

**NEW YORK STATE
DEPARTMENT OF ENVIRONMENTAL CONSERVATION

COMMENTS OF THE NEW YORK INDEPENDENT SYSTEM
OPERATOR, INC.
ON
INITIAL REPORT OF THE RGGI EMISSIONS LEAKAGE MULTI-
STATE STAFF WORKING GROUP TO THE RGGI AGENCY
HEADS**

Introduction

The New York Independent System Operator, Inc. (NYISO) appreciates the opportunity to comment on the Initial Report by the State Staff Working Group. The NYISO is the independent, not-for-profit corporation that operates New York State's high-voltage bulk electric power grid and administers the State's competitive wholesale electricity markets. The NYISO has participated since the inception of the RGGI stakeholder process as a resource panel member and has contributed to numerous workshops held over the past three years.

Summary

The NYISO concurs with the report's finding that, currently, there is insufficient information to accurately estimate the potential emissions leakage that may occur over the course of the program. However, a high level review of the recent operations of the New York Control Area (NYCA) leads us to conclude that the order of magnitude of potential emissions leakage is relatively small.

The NYISO supports developing a generation attributes tracking system for recording emissions related to NYCA energy imports. The NYISO also supports the use of energy efficiency and demand response programs, and the expanded use of carbon emission offsets, as RGGI strategies and as effective mechanisms to dampen the potential for emissions leakage.

Order of Magnitude of Potential Emissions Leakage

Table 1 reviews the operation of the New York Generation fleet for 2005 and 2006. With respect to the issue of in-state emissions leakage, we note that RGGI-affected units produced 96% of the fossil based energy in 2005 and 93% of the energy in 2006. The vast majority of in-state non-RGGI affected generation is from smaller than 25 MW gas turbines that comprise four to seven percent of total New York energy. On this basis, NYISO considers the magnitude of the potential for in-state emissions leakage to be relatively small.

**Table
1**

**NYISO Generation Production Comparison
on the Basis of Primary Fuel Selection**

Primary Fuel	2005 MWH	2006 MWH	delta
Coal	21,052,572	21,012,268	-40,304
Nat Gas	35,181,671	41,305,974	6,124,303 +17.4
FO 6	19,037,672	11,805,744	-7,231,928 (-38%)
Hydro	27,582,740	28,422,089	839,349
FO 2	598,017	242,102	-355,915 -60%
Kero	652,813	340,432	-312,381
Refuse	1,899,156	1,902,261	3,105
Wood	253,121	260,292	7,171
Wind	100,937	518,427	417,490
Biogas	242,995	325,609	82,614
Nuclear	42,431,568	42,223,256	-208,312
Total	149,033,262	148,358,454	-674,808
NG+FO6	54,219,343	53,111,718	-1,107,625
FO6+FO2+Kero	20,288,502	12,388,278	-7,900,224
Fossil	78,421,901	76,608,781	-1,813,120
RGGI Affected	75,140,234	71,329,021	-3,811,213
RGGI Affected % of All Fossil	95.8%	93.1%	-2.7%
RGGI Affected % of Total	50.4%	48.1%	-2.3%
Renewable	28,179,793	29,526,417	1,346,624

Table

2006 Transactions with Adjoining Power Markets

NYISO 2006 Interchange			
	Imports MWH	Exports MWH	Net Imports MWH
H Q	3,500,706	1,808,706	1,692,000
NPX	4,440,437	3,421,594	1,018,844
O H	8,031,827	401,291	7,630,536
PJM	8,170,724	4,680,347	3,490,377
Totals	24,143,695	10,311,938	13,831,757

With respect to leakage from imports, Table 2 shows that net imports to NYISO are for the most part from either RGGI states or from non-carbon emitting nuclear / hydro generation in Canada. Imports as a percentage of total energy use in New York are also relatively small, supplying only about seven percent of total load the New York Control Area. Moreover, although data is not currently available for actual carbon emissions from each of these transaction sets, it is reasonable to estimate that the average carbon emissions from generation supporting imports from non-RGGI states into New York would be at least comparable to New York generator emissions, if not lower. Thus, at first glance, the magnitude of the problem of the potential import-based leakage is relatively small.

Concluding that the order of magnitude of the potential problem is relatively small, the NYISO would urge NYSDEC to focus its efforts on monitoring the issue. Immediate action to implement additional programs specifically targeting emissions leakage appears at this time to be unnecessary.

New York Should Pursue a Generation Attributes Tracking System

The NYISO supports the Initial Report's recommendation to coordinate modifications to PJM's GATS, ISO-NE's GIS with the developing system in New York to track carbon emissions. The NYISO will continue to work with New York's state agencies and authorities on this project.

NYSDEC Should Broaden the Use of CO2 Offsets

Today there is no demonstrated commercially viable technology for the removal of carbon dioxide from exhaust gases. Actions that reduce carbon emissions elsewhere, known as offsets, are from the perspectives of electric system reliability and markets, preferred alternatives to the use of expensive and limited supplies of natural gas. From an environmental perspective, offsets may offer greater carbon dioxide reductions.

The NYISO believes that the expanded use of offsets has the potential to:

- Moderate the overall cost of RGGI by creating alternatives to the use of natural gas to meet RGGI compliance responsibilities;
- Dampen the price volatility of carbon allowances both in the auction and in the secondary markets by creating cost effective and environmentally beneficial alternatives to the purchase and use of allowances;
- Reduce the potential for electric system reliability impacts from implementation of carbon dioxide control regulations. As NYISO has previously reported, its calculation of the hypothetical number of CO₂ allowances that would have been necessary had RGGI been in place in 2004, 2005 and 2006 indicates that New York's need for allowances is directly related to the relative price of oil and natural gas to New York generators. Table 3 quantifies the dramatic difference in hypothetically-required allowances across this three year period. These numbers also reflect a high availability factor for New York State's nuclear facilities;

Table
3
Preliminary Estimate of 2006 NY State CO₂ Emissions (million tons)
From RGGI Affected Units

Data Source	2000	2001	2002	2003	2004	2005	2006
NYISO-eGRID					61.2	64.1	57.0

- A change in the relative price of oil to natural gas or a disruption in the availability of nuclear units within the RGGI region will result in a significant increase in the use of fossil generation and consequently increase the price of allowances if any are available. The inability of fossil units to operate because they cannot acquire necessary allowances creates reliability concerns. As mentioned, expanding the use of offsets will assist in mitigating these reliability concerns;
- Expanded use of offsets will also reduce the potential for market manipulation in the allowance auctions and secondary markets.

States Should Pursue Energy Efficiency and Demand Response Programs

The NYISO has been a leader in the development of a marketplace for demand response resources. There are currently over 1600 MW of demand response resources registered in the NYISO's reliability-oriented programs. Expanding properly designed energy efficiency and demand response programs can provide

environmentally beneficial alternatives, moderate potential emissions leakage and dampen allowance price volatility.

Load Based Carbon Caps and Contract Carbon Adders would be Premature in New York

The New York Public Service has initiated a proceeding to examine, among other things, the value of integrated resource planning and long-term contracts to New York's power sector. This proceeding may produce procurement strategies and resource criteria similar to those used by the California Public Utilities Commission in order to favor resources with lower carbon emissions. This approach should be broadly evaluated within the context of other carbon-reducing measures which can be taken now, such as increased funding for energy efficiency and renewable investments. Until such a comprehensive evaluation is begun, the NYISO has no opinion on the impact of the California strategy on New York's markets. In the meantime, however, the NYISO recommends that New York continue its efforts to develop a workable auction plan for carbon allowance allocation and a workable carbon emission tracking system.

Respectfully submitted,

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