

**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 Demand-Side Resource
Programs.

Rulemaking 14-10-003
(Filed October 10, 2014)

**CLEAN COALITION COMMENTS
ON PROPOSED DECISION ADOPTING INTERIM GREENHOUSE GAS ADDER**

Doug Karpa, J.D., Ph.D.

Policy Director

Clean Coalition

16 Palm Ct

Menlo Park, CA 94025

(415) 860-6681

doug@clean-coalition.org

State Bar Number 266365

August 3, 2017

I. Introduction

The Clean Coalition submits these comments in response to the *Proposed Decision of ALJ Hymes* issued on July 14, 2017 in Proceeding R.14-10-003 Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning, and Evaluation of Integrated Demand-Side Resource Programs.

The Clean Coalition is a nonprofit organization whose mission is to accelerate the transition to renewable energy and a modern grid through technical, policy, and project development expertise.

II. Summary of Comments

The Clean Coalition fully supports the expedited adoption of a GHG adder, since any of the approaches discussed fall more closely within the range of estimates of the costs of GHG emissions than failing to incorporate these costs would. However, the interim adder should be in place until there is a new adder to replace it, and the adder should incorporate a broader suite of costs and the full costs imposed on society.

Specifically:

1. The end date of the interim adder should be set at the effective date of any successor GHG adder, rather than the date certain of May 2018 proposed here. This would prevent either a gap in coverage or duplicative adders that would introduce instability in cost effectiveness evaluations.
2. The GHG adder selected should incorporate a range of abatement costs and the full set of costs to society, rather than relying on a single flawed abatement cost estimate from the cap and trade allowances. This approach provides a poor index of true abatement costs and fails to evaluate costs to society beyond the value to ratepayers

III. The Commission should adopt an interim GHG adder

A GHG adder should be adopted now. As laid out in the staff report, there is a clear legislative directive to incorporate social costs into cost effectiveness decisions. Failing to consider and quantify externalized costs leads to distortions of price signals and suboptimal decision making that leaves society worse off than a more accurate assessment would. Thus, the Commission has both the authority and the directive to move expeditiously to improve cost effectiveness analyses by incorporating the costs of carbon.

Furthermore, adding any of the adders under consideration is more accurate than ignoring the costs of carbon emissions altogether. Others have argued against adopting a GHG adder at this time, but of all the possible options, that is the least accurate and effective. Failing to adopt any value of an adder places the value of costs associated with GHG emissions at zero, which has never been proposed as a realistic value by any credible organization. While the precise calculations for the costs of carbon emissions vary depending on the assumptions and costs being included, all of these estimates fall within the range of tens to hundreds of dollars per ton. None have calculated an estimate of zero dollars per ton. While the science and economics underlying these disparate calculations may not be perfect, they do represent the best scientific and economic data available, and are all better than no evidence at all. Thus, any adder in the range under consideration is a more accurate representation than an adder at zero dollars.

IV. The GHG adder should only sunset when there is a replacement adder

The GHG adder should only sunset when there is a successor formula to ensure that there is no lapse in coverage, nor a time when different adders might conceivably apply. The purpose of the GHG adder is to ensure that cost effectiveness decisions incorporate full costs. There is no reason to allow for a gap to open by premature sunset of the GHG adder. The intent of a sunset provision is to ensure the interim adder is not employed indefinitely, but the extension is designed to ensure that there is no period without an operative adder. The simplest approach is not to establish a date certain with a possible extension, but rather to make the expiration of this interim adder contingent on the adoption of a new adder.

V. The Interim Adder should seek to incorporate a wider range of abatement costs to a society at large.

The GHG adder should reflect an economy-wide abatement cost to reflect the costs to society of GHG emissions and to make abatement in the electricity sector comparable to the abatement in other sectors.

First, only the economy-wide costs of abatement accurately reflect the costs that are actually incurred in offsetting emissions from a particular source. The purpose of the GHG adder is for the Commission to be able to incorporate the social costs of GHG emissions. If emissions are not abated by an electricity provider, then the abatements must come from elsewhere in the economy and not just from the electricity sector. Since California's economy is operating under a carbon budget, any increase in emissions from any source must be offset somewhere else. Carbon emissions are fungible and there is no principled way to determine which abatement measures offset the increased emissions from the emitting activity in order to reach our economy-wide targets. Since those offsetting abatements could and would occur in any sector, only an economy-wide abatement cost would accurately reflect the cost borne by the economy in offsetting those emissions.

