Comments of Acadia Center, Natural Resources Defense Council, Sierra Club, Pace Energy & Climate Center, Riverkeeper, and Environmental Advocates of New York to Draft Carbon Pricing Proposal Recommendations

Acadia Center, Natural Resources Defense Council, Sierra Club, Pace Energy & Climate Center, Riverkeeper, and Environmental Advocates of New York (the "Parties") appreciate this opportunity to provide comments on the Draft Carbon Pricing Proposal Recommendations issued by the New York Independent System Operator (NYISO) on October 31, 2018. **While the Parties are generally in favor of the *concept* behind the proposal and offer the following comments for how it can be improved, our ultimate support or opposition to the carbon adder will depend on the details of the final mechanism put forward to market participants by the NYISO.**

The Parties commend NYISO for convening a stakeholder process to examine the potential for incorporating carbon pricing into New York's wholesale energy market as a way to support New York's climate and clean energy goals and to better align the NYISO energy markets with the state's public policies. The need to address the impacts of climate charge are more urgent than ever. The recent IPCC Report on 1.5°C of Global Warming, which synthesizes research from thousands of scientists from around the world, reveals that consequences of exceeding 1.5°C of warming are likely to be much greater than previously recognized. While technologically feasible, massive and sustained mobilization is needed to stay within this target. Thus, accounting for the full social cost of carbon at the wholesale electricity market level is an important policy mechanism that merits careful consideration.

If done correctly, this mechanism has the *potential* to provide a national model for using wholesale energy market policies to help decarbonize the electric sector in an economically efficient way. However, it remains to be seen whether that potential can be realized in the final NYISO proposal. And as all the modeling to date has demonstrated, carbon pricing in the wholesale markets is by no means a silver bullet to ensure that New York is on the necessary emissions reduction trajectory.

Indeed, all three sets of modeling presented to date have shown little to no meaningful carbon reductions relative to business as usual scenarios without a carbon adder in effect (and in the case of Daymark's modeling, a slight *increase*). Thus, as currently envisioned, a carbon adder won't in and of itself be the driver of significant emissions reductions over the course of the next decade. Rather, it could be an additional potential tool in New York's climate action tool box—one that could better harmonize the NYISO markets and public policy while facilitating a more efficient transition to a clean energy future. The Parties also stress that the challenge of transmission looms large: unless the NYISO and New York State can rapidly accelerate the deployment of appropriately sited transmission to move low carbon resources from upstate to downstate, even the extremely modest carbon reductions modeled from a carbon adder may not come to fruition, and upstate/downstate market distortions and seams/price spreads could be exacerbated.

The Parties offer the following three points for the NYISO's consideration.

I. Any future NYISO carbon adder must complement/supplement/work with RGGI, the CES, and the state's broader public policies

While a carefully crafted and properly implemented carbon adder on wholesale energy producers could be an economically efficient way to address carbon emissions, a price on carbon is not a substitute—or replacement—for New York's core pillars of clean energy: namely legally binding carbon limits for the power sector that decline over time under the Regional Greenhous Gas Initiative (RGGI), as well as legally binding obligations for LSEs to procure an increasing amount of renewable energy annually under the Clean Energy Standard (CES). While the NYISO proposal to date has continued to reflect this approach, the Parties cannot stress enough how critical it is for any future market mechanisms to fully respect the jurisdictional authority New York State has over its clean energy mix and climate future. Any deviation from this principle would be a nonstarter.

II. The Public Service Commission must set the carbon price

The Public Service Commission (PSC)—*not* the NYISO—is the appropriate jurisdictional entity to dictate the carbon price. Again, while the current proposal envisions this approach, the Parties reaffirm here that any shifts that even imply NYISO has the ability to set the carbon price would be entirely inappropriate. It is therefore important that a carbon adder be properly coordinated and consistent with the aforementioned state programs. For this reason, the Parties agree with NYISO that determining the value of the social cost of carbon should be left to the PSC consistent with existing state clean energy programs. Similarly, NYISO must respect the jurisdiction of the State and its agencies to decide key public policy issues such as the use of any residual revenues by jurisdictional load-serving entities and/or public authorities. In the RGGI context, New York's state agencies and LSEs have demonstrated that the reinvestment of carbon revenues into energy efficiency and clean energy programs delivers substantial consumer and public benefits in the form of reduced electric bills, improved air quality, and increased economic growth.[1]

III. The Clawback Proposal Should be Abandoned

Some stakeholders have raised concerns that existing REC contract holders (as well as the hundreds of MWs of renewables in "advanced stages" of development/contracting with NYSERDA) would effectively receive double payment by receiving both RECs and the benefit of higher marginal prices in wholesale energy markets, such that customers would effectively be paying twice for the same attribute. To address this, the NYISO proposes a "clawback" that would subtract revenues attributed to the carbon adder from the market settlement of those REC-eligible resources that clear in the wholesale market.

The Parties agree that consumers should not pay twice for the same benefit. For this reason, we are supportive of subtracting RGGI costs from the carbon adder settlement price for RGGI-covered resources given that RGGI was created with the explicit objective of reducing carbon emissions.

However, the same logic does not apply to RECs and the projects that receive them, which trace their history back to New York's adoption of the Renewable Portfolio Standard (RPS) program. The RPS, and later the 50 x '30 component of CES, was not created with the explicit or exclusive goal of reducing carbon emissions. The RPS/CES has multiple purposes, including fuel diversity, grid resiliency, economic development, and environmental benefits. It is therefore inaccurate to say that the primary purpose of the REC component of the RPS/CES is to reduce carbon.

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[1] *The Economic Impacts of the Regional Greenhouse Gas Initiative on Nine Northeast and Mid-Atlantic States*, Analysis Group (April 2018). Available at: http://www.analysisgroup.com/uploadedfiles/content/insights/publishing/analysis_group_rggi_report_april_2018.pdf.

In addition, as Calpine's October 22nd presentation made clear, many renewable energy projects that either already hold REC contracts, or are in the late stages of finalizing them, have hedging products in place such that excluding the carbon adder from their market settlement would jeopardize the financing of these projects, which could lead to them being abandoned or their output being sold to other states, which could have the effect of increasing emissions in the state.

Finally, according to the Brattle Group's October 12th presentation, the consumer impacts of allowing these renewable resources to include the carbon adder in their settlement price are minimal at best—estimated to be 2 hundredths of a cent per kWh in 2025.[2] The Parties agree with ACE-NY's comments that lay out multiple reasons why the proposal to exclude REC-eligible projects from the carbon adder should be dropped and believe that it is not worth the risk of causing significant disruption in the REC market to correct something that will have virtually no impact on customers.

Respectfully submitted,

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[2] http://www.nyiso.com/public/webdocs/markets_operations/committees/bic_miwg_ipptf/meeting_materials/2018-10-15/2018-10-08_Customer%20Impacts%20of%20NY%20Carbon%20Charge_clarifications.pdf