



# The Alliance for Industrial Efficiency

Nov. 27, 2013

Commissioners Joshua Epel, James Tarpey, and Pamela Patton Colorado Public Utilities  
Commission  
1560 Broadway #250  
Denver, CO 80202

Re: Docket No. 13A-0836E

*In the Matter of the Application of Public Service Company of Colorado for Approval of  
its 2014 Renewable Energy Standard Compliance Plan*

Dear Commissioners Epel, Tarpey and Patton:

I am writing on behalf of the Alliance for Industrial Efficiency to express our concerns about Public Service Company of Colorado's (PSCo) Renewable Energy Standard (RES) Compliance Plan. The Alliance is a diverse coalition of labor, contractor, business and environmental groups committed to increasing deployment of combined heat and power (CHP) and waste heat to power (WHP, also known as recycled energy). The Alliance represents more than 200 electrical, mechanical and sheet metal contractors in Colorado. The Alliance Steering Committee also includes Ormat Technologies, who owns and operates a 3.5-megawatt recycled energy ("waste heat") facility in Peetz, Colorado, among other projects throughout the country. While we are gratified to see the inclusion of Recycled Energy in the state's Renewable Energy Standard (RES) and commend PSCo for adding customer-cited renewable resources to its RES Compliance Plan, as written we do not believe that the PSCo proposal will encourage investment in recycled energy projects in Colorado. Among other things, the incentive must be increased and expanded to include larger projects to be effective.

Conventional power generation is woefully inefficient. Nationwide, more than two-thirds of energy inputs are lost as wasted heat. Recycled energy increases efficiency and reduces emissions, by capturing otherwise wasted heat to generate additional power without combusting any additional fossil fuel. In this way, recycled energy offer substantial energy – and economic – savings. Despite these benefits, projects are often discouraged because of high up-front costs. By allowing recycled energy facilities to meet the standard, the Colorado RES provides an important tool to reduce this barrier. Crediting projects in this way allows our members to actively participate in, benefit from, and support Colorado's RES.

To date, there are only a handful of recycled energy projects in Colorado.<sup>1</sup> With state incentives that support waste heat projects over 2 megawatts, companies like Ormat would have greater assurances to deploy more projects in Colorado, particularly as Governor Hickenlooper and Members of Congress on both sides of the aisle are looking for ways to reduce waste in the natural gas sector. As written, however, PSCo's RES compliance plan provides little incentive to jumpstart these investments. The recycled energy incentive needs to be restructured to help it have its intended effect.

As an initial matter, the size of PSCo's proposed recycled energy incentive is inadequate. PSCo asserts that its objective is to provide an incentive equal to \$500/KW.<sup>2</sup> Rather than providing payment as an up-front incentive, however, PSCo proposes to spread the payment out over 20 years – but fails to account for inflation or the present value of money. Consequently, the proposed payment (\$7.94/MWh) is insufficient. The credit should be larger in the first place, and adjusted annually for inflation throughout the contract term to attract investment in these projects.

Not only is the incentive insufficient on its face, it is even smaller because recipients are required to pay for standby service under its tariff. Recycled energy is the *only* technology in the Colorado Renewable Energy Standard for which PSCo requires standby service. The cost of the standby service required for these projects consumes a significant portion of the proposed incentive. Recycled energy projects are able to provide baseload, non-intermittent power, and to function independent of the grid. Given this, it is inappropriate to assign hefty standby rates to recycled energy projects – particularly when these same fees are not imposed on other renewable energy sources. Instead, standby fees should be based on actual demand, so that recycled energy hosts can pay lower monthly fees if they have fewer forced outages.

Third, the Compliance Plan imposes an arbitrary limitation on project size, discouraging facilities in the state from bringing projects to scale and realizing the economic and environmental benefits those projects could provide. The PSCo RES Compliance Plan establishes an “incentive payment” for individual recycled energy projects that are less than 2 megawatts, with a 5 megawatt cumulative annual cap on eligible projects. With these limitations, Ormat Technologies' 3.5-megawatt recycled energy facility in Peetz would not be eligible for any payment. This project provides baseload power with zero emissions and zero fuel demand, and operates reliably even during blackouts and grid outages. Notably, Colorado's RES defines recycled energy to include projects up to 15 megawatts.<sup>3</sup> Accordingly, PSCo should offer credits for projects up to that threshold. The proposal should also remove any limitations on the number of projects that can take advantage of the credit, as the amount of recycled energy projects in the state does not diminish their benefit.

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<sup>1</sup> DOE-ICF CHP Installation Database (<http://www.eea-inc.com/chpdata/States/CO.html>).

<sup>2</sup> See, e.g., In *In the Matter of the Application of Public Service Company of Colorado for Approval of its 2014 Renewable Energy Standard Compliance Plan*, Direct Testimony of Deborah Sundin, July 24, 2013, at 6.

<sup>3</sup> Colorado RES Rule 3652 (q).

In sum, the Alliance for Industrial Efficiency believes that the PSCo Compliance Plan is inadequate as written, and could be made more effective. It does not provide a sufficient incentive for eligible projects and does not extend to large-scale projects that would allow Colorado manufacturers to reduce their energy costs and become more competitive. We urge the PUC to require PSCo to increase the size of the recycled energy incentive and adjust payment for inflation throughout the contract term, eliminate the standby charge (applying a demand charge instead), extend eligibility to larger projects, and remove the annual cap.

Sincerely,



David Gardiner  
Executive Director, Alliance for Industrial Efficiency