Roger Caiazza Personal Comments on the
NYISO Carbon Pricing Straw Proposal April 30, 2018

Via email to NYISO at IPP_feedback@nyiso.com
Response to DPS sent through Document and Matter Management System "Matter 17-01821"

Introduction

I am motivated to submit these comments so that there is at least one voice of the unaffiliated public whose primary interest is an evidence-based balance between environmental goals and costs to ratepayers. There are significant hurdles to implementing carbon pricing in general and as proposed in the straw proposal that should be considered by the Integrating Public Policy Task Force (IPPTF). My comments raise issues that, in my opinion, each beg for careful consideration and analysis with input from outside experts.

These comments are submitted as a private retired citizen. They do not reflect the position of any of my previous employers or any other company I have been associated with, these comments are mine alone. The majority of New York State (NYS) ratepayers are unaware of the ramifications of this proceeding, have never heard of the Social Cost of Carbon (SCC) or have any idea of the ramifications of incorporating the cost of carbon emissions into New York State (NYS) wholesale electricity markets. I do not see evidence that the IPPTF is adequately considering potential ratepayer impacts.

Straw Proposal Mechanics

The Straw Proposal Summary Table describes the application of the carbon price to facilities that supply energy directly to NYS. I have limited experience in all but two aspects of this implementation plan: emissions reporting and the Regional Greenhouse Gas Initiative (RGGI) so I will limit my comments to those two aspects. Integrating emissions that are consistent with other programs is a difficult task that needs much more consideration. The appropriate RGGI price might seem to be an easy parameter to incorporate but there are complications that need to be addressed.

The Straw Proposal notes that internal suppliers, including self-scheduled resources, would report emissions of their supply fleet. My experience has been that inordinate resources have to be expended to insure reporting is comprehensive. It is very easy to say that "Cogeneration resources would be charged based on the portion of their emissions associated with electrical generation" and that "Behind-the-meter generation resources would be charged for emissions associated with net injections to the grid". However, the mechanics of that process are complicated. In most cases it might be straightforward but I expect that there will be exceptions to that rule. Moreover, I don't expect that many of these small sources are going to have the resources to deal with this requirement.

The Straw Proposal notes under Market Operations that "Differences between self-reported emissions and actual emissions would be corrected via the true-up settlements process". I believe that there is a major timing issue associated with this true-up. In the first place it is absolutely mandatory that the RGGI allowance value be based on the RGGI tons emitted so that there is consistency between the tonnage values reported to RGGI and the carbon price initiative. The emissions reported to RGGI are based on EPA continuous emissions monitoring guidelines that are the "gold standard" for pollution control reporting. These quarterly numbers reported are transparent, documented and complete which are all characteristics necessary for a pollution control program. The problem is that the quality assurance and missing data processing routines for these data are necessarily done retroactively so final numbers for true up from the beginning of a quarter will not be finalized up to two months after the end of the quarter. My impression is that NYISO is glossing over this and somehow expects the suppliers to be able to still meet the existing true-up schedules. That is impossible.

The Straw Proposal says that NYISO will determine the carbon price (in $/ton) depending on whether internal physical suppliers are covered by RGGI. I agree with the concept that suppliers covered by RGGI should be charged a carbon price equal to the Gross SCC minus the RGGI cost. However, the Straw Proposal suggests using the most recently posted quarterly carbon price. I think this needs to be discussed and evaluated. If the Straw Proposal refers to the RGGI quarterly auction price posted a couple of days after the auction I agree that is simple but don't think that it necessarily reflects the true cost of RGGI to the supplier.

The RGGI CO2 Allowance Tracking System has a Transaction Price Report that lists the weighted average price of all allowance transactions over any period chosen. Table 1 compares the auction prices with the weighted average prices. They are nowhere near the same so a supplier who purchased the allowances needed for compliance from the market will get short-changed because they would have had to pay more than the auction price. This particular issue is going to become more of a problem because the suppliers are going to have to rely on non-compliance entities for allowances necessary for compliance (as the cap tightens over time) and while it is not clear how the market will react it is likely that prices will be both more volatile and higher.

Table 1: Comparison of Quarterly RGGI Auction Prices and Weighted Average Transaction Prices

Auction	**Auction Date**	**Auction Clearing Price**	**Weighted Average Price**	**Weighted Average Start**	**Weighted Average End**
36	6/7/2017	$ 2.53	$ 2.93	3/6/2017	6/6/2017
37	9/6/2017	$ 4.35	$ 3.36	6/7/2017	9/5/2017
38	12/6/2017	$ 3.80	$ 4.22	9/6/2017	12/5/2017
39	3/14/2018	$ 3.79	$ 4.11	12/6/2017	3/13/2018

Another instance of complications associated with the RGGI carbon price is the potential impact on the RGGI allowance market in general and the NYS market in particular. As noted in the Straw Proposal, the RGGI governance process could potentially adjust the number of allowances to maintain prices within the range the other states want. If NYS does implement this it introduces another variable in the RGGI process that already has plans for significant changes to the program from the 2016 RGGI program review. While RGGI has arguably been successful to date, changing many fundamental aspects at the same time could endanger future continued success.

Carbon Tax

The Introduction to the Straw Proposal states that "wholesale electricity markets operated by the New York Independent System Operator (NYISO) do not reflect the full cost of carbon dioxide (CO_2) emissions. This limits the wholesale electric market's ability to signal cost-effective abatement options, and it suggests an opportunity to improve harmonization between wholesale energy markets and state policy objectives."

This attempt to incorporate carbon pricing in wholesale electric prices flies in the face of carbon tax price theory. The theory is to apply a carbon price across all energy sectors in as broad a market as possible so that market forces determine the most cost-effective carbon reductions. This program is limited to the electric sector which is already in a control program, in a single state. In addition, the renewable energy portion of the electric sector in NYS is already subsidized. As a result, the best this initiative might accomplish is to change the subsidizing structure of state policy objectives. Given the complexities of the inter-connected electric market it could also to fail to signal cost-effective abatement options and simply raise NYS electricity prices at the expense of all NYS ratepayers.

Social Cost of Carbon

Ultimately this effort is supposed to develop a system that could put a price on carbon in the New York State wholesale electric market. The Straw Proposal describes how this could be implemented and passes the buck on setting the value of the SCC to the New York Public Service Commission. I submitted two sets of comments on the initial value of the SCC proposed during discussions that are available on the Meeting Materials website for the IPPTF. A third comment has not been posted as of the date of this writing (May 11, 2018).

I believe that when the time comes for policy decision makers to decide whether to proceed, a range of SCC values should be provided and the relative impacts of the choice explained. The fundamental problem is that the Integrated Working Group SCC value that has been proposed does not accurately reflect the current state of the science relative to the probability of temperature being highly sensitive to CO2. As a result that value over-estimates the potential benefit of New York emission reductions. The final decision must explain the rationale for NYS ratepayers to definitely increase our cost of electricity with a price on carbon relative to the speculative cost effects of any SCC value.

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