



## Industrial Energy Consumers of America

*The Voice of the Industrial Energy Consumers*

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September 13, 2016

The Honorable Kevin Brady  
Chairman  
Committee on Ways and Means  
U.S. House of Representatives  
301 Cannon House Office Building  
Washington, DC 20515

The Honorable Sander Levin  
Ranking Member  
Committee on Ways and Means  
U.S. House of Representatives  
1236 Longworth House Office Building  
Washington, DC 20515

***Re: IECA Supports Extension of the Combined Heat and Power Business Energy Investment Tax Credit***

Dear Chairman Brady and Ranking Member Levin:

On behalf of the Industrial Energy Consumers of America (IECA), we support the extension of the combined heat and power business energy investment tax credit (CHP ITC) set to expire on December 31, 2016. When the solar and wind ITC/PTCs were renewed last year in the omnibus bill H.R. 2029, the “Consolidated Appropriations Act of 2016,” the CHP ITC was not included for renewal. CHP facilities have been an invaluable resource for the U.S. manufacturing sector, through energy efficiency driven cost savings, more investment in jobs, and the lowering of criteria pollutants and GHG emissions. The ITC supports capital investment in CHP facilities that otherwise may not be built. Along with the renewal of the CHP ITC, we would ask that the following changes be made to the tax credit: 1) removal of the MW capacity cap; 2) inclusion of waste heat recovery (WHR) as a qualified facility; and 3) allow usage of the tax credit at the date of “commenced construction” instead of “placed in service.”

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with \$1.0 trillion in annual sales, over 2,900 facilities nationwide, and with more than 1.6 million employees worldwide. IECA membership represents a diverse set of industries including: chemical, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, automotive, brewing, independent oil refining, and cement.

Currently in the U.S., there are 1,199 industrial CHP units installed, which accounts for over 65 gigawatts of capacity installed.<sup>1</sup> All 50 states have industrial CHP units. On average, industrial CHP facilities are over 59 megawatts (MW) in size, with many individual CHP facilities much larger. In 2014, industrial CHP accounted for 3.5 percent of total U.S. electricity generation.<sup>2</sup> Also, CHP units typically achieve total system energy efficiencies of 60 to 80 percent for producing electricity and useful thermal energy. In contrast, conventional power generation facilities produce power at energy efficiency rates of about 35 percent. The significant energy efficiency benefits have helped the industrial sector decrease GHG emissions by 26.1 percent since 1973, while manufacturing output has increased by 17.6 percent during the last ten years.<sup>3</sup>

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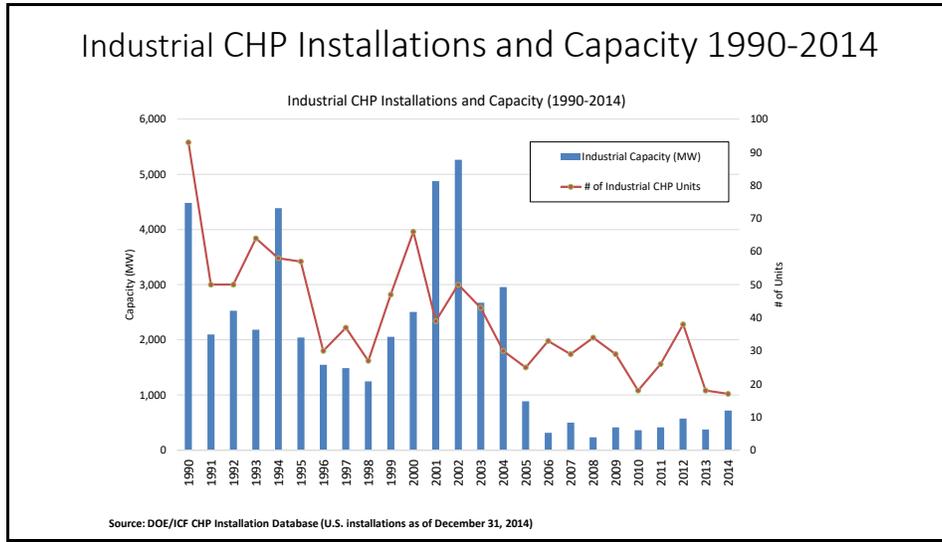
<sup>1</sup> U.S. DOE Combined Heat and Power Installation Database, U.S. Department of Energy (DOE), <https://doe.icfwebservices.com/chpdb/>.

