

Pricing Carbon in New York

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Carbon pricing is gaining increasing popularity as a market-based tool that could set clearer price signals in wholesale energy markets with the goal of ultimately reducing greenhouse gas emissions. The New York Independent System Operator (NYISO) has been studying the feasibility of implementing a carbon price for the past few years. NYISO determined that a market-based approach to pricing CO₂ emissions will leverage the success of wholesale energy markets to develop the widest possible set of low-cost, innovative carbon abatement measures. Historically, New York has procured Renewable Energy Credits (RECs) and Zero Emission Credits (ZECs) from eligible resources to attract and retain generating facilities with little to no carbon emissions.

The NYISO's carbon pricing concept would operate in conjunction with REC and ZEC mechanisms, RGGI, and other existing state public policy programs. NYISO argues that the carbon pricing concept will benefit consumers by reducing the cost of RECs and ZECs while also stimulating dynamic market responses. For instance, carbon pricing will incentivize a reduction of greenhouse gas emissions from existing fossil fuel generators by providing a price signal for investment in upgraded or new fossil fuel generators to replace energy production from older, less efficient fossil fuel units.

Another state agency in New York is also grappling with pricing carbon, the New York Department of Environmental Conservation (NYSDEC). New York's clean energy goals include generating 70% of the electricity consumed in the state from eligible renewable resources and reducing economy-wide CO₂ emissions by 40% by 2030 (when compared to 1990 levels). The State asked NYSDEC to publish guidance on the value of carbon for agency use by Jan 1, 2021. NYSDEC recently finalized its guidance in December 2020. This guidance is different than a regulation and does not propose a carbon price, fee, or compliance obligation. It is a metric that will be broadly applicable to all State agencies and authorities to demonstrate the global societal value of actions to reduce greenhouse gas emissions. The NYSDEC, after public comment, decided to use a lower central discount rate, which translates into a 2020 central value of carbon dioxide of \$125 per ton; methane of \$2,782 per ton; and nitrous oxide of \$44,727 per ton. While the NYISO is not mandated to use the NYSDEC's social cost of carbon, it may incorporate it in its carbon adder.

While the development of carbon pricing continues to unfold in New York and throughout the rest of the country, there are still many challenges ahead. For one, ISOs and RTOs still have to deal with leakage. While RTOs and ISOs already deal with this through the imports and exports that occur, special attention will have to be paid in how a carbon price may affect energy costs across sectors.

It may be stating the obvious, but another notable challenge facing the development of carbon pricing is politics, given that President Joe Biden's centered his proposed climate plan during the election on eliminating carbon emissions from the U.S. power sector by 2035, and FERC will likely play a large role in achieving that goal.