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**VIA ELECTRONIC DELIVERY**

August 21, 2015

Honorable Kathleen H. Burgess  
Secretary  
New York State Public Service Commission  
Three Empire State Plaza  
Albany, New York 12223-1350

Case 14-M-0101 – Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision

Dear Secretary Burgess,

Please find attached for filing comments from Acadia Center pursuant to the New York Public Service Commission's Notice Inviting Public Comment on Staff White Paper on Benefit-Cost Analysis, issued July 2, 2015 in the above referenced proceeding, as modified by the Notice Confirming Extension of Deadline for Public Comment on Staff White Paper on Benefit-Cost Analysis, issued on August 11, 2015.

Respectfully submitted,

[s]

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STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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Proceeding on Motion of the Commission  
in Regard to Reforming the Energy Vision

Case 14-M-0101

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**ACADIA CENTER COMMENTS ON BENEFIT-COST ANALYSIS WHITE PAPER**

August 21, 2015

**I. Introduction**

Acadia Center submits the following comments regarding the Staff White Paper on Benefit-Cost Analysis in the Reforming the Energy Vision Proceeding (BCA White Paper) issued on July 1, 2015. Acadia Center is a non-profit, research and advocacy organization committed to advancing the clean energy future. Acadia Center is at the forefront of efforts to build clean, low carbon and consumer friendly economies. Acadia Center's approach is characterized by reliable information, comprehensive advocacy and problem solving through innovation and collaboration.

We appreciate the opportunity to comment on these important issues and, overall, we commend the New York Public Service Commission (NY PSC) on a thoughtful and well-reasoned approach.

As detailed below, we offer comments on the following selected topics:

- A social discount rate should be used to evaluate the net present value of costs and benefits for the societal cost test. This is in line with the broader purpose of the REV proceeding to expand the perspective of utility decision-making away from its traditional focus.
- Greenhouse gas prices applied as estimated compliance costs should be a reasonable estimate of the levels necessary to achieve New York's greenhouse gas emissions requirements or applicable federal requirements, whichever is more stringent. In addition, a net damages value should be applied as an external social cost.
- A non-zero estimate of wholesale market price impacts should be included in the relevant benefit-cost tests, but it is not reasonable to assume that these impacts will only last for one year.

- Omission of the benefits of conversion of fossil fuel end uses to electricity, such as switching from gasoline cars to electric vehicles, is a significant gap in the BCA White Paper.

## II. Discount Rates

On page 10, Staff proposes that “the proper discount rate should be based on the utility weighted average cost of capital (WACC)” and dismisses the usefulness of a social discount rate on the grounds that alternative utility expenditure plans are being considered and costs are recovered from ratepayers. However, one of the central purposes of REV is to move away from this traditional perspective in which utilities are presumed to own and rate-base assets. In addition to consideration of broader societal costs and benefits, decision-making in REV should be based on longer term thinking than traditional utility investments. Incorporation of a social discount rate is one way to accomplish this. At a minimum, using a social discount rate to evaluate the net present value under one of the scenarios is an entirely reasonable step to take.

## III. Greenhouse Gas Pricing

On pages 29-41, the BCA White Paper discusses greenhouse gas pricing, primarily in the context of evaluating emissions as an externality. Staff presents three options for valuing the societal costs from GHG emissions:

1. The GHG prices incorporated in wholesale energy prices due to the Regional Greenhouse Gas Initiative and other regulatory programs;
2. A detailed calculation of net marginal damage costs; or
3. A \$/MWh adder based on an estimate of economic parity for large scale renewables.

This presentation obscures the fact that there are two separate components to this discussion – (i) a reasonable estimate of GHG prices going forward that are reflected in wholesale energy prices and (ii) a value for external impacts [such as health] in addition to climate. Both are important, and the distinction is relevant because internal costs and external costs can be considered differently. For example, external costs are only considered in societal cost-benefit tests.

Acadia Center accordingly recommends that the GHG prices used to determine wholesale energy prices and other combustion of fossil fuels should represent a reasonable estimate of the levels necessary to achieve New York’s greenhouse gas emissions requirements or applicable federal requirements, whichever is more stringent. The nominal CO<sub>2</sub> prices listed in Table 4 on page 33 are not necessarily sufficient to achieve that result. A reasonable estimate of the appropriate GHG prices to use for this purpose can be done in a wide variety of ways – ranging from complex modeling efforts to simpler methods like the “parity for large scale renewables” method presented as option 3.

In addition to a reasonable forward-looking estimate of greenhouse gas prices, an appropriate net damages value (incremental to the GHG price estimate) should be adopted as an external social cost of emissions. A relatively simple approach should be reasonable here, adopting a social cost of carbon value from the federal government and netting out the greenhouse gas price estimates as determined above.

The same concepts should apply for SO<sub>2</sub> and NO<sub>x</sub> as well – a forward-looking estimate of compliance costs should be included for relevant emissions sources and then a net damages value should be applied as an external social cost.

#### **IV. Wholesale Market Price Impacts**

Acadia Center agrees that non-zero wholesale price impacts should be included as a benefit in the ratepayer-impact test and utility cost test. However, it does not appear reasonable to assume that wholesale price impacts will only last for one year. Method 2 (estimating wholesale price impacts with a three year phase-out) or Method 3 (more granular analyses) are better alternatives that capture the wholesale market price impacts.

#### **V. Oil Fuels**

In general, the BCA White Paper is a thorough and complete discussion of the relevant costs and benefits. However, failure to address the consumer and societal benefits of fuel switching (primarily from oil-based fuels to electricity) is a major omission. Other key documents in the REV proceeding acknowledge that conversion of fossil fuel end uses to electricity (using electric vehicles and high-efficiency heat pumps) can be a key outcome of REV. For example, “conversion of fossil-fueled end uses” is a proposed scorecard metric on pages 65-66 of the Staff White Paper on Ratemaking and Utility Business Models, issued on July 28, 2015. In order to make this a serious commitment, the benefits of such conversions must be fully considered in evaluation of investment plans and other key decisions in REV.

#### **VI. Conclusion**

Acadia Center appreciates the opportunity to comment on the BCA White Paper and looks forward to further engagement on these important issues.