Municipal Electric Utilities Association of New York State
6652 Hammersmith Drive, East Syracuse, New York, 13057
Phone: 315-453-7851 Fax: 315-453-7849
Email: info@meua.org Website: www.meua.org

NEW YORK MUNICIPAL POWER AGENCY
6652 Hammersmith Drive, East Syracuse, New York, 13057
Phone: 315/453-1761 Fax: 315/453-7849
www.nympa.org email: info@nympa.org

Via Electronic Delivery

November 15, 2018

Integrating Public Policy Task Force
Business Issues Committee
New York Independent System Operator
10 Krey Boulevard
Rensselaer, NY 12144
IPP_feedback@nyiso.com

Re: **Carbon Pricing Proposal Recommendations.**

Pursuant to the revised Integrating Public Policy Task Force ("IPPTF") schedule, the Municipal Electric Utilities Association of New York ("MEUA") and the New York Municipal Power Agency ("NYMPA," and collectively with MEUA the "Municipal Utilities") hereby submit the following comments on the IPPTF Carbon Pricing Proposal Recommendations ("Draft Recommendations") issued on November 1, 2018.

Introduction

The Municipal Utilities have been a regular participant in the IPPTF stakeholder process since its inception. The Municipal Utilities support well-reasoned and cost-effective environmental and climate programs and will continue to work in a cooperative manner with the New York Independent System Operator, Inc. ("NYISO") and other stakeholders. The Municipal Utilities have a number of concerns with the Draft Recommendations, delineated

below, which make it impossible to support the Draft Recommendations in their current form at this time.

The MEUA is an association of forty New York municipal electric utilities. All MEUA members are entitled to a portion of the Niagara Power Project by federal and State statute ("preference power"), and contract. The majority of MEUA members require more energy than they have preference power. These members acquire their supplemental energy needs from the NYISO markets. NYMPA is a joint action agency of thirty-six New York municipal utility members and has been supplying its members' supplemental needs through the wholesale markets since 1998.

The Municipal Utilities' members vary widely in their relative size, operating characteristics, customer makeup, and location. They range from small systems, with under 450 total customers and a peak load of 2.1 MW, to larger ones, with over 17,000 total customers and a system peak of 116 MW. The vast majority of their customers are residential; accordingly, any increased energy costs created by this initiative go directly to their monthly budget. The combined load of the Municipal Utilities' members accounts for just over 2% of the New York Control Area, with that load dispersed between Zones A through F. The Municipal Utilities' members are non-for-profit, customer-owned systems, whose primary goal and statutory obligation is to provide safe and reliable service at just and reasonable rates.

Draft Recommendations

As currently proposed, the Draft Recommendations do not produce cost-justified carbon reductions. Every analysis performed to date shows, at best, very marginal carbon reductions despite significant consumer costs. In addition, important components of the program have not been adequately addressed, and potentially informative sensitivities remain pending. Further, if the program is to be approved, substantial safeguards must be put in place to protect consumers, prevent market manipulation, and avoid unintended consequences.

Current modeling shows that incorporating carbon into the wholesale markets will increase wholesale energy prices between $16.40 and $31 per MWh across the study horizon depending on the analysis.[1] These changes are projected to increase the cost consumers pay by approximately $2.6B annually. The analyses further assume that approximately $1.5B of these costs will be returned to consumers through a residual credit methodology to load-serving entities ("LSEs") through a yet to be determined process at the New York State Public Service Commission ("NYPSC"). Despite being characterized as minimal and slight, these increases are substantial, and have the potential to materially affect customer bills.

Despite these potentially significant consumer costs, the modeling predicts negligible results in terms of carbon reductions and increased renewable generation investment. The three studies performed found similar, minimal reductions in system-wide carbon emissions due to a New York carbon charge. For example, in 2025, Brattle found that carbon emissions reductions of 1.5 million tons, RFF predicts a 1.2 million ton decrease across the Eastern Interconnect, and Daymark found regional reductions of less than one million metric tons across the study period. These reductions amount to a range of less than 1% of baseline to approximately 4% in the base case scenario. On a global scale, these reductions are small. Importantly, some of the modeling

[1] See *The Brattle Group, Daymark Energy Advisors, and Resources for the Future Carbon Charge Analysis Summaries and Synthesis*, NYISO (Nov. 7, 2018), at Table 1.

shows increases in NYCA carbon emissions, despite a negligible regional decrease. The proposal puts New York energy consumers in the position of financing emission reductions in other states, while seeing their own emissions increase.

The proposal, as currently structured, fails to provide adequate revenues in sufficient quantities to incent new investment in carbon-free generation. Other state programs will continue to be needed to make the transition to resources required to achieve New York States aggressive State Energy Plan GHG reductions targets for 2030 and 2050. Specifically, Zero Emission Credit ("ZEC"), Renewable Energy Credit ("REC"), and recently approved Offshore Wind Credit ("OREC") payments, while reduced under the modeled conditions, will not be eliminated by the implementation of carbon pricing. Accordingly, the Draft Recommendations do not meet the objective of harmonizing newly enunciated regulatory policies with the wholesale markets.

In addition, higher cost volatility and new risks associated with interface trading have the potential to increase energy price volatility to the detriment of consumers. In certain cases, price stability can be as important as price reduction. The Municipal Utilities serve a majority residential, rural consumer base. Price stability and predictability is essential for the efficient planning and operation of these municipal systems. Any increased volatility directly affects their municipal budgets and impacts other areas of their municipal operations.

