

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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June 20, 2016

Rosemary Chiavetta, Secretary  
PA Public Utility Commission  
Commonwealth Keystone Bldg.  
400 North Street  
Harrisburg, PA 17120

Re: Petition of PECO Energy Company for  
(1) Approval of its Microgrid Integrated Technology  
Pilot Plan and (2) Issuance of a Declaratory Order  
Regarding the Recovery of Microgrid Costs  
Docket No. P-2016-2546452

Application for Construction of Microgrid  
Distribution Energy Resources Fueled by Natural Gas  
Docket No. A-2016-2546450

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Answer,  
Notice of Intervention, and Public Statement in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

/s/ Lauren M. Burge  
Lauren M. Burge  
Assistant Consumer Advocate  
PA Attorney I.D. 311570

Attachment

cc: Honorable Cynthia Williams Fordham, ALJ  
Honorable Eranda Vero, ALJ  
Certificate of Service

222679

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PECO Energy Company for	:	
(1) Approval of its Microgrid Integrated	:	
Technology Pilot Plan and (2) Issuance of	:	Docket No. P-2016-2546452
A Declaratory Order Regarding the	:	
Recovery of Microgrid Costs	:	
	:	
Application for Construction of Microgrid	:	
Distribution Energy Resources fueled by	:	Docket No. A-2016-2546450
Natural Gas	:	

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**ANSWER OF THE  
OFFICE OF CONSUMER ADVOCATE**

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**I. INTRODUCTION**

On May 18, 2016, PECO Energy Company (PECO or the Company) filed a Petition with the Pennsylvania Public Utility Commission (Commission) for approval of its Microgrid Integrated Technology Pilot Plan (Microgrid Pilot) and for issuance of a Declaratory Order regarding the recovery of microgrid costs. The Company also filed a related Application for Construction of Microgrid Distribution Energy Resources fueled by Natural Gas, in accordance with 66 Pa. C.S. § 519. Pursuant to the June 4, 2016 notice in the *Pennsylvania Bulletin*, the Office of Consumer Advocate (OCA) files this Answer to the Company’s Petition and Application to ensure that PECO’s proposal is consistent with Pennsylvania law, reasonable, and in the public interest, and that any costs associated with the proposed Microgrid Pilot are reasonable and will be recovered appropriately pursuant to the Public Utility Code and Commission regulations.

In its Petition, PECO proposes to construct, own and operate a community microgrid within its service territory, in Concord Township. Petition at 1-2. The Petition states that the microgrid will generally operate as part of PECO's distribution system but will be able separate itself from the distribution system to operate in "island mode," providing uninterrupted service within the microgrid during outages, severe storms, or other events. Petition at 12. When operating in island mode, power within the microgrid will be provided by natural gas reciprocating engines, ground-mounted solar photovoltaic installations, batteries, and electric vehicle charging stations. Petition at 11.

The Company's filing also includes a related Application for Construction of Microgrid Distributed Energy Resources Fueled by Natural Gas. (Docket No. A-2016-2546450). This Application is filed pursuant to Section 519 of the Public Utility Code, which requires an electric utility to seek Commission approval prior to construction of a generation facility fueled by natural gas. 66 Pa. C.S. § 519. Through the Application, PECO seeks approval to construct 10 MW of natural gas reciprocating engines to operate as one of the generation sources included within the Microgrid Pilot. Petition at 21.

The Petition states that these distributed energy resources (DER) will provide sufficient generation to meet the typical peak load during outages of the identified customers. Id. The proposed Microgrid Pilot area includes 388 acres of Concord Township and supports various public services such as healthcare, local emergency services, a retirement community, hotels, gas stations, government facilities, and public accommodations. Petition at 10. The Company has projected that the Microgrid Pilot will likely operate in island mode for approximately 28 hours per year, and will otherwise be connected to the grid. Petition at 14.

The Company estimates that the Microgrid Pilot will cost approximately \$35 million to implement, which it proposes to recover from all PECO customers. Petition at 16. In accordance with its Long-Term Infrastructure Improvement Plan (LTIP), the Company proposes to recover approximately \$15.3 million of these costs through its Distribution System Improvement Charge (DSIC). Petition at 16-17. The Company seeks to recover the remaining \$19.6 million in costs that are not eligible for recovery through the DSIC in a future electric distribution base rate case. Petition at 17. Through its Petition, PECO is seeking approval of the Microgrid Pilot and the issuance of a Declaratory Order providing that any costs not recovered through the DSIC are eligible to be recovered in a future base rate proceeding as distribution costs. Petition at 23.

