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VIA eFILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Proposed Policy Statement on Combined Heat and Power
Docket No. M-2016-2530484

Dear Secretary Chiavetta:

Enclosed please find **Reply Comments of PECO Energy Company to the Proposed Policy Statement** in the above-captioned matter.

If you have any questions regarding this filing, please do not hesitate to contact me at 215-841-5974.

Very truly yours,



W. Craig Williams

Enclosures

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PROPOSED POLICY STATEMENT :
ON COMBINED HEAT AND POWER : DOCKET NO. M-2016-2530484**

**REPLY COMMENTS OF
PECO ENERGY COMPANY
TO THE PROPOSED POLICY STATEMENT**

PECO Energy Company (“PECO” or the “Company”) submits these Reply Comments to the comments filed in response to the Pennsylvania Public Utility Commission’s (“PUC” or the “Commission”) Proposed Policy Statement on Combined Heat and Power (“CHP”), entered in the above-captioned docket on March 9, 2016.¹

I. GENERAL REPLY COMMENTS

At the outset, PECO notes that its original comments were focused on the central issue of the Proposed Policy Statement: a biennial report and the contents thereof. PECO did not address substantive issues about the efficacy of CHP generation over other sources of generation, intending such discussions to evolve from the collection of the data requested from the proposed biennial reports. Upon review, PECO observes that other stakeholders have introduced substantive proposals beyond the scope of the Commission’s proposed reports.²

¹ *Proposed Policy Statement on Combined Heat and Power*, Docket No. M-2016-2530484 (entered March 9, 2016; published April 16, 2016) (“Proposed Policy Statement”); *see also Comments of PECO Energy Co. to the Proposed Policy Statement*, Docket No. M-2016-2530484 (filed May 31, 2016) (“PECO Comments”).

² *See, e.g., Comments of Kimberly Clark Corp.*, Docket No. M-2016-2530484 (advocating to incorporate in this proceeding natural gas delivery charge rebates, development of privately funded natural gas infrastructure, waiver of electric back-up demand charges, and capital grants, among other things); *Comments of NRG Energy Center Harrisburg LLC and NRG Energy Center Pittsburgh LLC to Commission Proposed Policy Statement on Combined Heat and Power*, Docket No. M-2016-2530484 (advocating that the Proposed Policy Statement “should explicitly promote the integration of CHP installations in district energy systems,” affirmatively requiring EDCs to submit proposals to make grid interconnection equipment available at no or reduced cost, and developing special NGDC distribution rates for CHP, among other things); *Comments of the UGI Distribution Companies*, Docket No. M-2016-2530484 (advocating that Act 129 programs be directed away from promoting high-efficiency electric heating equipment where gas is available as a more energy efficient solution, among other things).

While many of these topics may be worthy of Commission consideration in subsequent proceedings, after approval of the proposed reports and review of the data therefrom, PECO does not believe that the Commission should rule on such issues in this limited proceeding.

II. SPECIFIC REPLY COMMENTS

A. PECO Supports Balancing Promotion of CHP Development Against Other Forms of Energy Efficiency and Distributed Generation

Stakeholders take varying positions on the Commission's intent to promote the development of CHP in the Commonwealth over other methods of energy efficiency and sources of distributed generation. Duquesne Light, for example, suggests that the Commission be "generation-agnostic," cautioning against creating mechanisms favoring one form of generation or technology over another and thereby potentially subsidizing that technology through preferential rates.³ The Pennsylvania Department of Environmental Protection recommends evaluation of CHP after other energy efficiency and conservation measures, so as to not disadvantage energy efficiency, emissions-free generation and/or energy storage.⁴

PECO stands by its earlier comments supporting the development of CHP, but also cautions that CHP deployment in and of itself does not guarantee benefits, reliability or otherwise, in all cases. For these reasons, PECO joins the comments of others asking the Commission to avoid implementing measures that create disproportionate advantages for CHP over and above other measures which similarly benefit customers. PECO also supports the comments submitted by the Energy Association of Pennsylvania ("EAP"), noting that Act 129 does not favor one energy efficiency program or measure over another, but instead permits

³ *Comments of Duquesne Light Company*, Docket No. M-2016-2530484, at 10-11.

⁴ *Comments of the PA Dep't of Env'l Protection*, Docket No. M-2016-2530484, at 1.

flexibility for the EDCs to implement energy efficiency programs that are tailored to the customer needs of that service territory.⁵

B. PECO Supports EDC Comments Requesting Clarification of Data Requested in Subsections (d)(4) and (d)(5) of the Biennial Reports

PECO agrees with the comments of other EDCs seeking clarity on certain data elements requested by the Commission, specifically those in subsection (d)(4) and (d)(5) regarding “actual electric generation delivered to all customers with CHP by the EDC on an hourly basis for the preceding twenty-four month period.”⁶ The comments illustrate that the proposed reporting requirements do not account for differences in customer installations and metering, nor does the requirement define the precise nature of the load values to be reported.