<sup>2</sup> Generation and thermal output, Electricity, Energy Information Administration (EIA), <http://www.eia.gov/electricity/data.cfm#generation>.

<sup>3</sup> Gross Output by Industry, U.S. Bureau of Economic Analysis (BEA), <http://www.bea.gov/itable/>.

Despite the advantages of industrial CHP as mentioned above, relatively few CHP units are being built as illustrated in Figure 1. Currently, it is more expensive for a manufacturer to build a CHP facility than to simply buy power from the grid and produce steam from a boiler. However, when they do build a CHP facility, total energy costs decrease over time. The CHP ITC and improvements to the ITC, can aide in turning this trend around and create and sustain needed middle class manufacturing jobs. Unlike solar and wind, all of the major equipment needed to build CHP units is built within the U.S.

**FIGURE 1**



### **DIFFERENCES BETWEEN CHP/WHR VS. SOLAR AND WIND**

It is important to distinguish between tax incentives for industrial CHP/WHR from wind and solar facilities and to further emphasize the benefits of CHP/WHR.

- Industrial CHP/WHR facilities are the backbone of the manufacturing facility and support continuous job creation. Once a renewable energy facility is installed, they stop generating new jobs.
- CHP/WHR facilities create multiple ongoing economic benefits. CHP/WHR helps the manufacturer to lower its steam and electricity costs, which improves competitiveness, increases investment and exports. Renewable energy does not have this substantial economic multiplier effect.
- The CHP ITC is a one-time incentive to support the development of a CHP unit. The PTC on the other hand is an ongoing subsidy that pays the wind energy project on the basis of yearly production. The CHP ITC is fairly inexpensive as compared to annual payouts in PTC payments.
- Industrial companies do not build CHP/WHR facilities to sell power back to the grid, although excess power is at times sold into the wholesale market or to the local electricity utility at the electric utilities' avoided cost. The avoided cost is a price that is set by the electric utility. The need for a manufacturing company to sell increments of

CHP power is due directly to changes in the manufacturing process operating rates (which consumes the steam and power), such that more steam (from the CHP unit) is required, while simultaneously less power is consumed than what is generated. Wind and solar facilities are in the business of generating and selling power.

- Industrial CHP/WHR facilities are paid for by the manufacturer and the costs are not passed onto other electricity consumers. The PTC gives wind energy an economic advantage over competing electricity generation, such as coal, natural gas, and nuclear generation, and all of the costs are passed onto consumers of electricity.
- Industrial CHP/WHR facilities pay for the cost of connecting to the grid and any transmission/distribution costs. These costs are not passed onto other electricity consumers. Wind and solar projects incur transmission and/or distribution costs which become included into the project costs and are eventually paid for by the consumer.
- Industrial CHP/WHR electricity produces power 24/7, which means it provides a higher quality of power, including power production when you need it most – at peak demand periods. Solar and wind are intermittent and operate at a less than 50 percent capacity factor.
- Finally, the taxpayer receives more benefit from the CHP ITC than from the solar and wind ITC/PTCs. This is because the industrial CHP facility runs 24/7, which means it produces more power than intermittent renewable resources for the same nameplate capacity on which the investment tax credits are paid. This has the effect of reducing the taxpayer cost per unit of electricity that is produced.

We urge you to extend the CHP ITC, and increase its applicability to supporting manufacturing competitiveness and domestic jobs. We look forward to working with you on this important issue.

Sincerely,

Paul N. Cicio  
President

cc: House Committee on Ways and Means