

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Create a
Consistent Regulatory Framework for the
Guidance, Planning, and Evaluation of
Integrated Distributed Energy Resources.

Rulemaking 14-10-003
(Filed Oct. 2, 2014)

**RESPONSE OF THE INSTITUTE FOR POLICY INTEGRITY TO JOINT
MOTION OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E),
PACIFIC GAS AND ELECTRIC COMPANY (U 39 M), SOUTHERN
CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS &
ELECTRIC COMPANY (U 902 M) REQUESTING EVIDENTIARY
HEARINGS ON STAFF PROPOSAL RECOMMENDING A SOCIETAL
COST TEST**

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I. Introduction

In accordance with Rules 11.1 and 12.3 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure (“Rules”), the Institute for Policy Integrity at New York University School of Law¹ (“Policy Integrity”) respectfully submits this response to the Joint Motion of Southern California Edison Company, Pacific Gas and Electric Company, Southern California Gas Company, and San Diego Gas & Electric Company (“Joint Utilities”) requesting evidentiary hearings on the Staff proposal recommending a Societal Cost Test, filed May 16, 2017. Policy Integrity is a nonpartisan think tank dedicated to improving the quality of government decisionmaking through encouraging a rational approach to environmental and

¹ These comments do not purport to represent the views of New York University School of Law, if any.

regulatory policymaking that makes use of the best available economic tools. Policy Integrity advocates for sound cost-benefit analysis at every level of government and argues for an unbiased approach to measuring the costs and benefits of environmental, public health, and safety policy. Policy Integrity has previously filed public comments and written reports and articles on issues pertaining to economic analysis of grid modernization and distributed energy resources. Policy Integrity seeks to apply its economic, legal, and policy expertise to help advise the Public Utilities Commission on how to ensure that its societal cost test reflects the best available economic analysis.

II. Disputed Facts

As noted in the Administrative Law Judge's May 19, 2017 ruling, Joint Utilities raise five issues for which they allege material factual disputes between the parties: 1) the interim greenhouse gas adder; 2) the proposed use of the RESOLVE model in the proposed interim greenhouse gas adder without any underlying data supporting the model such as key inputs, results, etc.; 3) the social discount rate; 4) the SCT air quality value; and 5) the customer cost impacts. Policy Integrity takes the following positions on these issues.

A. Interim Greenhouse Gas Adder

As articulated in Policy Integrity's April 17, 2017 Comments on Staff's proposal for an interim greenhouse gas adder, the interim greenhouse gas adder should be based upon damage costs, in particular the Interagency Working Group's Social Cost of Carbon. Even if Staff chooses not to use the Social Cost of Carbon, the adder should start at a level higher than \$0 above the cap and trade price floor.

In contrast, the Joint Utilities assert that the interim greenhouse gas adder should be based on the lower of the damage cost approach or the marginal abatement cost approach.

B. Proposed Use of RESOLVE Model in Interim Greenhouse Gas Adder

Policy Integrity takes no position at this time on the use of the RESOLVE model as articulated in Staff's April 3, 2017 ruling requesting comment on an interim greenhouse gas adder.

In response to the question posed in the Administrative Law Judge’s May 19 ruling, Policy Integrity reserves the right to dispute alternative approaches proposed in parties’ April 17 or April 24 comments or in any evidentiary hearing.

C. Social Discount Rate

As explained in Policy Integrity’s March 23 Comments and April 6 Reply Comments on Staff’s proposal recommending a Societal Cost Test, the Commission should adopt a societal discount rate for the Societal Cost Test, and 3% is a reasonable discount rate for this purpose. Using a discount rate based upon the weighted average cost of capital, as the Joint Utilities suggest, would improperly distort the analysis.

D. Societal Cost Test Air Quality Value

As articulated in Policy Integrity’s March 23 Comments and April 6 Reply Comments on Staff’s proposal recommending a Societal Cost Test, the Commission should use a Social Cost Test that includes the full range of quantifiable externalities, including the effects of criteria air pollutants. Policy Integrity takes no position at this time on the use of EPA’s BenMAP tool, but reserves the right to offer evidence with respect to the use of this tool in any evidentiary hearing.

E. Customer Cost Impacts

As articulated in Policy Integrity’s March 23 Comments and April 6 Reply Comments on Staff’s proposal recommending a Societal Cost Test, Staff’s proposal to develop and implement a Societal Cost Test is a sensible one that will better enable the Commission to make resource allocation decisions that maximize social welfare. In their May 16 Motion, Joint Utilities assert that “the positions advocated by several parties, including . . . Policy Integrity . . . , if used to determine funding decisions, could result in significant costs relative to benefits, and rate impacts to customers.” However, the whole point of evaluating resources using a Societal Cost Test is to ensure that the benefits of a proposed policy approach justify its costs. There is no way that switching to a Societal Cost Test evaluation approach could possibly “result in significant costs relative to benefits,” as Joint Utilities argue.

III. Proposed Schedule

If an evidentiary hearing is held, Policy Integrity does not object to the schedule proposed in the Joint Utilities' motion, and also would not oppose an expedited schedule.

Dated: May 26, 2017

Respectfully submitted,

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