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November 29, 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 Supplemental Comments of Calpine Retail Holdings, LLC ("Calpine") in response to the Secretary's letter entered on August 12, 2021, 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

Supplemental Comments of Calpine Retail Holdings, LLC

I. INTRODUCTION

Calpine Retail Holdings, LLC ("Calpine Retail")[1] submits the following Supplemental Comments to the Pennsylvania Public Utility Commission ("Commission") in response to the Secretary's letter dated August 12, 2021, inviting supplemental comments from interested parties regarding utilization of storage resources.

As stated in its initial comments filed in this proceeding on February 18, 2021 ("Calpine Initial Comments"), 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.

In its Initial Comments, Calpine Retail urged the Commission to recognize storage as primarily 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

[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.

from cost of service regulation in favor of competitive market discipline wherever possible, in order to shift risk and costs away from ratepayers. Calpine Retail asked 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.

Not surprisingly, the initial comments filed in this proceeding demonstrate a wide range of opinions. There is substantial consensus, however, from many parties, that the Commission should proceed cautiously when it comes to allowing incumbent utilities to make significant investments that would implicate rate base/rate of return recovery. Nothing has changed over the last 9 months to alter this basic conclusion.

II. DISCUSSION

Calpine Retail summarizes the Commission's direct questions and responds as follows:

1. Cost-effectiveness

Calpine Retail submits that the competitive market, with risk being addressed by competitive service providers, would be a superior mechanism to determining the cost-effectiveness of any proposed energy storage system. This means that even for those storage applications that are clearly distribution-related, the incumbent utilities should be required to use a competitive procurement approach, rather than settling on a sole-source solution that would shift risk to ratepayers.

Allowing utilities to create regulatory assets whose costs are subject to recovery from ratepayers creates a substantial risk of stranded costs. The technology related to storage is evolving rapidly, and crystal balls that are used to predict whether a particular project is cost-effective or not are bound to be extraordinarily cloudy. The Commission instead should seek deployment strategies that shift risks away from ratepayers, and onto the shareholders of competitive providers, which is where they belong.

2. Prior examples

Calpine Retail notes that as recently as last month, the Commission approved a pilot storage project to be pursued by UGI.[2] The project is a small-scale, 1.25 MWh battery storage system that was proposed as a targeted means to enhance resiliency and improve reliability on a worst performing distribution circuit located in Wapwallopen, Pennsylvania: the Ruckle Hill Road distribution circuit. The stipulation of settlement approved by the Commission prevents the project participating in the PJM Frequency Regulation Market, which is a competitive service. Significantly, UGI Electric will maintain and provide information concerning the duration, extent, cause, and times for each outage, the duration and times the battery storage system was used to maintain service during the outage, and loads on the facilities served by the battery storage system just prior to and during the outage. Such information will be provided in annual reports filed with the Commission by January 1st of each year that the battery storage system remains in service, with the first annual report to be filed by January 1, 2023. All of these steps are prudent and illustrate a reasonable and cautious approach to the use of battery storage facilities by incumbent utilities.

While it is entirely possible that similar pilot projects may become before the Commission in 2022 and beyond, there is certainly no basis at this point to launch a large-scale series of projects when the first pilot is only getting underway now, and when the lessons learned from this first pilot are still more than a year away.

[2] PA PUC et al v. UGI Utilities, Inc. – Electric Division, Docket No. R-2021-3023618 (Order October 28, 2021).

3. Choosing Between Infrastructure Upgrade Approaches

Calpine Retail submits that the UGI Electric pilot project referred to above, even though it was by its terms non-precedential, illustrates the appropriate way for an electric utility to seek approval for similar projects. Presented as it was in the context of the rate case, it permitted extensive scrutiny by parties with disparate interests, yet ultimately led to a successful settlement.

An important point to keep in mind about the UGI pilot is that it was strictly limited to resiliency functions, and was barred from any use that would interfere with competitive markets that are operated by PJM. This should be an essential element of any other pilot project that might be proposed in 2022 or beyond.

4. Ownership of Energy-Storage Assets

There should be no question that battery storage assets will in most cases be at least primarily a generation-related asset that should be , indeed must be, owned by EGS companies. The example of storage as an enhancement to resiliency, as illustrated by the UGI Electric pilot project, illustrates both the possibility of such a situation, but also its relatively narrow application.

5. Process to Review Proposed EDC Projects

Calpine Retail supports the review of EDC storage proposals in the context of base rate proceedings. These proceedings attract a wide range of interests, including large users, small users and competitors, thereby ensuring that any EDC proposal receives through and careful review.

6. Cost-recovery Mechanisms

Calpine Retail generally supports the position of the Large Customer Groups that under most circumstances, because the energy storage asset would not be owned by the utility, it should not be included in rate base. Instead, the costs associated with paying the third party to install, operate, and maintain the asset would be included as part of the utility's operation and maintenance ("O&M") expense. Under these circumstances, the utility should not be permitted to collect a return on the costs associated with a third party-owned storage system.[3]

7. Role of EDCs Generally

As is recognized by almost all commenters except the EDCs themselves, ownership by EDCs of storage assets participating in energy, capacity and ancillary markets is not only bad policy, but inconsistent with the relevant Pennsylvania statutes.[4] Competition for these services is not only the law in Pennsylvania, but also the right choice for Pennsylvania ratepayers, who should not be asked to subsidize investments that necessarily entail a substantial amount of risk. Battery storage deployed by EDCs should be closely monitored to avoid any adverse spillover effect on competitive markets.

In particular, storage projects owned by EDCs must not be used to offer peak shaving services on a customized basis to individual customers. This is quintessentially a competitive function to be fulfilled by EGS companies. Any use of utility-owned storage projects for peak shaving must be accomplished by making the capability available on a contemporaneous, not-discriminatory basis for the benefit of all distribution customers. The EDCs not be allowed to use assets paid for by ratepayers to compete against EGS companies

[3] Comments of Large Customer Groups, February 18, 2021, at 7-8.
[4] See 66 Pa.C.S. § 2802(14).

in the competitive markets that have been created by the Commission pursuant to legislative mandate. Allowing EDCs to put their finger on the scale using regulatory assets will distort the competition that is essential for Pennsylvania in the long term.

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*

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