The Draft Recommendations also introduce an unjustifiable risk to consumers of being forced to pay twice for the same resources if existing Renewable Portfolio Standard/Clean Energy Standard contracts are deemed eligible to receive higher energy revenues from carbon pricing. We strongly encourage the NYISO to continue to exempt these resources from such double revenue payments.

The major longer-term dynamic outcomes from the Brattle modeling include retention of nuclear facilities upstate, as well as a shift of more renewable resources downstate, and lower REC and ZEC payments. Several of the dynamic outcomes (e.g., retention of nuclear and shifting of renewable resources downstate) were forecasted to provide significant cost saving benefits for consumers. However, the assumed retention of upstate nuclear facilities is an unsupported assumption, and the modeled shift of large-scale renewables downstate ignores the many drivers required for such a shift to occur outside of carbon pricing. These include permitting costs, public opposition, land space availability, and the availability of energy infrastructure to support the development. Therefore, the benefits projected by the analyses are speculative and dependent on satisfactory resolution of a number of variables that have not been sufficiently analyzed or supported.

Another deficiency present in the analyses is the failure to model sensitivities for delays or cancellation of planned transmission construction projects. The New York transmission permitting process is notoriously slow and difficult. The AC Transmission project, originally conceived in 2012 as part of the Energy Highway Roadmap, as well as other transmission and distribution buildout in the northern New York regions, are necessary for clean generation to be delivered to downstate constrained regions. As the recent Public Policy Transmission Comment Process reveals, without transmission upgrades a number of upstate regions will be home to bottled zero-carbon generation while fossil generation downstate will continue to be needed for local reliability. The modeling exercise should include a scenario where critical transmission construction is delayed or cancelled outright.

At a minimum, the details of residual collection and allocation must be addressed to ensure that these cost impacts are mitigated to the greatest extent possible in a fair and equitable manner. Carbon price LBMP cost impacts should be allocated appropriately to provide proper price signals for new clean generation and transmission. Therefore, to the extent that carbon is reflected in the LBMPs, those LBMPS must be higher in areas home to higher emitting generation and transmission constraints. For this reason, the current Draft Recommendations method of distributing residual payments to load is inadequate. Under the current proposal, residuals would be redistributed to LSEs to account for zonal difference in their collection. This will result in muting price signals for new capital investment, and consequently, inefficient allocation of capital resources.

Finally, full implementation of a comprehensive Carbon Pricing regime requires several major decisions from the NYPSC, including general support for the program, determination of the proper value for the social cost of carbon ("SCC") and frequency of how often this decision will be revisited, and how LSE carbon residuals should be distributed. These final decisions must be known before market participants can be expected to support moving forward with the Draft Recommendations that are expected to increase consumer costs substantially. The scope of the potential cost impacts and the forward price for the SCC must be known and limited.

Proposed Improvements

Residuals should be allocated to LSEs based on a load share ratio methodology. Upstate New York is home to one of the cleanest generation fleets in the nation. This fleet includes carbon-free wind, solar, hydro, and nuclear generation. The downstate generation mix is predominately fossil-based, with a host of transmission system related challenges. Accordingly, if a carbon price program is to be implemented, it must create appropriate price signals. Consumers in areas of the state with higher emitting generation should pay for the carbon their generation emits. Consumers who already use low- or zero-carbon resources should not be expected to pay for carbon that they do not emit. Therefore, residuals should be allocated based on a pro-rata load share basis and not dampened in favor of downstate regions as currently proposed.

Further, double payments should be avoided. Resources that currently receive compensation under existing RPS and CES contracts for their carbon-free characteristics should not be eligible for further carbon revenues until their contract expires. Allowing these generators to realize further revenues would expose consumers to unnecessary double payments for the same benefit. Additional transmission scenarios should be studied to inform all stakeholders about the potential market effects due to critical transmission delay or cancellation.

Finally, due to the magnitude of this market change, we strongly recommend robust evaluation and oversight provisions to ensure that unintended consequences are avoided, market gaming is minimized, and the program is functioning as designed to produce actual, verifiable results. Therefore, before the NYISO adopts any form of Carbon Pricing, the following should be considered:

- The NYISO internal and external market monitoring groups should be required to study the Draft Recommendations and provide their detailed analysis of this

proposed change. The analysis should include other recommendations or changes that should be considered prior to implementation of this initiative.

- Conduct a one-month sandbox exercise for all market participants. This will allow all market participants an opportunity to experience in detail this significant market change before any market outcomes become official.
- A safety valve mechanism should be considered to carefully monitor the program, and have the ability to immediately pause the market should unintended market results occur. This will allow market participants adequate time to further review the outcomes, protect consumers, and recommend possible market changes and improvements.
- The NYPSC and the NYISO should submit an annual report that examines, in detail, the past year's performance of the program. The recommended metrics to be monitored should include LBMP and consumer price impacts by zone, residual allocation revenues by zone, total carbon reductions by zone attributable to the program, and reductions in ZEC, REC, and OREC payments as a result of the program.
- The NYISO Independent Market Monitor should add a section in their annual report that specifically addresses this initiative with any proposed recommendations or enhancements.

Conclusion

Based on the foregoing, the Municipal Utilities do not support moving forward with the Draft Recommendations. If the stakeholder vote supports proceeding ahead, however, we strongly urge that our above recommendations be included in any Draft Recommendations submitted for stakeholder vote.

Respectfully submitted,

New York Municipal Power Agency and
Municipal Electric Utilities Association of
New York.

By: */s/ Christopher Wentlent*
Christopher Wentlent