NORRIS
McLAUGHLIN | P.A.
ATTORNEYS AT LAW

515 West Hamilton Street
Suite 502
Allentown, PA 18101
T: 610-391-1800
F: 610-391-1805

Direct Dial: 484-765-2211
Email: jlushis@norris-law.com

February 18, 2021

VIA ELECTRONIC FILING

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Policy Proceeding—Utilization of Storage Resources as Electric Distribution Assets
Docket No. M-2020-3022877

Dear Secretary Chiavetta:

Enclosed for filing please find the Comments of Calpine Retail Holdings, LLC ("Calpine") in response to the Secretary's letter entered on December 3, 2020 in the above-captioned matter.

If you have any questions or need any additional information regarding this filing, please do not hesitate to contact me.

Very truly yours,

NORRIS McLAUGHLIN, P.A.

/s/ *John F. Lushis, Jr.*

John F. Lushis, Jr.

JFL/ls
Enclosure

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Policy Proceeding—Utilization of Storage Resources as Electric Distribution Assets

Docket No. M-2020-3022877

Comments of Calpine Retail Holdings, LLC

I. INTRODUCTION

Calpine Retail Holdings, LLC ("Calpine Retail")[1] submits the following Comments to the Pennsylvania Public Utility Commission ("Commission") in response to the Secretary's letter dated December 3, 2020, inviting comments from interested parties regarding utilization of storage resources.

Calpine Retail is an independent, national provider of energy and energy related services across twenty states, including Pennsylvania where it is a licensed Electric Generation Supplier ("EGS"). Calpine Retail is also a Load Serving Entity (LSE) and market participant of PJM Interconnection LLC. Calpine Retail is actively serving and soliciting customers throughout Pennsylvania.

As the Commission investigates and considers possible changes to Pennsylvania's current policies regarding storage, Calpine Retail offers the following comments and asks the Commission to consider the perspective and ability of EGS companies such as Calpine Retail to provide storage products and services on a competitive basis.

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[1] Calpine Retail has overall responsibility for the business activities of all of its retail subsidiaries. Calpine Retail's subsidiaries serve residential, commercial, and industrial customers in the Pennsylvania retail electric and gas markets.

Calpine Retail serves all of its customers at the customer level, including national and regional accounts. Calpine Retail currently offers a wide variety of demand-related and energy-related products and services beyond simple energy procurement, including load and risk management and green energy solutions – all designed to meet the *individualized* needs of Calpine Retail's customers and capture the benefits of the existing competitive wholesale energy environment to bring those benefits forward into to Pennsylvania's competitive retail electric market.

Calpine Retail offers innovative products and services in response to customer's unique needs, usage and desires. These include products and services that are not limited by monopoly utility constraints. Instead, they are products and services that customers have shown, and are showing, that they want.

II. DISCUSSION

Calpine Retail respectfully submits that the implicit assumption underlying the Commissions' inquiry – that it is reasonable to allow electric distribution utilities to invest in storage on a rate-base/rate-of-return, as they do for other distribution assets – should be considered explicitly and carefully. The rate and risk shifting implications for Pennsylvania flowing from allowing storage to become a distribution asset as opposed to a generation asset are significant. Calpine Retail submits that storage should be recognized as a generation asset, to be built by merchants that do not shift the risk to captive ratepayer/customers. This would be consistent with Pennsylvania's commitment to move away from cost of service regulation in favor of competitive market discipline wherever possible, in order to shift risk and costs away from ratepayers.

Storage is fundamentally not a natural monopoly. It should not be treated as part of a distribution wires company's rate base, which relies on ratepayers to cover their costs and risks. Storage has passed some critical hurdles at the federal level, which have removed barriers to entry to and participation at the wholesale level, and which granted non-discriminatory access to the grid.[2] Pennsylvania should not create a regulatory storage distribution asset that could create future stranded costs or subsidized generation assets, create barriers to entry and foreclose on the ability to bring forward cost savings, competitive discipline and storage products to Pennsylvania consumers through the competitive retail market.

Simply put, monopolists are neither entrepreneurs nor merchants. Entrepreneurs and merchants face economic competition and must be efficient to survive and prosper. They take on all of the risks of development, designing, building and operating their storage facilities. They compete on price. Merchant storage providers can help with peak shaving to improve efficiencies, prevent unnecessary distribution buildouts and provide needed services for increasing renewables without putting the ratepayers at risk. The more efficient and innovative they are, the better they will be able to compete.

