



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

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June 12, 2015

The Honorable James Risch
U.S. Senate
483 Russell Senate Office Building
Washington, DC 20510

Re: S. 1037, A bill to expand the provisions for termination of mandatory purchase requirements under the Public Utility Regulatory Policies Act of 1978

Dear Senator Risch:

The Industrial Energy Consumers of America (IECA) is opposed to S. 1037, as written. Importantly, new industrial cogeneration facilities are not part of the problem; they are an important part of the solution to grid reliability, job creation, increased energy efficiency, and GHG reductions. As compared to the number of wind and solar projects, there are relatively few new cogeneration units, and the majority of the electricity produced is consumed by the manufacturing facility. We request that you exempt PURPA cogeneration facilities from S. 1037. We also believe that there is a misunderstanding of the competitiveness and transparency of how wholesale electricity markets are working or not working, across the country that complicates the termination of mandatory purchase requirements. We welcome the opportunity to discuss our concerns with you and fully inform the Senate 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. New industrial cogeneration qualifying facilities (QFs) are not the problem, they are part of the solution to grid reliability, and facilitate thousands of new high paying manufacturing jobs.

Wind and solar QF projects are constructed for purposes of producing power. Industrial cogeneration units are not. 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 .

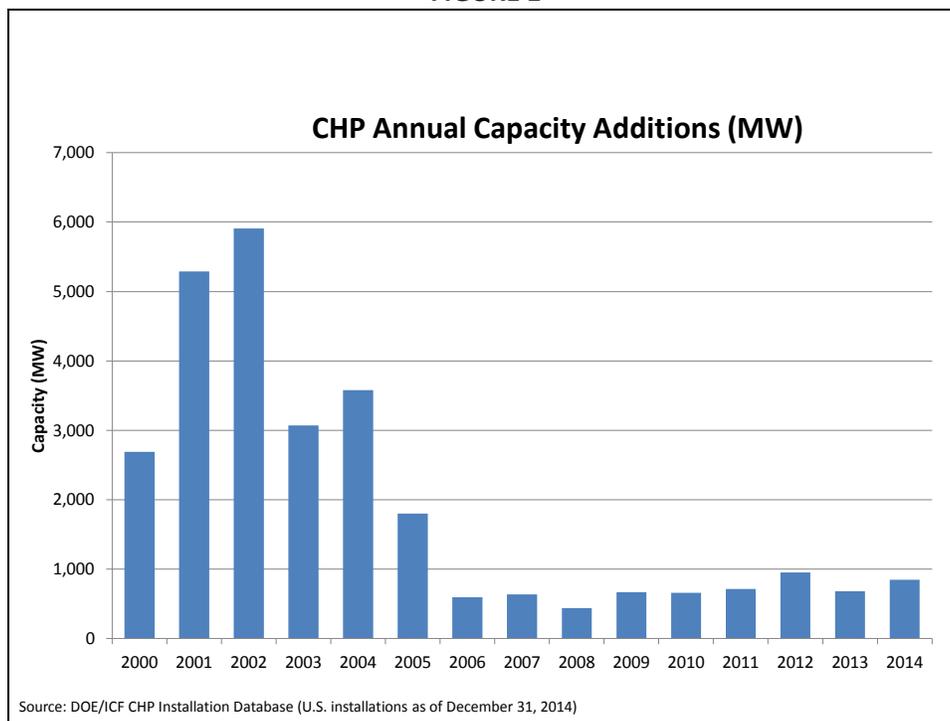
Section B of this letter describes in detail why industrial facilities need regulatory certainty provided by PURPA, such as standby power at reasonable rates, guaranteed interconnection to the grid, and the ability to sell excess power. Because cogeneration is used to produce both steam and power for the industrial facility, it is often critical to their competitiveness and job creation. Unlike electric utilities and solar and wind projects, most manufacturers face severe global competition.

Manufacturers that use cogeneration to generate steam and power to operate their facilities are significant job creators and these jobs pay very well. According to the National Association of Manufacturers (NAM), in 2013, the average manufacturing worker in the United States earned \$77,506 annually, including pay and benefits. This is 24 percent higher than the average worker, who in all other industries earned on average \$62,546. These manufacturers produce everything from chemicals, plastics, pulp and paper products, food processing, to light and heavy manufacturing assembly, like automobiles and aircraft.

B. Industrial cogeneration additions are not significant as compared to total U.S. electric generating capacity, and most of the electricity will be consumed by the manufacturing facility and not exported to the grid.

According to the Department of Energy (DOE), total new capacity additions of cogeneration each year since 2006 are well under 1,000 MWs of capacity (see Figure 1). The Energy Information Administration (EIA) says that total U.S. electric generating capacity in 2013 was 1,164,022 megawatts.¹ This means cogeneration gross capacity additions were only .0008 percent of U.S. electric generating capacity.

FIGURE 1



¹ http://www.eia.gov/electricity/annual/html/epa_04_03.html

C. S. 1037 would prevent industrial manufacturing companies from building cogeneration units, depriving them of low-cost steam and power necessary to compete and create new jobs.

Manufacturing companies with cogeneration units are not in the electricity generation business. They produce products like chemicals, plastics and paper, food products, etc., or in other words, widgets. A manufacturing company will not build a cogeneration unit unless it has standby power at reasonable rates, guaranteed interconnection to the grid, and the ability to sell excess power at avoided costs. This regulatory certainty is provided through PURPA and is necessary because the electric utility views cogeneration as competition and would not offer these services unless required by law.

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 (net after cogeneration generated power is consumed at the site) 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.

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 regional transmission organizations (RTOs) or independent system operators (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.

D. Cogeneration units do not always have access to non-discriminatory wholesale markets to sell excess power.

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 any 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 RTOs or ISOs. It is for this reason that where utilities are not members of RTOs or ISOs 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 and what is provided in RTOs and ISOs is simply not correct.

E. The legislation would prevent industrials from increasing energy efficiency and reducing GHG emissions.

The 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.

We look forward to working with you. Thank you for this opportunity to provide input on this legislation.

Sincerely,

Paul N. Cicio
President

cc: U.S. Senate

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.