

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

Carbon Pricing in Organized Wholesale Electricity Markets Docket No. AD20-14-000

**OPENING REMARKS OF RICHARD J. DEWEY ON BEHALF OF
THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.**

My name is Richard Dewey, and I serve as the President & CEO of the New York Independent System Operator, Inc. (“NYISO”). The NYISO appreciates the opportunity to participate in this technical conference on a topic that the NYISO has been actively working on since 2016. The competitive wholesale electricity markets have provided, and continue to provide, significant benefits to electricity consumers, including fuel cost savings, improved generation efficiency, reduced reserve requirements, and reduced emissions. Enhancing the RTOs’/ISOs’ wholesale markets through the administration of a carbon price set through a state or regional initiative is the best way to maintain these benefits and preserve the economic efficiency of existing wholesale market signals in the context of the various state and regional initiatives in place today.

CURRENT STATE AND FEDERAL ENVIRONMENTAL INITIATIVES

Like other ISOs and RTOs, the NYISO’s competitive wholesale electricity markets encourage all suppliers to optimize their efficiency in order to reduce costs and increase the likelihood of being economically selected to supply electricity to the grid. Over the past 20 years in New York, wholesale electricity markets have worked in tandem with air-quality regulations to cut the sulfur dioxide (“SO₂”) emission rate by 99%, the nitrogen oxide (“NO_x”) emission rate by 92%, and the rate of carbon dioxide emissions from the power sector by roughly 55%.

Wholesale electricity market signals incentive efficiency and innovation that results in reliable, economic and environmental benefits for consumers. The NYISO's successful record of supporting federal and state environmental policies reflects rules already in place that allow emitting resources to incorporate the cost of environmental compliance in their wholesale market offers. The resulting wholesale market prices are just and reasonable and reflect these compliance costs. For example, resources may include the cost of purchasing Regional Greenhouse Gas Initiative ("RGGI") carbon dioxide emission allowances in their energy market offers. The costs incurred by generators to purchase SO₂ and NO_x emission allowances to comply with federal and state environmental regulations are similarly recognized as legitimate variable costs and may be included in energy market offers. When an emitting resource is the marginal price-setting resource, the wholesale market price includes the costs of compliance with these environmental regulations and the economic supply stack naturally encourages efficiency improvements and lower pollutant emissions.

In addition to specific greenhouse gas emissions reduction initiatives, New York State law also mandates ambitious development of renewable energy resources through its Climate Leadership and Community Protection Act ("CLCPA"). The CLCPA calls for growing the portion of load served by renewable resources to 70% by 2030 and mandates programs to procure specified megawatt levels of distributed solar resources, energy storage resources, and offshore wind resources. By 2040, the CLCPA requires a zero-emission electric demand system in New York.

New York State supports development of these resources, producing desired environmental attributes, through contracts for the purchase of Renewable Emission Credits ("RECs") and Zero Emission Credits ("ZECs"). The NYISO worked with New York State

entities to encourage structuring the REC and ZEC contracts such that New York State agencies award contracts to developers through a State-run competitive auction that considers all of the resource's revenues, including potential wholesale electricity market revenues. These resources, therefore, continue to be exposed to the wholesale market prices and revenues that drive beneficial investment and real time operation decisions. However, the economic decisions and wholesale market impacts of resources with REC or ZEC contracts can undermine the investment and operational signals and decisions for other resources that rely solely on the wholesale markets and are necessary to maintain the reliable operation of the grid and economic efficiency of the markets. NYISO market rules today utilize mitigation tests and rules to preserve the integrity of the investment signals impacted by certain out of market payments.

