



PEOPLES NATURAL GAS



PEOPLES TWP

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May 31, 2016

**By Overnight Delivery**

Rosemary Chiavetta, Secretary  
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MAY 31 2016

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

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

Dear Secretary Chiavetta:

Please accept the enclosed Joint Comments of Peoples Natural Gas Company LLC and Peoples TWP LLC in the above-referenced proceeding. I have also served a copy of these comments via email to Kriss Brown, [kribrown@pa.gov](mailto:kribrown@pa.gov), in the Commission's Law Bureau, and Megan Good, [megagood@pa.gov](mailto:megagood@pa.gov), in the Commission's Bureau of Technical Services.

If you have any questions or concerns regarding this matter, please do not hesitate to contact me.

Very truly yours,

*William H. Roberts II*

cc: Kriss Brown, Law Bureau (via email)  
Megan Good, TUS (via email)  
(w/ enclosures)

**COMMONWEALTH OF PENNSYLVANIA  
BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Proposed Policy Statement on Combined  
Heat and Power

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Docket No. M-2016-2530484

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**JOINT COMMENTS OF PEOPLES NATURAL GAS COMPANY LLC  
AND PEOPLES TWP LLC**

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MAY 31 2016  
PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

**I. INTRODUCTION**

Peoples Natural Gas Company LLC (“Peoples”) and Peoples TWP LLC (“Peoples TWP”) (sometimes hereinafter collectively referred to as the “Companies”) submit these Joint Comments pursuant to the Pennsylvania Public Utility Commission’s (“Commission’s”) invitation to submit comments regarding the Proposed Policy Statement issued by order entered in this docket on March 9, 2016 (“March 9 Order”). The March 9 Order states that the Proposed Policy Statement is intended to advance the development in the Commonwealth of Combined Heat and Power (“CHP”) as an efficient means to generate electric power and thermal energy from a single fuel source. The Companies are affiliates and operate independently but join together in these Joint Comments.

The March 9 Order states that the Commission is interested in considering ways to advance the development of CHP in Pennsylvania. One way specifically mentioned is to have electric and natural gas distribution companies (“EDCs” and “NGDCs”) work together to implement policies and practices that reduce barriers to such development. The stated purpose of the proposed policy statement is to promote CHP investments; encourage EDCs

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.

## **II. COMMENTS**

### **A. Summary.**

The Companies support the Commission's joint, complementary goals of advancing CHP development and reducing barriers to that development. The benefits of CHP have been well documented in Commission proceedings, and the Companies suggest that the Commission express in the final policy statement even stronger support for CHP and for NGDC and EDC projects promoting CHP. While the proposed policy statement, if implemented, would take the valuable step of gathering *historical* information relating to CHP development and compiling it into a Staff report, CHP development would be promoted even more by encouraging EDCs and NGDCs to include in their initial and subsequent biennial reports descriptions of both *proposed and historical* strategies, programs, and initiatives that will promote the development and remove barriers to the development of CHP projects on their systems within the first two years of the eight-year reporting period and each two-year period thereafter.

### **B. The proposed policy statement should expressly encourage EDCs and NGDCs to continually improve their efforts to promote the development of CHP or to remove barriers to the development of CHP on their systems.**

Because the proposed policy statement is almost exclusively an information gathering tool, there is practically nothing in the policy to encourage EDCs and NGDCs

to actually develop proposals to promote the development of CHP or to remove barriers to the development of CHP. Granted, the first sentence in § 69.3202 states that the reports filed by EDCs and NGDCs shall document their strategies, programs and other initiatives in support of CHP systems. Still, there is nothing that expressly advises EDCs and NGDCs to either start developing or, just as importantly, continue developing such strategies, programs, and other initiatives. While the EDCs whose service territories overlap the Companies' service territories, Duquesne Light Company, West Penn Power Company, and Penn Power Company, have filed and received approval of Phase III Energy Efficiency and Conservation Plans ("Phase III Plans") that will provide incentives for qualifying CHP projects<sup>1</sup>, and so deserve the recognition provided to EDCs in § 69.3201(c) of the Proposed Policy Statement for having taken steps to promote CHP development, is it contemplated that each of these EDCs, or for that matter, any EDC in

