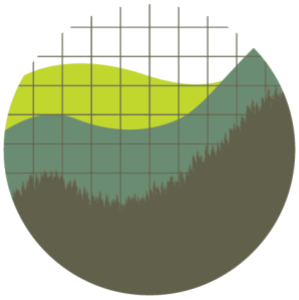

Institute *for*
Policy Integrity
NEW YORK UNIVERSITY SCHOOL OF LAW

June 15, 2020

To: Oregon Public Utilities Commission
Re: Report on Executive Order 20-04

The Institute for Policy Integrity respectfully submits these comments to the Oregon Public Utilities Commission on its report in response to Executive Order 20-04.[1] Policy Integrity is a nonpartisan think tank dedicated to improving the quality of government decisionmaking through advocacy and scholarship in the fields of administrative law, economics, and public policy. Policy Integrity has written extensively on the general need to monetize the negative externalities caused by greenhouse gases,[2] and the specific role of the social cost of greenhouse gases in state policy.[3]

In March 2020, Governor Brown signed Executive Order 20-04, directing state agencies, including the Public Utilities Commission ("PUC"), to "take actions to reduce and regulate greenhouse gas emissions."[4] Section 5 of the Executive Order directs the PUC to consider the public interest while maintaining its independence and utilizing its "broad statutory authority to reduce [greenhouse gas] emissions.[5]

Accordingly, the PUC issued a report on Executive Order 20-04 in May 2020. The report "identifies proposed actions and activities the PUC can undertake in response" to both the

[1] No part of these comments purports to present the views, if any, of New York University.
[2] See e.g. Institute for Policy Integrity comments to FERC on Lamar County Natural Gas Project (Apr. 17, 2020), *available at*: https://policyintegrity.org/projects/update/comments-to-ferc-on-lamar-county-natural-gas-project.
[3] *See* DENISE GRAB ET AL., OPPORTUNITIES FOR VALUING CLIMATE IMPACTS IN U.S. STATE ELECTRICITY POLICY, POLICY INTEGRITY REPORT (April 2019), available at: https://policyintegrity.org/publications/detail/opportunities-for-valuing-climate-impacts-in-u.s.-state-electricity-policy; see also e.g., Institute for Policy Integrity comments to the Colorado Public Utilities Commission on Electricity Rule Changes (Apr. 10, 2020), *available at*: https://policyintegrity.org/projects/update/comments-to-the-colorado-public-utilities-commission-on-electricity-rule-ch.
[4] Available at https://www.oregon.gov/gov/Documents/executive_orders/eo_20-04.pdf
[5] Executive Order 20-04 §5(3).

general and the PUC-specific directives in the Executive Order. The report focuses on three themes for potential PUC actions: GHG Reduction Activities, Impacted Communities, and Wildfire Prevention and Mitigation. Policy Integrity's comments focus only on activities targeted at reducing greenhouse gas emissions.[6]

Policy Integrity recommends that the PUC use the Social Cost of Carbon developed by the Federal Interagency Working Group, last updated in 2016, to monetize the benefits from avoided greenhouse gas emissions.

These comments also draw upon examples from other states, including Oregon's neighbors Washington State and California, to illustrate how the Social Cost of Carbon has been used in state-level electricity policy.

The PUC Should Use the IWG Social Cost of Carbon to Monetize the Benefits from Avoided Greenhouse Gas Emissions

Executive Order 20-04 directs Oregon state agencies, including the PUC, to reduce greenhouse gas emissions. The PUC report in response to the Executive Order says the Commission will consider "options to incorporate the social cost of carbon into utility Integrated Resource Plans (IRPs) and avoided cost proceedings."[7]

Using the Social Cost of Carbon in Utility Planning Levels the Playing Field for Non-Emitting Resources

Utilities use IRPs to map how they can meet expected energy needs over a certain period of time. The Oregon PUC says IRPs "present[] a utility's current plan to meet the future energy and capacity needs of its customers through a "least-cost, least-risk" combination of energy generation and demand reduction."[8] Oregon's adopted IRP guidelines state that "all resources must be evaluated on a consistent and comparable basis."

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[6] *See* Oregon PUC Report on Executive Order 20-04 (May 15, 2020) at 5 [Hereinafter 'PUC Report"] ("Considering options to incorporate the social cost of carbon into utility Integrated Resource Plans (IRPs) and avoided cost proceedings"); *id.* at 6 ("Considering how to quantify and incorporate measurable co-benefits beyond energy and financial benefits (e.g., GHG emission reductions…"); *id.* at 7 ("Exploring performance-based ratemaking measures that achieve GHG reductions by incentivizing and enabling utility behaviors aimed at accelerating GHG reductions.").

