



320 S. Warren Street - Trenton NJ 08608

May 3, 2013

Board of Public Utilities
State of New Jersey
44 South Clinton Avenue, 9th Floor
Trenton, NJ 08625

Re: Docket No. GO12070600; In the matter of the Act Concerning the Imposition of Standby Charges Upon the Distributed Generation Customers Pursuant to N.J.S.A. 48:2-21 et seq. (the “Standby Act”)

Dear Secretary Izzo:

Veolia Energy North America, Inc. (“Veolia”), in accordance with the recent notice from the Board Staff in this Docket, hereby submits its comments on the filings of the Electric Distribution Companies (the “EDC”) on whether such filings address the concerns raised by N.J.S.A. 48:2-21 et seq. or satisfy the criteria set forth in the Board’s July 18, 2012 Order in this Docket (the “Order”).

Introduction

Veolia Energy, with its parent company Veolia Environnement, is a world class leading energy, water and environmental services company. The company focuses on district energy, building energy services, and operations and maintenance of energy assets for industrial, commercial and institutional customers. As part of this focus, the company owns and/or operates almost 5000 MW of Combined Heating and Power (“CHP”) facilities around the world. In New Jersey, our Trenton district energy network (established in the 1980s), which has CHP as part of its generating assets, provides year-round heating and cooling for buildings in the State Capitol Complex and surrounding areas. Additionally, Veolia Energy has been active in the development and operation of CHP and other energy assets throughout New Jersey for many years.

Discussion

Veolia over the years has been opposed to discriminatory electric utility standby rates for customer owned distributed generation (“DG”). We are looking forward to the time when the backup rates faced by combined heat and power (“CHP”) facilities fully recognize the broad range of benefits these facilities provide both for on-site customer facilities and the larger community. Load centric CHP reduces energy costs for the user, reduces electric grid disruptions, reduces peak loads, decreases the need for grid level capacity, provides a form of storm-proofing and can provide price stability for utility customers. Further, it is energy efficient, reduces greenhouse gas emissions, decreases line losses and helps avoid possible system failure during peak usage. The EDC existing standby rates, as viewed by Veolia and others, are a financial barrier for customers who are interested in installing and expanding CHP facilities. As such, Veolia applauds the Board’s interest in exploring ways that these rates can be improved upon in the best interests of CHP and all EDC ratepayers.

Comments

Veolia applauds the New Jersey Legislature in its enactment of N.S.S.A. 48:2-21 et seq. (the “Standby Act”) and its requirements that the Board: (i) conduct a study to determine the effects of distributed generation upon energy supply and demand and determine whether distributed generation contributes to any cost savings for electric public utilities; (ii) establish criteria for fixing rates associated with the assessment and imposition of standby charges; (iii) in establishing such criteria, ensure equity between distributed generation customers and other electric public utility customers with regard to the imposition of standby charges; (iv) consider, among other factors, the economic and environmental benefits the board finds are associated with distributed generation.

The Board in its July 18, 2012, Order, issued in response to the Standby Act, reported on its limited preliminary study of the standby issues required by the Standby Act - but recognized the need for a more thorough investigation. The first step in that further investigation was to invite the EDC to file their own views and responses to the Standby Act. Predictably, the responses were less than satisfactory to the CHP community. In particular, almost without exception, the EDC either chose to make no changes to their existing Standby Tariffs or to adopt new tariffs that sought to perpetuate the very demand ratchet provisions that have been one of the primary regulatory obstacles to greater CHP deployment in New Jersey to date.

Veolia submits that modernizing and optimizing standby rates for CHP is a necessary condition to achieving the CHP goals set forth in the Governor’s Energy Master Plan. It is arguable that the driving force behind the

Standby Act was the general sense that the existing standby rates are burdensome on and discriminatory against CHP and other DG customers. The Board investigation should have as its ultimate goal the phasing out of the discriminatory demand ratchets and replacing them with just and reasonable standby rates for CHP.

