Ohio Coalition for
Combined Heat & Power

Reply Comments on Proposed Rule Review of Ohio's Energy Efficiency Programs (Case No. 13-651-EL-ORD), Alternative Energy Resource Standard (Case No. 13-652-EL-ORD), and to Implement Am. Sub. S.B. 315 (Case No. 12-2156-EL-ORD)

Comments Filed Jointly by Ormat, Broad USA, American Council for an Energy-Efficient Economy (ACEEE), CHP Association (CHPA), Heat is Power Association (HiP), New Morning Energy LLC, Environmental Defense Fund (EDF), Medical Center Company (MCCO), Ohio Environmental Council (OEC), and the Energy Resources Center at the University of Illinois at Chicago (ERC), and The Alliance for Industrial Efficiency[1]

The Ohio Coalition for Combined Heat and Power (the Coalition) is a voluntary group of advocates, Combined Heat and Power (CHP) and Waste Energy Recovery (WER) developers and/or companies, and technical experts working collaboratively to advance CHP and WER technologies in Ohio. The Coalition respectfully submits these reply comments to the Public Utilities Commission of Ohio regarding Case No. 13-651-EL-ORD (Energy Efficiency Programs) and Case No. 12-2156-EL-ORD (Implementation of Am. Sub. S.B. 315), and Case No. 13-652-EL-ORD (Alternative Energy Resource Standard).

The Coalition Reply Comments will focus on these issues:

I. Uniform Method for Counting Energy Savings from CHP and WER Systems under the EERS

II. The Total Incentive Available to CHP and WER Systems under the EERS

III. Schedule of Incentive Payments

IV. Waste Energy Recovery Provisions

I. Uniform Calculation method for all CHP and WER Development Options - Mercantile Self-Direct, Utility Custom and Prescriptive Programs, and Reasonable Arrangements

Multiple stakeholders included comments urging the Commission to establish a uniform method for assessing energy savings of CHP and WER systems, and determining overall system efficiencies. Both the Ohio Power Company's (AEP- Ohio) and FirstEnergy Companies' comments urged for clarification on what the Commission's methodology would be for determining system efficiencies, and how electric savings would be determined (Ohio Power Company's comments, page 11 and FirstEnergy's comments page 26).

[1] The Alliance for Industrial Efficiency filed initial comments on Case Nos. 13-651-EL-ORD, 13-652-EL-ORD and 12-2156-El-ORD. In lieu of filing separate reply comments, the Alliance for Industrial Efficiency is signing onto the Ohio Coalition for Combined Heat and Power reply comments.

The Coalition supports the comments submitted by the Energy Resources Center at the University of Illinois at Chicago in the matter of the Commission clarifying a uniform accounting method. On page 3 of ERC's comments, the Commission is urged to clarify if the proposed rule is intending to match kilowatt hours generated to kilowatt hours utilized in the production incentive approach laid out in the proposed rule. The Coalition also supports ERC's urging that if the Commission decides to use a Btu conversion method, that the rule should clearly define the conversion method to be used (page 5). Regardless of approach, it's clear that stakeholders desire to see more clear direction in the rule text regarding this matter.

Another important matter that was addressed by several stakeholders was the issue of if such a uniform calculation method would apply to all paths to obtaining an incentive under the EERS. These paths are: Mercantile Self-Direct (either cash payment or rider exemption), a reasonable or unique arrangement, or via a utility-run energy efficiency program that is part of their approved energy efficiency portfolio plan. The Coalition supports both ERC's, and IGS Energy's comments regarding this issue.

Specifically, ERC recommends that the Commission encourage each electric distribution utility to "consider both CHP and WER under their existing EE Programs utilizing their Custom Program" and "consider developing targeted CHP/WER programs for submission under their three year program plans." The Coalition also supports IGS Energy's recommendation to modify the rule in order to ensure that CHP receives equal access to funding opportunities under EDU programs (Page 4).

II. The Total Incentive Available to CHP and WER Systems under the EERS

CHP and WER systems are unlike behavioral programs, and therefore the Commission should incentivize them at a higher per kilowatt hour rate.

The proposed rule, as many mentioned in initial comments, seems to be equating the installation of a CHP or WER project with the nature of a utility "behavioral program" on account that the proposed rule sets a maximum per kilowatt hour incentive of $0.005, the same as a behavioral program. This is an unfair comparison, as there are many critical differences between the objective of a behavioral program and the function of a CHP or WER system in a facility. Further, neither the Ohio Revised Code, nor the Ohio Administrative Code, define the full criteria of a behavioral program. Lack of justification in the proposed rule as to why the installation of a CHP or WER system is to be considered a behavioral program creates confusion and uncertainty for customers and developers. If treating CHP and WER as behavioral programs - rather than equal to the installation of energy efficient equipment - is what the Commission decides as the approach, Ohio would be the only state that categorizes CHP and WER in this manner.