[7] PUC Report at 5.

[8] Oregon Public Utility Commission, Utility Regulation, Integrated Resource Planning, available at: https://www.oregon.gov/puc/utilities/Pages/Energy-Planning.aspx (accessed June 12, 2020); see also Oregon PUC Order No. 07-002 at 2 ("The primary goal [of least cost planning] is least cost to the utility and its ratepayers, consistent with the long-run public interest").

However, because the harms from on greenhouse gases— including sea-level rise, greater incidence of coastal storms and extreme weather events, and human health impacts and mortality from heat-related illnesses—are not typically factored into utility resource planning, cost calculations currently used in IRPs for deploying fossil-fuel resources fail to reflect their true adverse impacts on society, creating a disadvantage for non-emitting resources. Using a monetary value for the harmful effects of greenhouse gases would address this shortcoming.[9] And a monetary value for the costs of greenhouse gas emissions is an effective tool to help identify resource combinations that can reduce greenhouse gas emissions at the lowest cost. By requiring utilities to use a monetary value for the adverse effects of greenhouse gas emissions, the PUC can level the playing field between fossil-fuel generators and non-emitting resources and thus makes them comparable.

The PUC should require utilities to use the social cost of carbon in their IRPs so that these plans reflect the true social cost of different generation mixes. Oregon's electric utilities already account for the projected costs of complying with "any regulation of greenhouse gas emissions,"[10] and have been using a social cost of carbon in their IRPs without being required to by the PUC. PacificCorp uses three carbon price scenarios, which reflect "impacts of potential future federal [carbon] emissions policies"[11] on future prices, and one scenario with a social cost of carbon in its latest IRP.[12] Oregon's other utility, Portland General Electric, also uses three carbon prices as well as a social cost of carbon of about $42 per metric ton in 2020.[13] Because Oregon's two utilities are already using carbon prices, requiring use of the SCC in IRPs ensures that this continues in the future and in a consistent manner across utilities. By requiring utilities to take the SCC into account in their IRPs, the PUC guarantees that utilities end up being transparent about the true costs of different generation mixes.

The IWG Social Cost of Carbon Is the Best Available Estimate

The Social Cost of Carbon ("SCC") is a metric designed to quantify and monetize climate damages, representing the net economic cost of carbon dioxide emissions. In other words, the SCC is a monetary estimate of the damage done by each ton of carbon dioxide that is released into the air. The SCC was developed by the federal government's Interagency

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[9], PUC Order 07-002 at 3.
[10] Order No. 07-002, at 5.
[11] PacificCorp 2019 Integrated Resource Plan, at 38, *available at*: https://www.pacificorp.com/content/dam/pcorp/documents/en/pacificorp/energy/integrated-resource-plan/2019_IRP_Volume_I.pdf [Hereinafter "PacificCorp IRP"]/
[12] PacificCorp IRP at 171, 179.
[13] Portland General Electric 2019 Integrated Resource Plan 76, Fig. 3-2: Carbon Price trajectories utilized in the Carbon Price Futures, *available at*: https://www.portlandgeneral.com/our-company/energy-strategy/resource-planning/integrated-resource-planning

Working Group on the Social Cost of Greenhouse Gases ("IWG"), which operated from 2009-2017,[14] and the work of the IWG remains the best available for SCC estimates, though it is the lower bound of the true costs of climate change.[15] The "central" estimate of the IWG SCC for carbon dioxide for emissions occurring in 2020 is $51 per metric ton.[16] This "central" estimate has been used hundreds of times by federal agencies,[17] and also by a number of states in their electricity proceedings.[18]

Several other states now require utilities to use values based on the IWG SCC in their IRPs or other long-term planning tools. In 2019, both Colorado and Washington State passed laws to this effect after their respective public utilities regulators recommended that utilities do so.[19] Nevada and Minnesota also require utilities to use the SCC in their IRPs.[20] Oregon can learn from decisionmakers in those states as it begins the process of making its own policy.

On the one hand, Oregon can take an approach that reflects its unique vulnerabilities to climate change. For example, Washington State has emphasized an SCC estimate based on a lower discount rate, of approximately $78 per metric ton of carbon dioxide, which reflects a more risk averse approach to mitigating climate change. For example, California requires utilities to use a societal cost test for evaluating DERs that accounts for climate damages. Similar to the case in Washington State with IRPs, California has chosen to focus not only on the "central" estimate but also on the "high impact" SCC estimate, of approximately $123 per metric ton of carbon dioxide, which likewise reflects the state's unique vulnerabilities to climate change. Because of California and Washington's geographic proximity to Oregon, the PUC may wish to take a similar approach if it assumes both states have similar climate risk profiles.

