



Energy to do more®

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VIA E-FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
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 for filing please find the comments of the UGI Distribution Companies, comprised for purposes of this filing of UGI Utilities, Inc. – Gas Division, UGI Penn Natural Gas, Inc., UGI Central Penn Gas, Inc. and UGI Utilities, Inc. – Electric Division.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'Mark C. Morrow', written over a horizontal line.

Mark C. Morrow

Counsel for the UGI Distribution Companies

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

COMMENTS OF THE
UGI DISTRIBUTION COMPANIES

I. Introduction

The UGI Distribution Companies (“UGI”), comprised for purposes of this submission of UGI Utilities, Inc. – Gas Division (“UGI-GD”), UGI Penn Natural Gas, Inc. (“UGI PNG”), UGI Central Penn Gas, Inc. (“UGI CPG”) and UGI Utilities, Inc. – Electric Division (“UGI-ED”), appreciate this opportunity to submit comments in response to the Commission’s proposed policy statement on combined heat and power (“CHP”). These comments are meant to supplement the comments of the Energy Association of Pennsylvania submitted at this docket.

UGI applauds the Commission for taking proactive measures to advance CHP’s potential for enhancing the Commonwealth’s energy efficiency, environmental, economic development and energy security goals. Given its abundant supplies of natural gas and expansive and expanding natural gas distribution infrastructure, CHP technology is a natural fit for the Commonwealth, and UGI believes it should strive to be a leader in promoting CHP’s widespread use.

II. Actions of UGI to Promote CHP

NGDC distribution systems are capital intensive but hold the promise of delivering long-term benefits to the Commonwealth’s businesses and homes when expanded in a cost-effective manner. Similarly, customer investments in CHP facilities are capital intensive but hold the promise of delivering long-term economic benefits to customers.

The up-front costs of CHP systems and, where required, any supporting expansion of NGDC distribution system infrastructure needed to support CHP installations, can be a barrier to customer adoption, even where there are long-term benefits. UGI has and is pursuing a number of initiatives to help address this first cost barrier to expand the pool of potential CHP customers.

A. Technology and Economic Development Rider

There are no uses for gas for which there are not commercially available substitutes, and its largest customers generally have the means to pursue all available substitutes. In recognition of this reality, the Commission has granted UGI flexibility in negotiating the rates for its largest customers. Such rate flexibility has enabled UGI to adjust its rates to reflect the totality of each of its largest customer's circumstances, including any large first costs for behind-the-meter investments needed to utilize natural gas, in a manner which has cost-effectively maximized large customer contributions towards shared system costs to the benefit of all customers. Large customer additions made possible by rate flexibility have often served as anchors justifying the expansion of UGI distribution systems into new areas, making gas available on a cost-effective basis for more of the Commonwealth's businesses and residences.

In recognition of success of its large customer rate flexibility in overcoming customer first-cost barriers, UGI-GD has proposed, in its pending base rate case filing at Docket No. R-2015-2518438, a Technology and Economic Development ("TED") Rider which would expand rate flexibility to some of its smaller volume customers. Specifically, the TED Rider would permit UGI-GD and an applicant, such as a customer looking to invest in CHP technology, to negotiate a mutually acceptable rider, which could either be an incremental rate over the otherwise applicable tariff rate or a rate discount from otherwise applicable tariff rates. The flexibility would allow for either a larger up-front customer contribution combined with lower

negotiated distribution rates, or a lower up-front customer contribution combined with higher negotiated rates, depending on customer preferences and circumstances, while still ensuring that anticipated customer revenues justify any required capital investments to protect the interests of existing customers.

Just as its innovative Commission-approved GET Gas program has provided a means for minimizing first-cost barriers for line extensions while protecting and promoting the interests of existing customers, UGU believes UGI-GD's proposed TED Rider offers the promise of helping to overcome the first-cost barriers to innovative gas technologies, such as smaller scale CHP installations, while protecting and promoting the interests of existing customers.

