

**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 October 2, 2014)

**REPLY OF THE INDEPENDENT ENERGY PRODUCERS
ASSOCIATION TO PARTIES' COMMENTS ON THE
STAFF PROPOSAL RECOMMENDING A SOCIETAL
COST TEST**

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In compliance with the schedule set forth in the Administrative Law Judge's Ruling issued February 2, 2017 (Ruling), the Independent Energy Producers Association (IEP) is pleased to reply to parties' responses to the questions posed in the Ruling. Given the number of questions posed in the Ruling and number of parties' commenting, IEP focuses its reply comments on a couple of broad themes.

1. Adoption of the Societal Cost Test (SCT) Is a Policy Choice, Not a Legal Necessity

The Staff Proposal relies on PU Code Section 701.1(a) and (c) as the legislative basis for adopting a SCT. In response, a number of parties question the Staff Proposal's assertion that there is a legal requirement compelling adoption of a new SCT in the manner proposed by staff.¹ The Joint IOUs point out, for example, that the legislature seemingly had a different purpose when enacting and subsequently amending Section 701.1. While agreeing that Public Utilities Code Section 701.1(c) requires inclusion and quantification of environmental and air quality values in the cost-effectiveness test, the Joint IOUs point out that legislative intent embodied in

¹ Joint IOU Opening Comments, pp. 5-6; TURN Opening Comments, p. 7; IEP Comments, pp. 3, 8.

Sections 701.1(c) and 701.1(d) was to ensure consistency between the Commission and the California Energy Commission (CEC) when assessing whether energy conservation and load management programs were cost-effective options for deferring electric generation without double-counting imputed benefits.² As noted by IEP in its Comments, SB 350 did not *ipso facto* require a change in the Commission’s cost-effectiveness tests employed since 1990.

Accordingly, because the Commission is not compelled by statute to adopt an SCT, the Commission should assess as a preliminary matter whether the Commission’s decision-making in the future regarding resource selection will be significantly improved (when compared to the status quo) and more timely if a SCT is adopted, given that the Commission will undoubtedly expend significant time and resources considering, adopting, and updating an SCT in a formal proceeding, with necessary hearings, etc.; and, further, given the fact that the energy sector is relatively GHG-free today and will become increasingly GHG free over the next 3-5 years as SB 350 gets implemented.

2. Need for Consistent Application Across All Resources

If the Commission moves forward to adopt and implement an SCT, many parties agree that the SCT should be applied in a consistent manner across all resources. Parties differ, however, on whether the SCT should be developed and adopted in the narrow confines of the Integrated Distributed Energy Resources (IDER) proceeding or, alternatively, whether the SCT should be developed and adopted in the Integrated Resource Plan (IRP) proceeding. This is important because, under the Staff Proposal, the goal is to develop and adopt the SCT in the

² Joint IOU Opening Comments, pp. 5- 6, “Thus, the environmental benefits in subsection (c) are those ‘emissions values associated with the current operating capacity of existing electric power plants pursuant to section (c)’ (Pub. Util. Code Section 701.1(d).) Therefore, environmental costs the utility would not otherwise incur due to the operation of an electric power plant would not be included under subsection (c).”

IDER and then apply the SCT to all resources (presumably in proceedings related to the RPS, the IRP, energy storage or Resource Adequacy).

A number of parties urge the Commission to consider the SCT in the broader IRP proceeding.³ The Joint IOUs point out that the IRP is the appropriate venue to develop a comprehensive plan to achieve the state's clean energy goals at least-cost to customers. Moreover, the IRP enables a consistent approach to assessing the cost-effectiveness of Distributed Energy Resources (DERs) and supply-side resources to meet the goals of SB 350, while ensuring a competitive, all-resource playing field. TURN makes a similar observation, namely that only in the IRP can the Commission achieve the "optimal portfolio" of clean resources, including supply-side resources.

On the other hand, a number of parties support the Staff Proposal and, therefore, seemingly support the consideration and adoption of the SCT in the IDER.⁴ What remains unclear, however, is whether these parties are unwilling to consider the SCT in the broader, more comprehensive context of the IRP as recommended by the IOUs and IEP, because this question was not asked of parties.

If consistency is to be a guiding principle as many parties have advocated, then IEP believes that the SCT ought to be considered in the IRP proceeding in which all resources (supply-side, demand-side, DG, etc.) should be considered in a fair, comparable and integrated manner.

³ Joint IOU Opening Comments, pp. 3, 7, 23; TURN Opening Comments, p. 6; IEP Comments, p. 7.

⁴ Comments of Marin Clean Energy, p. 2; Comments of Environmental Defense Fund, pp. 1-2; Comments of Association of Bay Area Governments, p. 2; Comments of the Natural Resources Defense Council, p. 1.

3. Assessing Environmental/Air Quality Impacts -- More Analysis Needed

Parties generally disagree on a number of key inputs and issues associated with the Staff Proposal, including what is the appropriate discount rate, what is the appropriate GHG adder and how is it derived (including marginal abatement vs. damage function), etc. As a result of the complexities associated with developing an accurate and fair SCT, many parties conclude that additional research and information on various issues are needed prior to adoption of the SCT. IEP highlights below a number of themes, based on parties' comments, that warrant further investigation and understanding prior to adopting an SCT.

a. Role of Context

The Staff Proposal recommends that air quality benefits should, at least initially, be assessed using the federal Environmental Protection Agency (EPA) tools such as the Benefits Mapping Tool ("BenMAP") and/or the Co-Benefits Risk Assessment tool ("COBRA"). The staff also recommended, however, that "further research be completed . . . to select which of these tools makes sense for the SCT."⁵

In contrast to the staff recommendation, some parties indicate that it is sufficient to employ the EPA tools now, i.e., absent further assessment of their applicability to the unique California context.⁶ IEP and others disagree.