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<sup>1</sup> West Penn's Phase III Plan provides as follows at page 53 with respect to small commercial and industrial customers and provides essentially the same at page 73 for large commercial and industrial customers:

Custom measures within the program are intended to encourage customers to retrofit or install more efficient specialized processes and applications in an effort to reduce both energy consumption and demand. Prescriptive or performance based incentives will be provided to customers for upgrading less efficient specialized processes and applications (e.g. variable frequency drives, motors, compressed air, equipment replacement, **combined heat and power**, process change, etc.) to high efficiency specialized processes and applications. Prescriptive incentives will be offered for individual applications and retrofit projects employing standard efficient technologies where the anticipated energy savings are relatively consistent. Performance based incentives will be offered for larger projects and retrofits, based upon an analysis of potential annual energy savings on a case-by-case basis where the anticipated energy savings can vary significantly from application to application. (Emphasis added.)

These custom measures make up West Penn's comprehensive program for commercial and industrial customers, which comprehensive program is a requirement of the Commission's June 19, 2015, Implementation Order at Docket No. M-2014-2424864, page 61. Penn Power's Phase III Plan is essentially the same as West Penn's.

While Duquesne Light's Phase III Plan does not expressly mention CHP projects, its presentation in the Commission's October 7, 2014 CHP *En Banc* Hearing states at page 4 that cost-effective CHP projects are eligible for funding similar to other measures under Duquesne Light's Act 129 programs, based on kWh saved.

the state, could file an initial report stating that it has already provided for incentives for CHP development in its Phase III Plan, that it has nothing else to report under sections (a), (b), (c) and (d) of § 69.3202, and that such a report would satisfy the purpose and intent of the policy statement?

The Companies suggest that the Proposed Policy Statement creates uncertainty as to what is expected of NGDCs and EDCs in the future, even with respect to the initial biennial report. This uncertainty and potential loss of additional CHP development can be easily avoided if the final policy statement would clarify that EDCs and NGDCs should develop specific programs to promote the development or to remove barriers to the development of CHP on their systems, that such development should supplement any actions taken to date, should continue throughout the term of the policy statement, and further, that the EDCs and NGDCs should then include these specific programs in their biennial reports, beginning with the first biennial report due four months after issuance of the final policy statement. This will ensure that the status quo of CHP development will be continuously pushed while the policy statement remains in effect.

To this end, the Companies recommend that the Commission include in the final policy statement a new paragraph (d) to § **69.3201. Statement of Scope and Purpose**, that clearly states the Commission's support for continuing promotion of CHP development and its support for the continuing removal of barriers to CHP development.

(d) EDCs and natural gas distribution companies (NGDCs) should support the development of CHP by continually implementing new strategies, programs and other initiatives on their systems to promote the development of CHP and to reduce barriers to such development. EDCs and NGDCs should periodically report on both planned (future) and current (historical) strategies, programs and other initiatives.

**C. The final policy statement should build upon the work that has already established the benefits of CHP and determined practices that best promote development of CHP and expressly encourage EDCs and NGDCs to file plans to implement those practices.**

