



October 22, 2018

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

Re: In the Matter of the *En Banc* Hearing on Alternative Ratemaking Methodologies; PUC
Docket Number: M-2015-2518883

Dear Secretary Chiavetta:

The Alliance for Industrial Efficiency (the “Alliance”) appreciates the opportunity to submit comments in response to the Public Utility Commission’s (Commission) May 23, 2018 Proposed Policy Statement Order on Alternative Rate Methodologies (the “proposed policy statement”) (Docket No. M-2015-2518883). The Alliance is a diverse coalition that includes representatives from the business, environmental, labor and contractor communities, including over 600 electrical, mechanical, and sheet metal contractors in Pennsylvania alone. We are committed to enhancing manufacturing competitiveness and reducing emissions through industrial energy efficiency, particularly through the use of clean and efficient power generating systems such as combined heat and power (CHP) and waste heat to power (WHP). We previously submitted comments to this docket that advocated for fair and reasonable standby rate design among utilities in Pennsylvania and which included a model tariff developed by the Midwest Cogeneration Association.¹ Our comments today reiterate the important role that rate design plays in CHP and WHP investment decisions and recommend that the Commission establish a Standby Rate Subcommittee to the CHP Working Group that the Commission launched last spring.

We appreciate the Commission’s efforts to seek input from stakeholders on the efficacy and appropriateness of alternatives to traditional ratemaking principles for public utilities and thank the Commission for considering our previous comments. We support the Commission’s requirement in the proposed policy statement that “any utility proposing a rate plan will need to demonstrate, in addition to the Commission’s authority to approve it, that the proposed rate plan does not discourage efficiency measures.” As the Commission recognizes, to satisfy this requirement, “an alternative rate design methodology should reflect the sound application of cost of service principles, establish a rate structure that is just and reasonable, and consider

¹ Alliance for Industrial Efficiency, May 31, 2017, “Re: In the Matter of the En Banc Hearing on Alternative Ratemaking Methodologies; PUC Docket Number: M-2015-2518883” (<http://www.puc.pa.gov/pcdocs/1522883.pdf>).



customer impacts.”² Unfortunately, we are concerned that existing standby rates do not meet this test. In particular, we believe standby rates implicate two of the stated “Distribution Rate Considerations” in the proposed policy statement.

1. Rates Should Be Understandable and Acceptable to Consumers

First, existing standby rates are counter to the Commission’s recommendation that the alternative rate mechanism be “understandable and acceptable to consumers.”³ It is very difficult for a potential CHP or WHP host to calculate how rates will apply to a prospective project. This summer (July 16, 2018), the Commission convened a CHP Working Group meeting. At that time, PECO presented a publicly available tool that it had developed to allow customers to determine applicable standby rates. At the conclusion of the meeting, “[Commission] staff encouraged all [Electric Distribution Companies] to develop resources/tools that provide greater clarity and transparency of information necessary for customers to more easily understand the monthly and annual impacts associated with standby rates.”⁴ We wholeheartedly agree with this recommendation. Standby rates should be transparent so that potential hosts can better understand the rate mechanism and make more informed decisions about whether or not to invest in a project. We recommend that the Commission establish a Standby Rate Subcommittee to the CHP Working Group to ensure that tools and materials to improve the transparency of standby rates are finalized.

2. Rates Should Not Discourage the Use of Distributed Energy Resources

Second, the Commission’s proposed order states that, in determining just and reasonable distribution rates, it will consider “how the rates impact customer incentives to employ efficiency measures and distributed energy resources.”⁵ In fact, excessive standby rates that are not correlated to cost of service discourage customers from developing efficient CHP and WHP projects in Pennsylvania.

Based on published tariffs, standby charges for a 2-megawatt (MW) system with no outages exceed \$60,000 annually.⁶ Contrary to best practices, these rates are not based on any

² Pennsylvania Public Utility Commission, May 23, 2018, “Fixed Utility Distribution Rates Policy Statement (M-2015-2518883), (<http://www.puc.state.pa.us/pcdocs/1568090.docx>).

³ *Id.* at Section § 69.3302(a)(13) (“Distribution Rate Considerations”).

⁴ Pennsylvania PUC, July 16, 2018, “Meeting Summary CHP Working Group,” http://www.puc.state.pa.us/Electric/pdf/CHPWG/CHPWG_Meeting-Summary_071618.pdf

⁵ PA PUC, *supra* note 2, at Section § 69.3302(a)(6) (“Distribution Rate Considerations”).

⁶ Note that our previous comments cited an “Apples-to-Apples” (A2A) analysis developed by 5 Lakes Energy (“5 Lakes”) to compare standby charges for a hypothetical (2 MW) CHP system across Pennsylvania under a variety of outage scenarios. The A2A analysis has evolved and expanded since we filed our original comments based on the publication of new utility tariffs, feedback received from utility representatives, and efforts to improve consistency across a growing body of “apples to apples” results.



information about CHP systems' availability nor forced outage rates. Application of published rates across utilities reveals dramatic differences for various CHP system outage scenarios. For instance, the owner of the same 2 MW CHP system would pay as little as \$5,856 and as much as \$10,432 for a scheduled 16-hour outage (off-peak), dependent upon where it is located. What's more, the rates fail to adequately distinguish between scheduled and unscheduled outages, suggesting that they are not informed by the costs that such outages place on the grid. This is a lost opportunity to engage with customers to optimize grid use and reduce costs and is contrary to the recommendation in the proposed policy statement to consider how rates impact customer decisions to employ distributed energy resources.

In light of these clear opportunities to improve Pennsylvania utilities standby rates, and the Commission's stated commitment to ensure that utilities' proposed rate plans do not discourage energy efficiency measures, we recommend that the Commission establish a Standby Rate Subcommittee as part of the CHP Working Group that the Commission launched last spring.⁷ Notably, at the July 16, 2018 CHP Working Group meeting, the Commission suggested that it would develop a "list of suggested best practices regarding the design and implementation of standby rates/charges." A Standby Rate Subcommittee could inform this list, help determine whether each utilities' standby rates are fair and equitable, and ultimately recommend approaches to minimize the disincentive that standby rates have on the use of distributed energy resources.

Ultimately, the Subcommittee may recommend opening a new docket to examine the standby rates for each of the regulated utilities in the state and to determine whether they are fair and reasonable and consistent with cost of service. Overall, standby rates should be transparent and designed to send a clear price signal about the limited cost that CHP and WHP place on the grid. Doing so will encourage greater deployment of CHP and WHP in the Commonwealth.

Thank you for your consideration.

Sincerely,

Jennifer Kefer
Executive Director
Alliance for Industrial Efficiency

The analysis was also expanded to include standby rates for the Duquesne Light Company. The numbers in these comments are based on the updated analysis, which was included in the testimony of Jamie Scripps, Peoples and Natural Gas Company LLC in Docket No. R-2018-3000124, Jun. 29, 2018.

⁷ Pennsylvania Public Utility Commission, Apr. 5, 2018, "Final Policy Statement on Combined Heat and Power (M-2016-2530484)" (<http://www.puc.pa.gov/pcdocs/1560599.doc>).