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**To:** Michael DeSocio, Nicole Bouchez  
**From:** Marc D. Montalvo on behalf of the NY UIU  
**Cc:** Erin Hogan  
**DATE:** November 15, 2018  
**SUBJECT:** NYISO's proposed carbon pricing design

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Thank you for the opportunity to submit these comments.

As a matter of principle, the NY UIU supports market design changes that enhance total efficiency. We are concerned, however, that the design as presented may not produce the desired results and that the theoretical benefits of adding a carbon charge to the wholesale market are not compellingly borne out in the studies performed to date. Furthermore, there are risks associated with the implementation of a complex new design that will have a profound impact on regional power economics that the NYISO has not adequately addressed. We understand that the design work continues. To that end, we recommend that the NYISO market design team take its time working through the components of the design and, to the greatest extent practicable, test in sandbox the components and the system thoroughly before rolling out a final design for implementation.

New York State's has two public policy goals that impact investments in the wholesale market:

- Ambitious greenhouse gas reduction targets
- Meeting at least 50% of the state's energy demand with renewable resources

The NYISO has worked with stakeholders through the IPPTF process to assess whether and, if yes, then to what extent the inclusion of a carbon charge in the wholesale energy price might provide price signals that would more efficiently lead to the realization of these state policy goals.

The decision to proceed with the carbon charge design concept rests on affirmative resolution of the following questions:

1. **Strategic Alignment** | Does the introduction of the carbon charge further (or in the worst case not impede) realization of the states GHG reduction and renewable energy deployment goals?
2. **Technical Feasibility** | Is it technically feasible to incorporate a carbon charge into the wholesale market? Can the NYISO's systems accommodate the change? Can the market participants?

3. **Net Beneficial** | Is the incorporation of carbon charges net beneficial; that is, does adding carbon charges to the wholesale market allow the state to realize its policy objectives at a lower total social cost than would the status quo without carbon charges?

The materials prepared by the NYISO and the analysis performed to date by Daymark, Brattle, and RFF all confirm that broadly speaking the addition of the carbon charge is strategically aligned.

As regards technical feasibility, there remain a few open questions and concerns regarding implementation. First, we are concerned that the NYISO's proposal will not measure and report marginal carbon emissions rates on a sufficiently granular basis and may misstate the emissions associated with generation that does not burn a fuel, but rather bid opportunity costs, leading to distortions. Whether this would be the case in practice is unclear and deserves additional study before being adopted for implementation. Second, we are concerned that the NYISO has underestimated the challenges (particularly in the near term, which may persist a number of years) that market participants will have estimating the border charges and the consequences of misestimation on the efficiency of trade and the implications for consumer costs.

As regards net benefits, the studies performed show that in the best case adding a carbon charge produces no material net consumer benefits and, in some cases, produces a large net increase in consumer costs. Additionally, none of the studies show an appreciable change in carbon dioxide emissions. The economic results do not present a compelling case on their own to proceed with the adoption of a carbon charge.

In conclusion, our stated concerns notwithstanding, the NY UIU remains broadly supportive of the search for an approach to incorporating the cost of carbon into the wholesale market that enhances total efficiency and brings clear benefits to the state's consumers. We will continue to work with NYISO to improve this proposal. We encourage the NYISO to remain open to rigorous assessment of all aspects of the design.