www.ethree.com/wp-content/uploads/2020/11/E3-EFI_Report-New-England-Reliability-Under-Deep-Decarbonization_Full-Report_November_2020.pdf

selection and resource location. Second, states are concerned that a FERC-jurisdictional carbon price places the market design solely within FERC's control, creating the risk that subsequent changes to the design could be foisted upon the states without their consent. Vistra believes that while both of these concerns are real, such concerns can be managed and should not be a roadblock to the use of a carbon pricing model. Vistra urges the states to engage with stakeholders on the specific concerns related to carbon pricing, such that the region can explore whether those concerns can be assuaged within the contours of a carbon pricing design.

We appreciate that many stakeholders, including the states, are presently focused on the forward clean energy market (FCEM) as the preferable design for incorporating the state policy choices. To date, discussions surrounding the FCEM remain at a conceptual level. Vistra fully supports regional discussion on the development of the FCEM. But, it is evident that there are different flavors of FCEM that are currently being debated regionally, and nationally. It is critical that proponents flesh out the specific elements of their preferred design in order to enable all interested parties to be able to engage on the benefits and risks associated with the design. Such specifics must include whether the proposed market design is intended to be exclusively within FERC's jurisdiction as an integrated component of ISO-NE's wholesale markets, or whether the intent is for aspects of, or all of, the proposed market design to be organized at the state level, beyond the jurisdictional reach of FERC. Design proponents must also grapple with whether the proposed design will incorporate a single clean energy product for which lower emitting and non-emitting technologies can compete for, or whether such design is intended to incorporate multiple products, to allow individual states to procure the technology types they desire, for the locations they choose.

Vistra views a resource-neutral clean energy standard design as a potentially viable alternative to carbon pricing, or even potentially a regional complement to carbon pricing. That being said, the design details will be critical to understanding how it will be integrated in the wholesale energy markets, and how the design will ensure that the right balance of objectives will be achieved. In particular, discussions to date demonstrate that there could be a number of complex elements of an FCEM that must be resolved. Without the details of such complex design elements fleshed out, Vistra is unable to take a position on the efficacy of these alternative designs in achieving the state's policy goals while preserving market benefits. Vistra does have a strong preference for market designs that are technology neutral in order to enable the broadest set of participants to competitively participate in the markets on a level playing field, bringing the greatest benefits for customers.

With this objective in mind, regional discussions to date indicate that states are seeking a market design that would enable individual states to maintain some level of control over technology choices, and potentially resource locations, to meet individual state needs. While Vistra remains open to all alternative designs to addressing the pressing need, the more balkanized a market design becomes, the less it looks like a truly competitive market, and the less likely it will achieve regional objectives for the clean energy transition.

Vistra similarly has concerns with how certain contemplated design structures will be viewed by FERC. Under the Federal Power Act, the Commission must review proposed rates to determine whether they are just and reasonable, and not unduly discriminatory. A market

design that grants states the ability to control technology choices and resource locations could conflict with the Commission's precedent against undue discrimination. FERC's views on whether a proposed market design would run afoul of its anti-discrimination precedent likely should be considered on a sliding scale. As a proposed market design looks more balkanized, and more preferential towards certain types of technology choices located at state-specified locations, the more likely such design could be deemed incompatible with FERC's mandate to protect markets against undue discrimination. In short, the details of any specific market design will be critical in evaluating how FERC will react to such proposed design. Given there is consensus that action is needed expeditiously to address the state's clean energy goals and their intersection with the wholesale markets, there is urgent need to coalesce around those complete market design proposals that have the best chances of FERC approval.

Finally, Vistra appreciates the states initiating this series of conferences, as part of their efforts to elevate regional conversations regarding the need to align state policy goals and the competitive markets. Vistra fully supports this dialogue to achieve our shared objective of meaningful reduction in carbon emissions. While such conversations have been helpful to bringing a diverse set of stakeholders together, the technical expertise of stakeholders and the ISO-NE is needed to translate these market designs into complete proposals that can be implemented. ISO-NE and NEPOOL are commencing a comprehensive process of evaluating FCEM and net carbon pricing as potential design alternatives. Thus, we urge the states and other interested stakeholders to utilize the NEPOOL stakeholder process to continue down the path of developing a sustainable future market design.