While PECO has assumed that the Commission defines this requirement as the customer’s hourly load served by the EDC, PECO supports PPL’s request for verification from the Commission on this point. Further, PPL also voices PECO’s concern about the voluminous amount of data involved with this reporting requirement.⁷ PECO supports the suggestion by PPL that aggregating the associated hourly data might mitigate this issue, while also preserving the confidentiality of individual CHP customers.⁸ However, PECO understands that the value of aggregation depends upon the clarification about the data being requested, as set out above.

C. PECO Recommends There Be No Sunset of Biennial Reports Until Formal Rulemaking on Substantive Issues Raised in Reports

PECO believes that collection of the information posed by the PUC through the biennial

⁵ *Comments of Energy Assoc’n of Pennsylvania*, Docket No. M-2016-2530484, at 9-10 (“EAP”).

⁶ *Comments of PPL Electric Utilities Corp.*, Docket No. M-2016-2530484, at 5; *Comments of Metropolitan Edison Co., Pennsylvania Electric Co., Pennsylvania Power Co., and West Penn Power Co.*, Docket No. M-2016-2530484, at 6.

⁷ *Comments of PPL Electric Utilities Corporation*, at 5.

⁸ *See, e.g., Joint Comments of the Met-Ed Industrial Users Group, the PENELEC Industrial Customer Alliance, the Penn Power Users Group, the Philadelphia Area Industrial Energy Users Group, the PP&L Industrial Customer Alliance, and the West Penn Power Industrial Intervenors*, Docket No. M-2016-2530484, at 10; *Comments of the EAP*, at 10.

reports could be quite useful in the continued effort to grow the prevalence of CHP in the Commonwealth. To that end, PECO agrees with other NGDCs that the reporting should continue without an automatic sunset.⁹

However, PECO also maintains that there will become a point of diminishing returns with respect to collecting data that might be useful in resolving important issues about CHP development. PECO recommends that the Commission reevaluate every two years whether the biennial reports should sunset in the next reporting period, perhaps as a prelude to formal rulemaking on substantive CHP issues, to the extent changes in CHP policy are borne out by the collected information.

D. PECO's Capacity Reservation Rider Pilot is Not a Standby Service Rate

Kimberly-Clark Corporation ("K-C") alludes to PECO's Capacity Reservation Rider Pilot ("CRR Pilot") in the context of "high back-up power rates," citing the PECO CRR Pilot as an example of a "back-up charge" or a long-term "demand ratchet," which negatively impacts the "cost-benefit calculation by adding to operating costs of building the CHP."¹⁰ As a consequence, K-C argues that such back-up charges represent a barrier to CHP development.¹¹ PECO disagrees with this characterization and submits that its CRR Pilot has no impact on customer avoided costs of CHP development.

K-C indicates that it only uses all available distribution capacity in the event of an "improbable one-time outage" or the "temporary shutdown of the manufacturing facility"

⁹ *Comments of National Fuel Gas Distribution Corp.*, Docket No. M-2016-2530484, at 4; *Comments of Philadelphia Gas Works to Proposed Policy Statement*, Docket No. M-2016-2530484, at 10; *Comments of the UGI Distribution Companies*, Page 5.

¹⁰ *Comments of Kimberly Clark Corp.*, at 6.

¹¹ *Id.* at 7.

making use of CHP steam for manufacturing.¹² Regardless of the frequency or probability of such a shutdown of the CHP unit, PECO must arrange for distribution system capacity available to serve K-C's maximum, fully-connected load at any time – 24 hours per day, 365 days per year. PECO cannot use that reserved distribution capacity for any purpose other than to serve the specific customer requiring it, which in turn means that PECO cannot use the reserved capacity in any way to create revenue offsetting the costs of providing it to the intended customer.

PECO's CRR Pilot was debated, settled and approved by the Commission just last year.¹³ It is designed to base recovery of reserved distribution capacity on just and reasonable cost causation principles, which is premised on the customer's maximum, fully-connected load. One of the primary purposes of the CRR Pilot is to find the equilibrium point at which a generation customer and a non-generation customer, who otherwise use the system in the same way, are covering the same amount of costs. Now, the non-generation customer pays more than the base-load generation customer to keep the precise same amount of distribution service available.

This differs from a "back-up power rate," which is intended to recover costs for standby service. As outlined in PECO's base rate case, PECO defines standby service as the ability to supply electric generation to a customer when that customer's own generation (purchased or owned) is not available.¹⁴ PECO's CRR Pilot addresses distribution system capacity, not backup generation, and the customer's requirement for distribution-system capacity remains, regardless of whether the customer operates a CHP unit or some other form of distributed

¹² *Id.*

¹³ *Pennsylvania Public Utility Commission v. PECO Energy Co – Electric Div.*, Docket No. R-2015-2468981 (order entered December 17, 2015) (Rebuttal Testimony of Scott Neumann, at 15).

¹⁴ *Id.*

generation. The CRR is, therefore, not a back-up power rate and does not belong in conversations concerning barriers to CHP development.

III. CONCLUSION

PECO appreciates the opportunity the Commission has provided to offer these Reply Comments on CHP advancement in the Commonwealth and continues to look forward to working with the Commission and interested stakeholders on this important initiative.

Respectfully submitted,



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