

May 31, 2016

David P. Zambito, Esquire
Cozen O'Connor
17 North Second Street
Suite 1410
Harrisburg, PA 17101-1236
Telephone: 717-703-5892
dzambito@cozen.com
(new address as of May 18, 2015)
(Assistant: Keeley Grant @ 717-703-5894)

Receptionist Desk: 717-703-5900

FedEx FILING TO:
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120
Telephone: 717-772-7777 (filing room)

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Please accept the following original filing via overnight delivery.

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

COMMENTS OF NRG ENERGY CENTER HARRISBURG LLC AND NRG ENERGY CENTER PITTSBURGH LLC TO COMMISSION PROPOSED POLICY STATEMENT ON COMBINED HEAT AND POWER

Should you have any questions, please contact us at the above-listed telephone numbers. *Please return the stamped copy via First Class Mail in the attached postage, pre-paid envelopes or feel free to call 717-703-5892 or 703-5894 for a messenger pick up.* Thank you.



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NRG Energy Center Harrisburg LLC
900 Walnut Street
Harrisburg, PA 17101

Phone: 717-234-4600
Fax: 717-234-1375

May 31, 2016

VIA OVERNIGHT DELIVERY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

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

**COMMENTS OF NRG ENERGY CENTER HARRISBURG LLC AND NRG
ENERGY CENTER PITTSBURGH LLC TO COMMISSION PROPOSED POLICY
STATEMENT ON COMBINED HEAT AND POWER**

Dear Secretary Chiavetta:

Enclosed for filing with the Commission, please find NRG Energy Center Harrisburg LLC and NRG Energy Center Pittsburgh LLC's Comments to the Proposed Policy Statement in the above-referenced docket.

If you have any questions regarding this filing, please direct them to me. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith L. Li".

Keith L. Li
Vice President & General Manager
NRG Energy Center Harrisburg LLC

/kll

Enclosure

cc: Joseph Sherrick, Bureau of Technical Utility Services
Kriss Brown, Law Bureau

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**COMMENTS OF NRG ENERGY CENTER HARRISBURG LLC
AND NRG ENERGY CENTER PITTSBURGH LLC TO
COMMISSION PROPOSED POLICY STATEMENT ON
COMBINED HEAT AND POWER**

NRG Energy Center Harrisburg LLC (“NRGH”) and NRG Energy Center Pittsburgh LLC (“NRGP”) (collectively, the “NRG Companies”) file these comments in response to the Proposed Policy Statement on Combined Heat and Power (“Policy Statement”) of the Pennsylvania Public Utility Commission (“Commission”) at the above-referenced docket.¹

I. INTRODUCTION

NRGH is a certificated Pennsylvania public utility providing steam service in a one-square-mile area of the City of Harrisburg, Dauphin County, Pennsylvania pursuant to certificates of public convenience at Docket Nos. A-130175 *et seq.* NRGH serves Harrisburg’s central business district, which includes the following: the Capitol Complex; federal, state and municipal office buildings and court houses; commercial office buildings; a hospital complex; a museum; hotels; an educational institution; residential high- and low-rise buildings; churches; retail businesses; and, industrial facilities. NRGH generates and distributes steam for use in space heating, domestic hot water heating, humidification and industrial processes. It serves

¹ The Policy Statement was published in the *Pennsylvania Bulletin* on April 16, 2016 and interested parties were afforded 45 days in which to file comments.

approximately 140 downtown customers totaling 10 million square feet of space. NRGH is a Delaware limited liability company with its principal place of business at 900 Walnut Street, Harrisburg, Pennsylvania 17101.

NRGP is a certificated Pennsylvania public utility providing steam, hot water and chilled water service to the public in the 21st and 22nd wards of the City of Pittsburgh pursuant to certificates of public convenience at Docket Nos. A-130001 *et seq.* It has approximately 20 customers and services a total of approximately 6.3 million square feet of building space in approximately 35 different buildings. NRGH is a Delaware limited liability company with its principal place of business at 111 South Commons, Pittsburgh, PA 15212.

The NRG Companies, and their local unregulated affiliates, are engaged in the development of district energy solutions (including steam, chilled water, hot water, and electric generation) for major industrial, commercial, educational, institutional, and government entities. These solutions are unique to each circumstance and require flexibility to develop projects that are feasible from both a technical perspective and an economic perspective.

