California Energy Commission
CONSULTANT MEMORANDUM

Guidance for the California Energy Commission on upcoming Standardized Regulatory Impact Assessments (SRIAs)

Prepared for: California Energy Commission
Prepared by: David Roland-Holst, Samuel Evans, Samuel Heft-Neal, Drew Behnke, Cecilia Han Springer, Tessa Emmer

Department of Agricultural and Resource Economics
University of California, Berkeley

1 INTRODUCTION

The following document provides general guidance to the California Energy Commission (CEC) when preparing Standardized Regulatory Impact Assessments (SRIAs) for upcoming major regulations. This guidance is based on a comprehensive review of previous SRIAs submitted by California agencies, along with comments provided by the California Department of Finance (DOF). The following list of topics is not comprehensive, but rather is intended to highlight areas that we believe will be particularly important for effective fulfillment of DOF standards for CEC's upcoming SRIAs.

2 IMPACT ASSESSMENT COMPLETENESS

SB 617 outlines the general requirements for agencies completing SRIAs for proposed major regulations (1 CCR § 2001-2003). These include several categories of guidance such as (i) identifying which economic impacts should be quantified and addressed, (ii) requiring that costs and benefits be separately identified for different subgroups, and (iii) instructing how baseline scenarios and regulatory alternatives should be developed and evaluated.

When putting together SRIAs, agencies are required to address a very specific set of economic impacts of the proposed regulation. This includes quantifying several specific variables, including personal income, employment by sector, exports and imports, and gross state product. SRIAs are also expected to address a broader set of economic impacts associated with the proposed regulation, including:

- The creation and elimination of jobs within the state
- The creation and/or elimination of businesses within the state
- Any competitive advantage or disadvantage (due to the regulation) to businesses currently operating within the state
- Expected changes in investment in the state
- Changes in incentives for innovation in products, materials, and processes
- Benefits of the regulation, such as improvements in health, safety, and welfare for California residents.

These requirements are designed to help stakeholders develop a comprehensive understanding of the direct and indirect economic impacts of proposed regulations. This allows the public to understand potential tradeoffs in costs and benefits to California's businesses, workers, and residents. Based on DOF responses to specific agency SRIAs, it is clear that each of these economic impact areas must be thoroughly addressed. In general, the economic impact categories appear to be well met in the SRIAs already submitted to DOF for review. In certain cases, such as the CEC's lighting efficiency SRIA submitted by the CEC (CEC SRIA and DOF comments, 2015), there were omissions that were pointed out by DOF. In that specific case CEC omitted an analysis of the proposed regulation's impact on the creation of new businesses and potential elimination of existing businesses.

3 SPECIFICATION OF BASELINE AND ALTERNATIVE SCENARIOS

The baseline scenario and the two alternatives to the proposed regulation need to be thoughtfully constructed and rigorously analyzed. In comments to ARB's Oil and Gas Regulation (ARB SRIA and DOF comments, 2015), the purpose of developing and analyzing the two alternatives is to provide readers the information necessary to assess the regulatory tradeoffs *in both directions*. Therefore, the objective in constructing the alternatives should be to develop one that has greater benefits, but at higher costs, and one that has lower benefits, presumably at lower costs. As illustrated in DOF's comments on ARB's Truck and Bus Regulation, the alternatives should also be assessed with the same quantitative rigor as the proposed regulation (ARB SRIA and DOF comments, 2014). This includes a quantitative analysis of both the direct costs and benefits, as well as a complete macro economic analysis.

4 ADDRESSING UNCERTAINTIES

Sensitivity analysis around key uncertainties is a critical component of the SRIA. While the statutory language for considering uncertainties is somewhat vague, DOFs comments to individual SRIAs makes clear that accounting for uncertainties is a very valuable contribution. Fore example, CEC's Appliance Efficiency Regulation, DOF was critical of CEC's "useful lifetime" assumptions, suggesting that typical usage rates may differ from rates assumed in engineering studies. A sensitivity analysis of different lifetime assumptions representing variation between engineering and typical usage estimates could have addressed this issue.

For CEC's future SRIAs, we recommend that several areas be considered for sensitivity analysis. For the upcoming computers, monitor, and displays regulation, the key uncertainty for measuring the benefits from energy saving technologies is the future electricity price. Sensitivities should be developed for all scenarios (including the baseline) to address the possibility of both higher and lower electricity prices. One possibility is to use the CEC's own price forecasts in the Integrated Energy Policy Report (IEPR, 2015). A shortcoming of this approach is that the most recent IEPR projection (2015) does not factor in implementation of the 50% Renewable Portfolio Standard (RPS) established in SB350. This will likely increase the upper bound for the state electricity price.

For the upcoming pool pumps and spa labeling regulation, uncertainty around future water scarcity could affect the assumption market demand and penetration rates for these water-intensive goods. In addition to these regulation-specific uncertainties, it is also recommended that CEC consider the potential impacts of an adverse macroeconomic cycle. This could be done be varying general economic growth assumptions for the state.

5 IDENTIFYING DISPARATE IMPACTS

It is prudent to choose a methodology that can provide high resolution of result decomposition across a variety of individual and business subgroups. In several recent SRIAs pertinent to CEC's upcoming rulemaking, DOF suggested unique ways to further decompose results across different subgroups. For example, in the ARB Oil and Gas SRIA, DOF suggested exploring the geographical impacts of the regulations on specific refineries. It may also be prudent for future SRIAs to consult with DOF ahead of SRIA submission to receive feedback on what sorts of subgroup analysis may be required.

For the upcoming Computers, Monitors, and Displays SRIA, CEC staff has proposed a regulation that eases the compliance burden on small manufacturers. This should be noted in the SRIA. The benefits of the regulation, realized through electricity savings, could also vary across individual and business groups. The BEAR economic forecasting model will capture disparate impacts on both household groups and industries. If such impacts are observed, they should be clearly articulated in the SRIA.

6 DISCUSSION OF INCENTIVES FOR INNOVATION

SRIAs are required to address the issue how major regulation's impact incentives for innovation. CEC's energy efficiency regulations are, by definition, designed to provide such innovation incentives. In addition to the incentives to innovate for the local California market, CEC's regulations could possibly set a positive example for future appliance efficiency standards in other jurisdictions. In this sense, the incentive to innovate extends will beyond the local market. The possibility of policy spillover effects should be discussed in all upcoming CEC SRIAs.

It is also possible that short-term adjustment costs might occur for certain product categories that negatively impact the ability of certain industries within California to innovate. Quality data is likely to be unavailable to provide a rigorous quantitative analysis of this issue, however, we recommend that the upcoming SRIA include a qualitative discussion acknowledging how the regulation could both positively and negatively affect innovation in certain industries within the state.

7 IMPACT ON STATE/LOCAL AGENCIES

SRIA's are required, when relevant, to assess the proposed regulations impacts on state and local agencies. Based on DOF's comments on CEC's lighting efficiency standard, it is clear that state agency impacts need to be addressed if the regulation will effect how state agencies procure certain equipment. For the upcoming computers, monitors, and displays regulation, the proposed changes would clearly change the costs and benefits for state agencies, which are large consumers of computer equipment. A simple calculation of costs and savings based on agency computer and monitor procurement should satisfy this SRIA requirement.

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