The EDC proposals unfortunately fail to address the major concerns that Veolia believes drove the Legislature to enact the Standby Act. Veolia urges the Board to conduct a full review of the EDC Standby Rate Tariffs for the following reasons:

- a. There is no cost of service study performed to support the contention that the existing and proposed Standby Tariffs are just and reasonable for CHP standby service.
- b. There is no analysis of the range of different standby customers and their varying operating/load/generation profiles and how the Standby Tariffs have impacted and would impact this range of potential CHP customers. A full and fair analysis would evaluate a range of CHP operational scenarios, including those that do and do not have unplanned outages on seasonal peaks, off peaks, etc. The assumption that the entire fleet of CHP facilities will have simultaneous outages, coincident with the utility's system peak load is unfounded and needs to be evaluated.
- c. Consideration should be given to the possibility that a new, more enlightened partial requirements tariff for CHP could be designed to be more cost based and less punitive.
- d. As the Board is aware, the principal objection that CHP facilities have had with the current EDC Standby Rate Tariffs concerns the embedded contract demand ratchet provisions. The problems with this type of demand ratchet have been noted by the U.S. Environmental Protection Agency¹, the U.S. Department of Energy² and others.
- e. In particular, the Executive Summary of the EPA Standby Study in Dec., 2009, concluded:
 - "The review of selected rate tariffs suggests that the better rate designs share common and central characteristics: they are designed to give customers a strong incentive to use electric service most efficiently, to minimize the costs they impose on the system, and to avoid charges when service is not taken. This means that they reward customers for maintaining and operating their onsite generation. Specifically, these tariffs are marked by some or all of the following features:

¹ *Standby Rates for Customer-Sited Resources, Issues, Considerations, and the Elements of Model Tariffs*. December, 2009.

² L. Johnston, K. Takahashi, F. Weston and C. Murray, *Rate Structures for Customers With Onsite Generation: Practice and Innovation*. U.S. DOE, National Renewable Energy Laboratory. December, 2005.

- Contract demand or reservation charges are small in relation to the variable charges for peak demand and energy.
- Peak demand charges are not ratcheted or, at worst, have 30-day ratchets (that is, there are no more than monthly as-used demand charges).
- Energy-based charges to collect capacity costs would seem to offer the greatest promise in this regard, but utilities and their regulators do not appear to be prepared to entirely abandon some form of peak demand charge. As such, daily as-used demand charges are the next best solution, but how a particular rate is structured along these lines will depend on the levels of the various rate elements.”

f. As required by the Standby Act and the Order, a fair determination of just and reasonable cost-based standby rates should take into account the many benefits that CHP provides to the grid. These include lower line losses, lower transmission, distribution and generation costs, lower grid installed capacity requirements, greater reliability, greater regional and national security, and perhaps most significantly, given the State’s recent experience with Super Storm Sandy, greater storm proofing resiliency. Finally, compared to typical central station generating stations, CHP facilities produce roughly half the emissions per MWH generated, supporting the environmental goals of the State of New Jersey as set forth in the “Global Warming Response Act”, N.J.S.A. 26:2C-37 et seq., and other State environmental laws. Why not recognize the myriad benefits provided by CHP and design a new cost-based tariff that is designed to fairly incentivize new CHP? The submittals made by the EDC failed to address these many benefits.

We recommend that the Board conduct a full review of the EDC Standby Rate Tariffs, in compliance with the Standby Act. If such a review requires EDC to conduct full cost of service (COS) studies of the cost impacts and benefits of CHP partial requirements service on the EDC system, such COS studies should be ordered. Such an investigation should be completed within the next twelve months. To delay such an investigation until the next filed rate cases of the EDC – potentially several years from now - would unfairly delay, and thus effectively deny, the promise of the Standby Act and result in a truly lost opportunity.

Veolia appreciates the opportunity to submit its comments on this docket.

Respectfully submitted,

Lawrence W. Plitch, Director

Veolia Energy North America