Comments of New York Power Authority on the November 1, 2018

Draft IPPTF Carbon Pricing Straw Proposal

November 15, 2018

The New York Power Authority (NYPA) offers these comments on the latest version of the draft carbon pricing straw proposal (CP Proposal) issued November 1, 2018 by the Integrating Public Policy Task Force (IPPTF). As with prior versions of the IPPTF proposal, this latest version of the CP Proposal lacks detail on many significant issues and employs simplifying assumptions that should give pause to anyone seeking to rely on its forecasts. Although pricing carbon into the market has clear potential benefits, given the incompleteness of the CP Proposal and the uncertainty surrounding material elements of its implementation, NYPA is not taking a position as to whether or not the CP Proposal should be implemented.

NYPA's comments focus on: (1) foundational principles that should guide and motivate the development, pursuit and industry consideration of any CP Proposal (2) erroneous assumptions in the Brattle study that have overstated potential NYPA revenue benefits from the CP Proposal, and (3) the need to ensure that transmission additions necessary to realize the objectives that underlie the CP Proposal are facilitated.

1. <u>NYPAs Carbon Pricing Proposal Principles</u>

NYPA offers the following foundational principles to guide and motivate the development, pursuit and industry consideration of any carbon pricing proposal to be taken up in the NYISO shared governance process for possible incorporation into New York's wholesale electricity markets.

Any carbon pricing proposal should:

A. Fully support and harmonize with the State's energy policy objective to significantly reduce carbon emissions, including the Clean Energy Standard (CES), Renewable Portfolio Standard (RPS), and the Clean Energy Fund (CEF);

B. Provide market efficiency benefits in the achievement of the State's policies consistent with the current approach using out-of-market mechanisms, e.g. RECs, ORECs, ZECs, RMRs;

C. Properly signal development of new and maintenance of existing reliable, renewable, and zero carbon emitting electric generating resources;

D. Minimize the financial risk to, and burden upon, New York consumers in creating future generations of clean, renewable resources, and allocate the implementation and program costs among customers on an equitable basis; and

E. Be supplemented with policies that facilitate building out a transmission system that makes clean energy available to all energy consumers throughout the State.

2. <u>Discussions Regarding NYPA Revenue in a Carbon Pricing Regime</u>

A. No Market Participant Should be Singled Out

NYPA strongly and vigorously asserts that it would be unjust, unreasonable and unduly discriminatory to establish different wholesale rates for specific market participants. NYPA therefore opposes any effort to single out and track the revenues of any individual market participant, including NYPA, or any other entity with a generation fleet that includes renewable resources. Such an effort runs contrary to the confidentiality obligations that bind the NYISO and that underlie the wholesale markets it administers.

The Brattle Report analysis confirmed the goal of a carbon adder: to provide a financial incentive to encourage renewable generation development, while at the same time providing a financial disincentive for carbon-emitting dirty generation. It is therefore no surprise that Brattle's analysis rightfully predicts that if a carbon adder is introduced into New York's wholesale electricity markets, in the short-term, NYPA's carbon-free hydropower generation resources will realize increased revenues (note that this will likely be offset to some degree by lower run rates for NYPA's fossil fuel generators). The expected impact on NYPA resources is no different than it would be for any other company that owns renewable generation, nor should it be. Yet, while this seems obvious, some recent market participant discussions at the IPPTF have suggested that NYPA should somehow be treated differently than all other generators in a carbon adder regime.

It is unfortunate that the Brattle analysis has overestimated the revenue benefits that NYPA would receive under the CP Proposal. The analysis suggests that in the years studied, NYPA would realize some benefit. However, Brattle's estimate is premised on the erroneous assumption that all of NYPA's zero Marginal Emission Rate (MER) hydroelectric facilities are merchant resources. In fact, historically, nearly 60% of the output of NYPA's hydroelectric facilities is committed under bilateral agreements. NYPA would not receive any direct increase in generating revenues under the CP Proposal for the 60% of its generation that is committed to bilateral customers. NYPA has spoken with Brattle regarding this matter and Brattle has indicated that it agrees reflecting NYPA's bilateral obligations would result in lower estimated NYPA revenues from the CP Proposal.

