Industrial Energy Consumers of America
The Voice of the Industrial Energy Consumers

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Robert Powelson
President
National Association of Regulatory Utility Commissioners
c/o Pennsylvania Commission
PO Box 3265
Harrisburg, PA 17105
rfp@pa.gov

Re: Public Utility Regulatory Policies Act (PURPA) – Delineate Industrial QFs from Renewable Energy QFs

Dear Mr. Powelson:

On behalf of the Industrial Energy Consumers of America (IECA), we thank you for the opportunity to participate in the NARUC February 13, 2017 Winter Meeting panel to address the Public Utility Regulatory Policies Act (PURPA). The purpose of this letter is to support state PURPA implementation policy that delineates industrial Combined Heat and Power (CHP)/Waste Heat to Recovery (WHR) QF treatment from renewable energy QFs.

IECA is a nonpartisan association of leading manufacturing companies with $1.0 trillion in annual sales and with more than 1.6 million employees worldwide. IECA membership represents a diverse set of industries including: chemicals, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, automotive, brewing, independent oil refining, and cement. The manufacturing sector consumes 25 percent of U.S. electricity.

While the manufacturing sector does cogenerate electricity under PURPA, most of the electricity is consumed internally. Also, the great majority of the electricity we consume as an industry is purchased from the grid. We are not in the power generating and selling business. As a result, we care a great deal about federal and state public policy that may increase electricity prices. This is in contrast to renewable energy QFs whose business model is to generate and sell power.

IECA and its member companies are not against renewable energy. We support policy that allows all energy sources to compete head to head. When they do, consumers benefit from competitive electricity rates. Unfortunately, due to overly ambitious policy objectives and incentives to promote those policies, renewable energy has unique advantages that are distorting electricity markets. And, while consumers may benefit, or seem to benefit from lower electricity prices short-term, the market distortions themselves are having unintended consequences that are causing the imposition of new subsidies and costs that will further undermine the viability of markets. And most likely, all of these costs will be recovered from us, the ratepayers.

Industrial CHP/WHR is not contributing to these market distortions. In fact, there are several attributes of CHP/WHR, a distributive energy resource that supports reliability of the grid, besides its substantial manufacturing job and environmental benefits. And it is for that reason, we urge states to recognize the differences between QFs types and not implement PURPA in a manner that changes how the manufacturing industry uses PURPA. For the manufacturing sector, PURPA is just as important today as is was in 1978.

The fact that industrial CHP/WHR QFs are not in the power generating and selling business is an important distinction as states address the issue of significant quantities of new renewable energy electricity that is being generated and sold under PURPA. The manufacturing sector is concerned about renewable energy QF impacts to the price of electricity that we purchase – both short- and long-term. Reliability is also a significant issue. It is for these combined reasons that we desire to communicate our views on these complex issues.

State commissions have a significant role to play in implementation of PURPA, as the FERC delegated many responsibilities to the states. IECA supports the following PURPA state implementation policies and encourages state commissions to consider these perspectives.

1. IECA does not support renewable energy QF manipulation of the one-mile rule to entice utilities to enter into long-term contracts under PURPA.

2. IECA does not support QFs requiring electric utilities to pay for capacity under long-term contracts when the state commission has determined that the capacity is not needed.

3. State commissions should develop resource specific avoided cost rates to be able to assess each resource for the benefits provided and costs imposed on the purchasing utility. IECA encourages states to account for the full cost of renewable energy when developing QF avoided cost rates. The avoided cost paid to renewable generators should deduct the cost of natural gas backup generation, transmission, and other appropriate costs that can be directly tied to the integration of the renewable energy resource. Also, renewable energy is variable and can cause baseload generators to reduce operating rates, thereby reducing their efficiency and increasing costs per kWh. These costs should also be considered. It is the ratepayers who are paying for those baseload generating assets and we want them to operate efficiently and at high capacity factors, because it lowers the costs per kWh for that generation.

4. Renewable energy QFs should not be allowed to include the Production Tax Credit (PTC) or the value of the Renewable Energy Credit (REC) that they may obtain from the market, into their electricity price bid for the day ahead market. The PTC is so financially advantageous that it allows the renewable energy QF to sell electricity for free to bid $0/kWh or even less than $0/kWh and still turn a profit for their shareholders. This advantage is distorting the electricity market.

Non-renewable electric generators cannot compete with bids that are subsidized by the PTC and RECs. And, renewable energy, along with low natural gas prices, is contributing to the potential shutdown of nuclear power plants. Even nuclear power plants cannot compete in the market with subsidized renewable energy. States are considering whether to approve more subsidies to keep the nuclear generators operating. This will of course only lead to further distortion of electricity markets and these subsidies will certainly be passed onto us, the electric ratepayer.

We very much appreciate our relationship with NARUC and seek opportunities to work together to advance sound public policy for electricity and natural gas. Thank you for your attention to these matters.

Sincerely,

Paul N. Cicio
President

cc: The Honorable Rick Perry, U.S. Department of Energy
Senate Committee on Energy and Natural Resources
House Committee on Energy and Commerce
The Honorable Cheryl LaFleur, Federal Energy Regulatory Commission
The Honorable Collette Honorable, Federal Energy Regulatory Commission
Greg R. White, NARUC
The Honorable Edward S. Finley, Jr., North Carolina Utilities Commission
The Honorable Nancy Lange, Minnesota Public Utilities Commission