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November 30, 2017

Honorable Kathleen H. Burgess
Secretary
New York State Public Service Commission
3 Empire State Plaza
Albany, New York 12223-1350

Re: Comments on the Brattle Report and Alternative Market Structures, In the Matter of Carbon Pricing in New York Wholesale Markets¹

Dear Secretary Burgess:

Long Island Power Authority, its wholly-owned subsidiary Long Island Lighting Company d/b/a Power Supply Long Island, and its Service Provider PSEG Long Island (collectively "LIPA") provide these comments to the *Notice on Process, Soliciting Proposals and Comments, and Announcing Technical Conference* issued by the New York Public Service Commission ("NYPSC") on October 19, 2017. The NYPSC solicited comments on the Brattle Group's conceptual market design options for carbon emissions in the competitive wholesale energy markets administered by the NYISO². Among other items, the PSC requested that commenters address the following:

- Identify and describe, in as much detail as possible, a mechanism and mechanisms to price carbon dioxide in the wholesale electricity market to aid in developing a plan to harmonize New York State Policy and New York wholesale electricity markets.
- Describe how the mechanisms would affect and reflect:
 - i. More accurate and precise value of carbon dioxide reductions.
 - ii. Simplicity and efficiency in the achievement of state policy as it relates to carbon dioxide reductions.

¹ Matter No. 17-01821 - In the Matter of Carbon Pricing in New York Wholesale Markets

² Pricing Carbon into NYISO's Wholesale Energy Market to Support New York's Decarbonization Goals (Brattle Report)

- Describe how the mechanism would be consistent with current of foreseeable state policy on carbon dioxide reductions.
- Describe anticipated impacts on consumers.
- Other information that the submitter believes is relevant for evaluation of the proposal and its elements.

In addition, the PSC requested the following:

- Feedback on the Brattle Report: Provide specific feedback on any aspect of the Brattle Report including specific references.
- Provide suggestions for analytical analysis to be conducted by joint staff team and made available for consideration by interested persons and entities. Please include reasons supporting each request.

The following comments address the Brattle report, describe a potential alternative mechanism and suggest some further analysis.

Feedback on the Brattle Report

The carbon pricing method evaluated by Brattle depends on an administratively set carbon price which is translated into generator bid adders. By its nature, such a price can at best approximate the outcome of a competitive market for CO₂ allowances, but it carries the risk of higher carbon – and therefore wholesale electricity prices -- than a method that relies on the market to set the price.

In August 2017, the RGGI states including New York released revised carbon emission caps and new levels of Cost Containment Reserves. The CCR is a reserve which allows a fixed quantity of emission allowances to be released if prices exceed certain levels. The fixed quantity is set at 10% of total allowances per year.

While Brattle had assumed 14% reductions from the electric sector from 2015 levels at the CCR price of \$17/Ton for 2025, the new caps require reductions of 26% and 38% for 2025 and 2030, respectively. Assuming the CCR is fully employed, reductions of no less than 18% and 32% are expected.³ RGGI targets with and without cost containment reserve are shown in Figure 1.