It is important to understand that should there be any net revenue benefit, it would be transitory. Over time, as the many State policies achieve their aim, carbon emitting resources will be on the margin in fewer and fewer hours. We are already seeing the high MER coal resources leave NY's generation fleet. The CP Proposal would drive high MER natural gas resources out over time, as well. Thus, as shown in the latest Brattle analysis, through the period 2025 through 2030 the level of carbon charges in the market drop dramatically. Thus, the increased revenue NYPA is projected to see will dwindle over time. At the point that most or all of the state's carbon-emitting generation fleet evolves out of the fleet, the clean generation resources will be fiercely competing against each other – revenues for renewables at that point, including NYPA, are uncertain to say the least.

B. New York's Original Clean Energy is also its Innovative Clean Power Future

NYPA's Mission is to:

Provide clean, low-cost and reliable energy consistent with our commitment to the environment and safety, while promoting economic development and job development, through innovative *development of energy efficiency, renewable and clean energy technologies, for the benefit of our customers and all New Yorkers.*

As discussed above, there remains great uncertainty as to what a final CP Proposal might look like, and even greater uncertainty as to how the market may evolve because of it. NYPA will use any revenue benefit to continue our more than 85 years of responsible leadership and innovation growing New York's clean energy future.

NYPA uses it revenues from its generation and transmission assets, NOT state tax dollars, to fund programs including: economic development programs that retain and create hundreds of thousands of jobs throughout New York State; residential and agricultural consumer discount programs; energy efficiency financing for public entities, not-for-profit colleges and universities; and the development of essential charging infrastructure to accelerate the adoption of electric vehicles throughout New York.

NYPA's success is the public's ideal vision for its government, making smart investments that benefit the public through: a more reliable and cleaner electric grid, affordable energy, creating and retaining jobs, being the foundation of a renewable energy portfolio and pursuing the Clean Energy Standard and Governor Cuomo's Reforming the Energy Vision.

3. Transmission Development

The point has been made by a number of parties that achieving the objectives of the CP Proposal, as well as the State's CES goals, will require significant transmission expansion to ensure the load centers have adequate access to low or zero MER resources. The efficacy of an enhanced price signal will be limited, if access to zero MER resources is inadequate. Both the NYISO and the New York Public Service Commission (NYPSC) have important roles to play in creating a supportive environment for transmission expansion.

NYPA supports expeditious action by the NYPSC to establish the public policy requirement transmission needs it advocated in response to the NYISO's August 1, 2018 solicitation of transmission needs. The NYPSC also has an important role in expediting Article VII transmission siting applications to get selected projects into service as promptly as possible. In addition, the NYISO should continue the work it is doing to improve the public policy transmission planning process (PPTPP) procedures to decrease the time necessary to complete the PPTPP process and achieve project selections. Attention should be given to every step in the process, from RFP development, to staff analysis and recommendation, to the Board of Director's action on the selection report.

4. Conclusion

NYPA appreciates this opportunity to supplement the views it has shared in the IPPTF proceedings with these comments. The CP Proposal is incomplete, has material flaws and assumptions, as well as having uncertainty surrounding material elements of its implementation. Therefore, due to these unresolved substantive issues, it would be imprudent for NYPA to take a position as to whether or not the CP Proposal should be implemented. Nevertheless, NYPA fully supports the end goal of adding carbon pricing into the market --to reduce carbon emissions and encourage investment in renewable carbon free resources which supports the Governor's Clean Energy Standards, adequate access to low or zero carbon emitting resources, and more importantly, clearly benefits the environment and health of all New Yorkers. To that end, NYPA supports all efforts aimed at providing New Yorkers with cleaner environment and healthier lives, that when implemented, embraces the foundational principles of reduced carbon emissions, reliable grid, market efficiency, affordable energy, and transmission expansion each being part of the foundation of a renewable energy portfolio and pursuing a clean energy standard.