Despite the fact that steam is a regulated public utility service in the Commonwealth, a district energy system does not enjoy monopoly status and its customers often have multiple competitive options -- including electric distribution companies ("EDCs"), natural gas distribution companies ("NGDCs"), propane companies, fuel oil companies, and energy service companies (commonly known as "ESCOs"). While these competitive options may provide short-term benefits for individual customers, they often fail to take into consideration the long-term shared cost benefits of a district system and the societal interests (including energy efficiency, smart growth and carbon emission reductions) of developing district energy systems in a coordinated and rational manner.

II. COMMENTS OF THE NRG COMPANIES

The NRG Companies appreciate the opportunity to submit the following comments and have limited them to what the NRG Companies perceive to be the primary inhibitors to increased and successful development of Combined Heat & Power (“CHP”) projects in Pennsylvania. As subsidiaries of a parent corporation (NRG Yield LLC) with extensive experience and expertise in district energy and CHP project development, the NRG Companies respectfully request that these comments be afforded substantial weight and incorporated into the Commission’s final Policy Statement.

NRG Comment No. 1: Encourage Integration of CHP into District Energy Systems

In most CHP applications, the host building or facility invests in a gas turbine and/or genset to displace electric usage. The challenge in these situations is finding use for the byproduct - thermal production. For district energy systems, the opposite situation may exist: practically all the CHP thermal production can be used, and the challenge is finding a host with sufficient displaceable electric load. Often the electric load to be displaced can be found at the district energy facility versus an individual building which will assist the ease of the CHP installation.

The NRG Companies submit that the Policy Statement should explicitly promote the integration of CHP installations into district energy systems. This is especially true for older generation plants, where it would be more cost effective and energy efficient to generate thermal energy from a CHP HRSG (heat recovery steam generator) instead of a central boiler.

NRG Comment No. 2: Encourage EDC Proposals for Sharing of Grid Interconnection

Costs

The Policy Statement should affirmatively encourage EDCs to submit proposals that would provide grid interconnection equipment at no (or at least a reduced) cost for a *bona fide* CHP project. The costs of interconnection are a major inhibitor to the development of a CHP project at its nascent stage. In recognition of the societal benefits of CHP projects (including electric redundancy and reliability, smart growth, and carbon emission reductions), it is appropriate for at least some portion of these costs to be shared by all EDC customers. This is consistent with other measures, such as Act 129 and demand response programs, that promote distributed solutions to minimizing requirements for new capacity construction.

NRG Comment No. 3: Encourage Development of Self-Sustaining Microgrids

The Policy Statement should encourage EDCs to identify, develop, and propose a plan for the installation of self-sustaining microgrids where there is an existing district energy system. Microgrids provide reliability, carbon emission reduction, diversification of energy sources, emergency preparedness, and cost reduction. An existing district energy system provides a logical starting point for the development of a microgrid by an EDC.

NRG Comment No. 4: Encourage Development of Special NGDC Distribution Rates for CHP

The Policy Statement should encourage NGDCs to facilitate CHP projects through lower tariffed distribution rates. In conjunction with their base rate proceedings, NGDCs should be requested to submit a cost of service study which identifies the actual cost of service to the CHP projects in its service territory. If under a reasonable revenue allocation methodology, the rates for CHP projects would be lower than the rate classifications into which the CHP projects would otherwise fall, a separate rate classification for CHP project should be implemented because of the societal benefits of CHP projects.

NRG Comment No. 5: Expect EDCs to Develop Cost-Based Stand-By Rates

Stand-by electric rates are one of the greatest inhibitors to the development of CHP projects. Rather than merely requiring EDCs to file biennial reports regarding their efforts to promote CHP projects in their service territories, the EDCs should -- in conjunction with their base rate filings -- be expected to demonstrate affirmatively through a cost of service study that their stand-by rates applicable to CHP projects are in fact just and reasonable. Such a requirement is a reasonable duty to impose on EDCs to promote CHP projects and is needed because participation in EDC base rate proceedings is usually cost-prohibitive for CHP owners. CHP owners often do not have the resources to sponsor their own cost of service studies and, as such, there is a greater risk that costs will be unreasonably shifted during the revenue allocation portion of a base rate case from other rate classes to the stand-by rate class. If stand-by charges for CHP installations are at, or slightly above, the default electric rates, the risk of an outage can

be so severe that CHP projects are not economically feasible and, accordingly, will not be developed.