Consequently, the Cap-and-trade APCR price does not appropriately reflect social costs of abating carbon emissions. As others have pointed out, this price only reflects the maximum cost of abatement for industries covered by the allowance system. However, other sectors are also abating carbon emissions. As Staff illustrated in Figure 3 of the February report (The 2007 McKinsey GHG abatement cost curve) the actual marginal cost may be quite different. In fact, given that Cap-and-Trade only applies to a limited set of industries, it simply cannot be said that those prices represent the official process for valuing greenhouse gas emissions, because other sectors are incurring costs through other official regulatory measures that have no relationship whatsoever to Cap-and-Trade allowance prices. Thus, a wider survey is a better metric of the social costs of abatement than the APCR price.

Second, the GHG adder should reflect the costs to society, and not just ratepayers. As the Commission appears to be formulating the GHG adder, it would only consider costs to

ratepayers. However, this concept expressly rejects consideration of the externalities of energy production borne by those who do not benefit or participate. Market-distorting externalities that force costs onto others have driven a major component of climate change pollution and other pollution problems. As experience has shown, allowing such externalities typically later requires major policy efforts to correct. Since the directive of the legislature is to address impacts to the people of California and not just ratepayers, it is imperative that the Commission evaluate GHG adders from the perspective of society as a whole. Failure to do so would introduce a cost-shifting market distortion that results in inefficient allocation of resources and leave society worse off than if full costs were appropriately accounted for.

Therefore, the ACPR cost neither has the appropriate economy-wide reference nor incorporates social costs appropriately in light of the policy goals of the Legislature.

VI. The numerical value of the GHG adder should fall within the range of the various estimates of social abatement costs.

Since staff resources are limited for the creation of an accurate and appropriate GHG adder, a practical, if crude, estimate of the social abatement cost could be used for a time-limited interim adder provided it is reasonably related to abatement costs and falls within the reasonable range of estimates of the social abatement costs. As the Proposed Decision makes clear, just about any cost of carbon would be more accurate than the current avoided cost calculator. Staff have presented a number of detailed proposals, many of which have a more solid relationship to the economy-wide abatement costs and society-wide costs. However, development of an accurate metric would certainly exceed the available time and resources available for the interim GHG adder.

It is also important that a rough interim measure nonetheless be reasonable given the range of estimates of the social costs and costs of abatement. Were an interim measure wildly outside the range of measures, it would likely be neither accurate nor politically acceptable. Here, we note that the adder in the range of \$56 to \$87 per MWH does fall within the range of other estimates, and thus would be acceptable as an interim measure.

Nevertheless, given that the relatively inaccurate APCR metric is only a reasonable choice given the practical difficulties of developing a more sophisticated metric, this approach should not be carried forward into future GHG adders. As described above, the APCR is neither more accurate nor more appropriate than the alternatives proposed by staff, although necessity may recommend a less accurate measure at this time. Therefore, given the practical difficulties in improving on the APCR metric within the time available, the use of the metric is reasonable. Indeed, this logic is reflected in the Proposed Finding of Fact 10. However, future proceedings with more time available will certainly need to develop more appropriate metrics.

VII. The Findings of Fact and Law should be revised to reflect the interim nature of this GHG Adder.

The Clean Coalition recommends the following revisions to the Findings of Fact:

- ~~7. The Cap and Trade APCR Price represent California's official process for valuing greenhouse gas emission reductions.~~
8. The Cap-and-Trade APCR Price is a more ~~accurate~~ practical assessment of greenhouse gas compliance costs at this time than the Staff proposed approach in the Addendum.

The Clean Coalition recommends the following revisions to the Conclusions of Law:

- ~~2. The Commission should establish a sunset date of May 1, 2018 the effective date of a subsequently adopted permanent greenhouse gas adder for the interim solution to the greenhouse gas adder. ~~but provide the Energy Division the option to propose an extension up to an additional year in the resolution updating the avoided cost calculator, if necessary.~~~~
3. The Commission should adopt values based upon the use of the Cap-and-Trade APCR Price as the interim greenhouse gas adder value in the avoided cost calculator ~~until May 1, 2018 or until a permanent greenhouse gas adder is adopted whichever comes first.~~

We greatly appreciate the efforts of Staff, Administrative Law Judges and the Commission in developing thoughtful policies on these questions of global importance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'DK', with a long horizontal stroke extending to the right.

Doug Karpa, J.D., Ph.D.

Policy Director

Clean Coalition

16 Palm Ct

Menlo Park, CA 94025

(415) 860-6681

doug@clean-coalition.org

State Bar Number 266365

August 3, 2017