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

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July 15, 2015

The Honorable Lisa Murkowski
Chairman
Senate Committee on Energy and Natural Resources
709 Hart Senate Office Building
Washington, DC 20510

Re: S. 1219, to amend Public Utility Regulatory Policies Act of 1978 to provide for the safe and reliable interconnection of distributed resources and to provide for the examination of the effects of net metering.

Dear Chairman Murkowski:

Thank you for the opportunity to provide input on S. 1219. For reasons explained herein, the Industrial Energy Consumers of America (IECA) recommends the removal of Section 1 which is problematic for thousands of companies that have existing cogeneration facilities. Also, IECA does not support Section 2 as written. If you proceed without changes, we encourage you to exempt cogeneration because it significantly contributes to grid reliability and safety. And, cogeneration units operate at up to 80 percent energy efficiency versus conventional power plants at 35 percent, significantly contributing to reductions in air emissions and carbon dioxide.

The member companies of the IECA are exclusively large industrial consumers of energy, the majority of which use cogeneration technology to produce both steam and electricity, which is consumed in their operations. Cogeneration of steam and power is a critical element to containing costs that support global competitiveness and jobs.

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.

It is important to note that without PURPA, industrials would not be able to operate cogeneration units efficiently. Because the national electric system is largely comprised of monopoly or oligopoly-based electric generators (depending where you are in the country), these utilities would not otherwise provide the necessary services to industrials such as interconnection, back-up power at just and reasonable rates, and the ability to sell excess power to the electric utility at their avoided cost. They would not provide these services because industrial cogeneration units REDUCE the amount of power that they would sell. Industrial cogeneration presents competition for the incumbent's generation.

It is also important to recognize that the industrial cogenerator consumes the majority of the electricity produced within their industrial operations. They are NOT in the business of producing electricity for sale to the grid like vertically integrated utilities, merchant generators, or QFs that generate power from wind or solar. When cogenerators produce excess power due to imbalances between the industrials' power needs and the power generated, PURPA provides that the excess can be sold to the electric utility at the utility's avoided cost. For clarity, power sales rates based on avoided cost in most jurisdictions cannot provide the return on investment necessary for an industrial to invest in a cogeneration facility. This means that selling power at the utility's avoided costs does not provide a financial incentive to development new units. However, it does provide a physical outlet for the cogenerator's excess power at a rate that provides some compensation.

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 manufacturing production process requirements. Since the power produced at any given time is entirely dependent upon 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.

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.

IECA COMMENTS ON S. 1219

Section 1. Reliability and Distributed Resources.
This section would require (mandate) that each state's regulatory authority establish proceedings to examine the degree to which distributed resources contribute ancillary services; and prescribe (mandate) appropriate measures to ensure adequate ancillary services so that grid interconnection for distributed resources is safe, reliable, and efficient. In Section 3, it states that compliance would allow each state, having held proceedings, to change all the standards currently being provided under PURPA including interconnection, provisions for backup power, and the mandatory purchase obligation.

IECA Position:

1. IECA does not support Section 1 and encourages its removal from the legislation. Section 1 is enormously broad and problematic in that thousands of manufacturing companies have installed cogeneration units based upon the regulatory certainty and protections provided by PURPA. Section 1 and Section 3 gives each state the flexibility to change any and all parts of PURPA, removing this regulatory certainty and protections thereby negatively impacting billions of dollars of investments in industrial cogeneration facilities.

As stated prior, the thousands of industrial cogeneration units would never have been built without PURPA because the incumbent electric utility would never have, on their own, provided interconnection and standby power at just and reasonable rates, and the ability to sell excess power at the electric utility's avoided cost. Without PURPA and its existing standards, existing cogeneration units will not be able to function properly and could become economically stranded investments. State changes to PURPA could cost each manufacturer that owns a cogeneration facility tens of millions of dollars per year and place the company operations in jeopardy. For sure, without the existing and essential regulatory standards, it is highly unlikely that new industrial cogeneration facilities will be installed in the future.

2. In states, where regulatory authority for reliability has not been delegated to RTOs or organized markets, states already have the ability to hold such proceedings and take appropriate measures without making any changes to PURPA. State regulatory bodies are entrusted with the responsibility to ensure that, among other things, that ancillary services are safe, reliable, and efficient. Thus, a federal mandate to require state action is neither necessary nor appropriate.

3. The federal government should not mandate proceedings that could be duplicative to proceedings that have already been held. Mandating these proceedings will be costly to the state regulatory body and consume significant valuable time unnecessarily. It will also be costly to the electric generators who will eventually pass those costs onto the consumer. Lastly, every industrial company that has a cogeneration unit will be required to participate in the proceedings to protect their interests at substantial legal costs.

4. *If the Chairman still insists on including this language in S. 1219, we urge you to exempt industrial cogeneration from the bill for logical reasons*. The logical reasons are that cogeneration is highly documented for over 37 years to enhance the reliability, efficiency, and safety of the grid. There are thousands of case histories where weather emergencies have resulted in the shutdown of utility electric generators and industrial cogeneration facilities have regularly been called upon to provide power to stabilize supply and safety. There are no other types of QFs that can provide these safeguards.

Section 2. Net Metering Effects.
This section would require (mandate) that each state regulatory authority examine the effects of net metering and customer-owned behind the meter distributed generation on resource planning of each electric utility for the effects of resource utilization, fuel diversity, grid security, and shifting of grid costs to customers who do not use net metering or customer-owned behind the meter generation.

IECA Position:
1. IECA and its companies do not support Section 2, as written. The provision is overly broad and needs to make a clear distinction between industrial behind the meter cogeneration from much smaller net metering units that are not carrying their fair share of the costs. Large industrial cogeneration units are not the problem, but could be directly and negatively impacted without specifically making the clarifying exemption. With an exemption for behind the meter cogeneration, IECA could support this provision.

2. Industrial cogeneration is not an intermittent supply of power as has been stated prior, and has been a significant contributor to grid reliability and safety during weather outages. Industrial cogenerators also typically contract for backup power to cover part or their entire load when the cogeneration system is not operating. Those backup rates typically include demand charges that include embedded transmission costs. **This demonstrates that behind the meter cogenerators do pay their fair share of grid and transmission costs, and are not the problem**. It is also important to note that without the industrial load in any electric service territory, electric rates for homeowners would be substantially higher and the grid less reliable. This is because industrials operate 24 hours per day, 7 days per week which offsets the demands created by residential and commercial classes which typically peak during the day and drop off significantly at night. Because industrial companies operate around the clock, it reduces the utilities' costs and helps to keep a stable load, adding to the reliability of the grid.

3. It is important that net meter customers carry their fair share of transmission, distribution and generation costs, which is not the case today in many jurisdictions. Net metering customers use the grid for their entire load when their resource, usually solar, is not providing energy. They sometimes even use the utility's generation as well. To the extent that these net metered customers are not paying for grid and generation costs in backup rates or other per meter charges, they are being subsidized by other customers in their rate class. This happens in a rate case when the utility reallocates unrecovered costs resulting from net metering to the remaining customers in their rate class. This is not fair to those remaining customers, including industrial customers, when such costs are allocated amongst all rate classes which sometimes will also happen. On that point, it is important that states ensure that the unrecovered costs stay within the existing designated rate classes where these costs were incurred.

IECA and its member companies are major stakeholders on these issues. We look forward to further discussions and resolution of these important issues.

Sincerely,

Paul N. Cicio
President

cc: Senate Committee on Energy and Natural Resources

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.