



Date: August 31, 2016

VIA ELECTRONIC MAIL

Rana Mukerji
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Re: **NYISO proposal to identify wholesale market issues and propose solutions**

Dear Mr. Mukerji,

Thank you for the opportunity to comment on the Proposed 2017 Project on Integrating Public Policy¹ discussed at the Business Issues Committee meeting on August 17, 2016. Environmental Defense Fund (“EDF”) supports the New York Independent System Operator’s (“NYISO”) intent to move forward with a project that would consider issues in the wholesale market, including the need for an accurate cost of carbon to be reflected in wholesale prices (the “Project”). We are greatly encouraged to see NYISO assuming a role in identifying barriers and new pathways to a more sustainable bulk power system. This letter describes why we think the time is right for NYISO to take this step, and makes some specific recommendations for the Project.

The urgency of today’s climate crisis makes it critical that the most effective levers be used to bring about major changes at the most affordable possible cost. The New York Public Service Commission (the “Commission”) has started the ball rolling through its groundbreaking Reforming the Energy Vision (“REV”) and various related proceedings, through which it has begun a process of transforming utility business practices in a manner that is designed to support the emergence of a distributed energy marketplace in which costs, including environmental externalities, are properly monetized and attributes that support decarbonization are more likely to be adopted at a large scale. In that context, the Commission has led the way by recognizing that carbon pollution is rightly valued at the full cost of the damage it causes, initially setting the value to be considered in benefit-cost analyses at an amount based on the federally-determined Social Cost of Carbon (“SCC”). In the Clean Energy Standard (“CES”) proceeding, the Commission has gone further, responding to the governor’s urgent directive that the state’s renewables goals must actually be realized and that non-emitting nuclear generation must not be lost in the near term, adopting a program to develop renewable generation, including large-scale renewables, at the levels needed to achieve state goals, while paying at-risk nuclear generation to remain in service in the medium term at an amount based on the value realized by those plants remaining in operation: that is, the value of the carbon dioxide emissions avoidance they enable, based on the SCC.

¹ http://www.nyiso.com/public/webdocs/markets_operations/committees/bic/meeting_materials/2016-08-17/agenda%204%20Public%20Policy%20and%20NYISO%20Markets.pdf

We expect that large-scale generation will continue to play a major role in powering our society even as the grid becomes increasingly distributed. To that end, we anticipate that the wholesale generation fleet and the transmission system – as well as how both of these are deployed – will need to undergo substantial changes in a short period of time. As the operator of wholesale markets and the entity responsible for planning and operating the transmission system to transmit the energy dispatched through those markets, NYISO has access to unique tools with which it can amplify the policy imperatives set forth by the Commission in its suite of groundbreaking proceedings. The Commission’s actions in this area have been tremendously innovative – but some of what it is doing has been needed at least in part to fix market failures brought about by the wholesale market’s non-consideration (for the most part) of the negative externalities associated with carbon pollution, which has allowed fossil-fuel based generation to appear deceptively cheap. Therefore, we applaud NYISO’s proposal to address these market failures at their source, by looking holistically at the need for the social cost of carbon to be reflected in wholesale energy prices.

Although carbon emissions are correctly valued at the SCC (or potentially even at higher values, see Moore and Diaz 2015),² leveraging the value of carbon emissions to yield meaningful price signals that give rise to efficient long-term outcomes is not a straightforward proposition. RGGI is a step in that direction, but with limitations that may prove difficult to overcome. The Commission, which is not in a position to require generators to internalize the costs of their emissions above and beyond the price established by RGGI, has used the tools available to it to make the SCC the basis of compensation for certain zero-carbon resources. While this is a tremendous step forward, internalizing the externality market-wide, an option that was not directly available to the Commission, might enable more efficient outcomes, for several reasons. First, making emitting generators fully internalize the societal costs of their pollution provides a more accurate and granular price signal for zero-carbon resources, since it correctly reflects the extent of their environmental advantage over marginal emitters at points in time rather than creating a need to administratively estimate their environmental bona fides and base compensation on that. Second, making emitting generators internalize the societal costs of their pollution gives them an incentive to minimize their pollution by any means available to them, including innovative means that may not exist today. This effect can touch all generators, from the worst performers to the best, enhancing the competitive advantage of the best performers while giving even those with the worst performance a reason to improve. Realizing these advantages may require very substantial reform to the wholesale markets, but could well be worth the effort.

The proposed NYISO project would serve as an excellent first step toward evaluating opportunities to address, at their origin, the market failures that arise from allowing polluters to produce air pollution free of charge (or at a price that does not approach the harm to the general public associated with their pollution). In addition to the scope of the project that was proposed at the August 17 meeting, we recommend the NYISO consider and incorporate the following project elements:

- Collaborate and engage with neighboring Regional Transmission Organizations (RTO), some of which (e.g. NEPOOL, PJM) are currently engaging in similar projects;
- Any market based solution should encourage efficiency improvements to existing, and new, New York State power plants;

² Moore, F.C., and D.B. Diaz (2015). “Temperature impacts on economic growth warrant stringent mitigation policy”, *Nature Climate Change*, 5, 127–131.

- The study should evaluate the impact of the SCC on emissions from the generators participating in the wholesale market, including:
 - Evaluating the effect of an internalized societal carbon price on hourly wholesale prices and on any exits and/or entry of different types of generators and fuels (renewables/fossil fuels/etc.) into and out of the market; and
 - Evaluating the need for new products and services; and
 - Accounting for leakage to resources other than wholesale generators as the electric system becomes more distributed; and
- Evaluate the impact of wholesale market reform on customer bills over various timeframes, compared to other scenarios.

Respectfully submitted,

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