The Coalition strongly supports the comments submitted by the Midwest Cogeneration Association (MCA) on this matter (page 5). MCA cites a study in its comments conducted in 2011 by the Energy + Environment Economics (page 6) that very clearly defines the focus of behavioral efficiency programs - changing the consumer's energy use habits. Additionally, the report cited states that behavioral programs are separate and distinct from efficiency programs that incentivize the purchase and installation of higher efficiency equipment. The installation of a CHP or WER system does not reflect the goal of behavioral programs, which is to form different, more efficient habits around the use, not the installation, of equipment and electric systems.

Furthermore, the proposed rule seems to imply that CHP and WER system operators have the ability to simply switch off their CHP or WER system at will, if a business decision (such as natural gas prices increasing, or decreasing production lines that relies on the system) compels them to do so. This justification for why the proposed rule likens CHP and WER systems to behavioral programs is an over-simplified view of CHP and WER operators/owners reliance on the system, and undervalues the function that these systems serve within commercial and industrial facilities. CHP systems in particular are sized for the thermal load of the facility, and once installed, meet critical heating and cooling needs for the process they're designed for. Simply turning off a system would create a deficit in meeting the thermal need of the facility, which is often tied to the products produced in manufacturing facilities, refrigeration needs, and/or climate control (building comfort and humidity control) in commercial and institutional facilities. These factors are absolutely taken into consideration when assessing a system's run-time, and are carefully weighed in any economic analysis on whether a system continues to be cost-effective to run.

Maximum available incentive is too low, and is not on par with other energy efficiency measures

Multiple stakeholders who submitted comments agreed that the maximum per kilowatt hour incentive of $0.005 is too low. The Coalition agrees with the recommendations to increase the maximum per kilowatt hour incentive included in the comments of Midwest Cogeneration Association, the Alliance for Industrial Efficiency, the Energy Resources Center at the University of Illinois at Chicago, the Heat is Power Association, the Ohio Manufacturers' Association Energy Group, and the Environmental and Consumer advocates joint comments all argued that a higher rate per kilowatt hour would be appropriate. The Coalition commends Ohio Power (AEP-Ohio) for arguing for a higher rate per kilowatt hour incentive (to start at 1 cent per kWh), but the Coalition strongly believes it should be higher; at a minimum, on par with what utilities offer for custom programs and other prescriptive programs.

The Coalition agrees, in particular, with the Ohio Manufacturers' Association Energy Group (OMAEG) for several reasons. First, OMA points out that the half-cent maximum is insufficient for self-financing projects, and much lower than typical cash incentives that utilities pay for other energy efficiency measures (page 11). Particularly compelling are OMAEG's observations that utilities offer upwards of $0.08/kWh for custom projects, in exchange for annual energy savings achieved in the first year of an efficiency measure's installation. When compared to cash incentives earned in the first year of a custom program, OMAEG observes, the 1/2 cent per kWh incentive would mean a mercantile self-direct project would need to operate for 12 years before the equivalent cash incentive would be earned. Again, such treatment would be inconsistent with other programs and would not bring about the desired effect of the legislation.

The Coalition agrees that a limit could be set for the total cash incentive available to a CHP or WER owner/operator; however such limits need to be reasonable and designed in such a way that attracts investment in projects of all sizes and actually moves the market towards greater CHP and WER deployment. Such a limit could fairly be based on a percentage of the total project cost. Such a concept was offered in Ohio Power's (AEP-Ohio) comments, but the Coalition thinks what they offer is too low: 25% of project cost, or

$250,000, whichever is less (Page 12). A fairer limit would be closer to 50% of total project cost; such a limit was adopted as a reasonable approach in both Illinois and Maryland's incentive programs.

Clarity is needed on the length of time the incentive can be earned

Regarding the length of time that energy savings can be committed to a utility, and over what time period an incentive can be earned, the Coalition agrees with many stakeholders who sought clarification in their initial comments: Duke Energy (page 10), Environmental and Consumer Advocates (page 18), Alliance for Industrial Efficiency (page 2), and many others. However, there were certain recommendations on this matter that the Coalition disagrees with.

