MULTIPLE INTERVENORS' COMMENTS ON "CARBON PRICING PROPOSAL RECOMMENDATIONS"

PRELIMINARY STATEMENT

In response to a solicitation by New York Independent System Operator, Inc. ("NYISO") staff, Multiple Intervenors hereby submits Comments on the "Carbon Pricing Proposal Recommendations" ("Proposal") that was circulated to the Integrating Public Policy Task Force ("IPPTF") on October 31, 2018. Multiple Intervenors is an unincorporated association of approximately 60 large industrial, commercial and institutional energy consumers with manufacturing and other facilities located throughout New York State.

Prior to turning to the Proposal itself, two points initially warrant emphasis. First, Multiple Intervenors has not yet advocated a position as to whether or not the NYISO should modify its markets to incorporate a form of carbon pricing. To date, Multiple Intervenors has set forth a number of concerns regarding the Proposal, including, but not limited to, the potential resulting economic impacts on consumers. Nevertheless, Multiple Intervenors is withholding judgment on whether it would support or oppose the Proposal, for now, pending finalization of the Proposal, as well as completion and further examination of ongoing impact analyses.

Second, Multiple Intervenors already has provided NYISO staff with a substantial amount of feedback on the Proposal in the form of verbal statements made at each and every IPPTF meeting that has been conducted since its formation, and NYISO staff has acknowledged such feedback. Therefore, Multiple Intervenors will utilize these Comments to address what it perceives as the open questions and/or its primary outstanding concerns regarding the Proposal in its current state.

GENERAL COMMENTS

While Multiple Intervenors has not yet advanced a position as to whether or not carbon pricing should be implemented by the NYISO, and continues to examine the various elements of the Proposal as well as the ongoing impact analyses, it remains concerned that carbon pricing would result in unacceptable consumer impacts without producing sufficient, offsetting benefits.[1]

From a consumer perspective, carbon pricing would lead to an immediate, substantial increase in wholesale energy prices. Such increase could result in an overnight jump in LBMPs of 50% or more. Although the introduction of carbon pricing also would lead to offsetting economic benefits that would reduce the total impact on consumers, a number of those offsetting benefits are speculative in nature. Exposing consumers to risks that the full, projected offsetting benefits may not be realized could result in higher-than-expected costs. For instance, assumptions that the introduction of carbon pricing would lead to a dollar-for-dollar reduction in the costs of Renewable Energy Credits ("RECs") to consumers apparently are dependent upon certain unplanned changes in the manner in which RECs currently are procured being made. If such changes to the REC procurement process are not implemented, this offsetting benefit of carbon pricing likely would be materially less than the amounts being projected.

[1] With respect to projected consumer impacts that are economic in nature, they should be expressed in terms of dollars per MWh – and not cents per kWh – consistent with how wholesale energy market prices ordinarily are expressed and potential energy market rule changes typically are evaluated by the NYISO. Moreover, to the extent such consumer impacts are subject to comparisons for purposes of expressing projected changes in percentage terms, such comparisons should be limited to historic and/or projected future wholesale energy prices. Comparisons to a single utility's retail rate that includes bundled energy-, capacity-, and delivery-related costs, for instance, are very misleading. NYISO staff should be presenting potential carbon pricing impacts in an unbiased manner, not attempting to minimize those impacts artificially.

Throughout the IPPTF process, Multiple Intervenors has advocated that the potential environmental benefits of carbon pricing proposals – such as carbon emissions reductions – also should be analyzed, thereby facilitating a more-comprehensive evaluation of carbon pricing. Unfortunately, the environmental benefits associated with the possible implementation of carbon pricing currently appear to be somewhat limited. Based on initial analyses, carbon pricing is likely only to have *de minimis* impacts on generator dispatch. Moreover, while carbon pricing is expected to lead to reduced carbon emissions on a regional basis, such reductions are relatively modest and would appear to represent a high-cost abatement alternative. Carbon pricing also is projected, by at least one analysis, to lead to increased emissions within New York.[2]