The benefits of CHP development in Pennsylvania are well documented. The March 9 Order cites the benefits identified by participants in the Commission's *En Banc* hearings on CHP. In addition, the analysis performed for the State of Pennsylvania by the Statewide Evaluator Team (SWE) quantified efficiency benefits from CHP and concluded that the overall efficiency of CHP technologies can reach 80% or more, while simple-cycle electricity generation reaches only 30% and combined cycle about 50%.<sup>2</sup> Moreover, when considering both thermal and electric energy generation, CHP requires 40% less energy input to achieve the same energy output as a separate plant and boiler system. And, without even (i) adjusting for the unusual treatment of tax credits and the artificially short 15-year period for measuring technology benefits in Pennsylvania's calculation of Total Resource Costs (TRC) or (ii) trying to place a value on non-energy benefits such as CO<sub>2</sub> emission reductions or energy security in the case of a power grid failure, Pennsylvania can capture approximately \$36 million in net benefits and a TRC ratio of 1.2 by securing the volume of base achievable CHP.<sup>3</sup> Add to these findings the fact that Pennsylvania has the second largest proved natural gas reserves in the United States, the largest increase in proved gas reserves in 2014 (the most recent year reported),<sup>4</sup> and that natural gas in Pennsylvania can currently be purchased at a substantial discount to the Henry Hub<sup>5</sup> commodity price, even greater benefits for the

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<sup>2</sup> *Distributed Generation Potential Study for Pennsylvania*, Statewide Evaluation Team, March 2015.

<sup>3</sup> *Id.*, at pgs. 22, 30 and 41.

<sup>4</sup> *U.S. Crude Oil and Natural Gas Proved Reserves, 2014*, U.S. Energy Information Administration, November, 2015, page 3.

<sup>5</sup> Henry Hub is the pricing point for natural gas futures contracts traded on the New York Mercantile Exchange (NYMEX) and the primary price set for North American natural gas market.

Commonwealth's citizens can be captured than reflected in the SWE's report. The record has, thus, already been made that CHP is good for Pennsylvania.

So, what should be done to promote the development of CHP and to reduce barriers to development of CHP? The March 9 Order acknowledges the work of the American Council for an Energy Efficient Economy (ACEEE) with respect to deployment of CHP systems. A 2015 ACEEE report concluded that the most effective tools for encouraging the development of CHP include the development of reasonable interconnection standards that include multiple tiers of interconnection and a fast track option for smaller systems; the existence of either a state-approved production goal (kWh) from CHP resources or a program budget for the acquisition of a defined amount of kWh savings from CHP by EDCs; and providing access to favorable revenue streams for CHP, including production incentives (\$/kWh), feed-in tariffs, standard offer programs, or other revenue streams linked to kWh production; deployment incentives such as tax incentives, state grants, low interest loans, and sound net metering regulations; and policies and programs that specifically encourage CHP for its resiliency benefits during grid outages.<sup>6</sup> The March 9 Order noted at pages 5-6 that the ACEEE study confirmed that Pennsylvania can improve in the areas of interconnection standards, the presence of a program to acquire CHP energy resources, and state approved production goals for acquiring a defined amount of savings from CHP.

In addition to these areas of CHP development assistance, on-bill financing is another tool that has already been addressed in studies and analyses and shown to be

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<sup>6</sup> 2015 State Energy Efficiency Scorecard, published by the American Council for an Energy-Efficient Economy.

beneficial to the development of energy efficiency projects.<sup>7</sup> Even though the Commission declined to direct the inclusion of on-bill financing for any or all Phase III Plans under Act 129, primarily for the reason that there may be some programming and/or system limitations currently in place preventing the provision of such a repayment methodology,<sup>8</sup> the Commission also stated its belief that there may be benefits to utility-provided on-bill financing programs and that EDCs and their stakeholders should be allowed to determine the most appropriate programs, including any pilots, for each service territory and that agreed-upon pilots could be included in an individual Phase III Plan or through a modification to an existing Phase III Plan. The Commission, therefore, could further encourage CHP development by clearly stating in the promulgation of a final policy statement that on-bill financing has not been foreclosed for CHP projects and that EDCs and NGDCs are encouraged to develop and implement on-bill financing pilots for CHP projects as part of their proposed strategies, programs and other initiatives to promote CHP development.