The FirstEnergy Companies recommend that the Commission set a specific number of years for the period over which an incentive can be paid to a customer, if the half-cent per kilowatt hour incentive is used in the final rule. The Coalition strongly believes that the number of years an incentive can be earned should be flexible, with an upper limit imposed by the sunset of the EERS in 2025, or beyond. On page 27, FirstEnergy recommends a set number of years because "otherwise, a situation similar to that created through PURPA, where utilities paid for generation in excess of market prices for prolonged periods, may occur." FirstEnergy's recommendation is flawed because the policy objectives in PURPA were quite different than the policy objective of the Ohio EERS. The Ohio EERS provides incentives paid to customers for their installed energy efficiency measures, which now (per SB 315) include CHP and WER. The incentives are awarded for increasing end-use efficiencies, reducing energy waste, and for implementing cost-effective efficiency measures at the customer's home or business. In contrast, PURPA was designed to increase the amount of alternative, distributed generation assets in the electrical grid, within the context of overcoming regulated monopolies in energy markets. If the Commission accepts FirstEnergy's recommendation, therefore, it would be reasonable to set a maximum number of years that is in sync with the sunset of Ohio's EERS in the year 2025.

III. Schedule of incentive payments

Some upfront incentive is critical to project deployment

In our initial comments, the Coalition argued that the proposed rule should permit cash incentive to be paid to the customer during the design and engineering phase of CHP/WER project development. Several stakeholders who submitted comments also took this position: OMAEG (page 11), the Alliance for Industrial Efficiency (page 3), Midwest Cogeneration Association (page 6), Environmental and Consumer Advocates (page 18), and the Energy Resources Center (page 4). More specifically, it is important that the proposed rule specify allowable schedules for incentive payments as upfront investment is absolutely critical to moving forward the types of projects that Ohio Senate Bill 315 seeks to encourage. This goal is in keeping with the policy objective of Ohio's EERS, as well as guidance issued by the Commission on minimizing free-ridership (i.e., counting energy savings that would have occurred regardless of the utility incentive program).

The Coalition agrees with the comments submitted by OMAEG that urge the Commission to create parity between the mercantile self-direct program for traditional efficiency measures and what is being proposed for CHP and WER under this same program. OMAEG comments on Page 11 that mercantile self-direct applications typically pay 75% of the program incentive as a commitment payment. The reason given for this recommendation is that the proposed rule, in providing guidance on CHP/WER development through the mercantile self-direct program, provides the only widespread option for CHP and WER development because the utilities either do not currently offer CHP/WER programs or the programs offered are extremely limited in their budgets (page 11). Portfolio plans take months to develop and get through final Commission approval, and because these plans are currently staggered among all the distribution utilities, OMAEG's comment is accurate and therefore, the Commission should take into serious consideration the recommendation to allow a portion of the total cash incentive to be paid up front.

Additionally, the Coalition agrees with the Midwest Cogeneration Association's recommendation that the proposed rule allow for higher incentives to be paid within a shorter time frame, such as 12-18 months (page 6). The reason given for this recommendation is fair; shorter term production incentives are more in line with how investments are evaluated by businesses and lenders.

The Coalition disagrees with comments on this subject submitted by FirstEnergy, in which they recommend that "no incentive payments will be made until the CHP or WER project is certified, fully operational and committed to the EDU" (page 27). This recommendation creates dissimilarity between CHP and WER systems and other energy efficiency measures, in terms of the ability to receive a commitment payment for the efficiency measure. Ohio Senate Bill 315 clearly placed CHP and WER technologies on the same plane as other energy efficiency measures, and thus, the Commission should disregard this recommendation.

IV. Waste Energy Recovery Provisions

The Coalition largely agrees, as was evident in our initial comments, with the proposed rule's guidance on how to incorporate WER into the Alternative Energy Resource Standard. Ohio Senate Bill 315 was fairly straightforward in how WER would be incorporated into the AERS, and the proposed rule upholds the legislative intent.

The Coalition only raises a question regarding a recommendation made by FirstEnergy. On page 27, FirstEnergy recommends that "savings for a WER system should be determined based on the electrical energy converted from waste heat recovered net of any additional power required to run auxiliary support systems." The term “auxiliary support system” could be open to interpretation, creating uncertainty for customers and developers. Second, the recommendation does not contemplate the other allowable WER technology defined in the Ohio Revised Code - gas line pressure drop WER. The Coalition urges the Commission, if they accept this recommendation into the final rule, to provide clear guidance on what qualifies as an “auxiliary support system” and how customers and developers might demonstrate that they have factored out any additional power support.

Conclusion

In sum, the Coalition recommends that the Commission seriously consider these recommendations as a way to ensure the legislative intent of Ohio Senate Bill 315 is carried through: to encourage greater deployment of CHP and WER in Ohio, create more opportunities for Ohio manufacturers, commercial enterprises, and institutional entities to take advantage of cost-effective efficiency measures, and to expand the tools at customers' disposal to help them save energy and control their energy costs. We believe that increasing the overall cash incentive to be more in line with what other energy efficiency measures receive, allowing for incentives to be paid at a time that is most crucial to project development, and ensuring consistency across all utility territories will achieve this objective.