NRG Comment No. 6: Encourage NGDC Acknowledgment of CHP Customer Status in Curtailments/Interruptions

As part of the Policy Statement, NGDCs should be encouraged to submit tariff supplements to recognize a CHP installation as a priority customer during curtailment events where the CHP installation serves traditional priority customers (such as hospitals and other critical care facilities, educational institutions, apartment complexes, etc.). Indeed, CHP installations are often suited for these types of customers. While NGDCs are not serving these priority customers directly, the CHP installations are in fact providing a critical service to these customers and should receive priority. If priority is not granted, the CHP installations may be forced to procure higher-cost fuel oil and become less-economically viable. Moreover, there have been instances where fuel oil supplies are scarce during extreme cold weather events. The Policy Statement should include recognition of this reality.

NRG Comment No. 7: Allow Flexibility in Fuel Cost Recovery for Steam Utilities

As regulated public utilities, the NRG Companies' rates generally consist of two components: (a) base distribution rates (as set in a base rate proceeding); and (b) steam cost rates ("SCR") (a direct pass through surcharge of fuel and other variable costs for the generation of steam). A steam utility, through the SCR, is allowed to recover only fuel and other variable

costs that it actually incurs for the provision of its regulated steam service. A narrow interpretation of the SCR requirements could potentially preclude the integration of a CHP installation into a district energy system that also encompasses the steam utility's operations.

There may be situations in which it would be beneficial to steam utility customers if the steam utility were able to pay for and recover the fuel costs of an unregulated CHP installation through the SCR. For instance, if integration of the CHP installation into the district energy system would help to avoid capital expenditures and operations and maintenance expenses that the regulated steam utility would otherwise have to incur, it would be reasonable to allow recovery of the CHP fuel costs through the SCR. For this reason, the Policy Statement should express willingness by the Commission to consider creative solutions regarding the SCR (including via SCR tariff supplement) where a net economic benefit to total rates (base and SCR) can be realized by steam utility customers.

NRG Comment No. 8: Establish a working Group on Jurisdiction over Steam Utilities

In order to develop and maintain a successful district energy system, there is often necessary interaction between steam, chilled water, hot water, and CHP projects. Pennsylvania is one of the few states in the nation that regulates steam service as a public utility. The regulated status of steam utilities in Pennsylvania sometimes serves as an inhibitor to the successful development of a district energy system. CHP project developers want to avoid regulatory costs and rate limitations.

The steam industry is subject to competition from electric, natural gas, propane, and fuel oil providers. Because of the existence of competition, the Commission should revisit the need for full regulatory oversight of the economic aspects of steam utility service (as it has done in the

transportation industry). Indeed, most large steam customers are already served pursuant to negotiated contracts which are permitted under tariffed load stabilization riders. The NRG Companies respectfully suggest that the Commission should institute a working group to explore both regulatory and legislative options to allow steam utilities to remain competitively viable and to encourage the development of district energy systems without unnecessary regulatory hurdles.

III. CONCLUSION

The NRG Companies appreciate the opportunity to submit these comments to the Policy Statement and look forward to working with the Commission and other interested stakeholders to promote the development of CHP projects in the Commonwealth. The NRG Companies, and their unregulated affiliates, are actively pursuing development of CHP projects for integration into our district energy systems, and the above-suggested actions can mean the difference between a successful project and a good idea.

Respectfully submitted,



Keith L. Li
Vice President & General Manager
NRG Energy Center Harrisburg LLC
900 Walnut Street
Harrisburg, PA 17101
Phone: (717) 920-8261
Email: keith.li@nrg.com



Del B. Dausman
Vice President & General Manager
NRG Energy Center Pittsburgh LLC
111 South Commons Avenue
Pittsburgh, PA 15212
Phone: (412) 231-0409
Email: del.dausman@nrg.com

Dated: May 31, 2016

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ORIGIN ID:MDTA (215) 665-3713
 DAVID ZAMBITO
 COZEN O'CONNOR
 17 NORTH SECOND STREET
 SUITE 1410
 HARRISBURG, PA 17101
 UNITED STATES US

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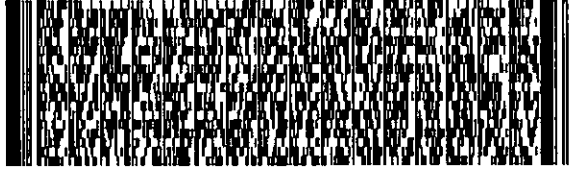
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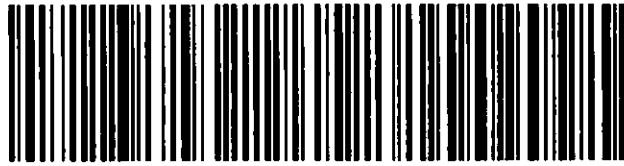
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