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June 1, 2016

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

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

Dear Secretary Chiavetta:

Pursuant to the Commission's Proposed Policy Statement entered March 9, 2016 in the above-captioned proceeding, enclosed herewith for filing are the Comments of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company (collectively, the "Companies"). Due to unforeseen technical complications, the Companies are filing these comments one day beyond the due date and respectfully request to be considered timely due to the fact that this is not a contested proceeding.

Please contact me if you have any questions regarding this matter.

Very truly yours,



Tori L. Giesler

dln
Enclosures

c: As Per Certificate of Service
Joseph Sherrick, Bureau of Technical Utility Services (josherrick@pa.gov)
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

COMMENTS OF METROPOLITAN EDISON COMPANY,
PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY
AND WEST PENN POWER COMPANY

I. INTRODUCTION

On March 9, 2016, the Pennsylvania Public Utility Commission (“Commission”) entered a proposed Policy Statement designed to foster the continued development of combined heat and power (“CHP”) deployment in Pennsylvania, and requiring biennial reporting requirements for electric distribution companies (“EDCs”) and natural gas distribution companies (“NGDCs”) (“Proposed Policy Statement”). This Proposed Policy Statement follows up on two *en banc* hearings that were held in the spring and fall of 2014, at Drexel University and the University of Pittsburgh, respectively. During those hearings, testimony was offered by representatives of a cross section of the community interested in or affected by CHP. The testimony included potential benefits and identified barriers to the development of CHP in the Commonwealth. The Commission is requesting comments on the Proposed Policy Statement, which has the stated intent to:

- Promote CHP investments;
- Encourage EDC and NGDCs to make CHP an integral part of their energy efficiency and resiliency plans, as well as their marketing and outreach efforts;

- Encourage these companies to design interconnection and standby rates for owners and operators of CHP facilities; and
- Promote the consideration of special natural gas rates for owners and operators of CHP facilities.

Proposed Policy Statement at 2.

The Proposed Policy Statement provided that written comments could be submitted by all interested parties to be filed no later than May 31, 2016. Consistent with the March 9, 2016 proposed Policy Statement, Metropolitan Edison Company (“Met-Ed”), Pennsylvania Electric Company (“Penelec”), Pennsylvania Power Company (“Penn Power”) and West Penn Power Company (“West Penn”) (collectively, the “Companies”) submit these comments in response to the Proposed Policy Statement.

II. COMMENTS

The Commission indicates that CHP has figured prominently as part of Pennsylvania’s Act 129 energy efficiency and conservation (“EE&C”) programs. Generally, the Companies agree. Currently, as part of the Pennsylvania Act 129 EE&C plans, the Companies have included CHP projects as an eligible measure within their Large and Small Commercial & Industrial custom programs. Marketing activities for these programs target eligible customers to inform them of the programs, all of the eligible measures (including CHP), and associated benefits to be derived by installing more efficient processes and equipment. The Companies’ primary marketing methods include outreach through their websites and trade shows, the Companies’ business customer newsletter, and direct communications with key account managers. The Companies also work with distributors and trade allies to inform them of the programs and eligible measures in order to leverage their access to customers who may have interest in these offerings.

While the Companies agree that there are benefits to be derived from CHP deployment in certain applications, there are a number of assumptions made in the Proposed Policy Statement that the Companies caution against adopting without considering the counterpoint to those arguments. While efforts by all EDCs and NGDCs can help support the growth of CHP deployment, there are primary drivers behind the economics of a CHP facility which are entirely outside the control of the utility, and in fact, the Commission. The benefits of CHP can be real, but the economics are very specific to each individual customers' facilities and operations.

Participants at the 2014 *en banc* hearings identified the benefits of CHP as consisting of improved energy efficiency through increased utilization of thermal energy; reduced energy costs through reductions in peak demand; and also the associated mitigation of price volatility. From the Companies' standpoint, while these are certainly benefits that customers may experience, they do not come without challenges. In particular, these challenges include the facts that: (1) the installation and operation of a CHP facility is often not part of a Customer's core business and as such, they may be reluctant to fund and maintain the facility in the future; (2) the location of a CHP facility may cause operational problems with an EDC's distribution system and not be a benefit to the EDC, despite the assumption made in the Proposed Policy Statement; (3) investment in CHP, absent state, federal or other investment subsidies, is largely driven by the cost of fuel, the price of electricity, and the match between electric load and thermal load – which may not provide the necessary incentive to fund such projects; (4) misapplication of CHP projects, such as those where the electric generator is sized significantly larger than the thermal requirements or where the electrical load and thermal requirements are not coincidental, may not result in lower overall energy consumption or efficiency improvements; (5) the incremental reporting requirements contemplated by the Proposed Policy Statement, in particular those associated with the initial report that addresses existing CHP

facilities, will drive significant workload requirements to the EDCs, as much of this information is not in the hands of the EDC community at this time, and it is anticipated that not all customers will wish to share such detailed information for public consumption.