B. UGI-GD Energy Efficiency and Conservation Plan (UGI-GD EE&C)

UGI-GD has proposed an EE&C plan in its pending base rate proceeding that includes a five-year program promoting cost-effective CHP installations capable of delivering net primary energy savings. Specifically, the program, having a proposed budget of \$3.6 million, would offer an incentive of \$750 per kW on CHP projects, with a cap of \$250,000 per project. UGI-GD estimates this program, if fully subscribed, would lead to a 25,591 BBtu reduction in net primary energy usage over the lifetime of the installed CHP units, and avoid the emission of approximately 101,000 tons of carbon dioxide per year by the end of the five-year period.¹ UGI-GD also projects the program could provide \$44.6 million in net total resource benefits with a benefit-cost ratio of 1.60. The proposed program would target large commercial and industrial customers with high thermal and electric loads, such as hospitals, college campuses and multi-shift industrial customers. Currently, UGI-GD anticipates it will be difficult to find cost-effective projects under 1,000 kW, but will continue to monitor both the energy market and customer opportunities to address as wide a range of CHP technology types and sizes as possible.

¹ Such *reductions* might be counted towards meeting Pennsylvania's Clean Power Plan goals.

C. UGI-ED EE&C and ACT 129

A CHP program is also offered as part of the Commercial and Industrial Custom Program within UGI Electric's EE&C Plan that was launched in 2012 and although, given UGI-ED's small service territory, no CHP customers have participated to date, UGI-ED is hopeful that future opportunities will arise. UGI has also advocated, in the Act 129 programs of larger EDCs which overlap its gas service territories, for the adoption of robust and non-discriminatory CHP and fuel substitution programs.

III. Proposed Policy Statement Comments

Section 69.3202(a) (1), (2) and (4) of the proposed policy statement would require UGI's NGDCs to variously report on the location of each CHP installation, projected customer savings, if known, and "on any revenue impacts." UGI-ED would similarly be required to report on the specific location of CHP facilities in its service territory and projected cost savings if know.

While UGI can appreciate the Commission's desire to document the benefits of CHP installations, UGI believes that this goal can be accomplished by providing aggregate data, and that there would be concerns from both the customer and utility perspective in providing the granular site-specific information currently proposed.

For example, providing site-specific information about the types of equipment used, expected savings and revenue impacts could be viewed by customers as providing valuable proprietary information to competitors. Moreover, from a NGDC perspective, large customer rates are often the result of hard-fought negotiations reflecting individual customer circumstances and alternative fuel options, and providing granular information concerning the "revenue impact" of individual rate negotiations could hinder future rate negotiations with other customers.

In the event the Commission determines that granular information about specific CHP installations needs to be gathered, then at the very least those portions of NGDC and EDC reports providing such site-specific information should be treated as confidential and the policy statement should reflect this decision.

UGI also questions the need for an eight-year sunset provision, and the Commission's decision to pursue what appear to be binding rules through a non-binding policy statement rather than by regulation or order. The gathering of pertinent data concerning CHP installations should be an ongoing mandatory requirement until such time as the Commission elects to suspend, repeal or revoke its regulation or order directing the submission of such information. The Commission undoubtedly has the authority to initially require the submission of information concerning CHP policies and actions by Order, and the adoption of formal reporting requirements by regulation could provide additional input by elected officials concerning actions the Commission might take to promote CHP.

IV. Other Comments

As Figure 1.1 on page 17 of the March 2015 Distributed Generation Potential Study prepared for the Commission displays, CHP promotes energy efficiency because about seventy percent (70%) of the energy potential of fuel used to power central power stations is lost through conversion and line losses, whereas only about twenty percent (20%) of the energy potential of fuel used to power CHP installations is lost. This significant jump in energy efficiency is why CHP installations present the potential for large gains in energy efficiency and significant decreases in greenhouse gas emissions.

However, it is also true that the direct end use of natural gas for such uses as water and space heating in lieu of electricity can result in even higher levels of energy efficiency since only

approximately eight percent (8%) of the energy potential of natural gas is lost through the delivery process to end users. Policies designed to measure and promote the potential “negawatts” of reduced power and reduced peak demand resulting from distributed generation sources such as CHP and solar installations can and should be supplemented with policies designed to measure and promote the “negawatts” of reduced power and decreased peak demands associated with highly efficient fuel substitution.

Good starting points for supplementing CHP policies would be to (1) include fuel substitution in future savings potential studies, (2) authorizing cost-effective NGDC EE&C programs and (3) directing Act 129 programs away from the promotion of high efficiency electric heating equipment where gas is available and provides a more energy efficient solution.

V. Conclusion

Once again UGI wishes to applaud the Commission for focusing on the benefits CHP can provide to the Commonwealth, and looks forward to working with the Commission and other stakeholders in developing sensible public policies to realize the potential of CHP as well as the potentially even greater energy saving potential associated with the direct end use of natural gas for heating purposes.