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[14] *See* Interagency Working Group on the Social Cost of Greenhouse Gases, *Technical Support Document: Technical Update of the Social Cost of Carbon for Regulatory Impact Analysis* https://obamawhitehouse.archives.gov/sites/default/files/omb/inforeg/scc_tsd_final_clean_8_26_16.pdf.

[15] *See* INST. FOR POL'Y INTEGRITY, A LOWER BOUND: WHY THE SOCIAL COST OF CARBON DOES NOT CAPTURE CRITICAL CLIMATE DAMAGES AND WHAT THAT MEANS FOR POLICYMAKERS (2019), https://policyintegrity.org/files/publications/Lower_Bound_Issue_Brief.pdf.

[16] *See* GRAB ET AL. at 9.

[17] JANE A. LEGGETT, FEDERAL CITATIONS TO THE SOCIAL COST OF GREENHOUSE GASES, CONGRESSIONAL RESEARCH SERVICE REPORT (March 21, 2017).

[18] *See* GRAB ET AL. at 1, 3-4, 13-23.

[19] Colo. Sen. Bill 19-236 (passed May 3, 2019) and Wash. Sen. Bill. 5116 (signed by Gov. Inslee on May 7, 2019). For more details, *see also* http://CostOfCarbon.org/.

[20] Nevada Public Utilities Commission, Final Order, Docket Number 17-07020 (August 2018); Minn. Pub. Util. Comm'n, Order Updating Environmental Cost Values, In the Matter of the Further Investigation into Environmental and Socioeconomic Costs Under Minnesota Statutes Section 216B.2422, Subdivision 3, Jan. 3 2018, https://mn.gov/oah/assets/2500- 31888-environmental-socioeconomic-costs-carbon-report_tcm19-222628.pdf.

On the other hand, Oregon may take a less risk averse approach. The Colorado PUC, for example, requires utilities to use a lower range of SCC values that is reflective of the "central" estimate that uses a 3-percent discount rate.[21] Other states, like Nevada, require only that utilities use cost of carbon estimates based on the IWG SCC.[22] The PUC should determine which estimate or set of estimates from the IWG SCC values is more appropriate for the state's circumstances,[23] and should consider the "central" estimate a lower bounds.

The SCC Should Be Used Anytime Emissions Are Monetized

The PUC report in response to the Executive Order addresses not only IRPs but also avoided cost tests.[24] As discussed above, California uses the SCC in a similar context to an avoided cost test: the societal cost test for determining the value of DERs. Again, California has chosen an SCC value that is based on the "high impact" estimates. Moreover, the PUC should use the SCC in any context where it would be useful to monetize the effects of greenhouse gas emissions. For the reasons noted above, the PUC should ensure that in any cost of greenhouse gas emissions it uses is based on the IWG SCC estimates.

Finally, Executive Order 20-04 requires the Department of Environmental Quality and the Environmental Quality Council to establish a cap-and-trade program for large stationary sources. The PUC should be mindful that it can harmonize policies that use the SCC with this market. The PUC will need to consider how to incorporate the SCC accurately while working with a carbon price, such as the price of an allowance in a cap-and-trade scheme, to avoid double counting. States that participate in the Regional Greenhouse Gas Initiative, for example, would use the SCC minus the RGGI allowance price, if they needed to capture the true social cost of carbon.

In short, we strongly recommend that the PUC require utilities to use the SCC to monetize the effects of greenhouse gas emissions.

Sincerely,

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[21] Colorado PUC, Decision No. C17-0316, at 30, In the Matter of the Application of Public Service Company of Colorado for Approval of its 2016 Electric Resource Plan, Proceeding No. 16A-0396E
[22] Nevada PUC Order to Implement Senate Bill 65, Docket No. 17-07020 Sec 3(5), *available at*: http://pucweb1.state.nv.us/PDF/AxImages/DOCKETS_2015_THRU_PRESENT/2017-7/32153.pdf
[23] *See* ILIANA PAUL ET AL., THE SOCIAL COST OF GREENHOUSE GASES AND STATE POLICY: A FREQUENTLY ASKED QUESTIONS GUIDE, INSTITUTE FOR POLICY INTEGRITY REPORT (Oct. 2017).
[24] PUC report at 5.