## **II. ANSWER**

The OCA has preliminarily reviewed the Company's Petition and has identified a number of issues presented by the filing. The OCA anticipates that additional issues will arise as a more comprehensive review of the Company's filing is undertaken and after discovery is conducted, particularly given that this is the first microgrid proposal that has come before the Commission. The preliminary issues identified by the OCA include the following:

### **A. Consistency with the Public Utility Code and the Public Interest**

The Company's proposal raises significant legal and policy questions that must be addressed regarding the Microgrid Pilot. The OCA submits that the Commission must determine whether the proposal is consistent with the Public Utility Code and is in the public interest. The Commission should examine whether it is permissible for PECO to operate such a microgrid under the Public Utility Code and to recover the costs in the manner that PECO has proposed. Additionally, as discussed further below, there are significant costs associated with the proposal

but it is unclear from the Company's Petition whether the Microgrid Pilot will provide a benefit to all consumers.

PECO seeks to have approximately 8.6 MW of generation classified as distribution infrastructure. Petition at 10. In effect, the Company proposes to reclassify costs related to generation as distribution costs and include those costs in its distribution rate base under rate base/rate of return ratemaking methodology. The Public Utility Code, however, requires the separation of electric generation and distribution. See 66 Pa. C.S. §§ 2802, 2804. Section 2802 also states that, "[t]he generation of electricity will no longer be regulated as a public utility function . . ." 66 Pa. C.S. § 2802(14). Additionally, Section 2804 of the Public Utility Code provides that, "[t]he commission shall require the unbundling of electric utility services, tariffs and customer bills to separate the charges for generation, transmission and distribution." 66 Pa. C.S. § 2804(3). PECO's Petition seeks to reclassify generation assets as distribution, which raises questions as to its consistency with the Public Utility Code.

For these reasons, the OCA submits that the Commission and the parties must fully investigate whether the Company's proposal consistent with the Public Utility Code and whether it is consistent with the public interest.

**B. Sale of Generation into the Wholesale Market**

Under PECO's proposal and the accompanying Application, the Company proposes to construct, own and operate several DER technologies to power the proposed microgrid, including natural gas reciprocating engines. Petition at 11. PECO has indicated that it intends to defray the costs of these DERs through sales in the PJM wholesale generation markets. Petition at 15. The Commission and the parties must examine whether this proposal to sell excess generation in the wholesale market is consistent with the operation and rules of the wholesale market, and whether it is in compliance with recent court rulings.

C. Funding Sources

In PECO Witness Caldwell's testimony, Mr. Caldwell points to a number of examples of microgrid development occurring in other states. PECO St. 2 at 3-5, 8-9. However, a preliminary review of these example microgrids indicates that many of them have been developed as a result of a public-private partnership, through grant funding, etc. rather than being funded entirely by ratepayers. The OCA submits that the recovery of the proposed Microgrid Pilot costs entirely from ratepayers may be inappropriate, and that alternative or additional funding sources should be considered.

D. Reliability

In its Petition, PECO states that improved reliability is a primary benefit of the Microgrid Pilot, and that improved reliability resulting from the microgrid will benefit all consumers. Petition at 6. The OCA submits, however, that it is unclear from the Company's filing that the Microgrid Pilot is necessary to improve reliability, or whether it will produce a direct benefit to all consumers by improving reliability. Additionally, given the cost of the Company's proposal, it is also unclear whether the Microgrid Pilot is the best way to achieve any necessary reliability improvements. The OCA submits that these questions must be explored in detail in this proceeding.

E. Cost Recovery

As discussed above, PECO proposes to recover any costs of the Microgrid Pilot that are not recovered through the DSIC in a future distribution base rate proceeding. Petition at 17. As such, the OCA submits that the proposed costs for the Pilot must be fully investigated in order to determine whether any costs incurred are properly recoverable in distribution base rates and whether rates will remain just and reasonable.

F. Cost Allocation

In its proposal, PECO states that it intends to recover the costs associated with the Microgrid Pilot from all customer classes. Petition at 16. The OCA submits that it is necessary to examine any issues related to cost allocation that may arise in this proceeding in order to determine whether costs are being allocated appropriately among customer classes in accordance with cost causation principles and legal precedent.

G. Operations

The OCA submits that more detailed information is needed regarding the operations of the proposed microgrid. The Petition generally describes how the Microgrid Pilot will be designed and how it will provide power within the microgrid area during outages or other events. Petition at 12. There are many unanswered questions, however, about specific operational details. The OCA submits that further investigation into the operation of the proposed microgrid must be conducted.

### III. CONCLUSION

WHEREFORE, the Office of Consumer Advocate respectfully submits that the Company's Petition must be thoroughly reviewed in order to ensure that PECO's Microgrid Pilot is legal and reasonable, and that any costs incurred are just and reasonable and otherwise consistent with Pennsylvania law.

Respectfully Submitted,

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June 20, 2016  
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	:	
Application for Construction of Microgrid	:	
Distribution Energy Resources fueled by	:	Docket No. A-2016-2546450
Natural Gas	:	

I hereby certify that I have this day served a true copy of the following documents, the Office of Consumer Advocate's Answer, Notice of Intervention, and Public Statement, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 20<sup>th</sup> day of June 2016.

SERVICE BY HAND DELIVERY and FIRST CLASS MAIL

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