

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

State Policies and Wholesale Markets)	
Operated by ISO New England Inc., New York)	Docket No. AD17-11-000
Independent System Operator, Inc. and)	
PJM Interconnection, L.L.C.)	

**PRE-TECHNICAL CONFERENCE COMMENTS OF SUSANNE DESROCHES,
DEPUTY DIRECTOR, INFRASTRUCTURE POLICY
NEW YORK CITY MAYOR’S OFFICE OF RECOVERY AND RESILIENCY**

The City of New York (“City”) provides these preliminary comments regarding the Federal Energy Regulatory Commission’s (“Commission”) Technical Conference on interactions between the state policy objectives and the wholesale electricity markets, scheduled for May 1 and 2, 2017. These interactions are becoming more frequent, and the City appreciates the Commission devoting time and resources to better understanding the nature of the interactions and exploring ways to integrate state policy goals and initiatives with the wholesale markets. The City also appreciates the opportunity to discuss these important issues at the Technical Conference and provide information on its policy goals and the role the wholesale markets can play in the achievement of its goals. These preliminary comments are intended to provide a brief overview of the City’s perspectives on the topics and questions set forth in the Supplemental Notice issued on April 13, 2017 in order to help frame the discussion.

New York Policy Goals And Initiatives

For over 10 years, the City has been pursuing a public policy agenda focused on reducing greenhouse gases, improving air quality and public health, addressing climate change risks, and making New York City infrastructure (*e.g.*, energy water, transportation) more sustainable and resilient. Mayor Bill de Blasio has developed ambitious goals for securing the sustainability of New York City, including (1) plans to improve the energy efficiency of, and reduce harmful air emissions from, New York City’s buildings and achieve 80 percent reductions in carbon emissions by 2050 (as compared to 2005 levels),¹ and (2) offer well-paying jobs to all, clean the air and water, reduce solid wastes, upgrade buildings to be more energy efficient and resilient to

¹ See “One City, Built to Last: Transforming New York City’s Buildings for a Low-Carbon Future,” issued September 2014, available at <http://www.nyc.gov/html/builttolast/assets/downloads/pdf/OneCity.pdf>.

the impacts of climate change, and better respond to adverse climate.² The need to take such action is well established. For example, short-term exposures to NO_x, ozone, and particulate matter are correlated with excess risk of asthma emergency department visits while chronic exposures to particulate matter and ozone are also correlated with premature mortality.³ Reducing emissions of these pollutants and their precursors will decrease these negative health outcomes.

New York State also recognizes this need and shares the same policy objectives as the City. This is best demonstrated by the State's adoption of a Clean Energy Standard ("CES"), with the goal of having 50% of the State's energy produced by renewable resources by 2030.⁴ Although the City and the State are not in full agreement regarding some aspects of the CES, the City conceptually supports the need to continue operations of the State's nuclear fleet until such time as its output can be replaced by infrastructure that provides the same level of benefits in terms of reliability, affordability, air quality, and carbon intensity.

It is imperative that the wholesale markets operate in a manner that is consistent with, and in furtherance of the City's and State's policy goals. This includes eliminating barriers to entry, reducing congestion on the Bulk Power System to allow greater access by downstate load centers to renewable resources constructed in other parts of the State, expanding the transmission system for resiliency purposes and to facilitate the development of renewable resources, and facilitating repowering of old, inefficient generating units with modern, high efficiency, low emitting units that can complement the variable output of a grid predominately supplied by renewable energy.

Market Design Features Needed To Achieve Public Policy Goals

The existing energy market design is premised on selecting the generating units with the lowest operating costs, and the capacity market design is premised on the cost of a natural-gas fired generating unit. This construct is not consistent with the policy goals of increasing reliance on renewable resources and decreasing reliance on fossil fuels. In fact, this construct can act as a barrier to achievement of the City's and State's goals.

² See "One New York: The Plan for a Strong and Just City," issued April 2015, available at <http://www.nyc.gov/html/onenyc/downloads/pdf/publications/OneNYC.pdf>.

³ See, e.g., Ito, K., *et al.*, "Characterization of PM_{2.5}, gaseous pollutants, and meteorological interactions in the context of time-series health effects models," *Journal of Exposure Science and Environmental Epidemiology* (2007) 17, S45-S60.

⁴ NYPSC Case 15-E-0302, Proceeding on Motion of the Commission to Implement a Large-Scale Renewable Program and a Clean Energy Standard, Order Adopting a Clean Energy Standard (issued August 1, 2016).

One way a market construct could harmonize with public policy goals would be to recognize the clean air value provided by renewable resources and to create a level playing field between fossil-fired and renewable resources by including the cost of carbon in wholesale energy prices. There are multiple ways of doing so; one example that has been cited frequently is a carbon tax. It is the City's understanding that the Brattle Group was commissioned by the New York Independent System Operator, Inc. ("NYISO") to examine other methods of including carbon in wholesale prices; however, the Brattle Group's report will not be issued until after this Technical Conference. The City looks forward to reviewing and assessing that report and ascertaining whether and how it may respond to the Commission's inquiries and drive changes to the NYISO's wholesale markets and market rules.