As pointed out by the Joint IOUs, societal impacts including air quality/health impacts vary by location within California.⁷ While the Joint IOUs agree that the EPA BenMAP tool may be useful to evaluate locational values, they point out that EPA BenMAP also may have limitations that render it unsuitable to calculate air quality values in the determination of the

⁵ "Distributed Energy Resources Cost Effectiveness Evaluation: Societal Test, Greenhouse Gas Adder, and Greenhouse Gas Co-Benefits," an Energy Division Staff Proposal, p. 16.

⁶ Comments of Sierra Club, 15-16; Comments of the Solar Energy Industries Association, p. 8; Comments of Consumer Federation of California, p. 10.

⁷ Joint IOU Comments, p. 15.

cost-effectiveness of energy resources in California. Furthermore, the Joint IOUs point out that the specific volumes of criteria pollutants vary by fuel source, combustion process, and other factors. Therefore, it is important to understand the source of the pollutants (e.g. automobiles, heavy trucks) to assess the relative value of reducing fuel or changing fuels.⁸

b. Marginal Impacts Analysis

The CEC has reported that electric sector emissions in 2014 were about 26 percent below 1990 levels for the sector, declining from approximately 105 million metric tonnes of CO₂-equivalent to 88 million metric tonnes. The CEC concludes that the overall trend indicates that GHG emissions from the electricity sector continue to decline relative to the emission performance of other sectors. Indeed, as reported by the CEC, electricity generation in-state represents only 12% of the 2014 GHG emissions by sector, while imports represent an additional 8%. On the other hand, transportation represents 37% of the GHG emissions by sector and Industry represents an additional 24%.⁹ Furthermore, in light of the myriad SB 350 goals, TURN observes that half of the DG production will simply supplant RPS resources under the 50 percent RPS.¹⁰

These facts raise the obvious question: namely, since the marginal environmental and air quality impact of new resources likely will be declining over time, what will be the marginal utility of the SCT cost-effectiveness test in the future?

Supporting the point made well by TURN, in a world in which all resource additions to the energy resource mix in California are increasingly clean, and the incremental benefits of having zero impact continue to decline, any adopted SCT methodology must reflect

⁸ Ibid, p. 15.

⁹ California Energy Commission, “Final 2016 Environmental Performance Report of California’s Electrical Generation System,” Staff Report (October 2016), p. 63.

¹⁰ TURN Opening Comments, p. 10.

the physical and locational reality of California and not dogma. Moreover, the SCT should be sufficiently robust to compare/contrast the cost-effectiveness of supply-side and distributed resources, and (b) the SCT should be capable of completing this cost-effectiveness determination in the context of evolving marginal environmental and air quality impacts on the system in light of emissions from other sectors. To achieve these goals, additional study and review will be required prior to adoption of the SCT.

c. Eliminate Double-counting of Benefits

The Joint IOUs raise concerns about the risk of double-counting GHG costs under the Staff Proposal.¹¹ In the context of employing a GHG adder in the Standard Practice Manual (SPM) cost-effectiveness tests, the Joint IOUs argue that GHG costs are already embedded in the SPM tests based on the fact that the costs of the cap-and-trade system already are considered. Moreover, the Joint Utilities state that if the Commission decides to include an additional GHG adder over and above the current cap-and-trade system, then the GHG adder should reflect empirically supported GHG-related costs.

IEP concurs with the Joint IOU assessment, concerns, and recommendations regarding the counting of GHG impacts. While IEP supports the marginal abatement cost approach (as compared to the damage-cost approach) in factoring GHG costs in the SCT, we strongly oppose double-counting GHG benefits. To ensure that double-counting is not occurring and that only empirically supported GHG-related costs are included in the SCT methodology, much additional work is required by the staff and Commission.

Summary

As noted above, IEP and others are not convinced that statutory language compels the Commission to adopt the SCT. As a result, the issue of adopting the SCT is one of policy. Given

¹¹ Joint IOU Opening Comments, p. 16.

the significant progress in reducing emissions in the electric sector since adoption of SB 350 and the expectation that this progress will continue over the next decade, the marginal utility of the SCT with regards to timely and effective Commission decision-making seems modest at best. In this regard, the Commission must consider the costs (time, resources, etc.) of considering and adopting and effective SCT versus the alternative, namely the Commission should continue its existing practice of employing the various cost-effectiveness tools in the existing SPM.

Finally, if the Commission determines it is necessary to adopt the SCT, the IRP proceeding is the proper venue for its consideration. The IDER proceeding is relatively narrow in scope from a “range of resource” perspective; and, thus, a SCT adopted in the IDER will not have been fully vetted by the full range of resources to which it is proposed to be applied. This raises concerns of fairness, transparency, and whether the Commission is creating a truly level playing-field necessary to ensure that the application of the SCT cost-effectiveness test is truly identifying the most cost-effective resources.

Respectfully submitted April 6, 2017 at San Francisco, California.

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