Thus, the Commission already has received plenty of information showing what type of policies and programs will best promote CHP development. While the Commission should refrain from being overly prescriptive in the final policy statement, which could limit the flexibility of EDCs and NGDCs to develop new strategies, programs and initiatives over time, the Commission should not be reluctant to include in the final policy statement express references to strategies, programs and initiatives that have already been shown to be effective. While the Commission states on page 2 of the

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<sup>7</sup> Bell C.J., S. Nadel, and S. Hayes, 2011. *On-Bill Financing for Energy Efficiency Improvements: A Review of Current Program Challenges, Opportunities, and Best Practices*. American Council for an Energy Efficient Economy.

<sup>8</sup> *Energy Efficiency and Conservation Program*, Implementation Order, Docket No. M-2014-2424864, entered June 19, 2015, page 82.



March 9 Order that the purpose of the proposed policy statement is to promote CHP investments; encourage EDCs 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, none of this actually appears in the Proposed Policy Statement. EDCs and NGDCs should be encouraged to address in the first and subsequent biennial reports how they have addressed and plan to address these strategies, programs and initiatives.

The Companies, therefore, recommend that the Commission insert in the final policy statement new paragraphs (c) and (d) to **§ 69.3202. Biennial Reports**, as follows:

- (c) A description of all new strategies, programs and other initiatives to be pursued over the next two years to promote the development of CHP and to reduce barriers to such development, which by example and not by prescription may include but are not limited to:
  - (1) the development of reasonable interconnection standards that include multiple tiers of interconnection and a fast track option for smaller systems;
  - (2) the development of a program budget for the acquisition of a defined amount of kWh savings from CHP resources by EDCs;
  - (3) providing access to favorable revenue streams for CHP, including production incentives (\$/kWh), feed-in tariffs, standard offer programs, or other revenue streams linked to kWh production;
  - (4) the development of deployment incentives such as grants, low interest loans, on-bill financing, sound net metering tariff provisions, marketing and outreach efforts, interconnection and standby rates, and special natural gas rates for owners and operators of CHP facilities; and
  - (5) the development of policies and programs that specifically encourage CHP for its energy efficiency and resiliency benefits during grid outages.
  
- (d) A description of all strategies, programs and other initiatives pursued over the last two years to promote the development of CHP and to

reduce barriers to such development, which by example and not by prescription may include but are not limited to:

- (1) the development of reasonable interconnection standards that include multiple tiers of interconnection and a fast track option for smaller systems;
- (2) the development of a program budget for the acquisition of a defined amount of kWh savings from CHP resources by EDCs;
- (3) providing access to favorable revenue streams for CHP, including production incentives (\$/kWh), feed-in tariffs, standard offer programs, or other revenue streams linked to kWh production;
- (4) the development of deployment incentives such as grants, low interest loans, on-bill financing, sound net metering tariff provisions, marketing and outreach efforts, interconnection and standby rates, and special natural gas rates for owners and operators of CHP facilities; and
- (5) the development of policies and programs that specifically encourage CHP for its energy efficiency and resiliency benefits during grid outages.

These new paragraphs would be in addition to and not a substitute for any of the paragraphs currently proposed for inclusion in the policy statement and so would result in the paragraphs currently designated (c), (d) and (e) being redesignated as paragraphs (e), (f) and (g).

#### **D. Conclusion.**

The Companies support the goal of the Proposed Policy Statement to advance CHP system development and to reduce barriers to that development. This goal would be furthered by including in the final policy statement (1) a stronger statement of support for continual implementation of new strategies, programs and other initiatives on EDC and NGDC systems to promote CHP and (2) a request for reporting for planned (future) as well as current (historical) strategies, programs and other initiatives.

WHEREFORE, the Companies respectfully request that the Commission accept these Comments and give them due consideration in this proceeding.

Respectfully submitted,

PEOPLES NATURAL GAS COMPANY  
LLC

PEOPLES TWP LLC

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Dated: May 31, 2016

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**Pennsylvania Public Utility Commission**  
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**Harrisburg Pa** **17170**



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