

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

Order Instituting Rulemaking to Develop
an Electricity Integrated Resource
Planning Framework and to Coordinate
and Refine Long-Term Procurement
Planning Requirements.

Rulemaking 16-02-007
(Filed Feb. 11, 2016)

**COMMENTS OF THE INSTITUTE FOR POLICY INTEGRITY ON STAFF
PROPOSAL ON PROCESS FOR INTEGRATED RESOURCE PLANNING**

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June 28, 2017

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I. Introduction

In accordance with the May 16, 2017, and June 13, 2017, rulings by Administrative Law Judge Fitch, the Institute for Policy Integrity at New York University School of Law¹ (“Policy Integrity”) respectfully submits these comments on the Energy Division Staff Proposal for Implementing Integrated Resource Planning at the CPUC issued in the above proceeding on May 16, 2017. Policy Integrity’s Motion for Party Status has been filed concurrently with these comments. 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 an unbiased approach to measuring the costs and benefits of environmental, public health, and safety policy at every level of government. 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, including multiple sets of party comments

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

in the Commission’s Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning, and Evaluation of Integrated Distributed Energy Resources (“IDER”) (Rulemaking No. 14-10-003). Policy Integrity seeks to apply its economic, legal, and policy expertise to help advise the Public Utilities Commission on how to ensure that its integrated resource planning (“IRP”) process reflects the best available economic analysis.

II. Comments

Staff has developed a thorough IRP framework that will minimize costs, with a goal of satisfying the requirements of SB 350. The Commission should exercise caution, however, in importing the results of the IRP analysis into different proceedings that may have distinct goals and statutory mandates. Using IRP’s marginal abatement cost value is valid when trying to minimize costs of achieving a set amount of greenhouse gas reductions, while maintaining a consistent treatment of different resource types and regions. However, marginal damage costs should be used when comparing societal benefits and costs with the aim of finding the portfolio of projects that maximizes net welfare. Notably, the Commission should use a damage cost approach to valuing greenhouse gas emissions reductions, rather than the IRP marginal abatement cost, in proceedings that aim to provide the highest net benefits to society, such as the IDER and other applicable proceedings.

Question 1: Guiding principles. Are the guiding principles for IRP articulated in Chapter 1 of the Staff Proposal adequate and appropriate for Commission policy purposes? What changes would you recommend and why?

The Commission Should Use Caution in Coordinating or Consolidating IRP Planning with Resource-Specific Proceedings

Policy Integrity recommends the following amendment to Revised Guiding Principle 5:²

The CPUC’s resource-specific proceedings should be coordinated with or consolidated within IRP planning activities to the ~~maximum extent feasible~~ **extent appropriate.**

² Rulemaking to Develop an Electricity Integrated Resource Planning Framework and to Coordinate and Refine Long-Term Procurement Planning Requirements, R.16-02-007, California Public Utilities Commission, Proposal for Implementing Integrated Resource Planning at the CPUC: An Energy Division Staff Proposal, at 19 (May 17, 2017).

Coordinating or consolidating individual resource proceedings under an IRP planning umbrella has the potential to improve consistency and efficiency across Commission activities. But given the diverse purposes and mandates that these proceedings serve, coordination for its own sake is not necessarily beneficial. For example, if the Commission’s goal in a given proceeding is to maximize overall social welfare, using the IRP’s marginal abatement cost to value greenhouse gas reductions could distort the analysis and result in over- or under-investment in those reductions. Particularly during the early stages of IRP implementation, when IRP is intended only to inform procurement activities, the Commission should critically evaluate opportunities for coordination across proceedings. Some apparently feasible opportunities may not be appropriate when measured against the Commission’s obligations beyond SB 350 and to society as a whole.

Question 29: Marginal GHG abatement cost/planning price: Is it appropriate and feasible for the Commission to use the results of the IRP analysis to inform the inputs for certain cost-effectiveness analysis, such as in the Integrated Distributed Energy Resource proceeding evaluation of the societal cost test for demand-side resources? Why or why not?

