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 PROPOSED DECISION ADOPTING COST-EFFECTIVENESS ANALYSIS FRAMEWORK POLICIES FOR ALL DISTRIBUTED ENERGY RESOURCES

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I. Introduction

In accordance with Rule 14.3 of the California Public Utilities Commission ("Commission") Rules of Practice and Procedure ("Rules"), the Institute for Policy Integrity at New York University School of Law[1] ("Policy Integrity") respectfully submits comments on the Administrative Law Judge Hymes's Proposed Decision Adopting Cost-Effectiveness Analysis Framework Policies for All Distributed Energy Resources ("Proposed Decision") issued in the above captioned proceeding on March 25, 2019. 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. Comments

Policy Integrity applauds the Proposed Decision for adopting the Societal Cost Test ("SCT") as an informational test in the Integrated Resource Planning ("IRP") proceeding, with the possibility of adopting the test more broadly after an initial testing period. As Policy Integrity articulated in its March 23, 2017 comments and April 6, 2017 reply comments on the initial proposal and its April 13, 2018 comments and May 7, 2018 reply comments on the Energy Division Staff Proposal Addendum #2,[2] use of the SCT will allow the Commission to make investments that provide the greatest benefit to society as a whole. Policy Integrity encourages the Commission to commit to transitioning toward use of the SCT as the primary test to evaluate Distributed Energy Resources ("DERs") more broadly after the initial evaluation period.

Policy Integrity has reviewed the Proposed Decision and recommends that the Commission make the following edits to more clearly and accurately reflect the record:

- Clarify what the Commission means by the "average value" of the avoided social cost of carbon;
- More accurately describe the evidence in the record supporting adoption of the SCT as the primary cost-effectiveness test; and
- Clarify some additional statements made in the Proposed Decision.

The Commission Should Revise the Proposed Decision to Clarify What It Means by the "Average Value" of the Avoided Social Cost of Carbon

The Proposed Decision states, "Because we are adopting the elements of the SCT on an interim basis during the testing of the SCT, we require that the SCT be tested using both the high

[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 Staff Proposal Recommending a Societal Cost Test (Mar. 23, 2017); *id.* Reply Comments of the Institute for Policy Integrity on Staff Proposal Recommending a Societal Cost Test (Apr. 6, 2017); *id.* 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); *id.* 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 (May 7, 2018). These earlier comments are incorporated by reference here.

impact value and the average value."[3] However, as the Proposed Decision recognizes elsewhere,[4] there are multiple "average value(s)" in the Interagency Working Group's (IWG) estimates the Social Cost of Carbon. In particular, the IWG has developed three sets of average values using discount rates of 2.5-percent, 3-percent, and 5-percent, as well as one set of high-impact values using a 3-percent discount rate.[5] The IWG's average values using a 3-percent discount rate are often called the "central estimate" of the Social Cost of Carbon.

The Commission should revise the Proposed Decision to **clarify which "average value(s)"** of the Avoided Social Cost of Carbon should be used in the SCT, in addition to the high-impact value. An average value using either a 3-percent discount rate or a 2.5-percent discount rate could be appropriate for the SCT. Economic experts now agree that a 5-percent discount rate for the Social Cost of Carbon is likely too high,[6] especially in the face of evolving market conditions.[7]

The Commission Should More Accurately Describe the Evidence in the Record Supporting Adoption of the SCT as the Primary Cost-Effectiveness Test

The Proposed Decision notes, "Several parties support adoption of the SCT as the primary cost-effectiveness test. However, as discussed below, there is insufficient evidence of how the SCT should be used or whether the elements of the SCT are appropriate for decision-making purposes. The Commission should not adopt the SCT as the primary cost-effectiveness

[3] Proposed Decision at 39; *see also* Proposed Decision Findings of Fact ¶¶ 33-34 at 56, Conclusions of Law ¶ 11 at 59, and Order No. 5 at 61.
[4] *See* Proposed Decision tbl.2 at 38–39 (showing the Interagency Working Group's average values for a 5% discount rate, a 3% discount rate, and a 2.5% discount rate).
[5] *See* NATIONAL ACADEMIES OF SCIENCES, ENGINEERING AND MEDICINE, VALUING CLIMATE DAMAGES: UPDATING ESTIMATION OF THE SOCIAL COST OF CARBON DIOXIDE 2 (2017) ("These results yield three distributions of SC-CO_2 values for three different discount rates, from which the IWG calculated an average value for each discount rate.").
[6] *See, e.g.*, PETER HOWARD & DEREK SYLVAN, EXPERT CONSENSUS ON THE ECONOMICS OF CLIMATE CHANGE 20–25 (2015); Richard L. Revesz et al., *Improve Economic Models of Climate Change*, 508 NATURE 173 (2014) (co-authored with Nobel Laureate Kenneth Arrow, among others).
[7] *Cf.* COUNCIL OF ECON. ADVISERS, DISCOUNTING FOR PUBLIC POLICY: THEORY AND RECENT EVIDENCE ON THE MERITS OF UPDATING THE DISCOUNT RATE (2017), *available at* https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701_cea_discounting_issue_brief.pdf (describing the trend in recent years of declining real interest rates, which supports lowering discount rates in economic analyses).

test due to lack of experience with the SCT."[8] For the reasons articulated in our March 23, 2017 Comments, use of the SCT will help the Commission determine which investments provide the greatest benefit to society as a whole, and the Commission should commit to adopting the SCT as the primary test after the initial evaluation period.

