



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

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**STATEMENT OF THE
INDUSTRIAL ENERGY CONSUMERS OF AMERICA**

**SUBMITTED TO THE
HOUSE SUBCOMMITTEE ON ENERGY AND POWER, COMMITTEE ON ENERGY AND COMMERCE**

**DISCUSSION DRAFT ADDRESSING TITLE IV – ENERGY EFFICIENCY AND ACCOUNTABILITY
CHAPTER 3, SECTION 4231, PURPA MODERNIZATION**

The Industrial Energy Consumers of America (IECA) encourages the House Subcommittee on Energy and Power to exclude cogeneration from Section 4231 in Title IV for the reasons that are described in this statement. We believe that there is a misunderstanding of the competitiveness and transparency of how wholesale electricity markets are working or not working, across the country.

Also, there is a significant difference between the varying types of qualifying facilities (QFs), such as wind/solar and industrial cogeneration. Wind and solar QF projects are constructed for purposes of producing power. Industrial cogeneration units are not, and most of the electricity generated is consumed by the manufacturer. Also, industrial cogeneration facilities are not subsidized by the federal Production Tax Credit, as are wind and solar. In times of weather-related crises, cogeneration units are called upon to provide needed power to support grid reliability. Wind and solar cannot provide that support during critical times.

We welcome the opportunity to discuss our concerns with you and fully inform the Congress on this important issue before any changes are made to PURPA.

IECA is a nonpartisan association of leading manufacturing companies with \$1.0 trillion in annual sales, over 2,900 facilities nationwide, and with more than 1.4 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, brewing, independent oil refining, and cement.

A. The legislative language assumes incorrectly that QFs have non-discriminatory access to wholesale markets.

The legislative language assumes incorrectly that all QFs, including cogeneration units and small power producers who are 80 MW or smaller in size and who use renewable fuels, have non-discriminatory access to wholesale markets if the QF has access to a Commission-approved open access transmission tariff (OATTS) or a Commission-filed reciprocity tariff, and Commission-approved interconnection rules, and are eligible to participate in competitive solicitations overseen by a state regulatory body.

Forcing cogeneration QFs to avail themselves of OATTs or other Commission-approved reciprocity tariffs would have the QF act more like a utility, while PURPA recognizes that QFs should be treated differently precisely because they are not utilities.

This bill would negate one of the basic principles that PURPA sought to encourage, namely the installation of highly energy efficient cogeneration systems. Cogeneration systems are up to 75-80 percent energy efficient as compared to conventional power generation systems at around 35 percent. Such systems should continue to be encouraged by providing viable markets for their excess power output, reasonable standby rates, and interconnection standards. All of these basic principles are as valid today as they were when PURPA was first enacted in 1978.

B. Section 4231 would result in significant manufacturing production disruptions that could cost tens of millions of dollars per day and create stranded cogeneration assets.

Manufacturing companies with cogeneration units are not in the electricity generation business and consume most of the electricity that they generate within the manufacturing facility. They produce products like chemicals, plastics and paper, food products, etc. (widgets).

Manufacturing companies design cogeneration units to produce large quantities of steam at process pressure levels and simultaneously produce electric power to operate their facilities. Due to the great efficiencies afforded through the use of cogeneration facilities these manufacturers will generate power simultaneously via the reduction of steam pressure from higher boiler outlet pressures to lower pressures needed for widget production process requirements. Since the power produced at any given time is entirely dependent on the steam requirements of the industrial production process, there is great variability in the amount of power and sometimes excess power that is generated.

Cogeneration units are carefully integrated into the overall capability of the “entire” manufacturing facility. This integration should not be compromised by having these cogeneration units lose their counterparty for the sale of excess power at avoided cost via the PURPA Section 210 mandatory purchase obligation. It is important to state the obvious, which is that the utility power producer preferentially desires to sell their own electric production and they do not want to buy cogeneration produced electricity. This regulatory certainty is provided through PURPA and is necessary because the electric utility would not offer these services unless required by law.

If Section 4231 were to become law, manufacturing company facilities would face enormous challenges 120 days after enactment of this section and it could threaten the operation of their entire facility. If industrials do not have a viable counterparty to whom to sell the excess power, steam production may be reduced along with the production of widgets at a cost of tens of millions of dollars per day.

C. The rebuttable presumption that energy imbalance markets are comparable to organized markets, such as what is provided in RTOs and ISOs, is simply not correct.

Cogeneration facilities need robust wholesale markets in which to sell their excess power. For example, organized markets have administratively determined day ahead and real time energy markets that provide an instant counterparty and transparent pricing for such excess power

sales. Energy imbalance markets do not have this level of transparency or an instant counterparty to sales transactions and are therefore insufficient to provide a viable substitute for more fully developed organized markets such as those offered by regional transmission organizations (RTOs) or independent system operators (ISOs). It is for this reason that where utilities are not members of RTOs or ISOs that the mandatory obligation for the local utility to buy that excess power should not be removed. The rebuttable presumption that energy imbalance markets are comparable to organized markets, such as what is provided in RTOs and ISOs, is simply not correct.

Furthermore, if the standard is lessened by allowing utilities to be relieved of their mandatory purchase obligation simply by having an energy imbalance market, as some electric generators are suggesting, then those same utilities will not have any incentive to either join or develop RTOs or ISOs. Consumers benefit from the central administration of open and transparent markets. It would not be good public policy to relieve these utilities of their Section 210 purchase obligation without providing cogeneration units with viable markets for their excess output.

Existing industrial QF capital investments were made on the basis of regulations that provided certainty of a counterparty for any excess generation that the cogeneration unit generated. That regulatory certainty allowed these companies to make the investment to integrate the cogeneration unit steam and power capabilities into the entire manufacturing site. Now that these investments have been made, Congress should not change the rules thereby creating significant financial and operational hardships.

We look forward to working with the Subcommittee to resolve this important issue.

Submitted by:

Paul N. Cicio
President

cc: House Committee on Energy and Commerce

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 1.4 million employees worldwide. It is an organization created to promote the interests of manufacturing companies through advocacy and collaboration for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. 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, brewing, independent oil refining, and cement.