Theoretically, Multiple Intervenors does perceive some benefit in attempting to incorporate certain unavoidable, out-of-market subsidies into the State's wholesale electricity markets. Competition, in general, benefits consumers and should lead to better and more economic outcomes. In this case, however, such benefits appear somewhat limited. Analyses indicate, for instance, that carbon pricing likely would contribute very little, if anything, toward New York's pursuit of increased reliance on renewable resources, primarily because even with the SCC internalized into competitive wholesale energy markets, the Clean Energy Standard still

[2] For a variety of reasons, carbon pricing would be a more attractive alternative if implemented on an international, national or even regional basis, rather than by a single state. Indeed, a mechanism for internalizing the SCC on a regional basis already is in place, *i.e.*, the Regional Greenhouse Gas Initiative. Multiple Intervenors also has concerns about the merits of implementing carbon pricing in the electric power sector only, particularly when New York's electricity costs are much-higher than the national average and the State's electric power sector's share of carbon emissions is less than half of the national average. *See* U.S. Energy Information Administration, Energy-Related Carbon Dioxide Emissions at the State Level, 2000-2014 (indicating that the electric power sector accounted for 18.0% of New York's carbon emissions during the period examined, as opposed to a national average share of 37.4%; given developments subsequent to 2014, the electric power sector's share of New York carbon emissions probably is even less now).

would require out-of-market subsidies to achieve its renewable penetration goals. In other words, on its own carbon pricing is not likely to lead to the development of any appreciable amount of incremental renewable resources.

Multiple Intervenors continues to consider the potential implementation of carbon pricing. Consistent with positions advocated by other stakeholders, Multiple Intervenors recognizes that, absent carbon pricing, there may be an increased likelihood that the Federal Energy Regulatory Commission ("FERC") imposes expanded mitigation-related requirements on the NYISO at some point in the future, which could increase electricity prices paid by consumers. Whether such potential outcome (which is far from certain) ultimately would be better or worse for consumers than the adoption of a carbon pricing regime is not clear, but warrants further examination. In isolation, however, the case for carbon pricing has been relatively underwhelming to date, at least from a consumer perspective.

COMMENTS SPECIFIC TO THE PROPOSAL

For ease of review, the remainder of Multiple Intervenors' Comments are arranged in the same order as the sections of the Proposal.

A. Concept for Carbon Pricing

Multiple Intervenors notes that the Proposal lacks an explanation or justification for potentially adopting carbon pricing. Such explanation or justification seemingly should be advanced in the Concept section. (*See* Proposal at 6-7.) In Multiple Intervenors' opinion, the lack of well-defined, broadly-shared objectives for a carbon pricing proposal has impeded progress in the IPPTF.

This section of the Proposal does explain that "[l]ow-emitting resources in New York, including efficient carbon-emitting units, renewables, hydropower, and nuclear generators, would benefit from higher net revenues." (Proposal at 7.) In contrast, the Proposal does not explain if or how *consumers* would benefit from carbon pricing, which appears to be a rather glaring omission. Indeed, based on the impact analyses conducted to date, it is not at all clear whether, or why, carbon pricing would represent a beneficial modification of the NYISO's existing market structure for consumers (who would be funding those "higher net revenues" for certain generators).

B. Setting the Gross Social Cost of Carbon & $LBMP_c$

The Proposal indicates that the NYISO will utilize the gross social cost of carbon ("SCC") as determined by the New York State Public Service Commission ("PSC"), consistent with existing State clean energy programs. (Proposal at 9.) This aspect of the Proposal requires modification and/or substantial elaboration.

As advanced, the NYISO would be committed to utilizing whatever SCC is adopted by the PSC, within its sole discretion, subject to the same SCC being utilized in other State clean energy programs. Such proposal provides inadequate safeguards to market participants. Multiple Intervenors also notes that the Proposal seemingly now differs from NYISO staff's "Carbon Pricing Draft Recommendations," which was circulated on August 2, 2018, and recommended (at page 4) that the PSC would set the SCC "pursuant to the appropriate regulatory process" and that such process "would be subject to the State Administrative Procedures Act." It is not clear from the Proposal whether NYISO staff's omission of these barest of procedural safeguards was intentional. Accordingly, the Proposal should be modified to detail, specifically, the following:

a. how the SCC would be set initially;

b. how the SCC would be updated over time; and

c. when (*i.e.*, how frequently) the SCC would be updated.

