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

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November 18, 2020

The Honorable James Danly
Chairman
Federal Energy Regulatory Commission
888 1st St NE
Washington, DC 20426

Re: California Electricity Reliability Crisis

Dear Chairman Danly:

On behalf of the Industrial Energy Consumers of America's (IECA) and its member companies with facilities in California, we urge the Commission to investigate the California electricity reliability crisis and the failure of the North American Electric Reliability Corporation (NERC) to act preemptively to protect reliability. With full knowledge of California's long-term failure to address obvious problems facing reliability due to significant additions of intermittent resources, NERC has failed to comply with their Congressional mandate to assure reliability. Manufacturers have little confidence that California will act to put in place durable policies that will deliver reliable power without Commission action.

California is home to 1.3 million manufacturing jobs and 44,539 sites that generate $324.4 billion in GDP. They consume approximately 19 percent of California's power and industrial electricity rates have increased 11.1 percent in the last five years despite so-called free solar energy. California has the fifth highest retail electricity rates in the country at 19.44 cents per kWh. The combination of reliability problems and high costs give good reason to shift manufacturing production to other states.[1]

Manufacturing companies have been directly impacted by California's policies, the failure to act, and oversight failures by NERC. We have been forced to decrease or stop production at great costs to us, our customers, and suppliers that are often in other states. Therefore, this becomes an interstate issue.

On October 6, 2020, the CAISO, CPUC, and the CEC issued a report entitled "Preliminary Root Cause Analysis" which spells out the cause of reliability failures and three measures to ensure reliable supplies in 2021 and beyond. The identified solutions to adequately plan reliable energy sources and improvement in practices in the day-ahead energy market have been long standing and well documented problems given California's aggressive goal to increase resources that are intermittent. Yet they did not act. Having adequate reliable resources is the most fundamental requirement of regulators, including NERC. For manufacturers, the solution has always been the

[1] U.S. Bureau of Labor Statistics, U.S. Energy Information Administration.

same, we need more reliable power sources and proper price signals. As an example of their failure to act, manufacturers have consistently cited the lack of price signals as a serious problem. Price signals in the form of time of use rates and demand charges targeted to system coincident peaks could unleash a wave of customer driven innovation to improve reliability.

Demand charges targeted to system coincident peaks can also help to balance the grid. Rather than charging customers a fixed cost based on the customer's highest use, charges are based on a customer's usage during the system's highest use period. This makes sense since grid infrastructure is built to support the system's peak. And it creates a powerful incentive for customers to avoid usage during these periods when power is scarce and the grid is constrained. The Mid-Atlantic, Texas, and Ontario all have some customers with coincident peak demand charges and observe flatter peaks freeing up system capacity.

California has begun rolling out time of use rates, however with significant shortcomings. The rollout has been slow with relatively low participation. The peak rates are only modestly higher than off peak rates which may not be significant enough to drive investment in smart solutions or behavioral change. And the peak rates are fixed by hour and day (e.g. every weekday from 5pm-9pm), whereas the scarcity of power is highly dynamic.

Examples abound of dynamic effective price signals throughout the country: Oklahoma Gas and Electric offers a SmartHours option with each weekday afternoon rated either Low, Standard, High or Critical with corresponding prices up to eight times the off-peak price. There are companies that operate in the Texas deregulated market that offers hourly real time prices to residential customers ranging from negative prices to the market cap of 900 cents per KWh (not a typo) with smart options to automatically adjust thermostats at different price levels. Throughout the country various other options are proliferating from free nights/weekends to gift cards in exchange for the ability to directly control your thermostat for a limited time period. All of these options are more efficient than forced outages which impact indiscriminately.

We urge the Commission investigate the California electricity reliability crisis for root causes and create a docket so that impacted intrastate and interstate entities can provide valuable insights. These insights would be helpful for other states and RTO organized markets and would support the nations' growing dependency upon renewable energy.

Sincerely,

Paul N. Cicio

Paul N. Cicio
President

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with $1.1 trillion in annual sales, over 4,200 facilities nationwide, and with more than 1.8 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: chemicals, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, automotive, brewing, independent oil refining, and cement.