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Dr. Nicole Bouchez, Principal Economist
New York Independent System Operator, Inc.
10 Krey Boulevard
Rensselaer, New York 12144

Via email: IPP_feedback@nyiso.com

Re: Comments on Carbon Pricing Proposal

Dear Dr. Bouchez:

Niagara Mohawk Power Corporation d/b/a National Grid (“National Grid” or “the Company”) submits this filing in response to the request from the New York Independent System Operator, Inc. (“NYISO”) to submit comments on the NYISO’s carbon pricing proposal. National Grid appreciates the opportunity to submit feedback to the NYISO on the most recent version of the proposal for carbon pricing. National Grid has provided feedback throughout the stakeholder process, both verbally during Integrating Public Policy Task Force (“IPPTF”) meetings as well as in written comments.¹ Overall, National Grid still is supportive of wholesale market solutions as the most economically efficient method of meeting state clean energy policy goals. At this point in the process, however, there are two issues that the Company believes it is imperative to focus on: 1) the allocation of carbon residuals back to load; and 2) the potential for inefficiencies to arise as a carbon price in New York interacts with markets in neighboring regions and drives consumer behavior in other sectors of the New York economy that exacerbate carbon emissions and undermine aspects of the state’s energy plan. National Grid believes that the NYISO has moved closer to an optimal solution on the issue of carbon residuals; however, on the second issue, recent studies have shown that the potential for market inefficiencies to undermine the benefits of a carbon

¹http://www.nyiso.com/public/webdocs/markets_operations/committees/bic_miwg_ipptf/meeting_materials/2017-10-27/Comments%20of%20National%20Grid%20on%20Integrating%20Public%20Policy.pdf

price may be greater than first believed, and there is currently no clear consensus on how best to mitigate these inefficiencies. As such National Grid urges the NYISO to undertake further analysis and stakeholder discussion in order to produce a consensus approach to these issues. At that point of consensus, National Grid would like to see an advisory vote at the IPPTF before sending the proposal through the stakeholder process to develop tariff revisions. Moreover, before significantly more time and resources are committed to this initiative, National Grid believes that it is essential to obtain clear input from the State as to its position on the proposal. Without the unequivocal support of New York State, we feel that the chances for success of this proposal are greatly diminished, especially at the Federal Energy Regulatory Commission.

Allocation of Residuals to Load

During the course of the IPPTF, the NYISO has considered four methodologies on how to allocate residuals collected from carbon charges back to load:

1. Load-Ratio Allocation
2. Proportional Percentage Levelization Allocation
3. Proportional Allocation
4. Levelizing Allocation

The NYISO currently recommends the Option 3 Proportional Allocation approach (per the October 29, 2018 IPPTF presentation by the NYISO). In National Grid's opinion, the Option 2 Proportional Percentage Levelization Allocation is significantly more equitable than Option 3, and we urge the NYISO to adopt this methodology.

The Option 2 Proportional Percentage Levelizing Allocation is more equitable because it ensures that each zone experiences the same percentage impact on its energy price. That is, Option 2 Proportional Percentage Levelization Allocation recognizes and accounts for the fact that LBMPs are higher in the base case in some zones (e.g., Downstate) than others (e.g., Upstate), and that an equitable customer impact would ensure that energy prices go up by the same proportion in all zones. Conversely, Option 3 allocates residuals back to load on a

proportional basis but results in zones with lower base energy prices experiencing much larger percentage increases than zones with higher base energy prices. In summary, National Grid recommends that the NYISO adopt the Proportional Percentage Levelization Allocation.

Regional and Cross-Sector Inefficiencies

National Grid remains concerned that the implementation of a carbon component of LBMP in New York might create unintended market behavior that would undermine the clean energy goals of New York State. Clearly, carbon pricing would be more efficient if it was implemented on a national or regional basis, rather than by a single state, and if it was implemented across all sectors of the economy (energy, transportation, and heating). National Grid identified this cross-sector approach to carbon reduction in its analysis *Northeast 80x50 Pathway*.²

This is because the implementation of a price for carbon in one market or sector introduces the possibility of unintended impacts to other markets that are actually in conflict with the central goal of reducing emissions and harmonizing markets. While National Grid believes that it may nevertheless be possible to achieve benefits from moving ahead with carbon pricing in New York, recent studies have indicated that the potential for unintended and counterproductive market effects may be greater than first thought. These issues (and potential solutions to them) need to be more thoroughly analyzed before the NYISO moves forward with a firm proposal.

Implementing Carbon Pricing in New York may cause unintended emissions in neighboring regions

One major cause for concern is the potential for increases in energy prices in New York to incentivize external resources to sell clean energy to New York, only to produce more emissions locally.

² <http://news.nationalgridus.com/wp-content/uploads/2018/06/80x50-White-Paper-FINAL.pdf>

Over the course of the IPPTF meetings, there has been much discussion about the correct methodology to address leakage. The NYISO has stated that it has considered two options: 1) assume imports have the same Marginal Emissions Rates (“MER”) as the internal MER during that interval, which would essentially make the carbon price "invisible" to imports; or 2) apply a unit-specific MER to all external resources and treat external units the same as internal units when NYISO determines its schedule. The NYISO has stated that it recommends Option 1 because it thinks Option 2 is not feasible since obtaining unit-specific details will prove difficult and because there are other market dynamics that make it difficult to know how emissions are impacted when resources import to or export from New York.

National Grid has expressed its position that Option 2 is the more desirable choice from a regional perspective because it is more economically efficient, in that it would provide an incentive for neighboring regions to generate zero-emission energy so that they can sell into New York. However, given what has been discussed at IPPTF, National Grid believes that this issue deserves additional analysis before it is decided. In fact, in its comparison of the consumer impact studies performed by Brattle, Daymark, and Resources for the Future, the NYISO noted that the assumptions made for the level of exports and imports in the three studies had a significant impact on the level of emissions and additional costs expected in New York under the carbon pricing proposal. The significant discussion around the topic and the uncertainty across stakeholders about the correct solution demonstrates the complexity of the issue and the need for additional thoughtful consideration before we reach a solution. National Grid recommends that the NYISO continue its analysis into this issue of how to treat imports/exports in its final proposal.

Implementing Carbon Pricing in NY may cause unintended emissions in the transportation and heating sectors

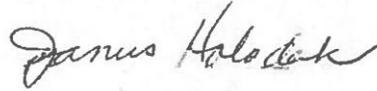
Another example of how the implementation of a carbon component of LBMP may create inefficiencies between markets is regarding cross-sector impacts. If a carbon price is included in the electricity price in New York, it will impact how residential customers decide to consume electricity versus other sources of energy. More specifically, if electricity prices

increase, it will lessen the incentive for residents to adopt electric vehicles instead of fossil fuel vehicles, which is a stated goal of the state energy plan. National Grid believes that additional analysis needs to be performed on the cross-sector impacts of implementing carbon pricing before the proposal is finalized.

Consensus and Advisory Vote

National Grid believes that consensus must be built with input from the State. Knowing whether the State supports the proposal is important before an advisory vote is taken. An advisory vote would demonstrate consensus before committing the additional time and resources to undertake the stakeholder process of developing tariff modifications. This advisory vote will be an important signal of support, as the tariff revisions are developed and ultimately filed at the Federal Energy Regulatory Commission. National Grid therefore recommends that the NYISO culminate the IPPTF effort with an advisory vote before the task force is closed.

Respectfully submitted,



James G. Holodak, Jr.