Importantly, these still-open issues must be resolved *prior to* a stakeholder vote on any carbon pricing proposal. Without advocating a position as to the precisely how the SCC should be set initially, Multiple Intervenors recommends strongly that: (a) any updating of the SCC take place pursuant to a specific, publicly-known schedule (*e.g.*, annually, biannually); and (b) such updating, if and when scheduled, be implemented in accordance with a previously-announced and fully-transparent process (*e.g.*, a process akin to the annual updating of Installed Capacity Demand Curves). It would be difficult to envision Multiple Intervenors and other stakeholders supporting – or the FERC approving – a carbon pricing proposal that, for instance, would allow the PSC to modify the SCC at any time, and/or to any level, based solely on its discretion. While Multiple Intervenors understands the NYISO's reluctance to engage on certain policy issues and its strong preference that the SCC be set by the PSC, at the end of the day carbon pricing would be implemented, if at all, via the NYISO's tariff, which is subject to FERC jurisdiction.

Multiple Intervenors still is reviewing NYISO staff's recent proposal to utilize the marginal emitting resource's carbon charge (in $/MWh) to determine the impact of carbon pricing on location-based marginal prices (hereinafter, the "LBMP Carbon Impact" or "$LBMP_c$"). (*See* Proposal at 10-11.) During the discussion of such proposal within the IPPTF, stakeholders advanced a concern that if the marginal unit is emission-free, but has a higher bid than one or more emitting units (*e.g.*, due to its opportunity cost), perhaps the carbon charge imposed on a selected unit that is closest in the bid stack to marginal unit instead should be used

to determine the $LBMP_c$. There has not been an adequate opportunity to analyze and understand the justifications for this aspect of the Proposal or its potential market ramifications. For instance, while determination of the $LBMP_c$ would not impact LBMPs, it apparently could impact the amount of Carbon Charge Residuals that ultimately are allocable to load-serving entities ("LSEs") as an intended offset to the impacts of carbon pricing on consumers.[3]

NYISO staff advances a proposal to ensure that the $LBMP_c$ will be transparent. (Proposal at 12.) Multiple Intervenors appreciates the recognized need for transparency with respect to certain aspects of any carbon pricing proposal. From Multiple Intervenors' perspective, and for all time periods, there needs to be transparency as to, *inter alia*, (a) the LBMP; (b) the $LBMP_c$; (c) what the LBMP would have been absent carbon pricing; and (d) the amount of Carbon Charge Residuals (in $/MWh) being allocated to LSEs in each load zone. Additional transparency for the benefit of retail market transactions may be required.

C. Application of the Carbon Price to Internal Suppliers

Multiple Intervenors advances no comments on this element of the Proposal.

D. Application of the Carbon Price to External Transactions

Initially, Multiple Intervenors agrees that, if *arguendo*, a carbon pricing regime is implemented, carbon charges generally should be applied "to external transactions such that they

[3] Multiple Intervenors notes that the Proposal is silent with respect to the retail treatment of Carbon Charge Residuals. While the NYISO is not expected to resolve this issue itself, its resolution *prior to* any stakeholder vote on carbon pricing is critical. If, *arguendo*, the PSC supports carbon pricing, it should clarify that LSEs subject to its jurisdiction would be required to allocate Carbon Charge Residuals to end-use consumers on the basis of energy consumption (*i.e.*, the same manner in which the costs associated with higher LBMPs resulting from carbon pricing would be charged to consumers). On the other hand, if, *arguendo*, the PSC does not support carbon pricing and/or the Proposal in its current form, it should advise the NYISO and stakeholders of such position as soon as practicable in order to minimize the future, unnecessary expenditure of substantial resources by NYISO staff and stakeholders in pursuit of market rule changes that are dependent upon – but unlikely to receive – active support by the PSC.

compete with internal resources (and each other) as if the NYISO was not applying a carbon charge to internal suppliers (i.e., on a status quo basis)." (Proposal at 16.) Application of a different approach – such as attempting to apply carbon charges based on the purported emissions of specific generation external to New York – could result in substantially-higher costs to consumers while offering little to no offsetting environmental benefits.