The energy market changes provide only part of the solution, though. Changes also are needed to the capacity markets to ensure that developers of renewable resources are able to recover their non-operating costs. At present, the capital costs of many renewable technologies are greater than the cost of a gas-fired plant, but the installed capacity demand curves are not designed to take into account such costs. Offshore wind, which holds promise as a large-scale renewable resource, would require out-of-market support if the capacity and energy revenues are insufficient, as is the case with present and foreseeable market prices.

A corollary problem arises from the overbroad application of buyer-side mitigation. In New York, such mitigation has the effect of blocking new entry and hindering repowering. Although discussions are occurring regarding possible improvements to the rules, it is not clear whether any improvements are achievable. Incumbent generators in New York have long viewed buyer-side mitigation as a tool to prevent all new entry and have opposed virtually all modifications to the mitigation rules that would facilitate new entry. This, in part, has resulted in about 75 percent of the in-City generation fleet being 45 years old or older. The City appreciates the steps the Commission has taken to relax the mitigation rules for certain entrants, but more is needed. In particular, the City respectfully urges the Commission to take action expeditiously to allow the exemption from buyer-side mitigation for renewable resources to go into effect. Renewable resources in the downstate area face daunting obstacles to full participation in the wholesale markets, and such action will remove one of those obstacles.

The NYISO's Role In Managing The Procurement Of Capacity

The role of the NYISO depends on its market structure. If the market structure does not properly value the attributes that renewable resources offer and continues to be based

predominantly on natural gas-fired generating units, direct government action to implement important public policies could occur. If the bulk of the State's capacity needs are met via resulting bilateral transactions, the need for the wholesale markets, and for the NYISO to operate such markets, may diminish. In New York, the wholesale electricity markets have not to date met public policy goals. In particular, the markets do not support or foster the expanded use of renewable resources. This creates a tension that has led to direct State action in the form of the CES.

If the wholesale markets do not address public policy interests, the City expects that governments (state and local) will do so. The best example of this is the CES, where the State of New York stepped in because of the absence of appropriate wholesale market signals to induce renewable resource development. The City respectfully submits that such actions demonstrate the conflict between markets based on least cost economics and public policy goals and the failure of the organized markets to respond appropriately by monetizing those externalities that the public policy goals are attempting to capture.

Although the cost of renewable resources is declining, in most instances the cost remains significantly higher than for fossil fuel-based technologies. Additionally, the development of large-scale renewables is not as robust as the development of fossil-fueled units; the former can require longer time frames and larger footprints and have more nascent technologies that do not present the same design, engineering, and construction efficiencies that exist for more mature technologies. These differences are not presently captured in the structure of the wholesale markets. Whether an economics-based market structure would be appropriate when cost parity occurs is questionable. For example, in the future, certain generation attributes (*e.g.*, such as fuel types, emissions levels, and fast ramping capability) will have increasing importance but are not presently valued in the wholesale markets. With the expansion of distributed energy resources, the electric system in general will be more dynamic and require greater flexibility.

The Long-Term Implications Of Public Policies On Wholesale Markets

It is an open question whether the wholesale markets, as they now exist, have a long-term future. Unless and until the wholesale markets are able to serve the multiple interests of market participants, including both economic and public policy considerations, governments will continue to take action within their jurisdictional purview, such as the adoption of CES, to implement their policy goals. Although the states cannot intrude into the Commission's jurisdiction over wholesale markets, the Commission cannot prevent states, directly or working

with their regulated utilities, to engage in procurements that advance public policies. If these procurements fully satisfy the needs of the electricity customers in a state, there no longer will be a need for the wholesale markets.

To be clear, the City continues to see value in the wholesale markets, and it is not suggesting that we go back to vertically integrated utilities. However, the City places substantially greater value on its public policy objectives than the wholesale markets as they exist today. Present needs certainly are important, and cost always is a consideration. It is imperative that these broader societal costs get recognized and we take action now to improve air quality to benefit public health and welfare, as well as to reduce the impacts of climate change.

The City believes that it is possible to restructure the markets in a way that encompasses economics and public policy goals. In order to do so, there needs to be cooperation and mutual respect among federal and state regulators. While jurisdictional boundaries should be respected, they should not become barriers to achievement of goals and objectives that have popular and widespread support.

Importantly, the definition of “efficiency” needs to be reconsidered and expanded. Efficiency cannot be viewed solely in economic terms that ignore public policies. Efficient entry and exit cannot be viewed solely based on short-term economics, and there should not be a preference for maintaining incumbent fossil-fueled generation over new renewable or clean technologies. Efficient entry and exit must take into account whether the public good is being served, and whether principles related to resiliency and the improvement of air quality and public health are being advanced or hindered. That is, the totality of factors, including economics, must be considered and balanced in defining what is “efficient.” It is important that this regulatory landscape be defined in the near term so as to provide certainty to the development and investment communities.

The City acknowledges that the issues to be addressed in the Technical Conference are challenging, and there is no perfect answer or solution. There are many legitimate, competing interests, and due consideration of all interests and positions is needed. At the same time, the long view must be given considerable weight in the analysis because we cannot afford to put off the health of our environment and citizens today and tomorrow.

The City looks forward to engaging in discussions on these topics with the Commission, Commission Staff, and other stakeholders.

CERTIFICATE OF SERVICE

I hereby certify that the foregoing Pre-Technical Conference Comments of the City of New York, have been served upon each person designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure.

Dated at Albany, New York this 25th day of April 2017.

/s/ Sarah Garwood
Sarah Garwood

Document Content(s)

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