The IRP GHG Planning Price Should Not be Coordinated with Other Proceedings Where a Damage Cost Approach Is More Appropriate

The Staff Proposal contemplates using the IRP process’s marginal greenhouse gas abatement cost as a “GHG adder” in cost-effectiveness calculations elsewhere, including the Commission’s IDER proceeding.³ Doing so could help to minimize the costs of achieving a set greenhouse gas target, while ensuring consistent treatment of different resource types in different regions.⁴ While this goal appears to be consistent with the IRP process as articulated in SB 350, distinct statutory mandates apply to other Commission proceedings.

For example, as Policy Integrity articulated in its comments in the IDER proceeding, multiple statutory provisions indicate that the Commission’s goals in the IDER proceeding should involve maximizing net social welfare, not just minimizing costs to utilities or to consumers.⁵ An abatement cost GHG adder would distort the societal cost test analysis by failing

³ *Id.* at 71.

⁴ Note, however, that by applying the same carbon planning price to all of the Load Serving Entities (“LSEs”), *see id.* at 30-33, the Commission might be sacrificing some opportunities for cost savings on emission reductions for those LSEs that can reduce emissions more cheaply.

⁵ Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning, and Evaluation of Integrated Distributed Energy Resources, R.14-10-003, Institute for Policy

to properly value the benefits of DERs' avoided pollution.⁶ Instead, in that proceeding, the Commission should use a damage cost adder based on the August 2016 federal Interagency Working Group on Social Cost of Greenhouse Gases reports.⁷ These reports, developed through a transparent process that reflects the best available science and economics, offer the best available estimates of the damages associated with the emission of each additional ton of carbon dioxide, methane, and nitrous oxide.

Automatically applying the IRP's abatement cost adder in other proceedings such as IDER would risk overlooking the Commission's responsibilities under the statutory framework applicable to those processes and would fail to encourage investments that provide the greatest net benefits to society as a whole. The Commission should, instead, assess its policy and statutory goals in each proceeding for which it is considering using the IRP process's GHG abatement cost value and ensure that applying that number will be consistent with its goals before doing so.

III. Conclusion

The Commission should use caution when applying metrics from the IRP process outside of the IRP process itself. It should assess whether each proceeding's goal is cost minimization, with consistent treatment across different resource types and regions, or maximization of overall

Integrity, Comments of the Institute for Policy Integrity on Staff Proposal Recommending a Societal Cost Test, at 3-4 (Mar. 23, 2017) (citing Cal. Public Utilities Code §§ 400, 701.1(a), 701.1(c), 8362).

⁶ Rulemaking to Develop an Electricity Integrated Resource Planning Framework and to Coordinate and Refine Long-Term Procurement Planning Requirements, R.16-02-007, Institute for Policy Integrity, Comments of the Institute for Policy Integrity on Staff Proposal Recommending a Societal Cost Test, at 3 (Mar. 23, 2017).

⁷ 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 (2016), *available at*

https://obamawhitehouse.archives.gov/sites/default/files/omb/inforeg/scc_tsd_final_clean_8_26_16.pdf; 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: APPLICATION OF THE METHODOLOGY TO ESTIMATE THE SOCIAL COST OF METHANE AND THE SOCIAL COST OF NITROUS OXIDE (2016), *available at* https://obamawhitehouse.archives.gov/sites/default/files/omb/inforeg/august_2016_sc_ch4_sc_n2o_addendum_final_8_26_16.pdf.

social welfare. Where the Commission's goal involves maximizing social welfare—as, for example, the statute instructs in the case of the IDER proceeding—the Commission should avoid using the IRP process's abatement cost when assessing proposed DER projects. In those cases, the Commission should opt instead to use a damage cost approach that accurately values the greenhouse gas reduction attributes of the resources in question.

Dated: June 28, 2017

Respectfully submitted,

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