Multiple Intervenors still is evaluating the recommendation that: "To determine charges and credits, the NYISO proposes to use the $LBMP_c$ based on the real-time system dispatch." (Proposal at 17.) Such recommendation reflects a change in position by NYISO staff, as compared to its initial proposal to forecast the impact of carbon pricing on LBMPs. While Multiple Intervenors understands that the NYISO now prefers not to engage in forecasting marginal emission rates, its proposal to forego doing so potentially increases market uncertainty, and associated risks, which ultimately may exacerbate the economic impacts of implementing carbon pricing on consumers. In Multiple Intervenors' opinion, this issue requires further vetting and analysis within the stakeholder process.

E. Emissions Reporting and Billing

Multiple Intervenors advances no comments on this element of the Proposal.

F. Interaction of the Carbon Charge with NY RECs

If, *arguendo*, carbon pricing is implemented, Multiple Intervenors generally supports NYISO staff's proposals intended to protect consumers from essentially being forced to make double-payments for the same carbon-free emissions attribute. (*See generally* Proposal at 22-26.) From Multiple Intervenors' perspective, a double-recovery from consumers for the same attribute would be abhorrent and must be avoided. That being noted, to the extent that there are alternate proposals that would protect consumers from double-payments while potentially

interfering less with existing developer financing arrangements, Multiple Intervenors remains willing to consider such proposals.

G. Application of the Carbon Charge Residuals to Loads

In the Proposal, NYISO staff recommends use of the "Proportional Allocation" approach for allocating Carbon Charge Residuals to LSEs. (Proposal at 28.) Multiple Intervenors has two comments regarding such recommendation.

First, Multiple Intervenors agrees with NYISO staff's decision to rescind its prior recommendation of the "Levelizing Allocation" approach. From Multiple Intervenors' perspective, the prior approach would be blatantly inequitable to Upstate consumers and likely preclude any possibility of broad geographical support for carbon pricing.

Second, the NYISO should adopt the "Proportional Percentage Levelization Approach" in lieu of the now-recommended Proportional Allocation approach. The Proportional Allocation approach allocates Carbon Charge Residuals proportionally by load zone but, because Upstate energy prices are lower than Downstate energy prices, results in Upstate consumers experiencing higher price increases on a percentage basis than Downstate consumers as a result of carbon pricing. This is an inequitable outcome given that, under the NYISO's definitions of Upstate and Downstate, Upstate already is nearly 90% reliant on carbon-free generation.

Thus, while the Proportional Allocation approach is more equitable than the Levelizing Allocation approach, Multiple Intervenors continues to advocate adoption of the Proportional Percentage Levelization Allocation approach. Pursuant to that approach, each load zone would experience the same percentage price impact as a result of the potential implementation of carbon pricing. This is the most equitable approach of the ones analyzed, and is akin to an "across-the-board" increase in a utility rate proceeding. More pointedly, the

Proportional Percentage Levelization Allocation does not penalize Downstate because it currently is far more carbon-intensive than Upstate. By the same token, however, the Proportional Percentage Levelization Allocation approach does not penalize Upstate because it currently experiences lower wholesale energy prices than Downstate.

H. Changes to Other NYISO Markets and Planning Processes

NYISO staff recommends that "the resulting impacts of implementing Carbon Pricing in the wholesale market should be rolled into Net EAS Revenue estimates through the annual update process." (Proposal at 30.) Based on analyses indicating that carbon pricing, if implemented, would have little to no material impact on net energy and ancillary service revenues for Installed Capacity Demand Curve purposes, Multiple Intervenors advances no comments on this element of the Proposal.

Dated: November 15, 2018
Albany, New York

Respectfully submitted,

Michael B. Mager

Michael B. Mager, Esq.
Counsel
Multiple Intervenors
540 Broadway, P.O. Box 22222
Albany, New York 12201-2222

S:\DATA\Client2 9000-11399\09588\2018 Documents\Carbon Pricing Proposal - Comments 11-15-18.docx