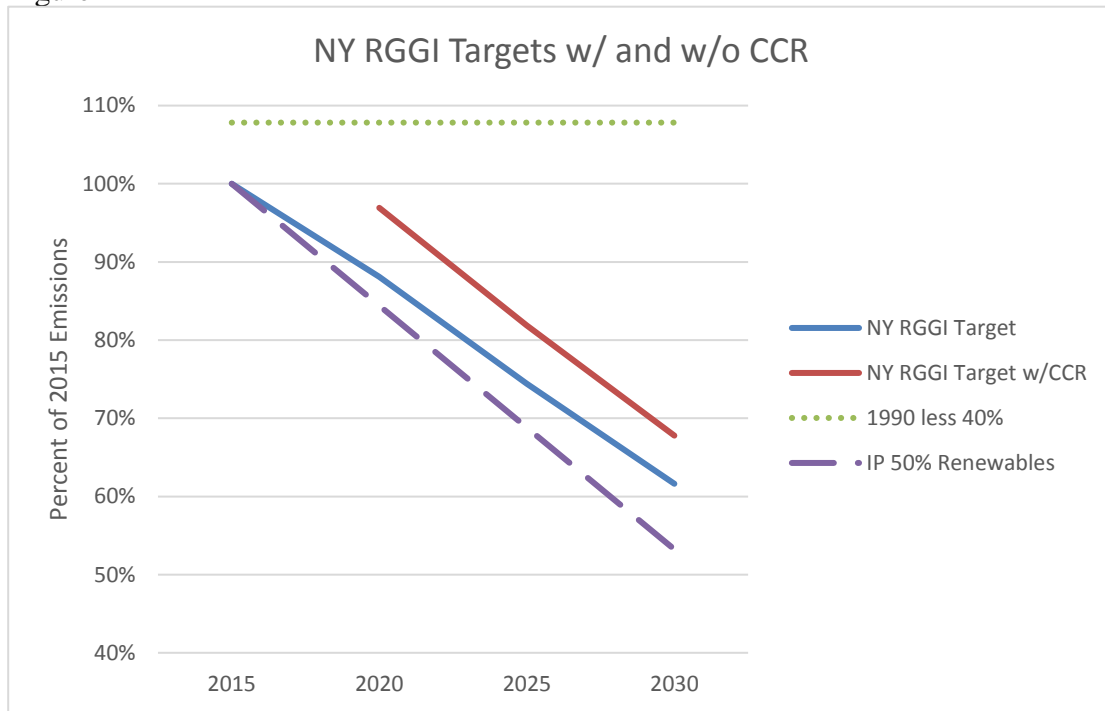
³ Limited banking is available if reductions in early years exceed early year targets.

Figure 1

	RGGI Target (M Tons)	Percent Change from 2015	Pro-rata NY Target (Tons)	Percent Reduced from 1990	Pro-rata NY Target w/Cost Containment Reserve (Tons)	Percent Reduced from 2015 w/CCR
2015⁴	88.7		34.0	-44%		
2020	78.2	-12%	30.0	-51%	33.0	-3%
2025	66.0	-26%	25.3	-59%	27.8	-18%
2030	54.7	-38%	21.0	-66%	23.0	-32%

Emissions from the electric sector, likely CES reductions, and various emission targets through 2030 are shown in Figure 2. RGGI targets appear to achieve a significant portion of the carbon reduction expected from CES implementation. One suggestion is to consider reducing the quantity or raising the price of the RGGI CCR as necessary to assure that regional carbon reductions more closely track expected CES reductions in New York. Setting carbon targets and allowing the market to set abatement prices may be a more cost-effective approach from consumers' perspective.

Figure 2



⁴ See for example <http://rggi.org/design/overview/cap>

Regional allowance markets also create efficiencies to achieve carbon abatement at lower prices as a broader regional set of abatement alternatives becomes available.

LIPA suggests that the Brattle study be supplemented to consider whether the revised RGGI targets provide a more cost-effective means to harmonize carbon reduction and wholesale markets. Proper attention should be given in establishing the mechanism for setting the carbon price as it will have economic consequences for the State.

In addition, the Brattle proposal needs to consider the following:

- Establishment of a mechanism that does not penalize the carbon-producing units that are necessary to support a large penetration of intermittent renewable resources
- A methodology that does not unduly reward carbon-producing units that are only marginally cleaner than units setting the market prices.

Additional Analysis by the Joint Staff Team

While it is broadly recognized that decarbonization of the transportation and heating sectors will require electrification, it is important to avoid creating barriers to the competitiveness of electric vehicles and heat pumps, for example.

LIPA suggests that further analysis be conducted to ascertain whether the price impacts observed in the Brattle report could disproportionately increase electric prices relative to other fuels, possibly impeding the state's electrification goals.

Additionally, providing opportunities for load serving entities to pursue low cost electrification alternatives in the transportation and residential heating sectors as an alternative means of CES compliance could reduce cost and, by growing off peak load, reduce electric rates.

Sincerely,

A handwritten signature in purple ink, appearing to read "David Clarke". The signature is fluid and cursive, with a large loop at the top.

David Clarke
Director of Wholesale Market Policy