In contrast, monopoly wires distribution companies do not have the same disciplines. They can settle for a one size fits all, and they are allowed a rate of return on their investments. To encourage them to enter the storage market will create an unlevel playing field from the start and harm opportunity for a multitude of new entrants to make offerings in Pennsylvania.

Pennsylvanians have shown time and again that they want choices, meaning the freedom to choose providers and not being forced to accept the old take and pay for a one-size-fits-all

[2] *Elec. Storage Participation in Mkts. Operated by Reg'l Transmission Orgs. & Indep. Sys. Operators*, Order No. 841, 162 FERC ¶ 61,127 at ¶¶ 2, 7 (Feb. 15, 2018), *aff'd*, *Nat'l Ass'n of Regulatory Util. Comm'rs v. FERC*, 964 F.3d 1177 (D.C. Cir. 2020).

approach. Artificially creating an unnecessary monopoly where one does not exist certainly would appeal to those holding the monopoly, but it would harm Pennsylvania, as it could create stranded costs. Treating storage as a natural monopoly makes no sense, because there are numerous competitive storage providers that are ready willing and able to participate in the storage market. Indeed, the use of it is growing rapidly, with continuing technological improvement and other innovative changes.[3] Using the competitive market and its economic discipline to supply storage for purposes of reliability and resiliency is far superior to creating a monopoly and putting these costs on the shoulders of the Pennsylvania ratepayers.

Customers should be able to bypass and not pay for assets they do not want or need. Customers should be able to use any storage asset available to them to peak-shave, but they should not be strapped with unnecessary costs or one particular market participant. If there is a need for storage to increase the reliability of the distribution system, then the EDC can go to the wholesale market and purchase only those storage services it needs without forcing Pennsylvanians to take on unnecessary costs to increase the EDC's asset base.

Instead of turning backwards to the old monopoly system, Pennsylvania should avail itself of the capacity, energy and ancillary services that Energy Storage Providers can provide in the wholesale market and use those for the benefit of Pennsylvania default service customers. Where those customers are being served by EGS's, the Commission should allow the EGS's a level playing field to incorporate the use of wholesale market storage into products and services

[3] As the D.C. Circuit noted in affirming Order 841, Energy Storage Resources are industry disrupters, because they obliterate the old notion that electricity cannot be stored for future use. The court referred to rooftop solar connected to batteries, and observed that the same technological and economic forces that allow us to carry battery-powered computers in our pockets are now able to store energy anywhere on the grid and release it when supply is scarce. *Nat'l Ass'n of Regulatory Util. Comm'rs v. FERC, supra, 964 F.3d at 1182*. These innovations are the result of competition, not monopolies.

that meet the unique needs of their customers. EGS's customers must still use and pay for the local distribution system which is provided on a monopoly basis, but they should not be required to support the utility's acquisition of assets that could be procured on a competitive basis.

The risk that comes from allowing storage investment to be included within cost of service ratemaking is that Pennsylvania users can end up holding the bag in terms of costs, while the costs for storage go down elsewhere and while others avail themselves of new innovative technologies in the market. Instead of allowing the utility to decide for all of its customers what investments in storage are worthwhile, the better outcome will be to allow customers to avail themselves of their own storage opportunities.[4]

In contrast, if the Commission allows the market to meet its storage needs and bring forward all of the tools afforded to it, as opposed to relying on a distribution monopolist, it will increase competition, thereby ensuring the best possible combination of cost and value for Pennsylvanians.

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[4] Illustrative of Calpine Retail's concern is a filing made earlier this month by UGI Utilities, Inc. – Electric Division, Docket No. R-2021-3023618. In this base rate case, UGI is proposing to install and interconnect a utility-owned, small-scale, energy storage battery (1.25 MW) into the primary distribution system near Wapwallopen, PA. The project is estimated to cost approximately $1.5 million and will support the expected peak load of 68 customers for up to 4 hours. UGI also proposes to participate in PJM's frequency market while battery is in grid-connected mode (during normal operating conditions) as a way to reduce costs, but it has not provided any estimate of the value of this. Recovery of the costs associated with this investment will presumably be the one-size-fits-all model, with both default and EGS customers paying for this as if it was a natural monopoly distribution service.

III. CONCLUSION

Calpine Retail thanks the Commission for the opportunity to provide these comments, and looks forward to participating constructively as this docket proceeds.

Respectfully submitted,

/s/ *Becky Merola*

Becky Merola
Director, Regulatory & Government Affairs
Calpine Energy Solutions LLC
5435 Mercier Street
Lewis Center, Ohio 43035
(614) 558-2581
becky.merola@calpinesolutions.com

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