In the Findings of Facts, the Proposed Decision states, "There is no evidence to support adoption of the SCT as the primary cost-effectiveness test,"[9] and "There is no evidence to determine how the SCT should be used in evaluating distributed energy resources or whether and how it can evolve toward the Common Resource Valuation Method."[10] These statements are incorrect. The record contains evidence from multiple parties supporting adoption of the SCT as the primary cost-effectiveness test and explaining how the SCT should be used in evaluating distributed energy resources.[11] In order to accurately reflect the record, the Commission should revise these Findings of Fact to instead state "There is **insufficient evidence at this time** to …." adopt the SCT as the primary test.

Additionally, in describing the parties' positions, the Proposed Decision notes that the "Utilities caution that using the SCT for decision-making purposes would result in a cost-effectiveness threshold that would lead to over-procurement of distributed energy resources compared to other, more cost-effective greenhouse gas-free resources, i.e., utility-scale renewables. The Utilities assert that this would then lead to under-procurement of economic resources, over-procurement of uneconomic resources, and unnecessarily expensive electric rates."[12] Valuing the carbon-free attributes of distributed energy resources but not the carbon-free attributes of larger scale renewable resources could indeed create an imbalance between the two types of resources. However, this imbalance could be corrected by also valuing the carbon-free attributes of larger scale renewable resources. Ignoring the carbon-free attributes for all resource types, as the Utilities suggest, is not the solution because this favors higher-emitting resources over lower-emitting resources. In future proceedings, the Commission should consider

[8] Proposed Decision at 11.
[9] Proposed Decision, Finding of Fact ¶ 5 at 53.
[10] Proposed Decision, Finding of Fact ¶ 16 at 54.
[11] *See, e.g.*, Policy Integrity March 23, 2017 Comments; Policy Integrity April 13, 2018 Comments.
[12] Proposed Decision at 30.

application of the avoided social cost of carbon valuation to utility-scale low-carbon generation sources, as well.[13]

The Commission Should Clarify Some Additional Statements Made in the Proposed Decision

(1) The Proposed Decision includes an ambiguous statement that "[u]se of a societal discount rate places a higher value on the impacts of the program on future generations."[14] Without additional clarification, this could be read to mean that discounting in general places a higher value on impacts to future generations, which is not true. Discounting places a lower value on impacts to future generations, which is why many experts argue that in the context of climate change, the discount rate should be zero.[15] The Proposed Decision seemingly intends to say that using a societal discount rate places a higher value on the impacts of the program on future generations, *relative to using a higher private discount rate*. Therefore, in order to avoid inaccuracy, the Commission should revise the Proposed Decision to clarify that "use of a societal discount rate places a higher value on the impacts of the program on future generations, **relative to use of a private discount rate**."

(2) The Proposed Decision includes a finding of fact that "The Interagency Working Group report did not address variables that directly impact California utilities."[16] Without additional clarification, this could be read to mean that the IWG report did not address *any* variables that impact California utilities. While the IWG's models do include *some* variables that will impact California utilities, such as sea level rise, they do not include other variables that will impact California utilities, such as wildfires.[17] In order to accurately reflect the record, the

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[13] *See* DENISE A. GRAB ET AL., OPPORTUNITIES FOR VALUING CLIMATE IMPACTS IN U.S. STATE ELECTRICITY POLICY (2019), *available at* https://policyintegrity.org/files/publications/Valuing_Climate_Impacts.pdf (describing a variety of ways in which state utility commissions can incorporate valuation of the social cost of carbon into electricity decisionmaking).

[14] Proposed Decision at 11.

[15] *See, e.g.*, Richard L. Revesz & Matthew R. Shahabian, Climate Change and Future Generations, 84 S. Cal. L. Rev. 1097, 1104–06 (2011).

[16] Proposed Decision, Finding of Fact ¶ 31 at 56.

[17] *See* Richard L. Revesz et al., *Improve Economic Models of Climate Change*, 508 NATURE 173 (2014) (co-authored with Nobel Laureate Kenneth Arrow, among others); PETER HOWARD, OMITTED DAMAGES: WHAT'S MISSING FROM THE SOCIAL COST OF CARBON (2014), *available at* https://policyintegrity.org/files/publications/Omitted_Damages_Whats_Missing_From_the_Social_Cost_of_Carbon.pdf; Policy Integrity Mar. 23, 2017 Comments at 11–12; Policy Integrity Apr. 13, 2018 Comments at 6–7. & our earlier comments.

Commission should revise this finding to say, "The Interagency Working Group report did not **include some** variables that directly impact California utilities."

(3) On page 40, the Proposed Decision includes a sentence fragment that begins with "Furthermore," and then ends. The Commission should revise the document to remove this sentence fragment or complete the sentence.

III. Conclusion

For the foregoing reasons, the Commission should adopt the Proposed Decision with the corrections and clarifications detailed above.

Dated: April 15, 2019

Respectfully submitted,

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