NYISO CARBON PRICING PROPOSAL

The NYISO firmly believes that its Carbon Pricing Proposal¹ is the best option to maintain efficient competitive wholesale electricity market outcomes and to provide New York State with a powerful tool to achieve the CLCPA requirements. Carbon pricing in the NYISO's wholesale markets has the strong advantage of signaling where new resources should locate for the highest value to the system and consumers. Internalizing a state-determined social cost of carbon dioxide emissions in the NYISO's energy market pricing would send a meaningful financial investment signal to developers that identifies efficient ways to address State-mandated carbon emission reductions while more efficiently incenting resources to locate and perform according to the needs of the system.² The NYISO presented its complete Carbon Pricing

¹ See NYISO's Carbon Pricing Proposal at https://www.nyiso.com/documents/20142/7129597/6.20.2019_MIWG_Carbon_Pricing_MDC_FINAL.pdf/cf67ebb8-d0fc-7b4b-100f-c3756d6afae8.

² See Analysis Group, Clean Energy in New York State: The Role and Economic Impacts of a Carbon Price in NYISO's Wholesale Electricity Markets at 37, <https://www.nyiso.com/documents/20142/2244202/Analysis-Group-NYISO-Carbon-Pricing-Report.pdf/81ba0cb4-fb8e-ec86-9590-cd8894815231?t=1570098837163>.

Proposal to stakeholders in June 2019, receiving pledges of support from a diverse set of industry participants including traditional generation resources, and is currently awaiting further input from New York State. If New York State supports the proposal, and stakeholders and the NYISO Board of Directors ultimately approve it, the NYISO would anticipate submitting the appropriate proposed tariff revisions to the Commission under Section 205 of the Federal Power Act.

The NYISO Carbon Pricing Proposal incorporates the cost of carbon dioxide emissions into the NYISO-administered wholesale energy markets using a social cost of carbon dioxide emissions price, in dollars per ton, as determined by New York State. Suppliers³ would embed carbon charges in their energy offers and the NYISO's existing processes would incorporate the carbon price into the commitment, dispatch, and price formation. As a result, the market-clearing price of energy would increase whenever carbon dioxide-emitting resources are on the margin. All suppliers, including clean energy resources, would receive the higher energy price, net of any applicable charges due to their unit-specific carbon emissions. Lower- and non-emitting resources would benefit from higher net revenues, and higher-emitting resources would have a powerful incentive to invest in emissions-reducing technologies. The wholesale energy market would harness the power of competition to encourage the investment and innovation needed to meet the State's CLCPA mandates.

Consumers benefit as well. While LBMPs paid by LSEs for wholesale electricity would be higher to reflect the social cost of carbon dioxide emissions, the cost to LSEs would be

³ See NYISO, *Open Access Transmission Tariff*, Section 1.19 (“Supplier: A Party that is supplying the Capacity, Energy and/or associated Ancillary Services to be made available under the ISO OATT or the ISO Services Tariff, including Generators, BTM:NG Resources, and Demand Side Resources that satisfy all applicable ISO requirements.”).

reduced because the charges to carbon-emitting suppliers would partially offset LSEs electricity bills.

Efficient wholesale electricity markets depend on competition and transparent price signals that accurately reflect system needs. The price signals in the NYISO markets provide the foundation for economically efficient generation, transmission, demand response, and energy efficiency investment decisions. Supply resources rely on prices to determine whether to offer into the NYISO's markets and operate. Investors and developers rely on transparent market signals to determine whether to build new facilities, what type of facility to build, and where to build. Wholesale market prices must accurately reflect system needs and resource costs in order to produce the most efficient investment and operational decisions, and ultimately the lowest costs for consumers. The NYISO believes that reflecting a social cost of carbon dioxide emissions, set through a state or regional initiative, is essential to maintaining the benefits of wholesale electricity market competition. Carbon pricing leverages these benefits to best serve electricity consumers and work in parallel with state/regional programs to reduce carbon dioxide emissions and facilitate renewable resource development.

CONCLUSION

Thank you for this opportunity to participate in the Carbon Pricing in Organized Wholesale Electricity Markets technical conference. I look forward to continuing this critical discussion on the increasing role for RTOs/ISOs to administer a carbon price set through a state or regional initiative.