

**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)

**REPLY COMMENTS OF THE INSTITUTE FOR POLICY INTEGRITY
ON ADMINISTRATIVE LAW JUDGE'S RULING SEEKING RESPONSES
TO QUESTIONS AND COMMENT ON STAFF AMENDED PROPOSAL
ON SOCIETAL COST TEST**

Denise Grab
Western Regional Director
Institute for Policy Integrity
139 MacDougal Street, Third Floor
New York, NY 10012
Tel: (212) 992-8932
E-mail: denise.grab@nyu.edu

May 7, 2018

**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)

**COMMENTS OF THE INSTITUTE FOR POLICY INTEGRITY ON
ADMINISTRATIVE LAW JUDGE’S RULING SEEKING RESPONSES TO
QUESTIONS AND COMMENT ON STAFF AMENDED PROPOSAL ON
SOCIETAL COST TEST**

I. Introduction

In accordance with Rules 6.2, 1.9, and 1.10 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 reply comments responding to other parties’ comments on the Administrative Law Judge’s Ruling Seeking Responses to Questions and Comment on Staff Amended Proposal on Societal Cost Test issued in the above captioned proceeding on March 14, 2018. Policy Integrity is a nonpartisan think tank dedicated to improving the quality of government decisionmaking through encouraging a rational approach to environmental and 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,

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

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. Reply Comments

Policy Integrity reiterates its initial comments, filed April 13, 2018,² and submits these reply comments in response to statements in other parties' comments about the social cost of carbon. In particular, the Joint Investor Owned Utilities ("Joint IOUs") and The Utility Reform Network ("TURN") argue that the Commission should not adopt the Interagency Working Group on the Social Cost of Greenhouse Gases' high impact value as the "social cost of carbon."³ Contrary to the Joint IOUs' and TURN's assertions, the high impact value of the Interagency Working Group on the Social Cost of Greenhouse Gases ("IWG") is an appropriate value to use for the "social cost of carbon" in the Societal Cost Test.

TURN and the Joint IOUs both raise concerns about using the IWG's high impact value, rather than the 3% discount rate "central estimate" for the social cost of carbon in the Societal Cost Test. However, Staff's Amended Proposal thoroughly articulates its rationale for focusing on the high impact value rather than the "central estimate," including Staff's concerns about the damages omitted from the IWG analysis.⁴

A final order adopting the high impact value should discuss these concerns in more detail, drawing on the IWG's analysis underlying the high impact value. The IWG's high impact

² California Public Utilities Commission, Order Instituting Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning, and Evaluation of Integrated Distributed Energy Resources, No. R.14-10-003, Comments of the Institute for Policy Integrity on Administrative Law Judge's Ruling Seeking Responses to Questions and Comment on Staff Amended Proposal on Societal Cost Test (Apr. 13, 2018).

³ California Public Utilities Commission, Order Instituting Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning, and Evaluation of Integrated Distributed Energy Resources, No. R.14-10-003, Opening Comments of Pacific Gas and Electric Company (U 39 M), Southern California Edison Company (U 338 E), Southern California Gas Company (U 904 G), and San Diego Gas & Electric Company (U 902 M) on Administrative Law Judge's Ruling Seeking Responses to Questions and Comment on Staff Amended Proposal on Societal Cost Test at 14-15 (Apr. 20, 2018); California Public Utilities Commission, Order Instituting Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning, and Evaluation of Integrated Distributed Energy Resources, No. R.14-10-003, Opening Comments of the The Utility Reform Network on the Staff Amended Proposal on Societal Cost Test at 6-10 (Apr. 20, 2018).

⁴ See Staff's Addendum #2 at 9-12.

value “provide[s] information on the marginal damages associated with lower-probability, higher-impact outcomes that would be particularly harmful to society.”⁵ The IWG notes “The calculations do not take into account the possibility that individuals may have a higher willingness to pay to reduce the likelihood of low-probability, high-impact damages than they do to reduce the likelihood of higher-probability but lower- impact damages with the same expected costs.”⁶ The IWG then explains that this higher willingness to pay to reduce the likelihood of low-probability, high-impact damages was a “large motivation” for the “inclusion of the 95th percentile [“high value”] estimate.”⁷ In its final order, the Commission should explain more fully that its motivation for using the “high impact value” is based, in part, on the desire to reduce the likelihood of low-probability, high-impact damages.

The IWG report “emphasizes the importance and value of including all four SC-CO₂ values” in analyses.⁸ So ideally, the Commission would instruct utilities to perform an analysis using the range of IWG assumptions—an approach supported by the Joint IOUs as an alternative to using only the “central estimate.”⁹ However, as a number of states have found, it is reasonable to use one set of the IWG’s estimates as a primary evaluation tool for the social cost of carbon, as long as the agency explains the reasons for selecting that estimate as the primary tool (and, to the extent feasible, conducts a sensitivity analysis using the additional values when it seems likely that the estimate chosen could significantly alter the decision).¹⁰

⁵ INTERAGENCY WORKING GROUP ON SOCIAL COST OF GREENHOUSE GASES, UNITED STATES GOVERNMENT, TECHNICAL SUPPORT DOCUMENT: TECHNICAL UPDATE OF THE SOCIAL COST OF CARBON FOR REGULATORY IMPACT ANALYSIS UNDER EXECUTIVE ORDER 12866 at 15 (2016) [hereinafter “IWG 2016”]; *see also* INTERAGENCY WORKING GROUP ON SOCIAL COST OF CARBON, UNITED STATES GOVERNMENT, TECHNICAL SUPPORT DOCUMENT: SOCIAL COST OF CARBON FOR REGULATORY IMPACT ANALYSIS UNDER EXECUTIVE ORDER 12866 at 3, 25 [hereinafter “IWG 2010”].

⁶ IWG 2010, *supra* note 7, at 30.

⁷ *Id.*

⁸ IWG 2016, *supra* note 7, at 16.

⁹ *See* Joint IOU Comments at 14 (“If the Commission is going to utilize multiple values, it should follow the US Academies’ recommendation of using values from both the high and low end of the SCC distribution from the IWG.”).

¹⁰ *See* ILIANA PAUL, PETER HOWARD, & JASON A. SCHWARTZ, THE SOCIAL COST OF GREENHOUSE GASES AND STATE POLICY 9–12 (2017) (describing Washington using the 2.5% discount rate estimate from the IWG, and New York using the 3% discount rate estimate from the IWG, among other examples), *available at* http://policyintegrity.org/files/publications/SCC_State_Guidance.pdf.

Given the concerns that Staff has articulated about climate change's lower-probability, higher-impact outcomes that would be particularly harmful to California, as well as the damages omitted from the IWG analysis, it is appropriate for the Commission to select the IWG's high-impact value as the primary value for the avoided Social Cost of Carbon in DER analysis.

III. Conclusion

For the foregoing reasons, it is reasonable for the Commission to adopt the IWG's high impact value as the social cost of carbon, as recommended in Staff's Addendum #2.

Dated: May 7, 2018

Respectfully submitted,

/s/ Denise Grab

Denise Grab
Western Regional Director
Institute for Policy Integrity
139 MacDougal Street, Third Floor
New York, NY 10012
Tel: (212) 992-8932
E-mail: denise.grab@nyu.edu