Furthermore, as cited by the Proposed Policy Statement, the testimony of Gearoid Foley, Senior Technical Advisor for the United States Department of Energy's CHP Technical Assistance Partnership, highlighted the potential benefits of CHP for Pennsylvania. Mr. Foley asserted that by sourcing as little as 1% of Pennsylvania's electric consumption from CHP systems, the Commonwealth would reduce the need for more than 1.4 million MWh annual from the grid and reduce 196 MW of peak demand on the grid. Mr. Foley's assertion is made absent any analysis that there are enough economically viable CHP facilities in Pennsylvania to support the sourcing of 1% of consumption as he suggests, at least without cross-subsidization by other customers. The Proposed Policy Statement goes on to also cite a GDS Associates, Inc. report on the market potential of distributed generation which indicates that while CHP does not have a Total Resource Cost ("TRC") value greater than one, were the maximum measure life under the TRC were to be expanded from fifteen to twenty-five years, the TRC value would be greater than one for additional CHP technologies. This may be true. However, one of the most significant barriers to CHP development is the start-up cost to the customer. This is generally due to the fact that the long payback and life expectancies are often beyond a typical customer's planning horizon. Therefore, without subsidization, few CHP facilities are economical and returns are usually not within most business's funding criteria, as they would rather fund improvements in their core business. In addition, enhanced reliability for the user may not actually materialize, and, if it did, it would be at the expense of additional operational complexity that is not related to the customers' core business and for which the typical customer would not have internal expertise to manage.

Despite these challenges, the Companies do not oppose the Commission's Proposed Policy Statement. However, there are a number of proposed reporting elements proposed in § 69.3202 - Biennial reports as outlined in Annex A to the Proposed Policy Statement regarding which the Companies offer feedback. In general, some of the customer information requested by the Commission is not information that could be provided by EDCs and may be viewed as confidential by the customer and, in order to fulfill the Commission's reporting requirements, the EDCs would need to request information from the customer which the customer might not be willing to provide.

Subsection (a) calls for the identification and description of all CHP systems interconnected with an EDC or NGDC, including certain specific detailed information regarding those systems. As indicated earlier in these comments, much of the information requested is not information that the EDC or NGDC will have available to them. In particular, information associated with the "basic operation of each system," the projected cost savings to CHP customers, and system reliability impacts to critical customers are items that are fully within the hands of the customers themselves. While the utilities may be able to speculate as to these points in some circumstances, those reports would in many cases be just that – pure speculation. Unless and until the interconnection standards would change to require customers provide that level of information, it is unclear how EDCs or NGDCs would be in possession of the requisite level of detail to provide the contemplated reports. Furthermore, requiring utilities to provide a description of all "future" CHP projects is too broad. EDCs are only in a position only report on the CHP facilities that have actually applied for interconnection with the EDC and, without explicit approval from customers, EDCs will not be able to provide this information in a public report.

Subsection (d) also calls for a number of details to be provided related to the interconnection of CHP systems. This subsection seems to ignore that CHP systems are not electrically different than certain other types of generation currently interconnected under the existing Commission-established standards. EDCS have agreed to treat all generation equally under the existing standard interconnection procedures, so any departure from those would run afoul of this structure. Therefore, many of the items listed in subsection (d) are already addressed by the existing interconnection standards and would require Commission action to revise.

In addition, there are a number of elements called for under subsection (d) which assume a particular type of metering is present and available for each and every customer. This may not be the case, as every installation is unique to the customer's process. Therefore, more generic information, such as what amount of a customer's load is served by the CHP unit for some specific period of time may be more representative of the information sought. However, even in that instance, further clarification would be necessary to determine whether the information seeks data relating to hourly net exports or gross output of the generator.

Finally, any rates to be charged to customers installing CHP systems must be cost based and reflect "cost causation" rate methodology without subsidization. While there may be opportunities for some utilities to improve standby and other similar rate offerings to customers, the development of rates that are specifically designed to each CHP customer's demand and energy rate element would impose a significant administrative burden on the utility, demanding manual billing efforts, significant contract administration, maintenance schedule review and approval, and additional operational monitoring by the utility's distribution control centers, etc. This would in turn drive up the costs of offering these programs to CHP customers, which may offset any benefits to be gained. Therefore, caution should be taken in any future efforts to

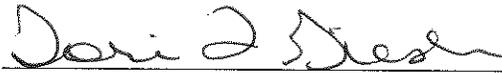
redesign rates for CHP offerings that would ensure that the administrative burdens would not offset the other anticipated benefits of such rate offerings.

III. CONCLUSION

As mentioned previously, the Companies continue to support the deployment of CHP both through their Act 129 EE&C Plans, as well as through their existing interconnection process. The Companies look forward to working collaboratively with the Commission and other interested parties on this topic.

Respectfully submitted,

Dated: June 1, 2016



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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and correct copy of the foregoing document upon the individuals listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

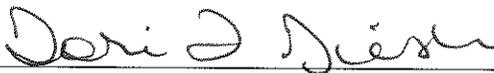
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Dated: June 1, 2016



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