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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Consider Distributed Energy Resource Program Cost-Effectiveness Issues, Data Access and Use, and Equipment Performance Standards.

Rulemaking 22-11-013

**ADMINISTRATIVE LAW JUDGE'S RULING
SEEKING COMMENTS FROM PARTIES ON THE SOCIETAL
COST TEST AND AIR QUALITY RESEARCH RESULTS**

By this Ruling, the Commission is seeking comments from parties on whether the Commission should use a Societal Cost Test (SCT) or apply recent air quality research results when evaluating the cost effectiveness of distributed energy resources (DER). Specifically, the Commission is considering the set of questions below in Section 2 and asks that parties provide responses to these questions by April 28, 2023. Responses to these questions will help the Commission determine whether and how to use a SCT when evaluating the cost effectiveness of DER programs and whether and how to use the results of current air quality research in its evaluation of DER cost effectiveness.

1. Background

On November 17, 2023, the Commission issued this Order Instituting Rulemaking (OIR) to consider distributed energy resource program cost-effectiveness issues, data use, and access, and equipment performance standards. The preliminary scope of issues in Track 1 of the OIR includes

examining whether to adopt a SCT and how to best apply air quality research results in the evaluation of cost-effectiveness of DER.¹

1.1. Societal Cost Test (SCT)

As part of considering a framework to evaluate the cost effectiveness of various DER programs, the Commission, in Decision (D.) 19-05-019, considered whether to adopt an SCT as a tool to evaluate cost effectiveness of DER programs.² An SCT is one of the tests considered in California's Standard Practice Manual to evaluate demand side resources.³

D.19-05-019 authorized a proposed SCT to be tested in the Integrated Resource Planning proceeding, Rulemaking (R.) 16-02-007, through December 2020.⁴ The decision specified that three elements of the proposed SCT would need to be tested, which are a societal discount rate, an avoided social cost of carbon, and an air quality adder. The decision also recommended testing a methane leakage adder.⁵ D.19-05-019 also directed Energy Division staff to, in 2021, evaluate results of the SCT testing and recommend the best use of the SCT in future decision-making.⁶

¹ The scope of the issues will be determined in the *Assigned Commissioner's Scoping Memo and Ruling* which has not been issued yet.

² D.19-05-019 at 19-20.

³ California Public Utilities Commission. *California Standard Practice Manual. Economic Analysis of Demand-Side Programs and Projects*. October 2001.

⁴ D.19-05-019 at 29-36 and Ordering Paragraph (OP) 4.

⁵ D.19-05-019 at 3, 29, 48 and OP 4-7.

⁶ D.19-05-019 at 37 and OP 8.

In January 2022, Energy Division staff issued a Staff Report with the results of its evaluation of the SCT testing, *Societal Cost Test Impact Evaluation*.⁷ As described in the Report, Energy Division staff finds that, under a “core” scenario, an SCT would result in minimal changes to the supply-side portfolio proposed in the IRP proceeding and the cost-effectiveness of DERS, because the societal costs are modeled at a similar magnitude to the costs currently incurred to meet California’s carbon abatement targets.⁸ Energy Division also finds that, based on the results and data, an SCT, as opposed to the Total Resource Cost (TRC) test, could cause electric rates to increase, assuming that resources were paid for only through electric rates.⁹ As a result, Energy Division staff continues its original recommendation that the SCT be adopted as an informational test.¹⁰ At this time, the Commission is seeking comments from stakeholders on the SCT report.

1.2. Air Quality Research

In January 2022, Energy and Environmental Economics, Inc. (E3) and Advanced Power and Energy Program (APEP) at University of California, Irvine jointly published a report, *Quantifying the Air Quality Impacts of Decarbonization and Distributed Energy Programs in California*,¹¹ which quantifies the impacts of

⁷ Societal Cost Test Impact Evaluation; Commission Staff Report on the Impact of a Societal Cost Test on Resource Procurement (January 2022), available as of February 8, 2023 at https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/integrated-resource-plan-and-long-term-procurement-plan-irp-ltpp/2019-2020-irp-events-and-materials/societal_cost_test_impact_evaluation.pdf.

⁸ *Societal Cost Test Impact Evaluation* at 5.

⁹ *Societal Cost Test Impact Evaluation* at 6.

¹⁰ *Societal Cost Test Impact Evaluation* at 9.

¹¹ Energy and Environmental Economics; Advanced Power & Energy Program, University of California Irvine, *Quantifying the Air Quality Impacts of Decarbonization and Distributed Energy Programs in California: A sector-specific study of the potential air quality benefits of vehicle electrification, building electrification, energy efficiency, and other clean energy resources*

Footnote continued on next page.

climate change mitigation and air pollution mitigation policies on the health of people living in California using comprehensive modeling of air quality impacts. This report compares the impacts of improved air quality resulting from decreased use of fossil fuels in buildings, for electric power generation, and in vehicles on human health. The results of this study may have implications for the Commission to consider when implementing an SCT or when evaluating the cost-effectiveness of DER programs.

2. Questions for Consideration

2.1. Societal Cost Test (SCT)

1. Should the Commission adopt an SCT?
2. If so, should the adopted SCT be used for informational purposes across all DER proceedings, as recommended by Staff, or for some other purpose?
3. Do you agree with inputs used for discount rates, the air quality adder, the social cost of carbon, and methane leakage in the SCT as described in the *Societal Cost Test Impact Evaluation* Staff Report? If not, explain any modifications that you recommend.
4. Should “society,” as defined in the *Societal Cost Test Impact Evaluation* Staff Report, be specific to California, such that federal tax benefits are included in the SCT? Federal tax benefits, such as the EV tax credit, are included in the results in the *Societal Cost Test Impact Evaluation* Staff Report, but do not necessarily have to be included in a future SCT, if “society” is defined broadly enough such that tax payments are considered a transfer payment.

(January 2022), available as of February 8, 2023 at <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/integrated-resource-plan-and-long-term-procurement-plan-irp-ltpp/2019-2020-irp-events-and-materials/quantifying-air-quality-impacts.pdf>.

