



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

1776 K Street, NW, Suite 720 • Washington, D.C. 20006
Telephone (202) 223-1420 • www.ieca-us.org

March 15, 2016

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
U.S. Senate
Washington, DC 20510

The Honorable Kevin Brady
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

The Honorable Ron Wyden
Ranking Member
Committee on Finance
U.S. Senate
Washington, DC 20510

The Honorable Sander Levin
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Re: Support Manufacturing Competitiveness and Jobs by Updating and Extending the Combined Heat and Power (CHP) Business Energy Investment Tax Credit (ITC)

Dear Chairmen Hatch & Brady and Ranking Members Wyden & Levin:

On behalf of the Industrial Energy Consumers of America (IECA), we support the extension of the combined heat and power (CHP) business energy investment tax credit (ITC) set to expire on December 31, 2016. Last year, in the omnibus bill, H.R. 2029 the "Consolidated Appropriations Act of 2016," solar and wind ITC/PTCs were renewed for another five years, while CHP was not. CHP facilities should have more comparable tax treatment to that which has been extended to wind and solar. This includes changes that would allow use of the CHP ITC at the date of "commenced construction" versus "placed in service." Also, we urge you to remove the MW capacity cap on the CHP ITC, which has greatly limited the value and use of the tax credit and to include industrial waste heat to power (WHP) as a qualified facility. WHP facilities produce power without any emissions.

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. 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, automotive, brewing, independent oil refining, and cement.

**THERE ARE SIGNIFICANT DIFFERENCES BETWEEN INDUSTRIAL CHP/WHP
VS. WIND & SOLAR ELECTRIC GENERATING FACILITIES**

It is important to distinguish Congressional tax incentive support for industrial CHP/WHP from wind and solar facilities.

- Wind and solar facilities are in the business of generating and selling power. Industrial companies do not build CHP/WHP facilities to sell power, although excess power is

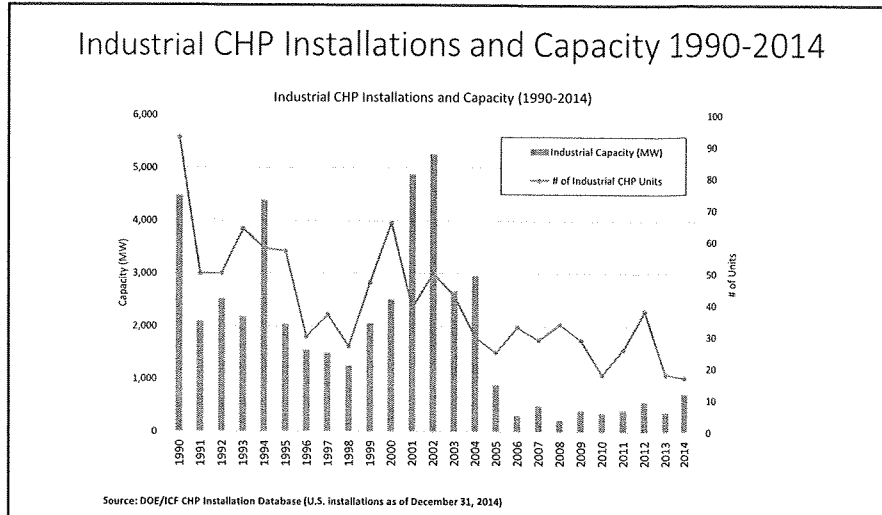
sometimes sold into the wholesale market or to the local electricity utility at the electric utilities' avoided cost.¹ The avoided cost is a price that is set by the electric utility. The need for a manufacturing company to sell increments of CHP power is due directly to changes in the manufacturing process (that consumes the steam and power), such that more steam (from the CHP unit) is required while simultaneously less power is consumed than what is generated.

- The PTC gives wind energy an economic advantage over competing electricity generation such as coal, natural gas, and nuclear generation, and all of their costs are passed onto consumers of electricity. Industrial CHP/WHP facilities are paid for by the manufacturer and the costs are not passed onto other electricity consumers.
- Wind and solar projects incur transmission and/or distribution costs that become included into the project costs and are eventually paid for by the consumer. Industrial CHP/WHP facilities pay for the cost of connecting to the grid and any transmission/distribution costs. These costs are not passed onto the other electricity consumers.
- Industrial CHP/WHP electricity produces power 24/7 which means it provides a higher quality of power, including power production when you need it most – at peak demand periods. Wind/solar are intermittent (unreliable) and operate at a less than 50 percent capacity factor.
- Once the renewable energy facility is installed, they stop generating new jobs. Industrial CHP/WHP facilities are the backbone of the manufacturing facility and support continuous job creation.
- CHP/WHP facilities create multiple ongoing economic benefits. CHP/WHP helps the manufacturer to lower its steam and electricity costs which improves competitiveness, increases investment, and exports. The renewable energy ITC/PTC does not have this substantial economic multiplier effect.
- The taxpayer receives more benefit from the CHP ITC than from the renewable energy ITC/PTC. This is because the industrial CHP facility runs 24/7, which means it produces more power than intermittent renewable resources for the same nameplate capacity on which the investment tax credits are paid. This has the effect of reducing the taxpayer cost per unit of electricity that is produced.
- Lastly, the CHP ITC is a one-time incentive to support the development of a CHP unit. The PTC on the other hand is an ongoing subsidy that pays the wind energy project on the basis of yearly production year after year. The CHP ITC is fairly inexpensive as compared to annual payouts in PTC payments.

Despite the advantages of industrial CHP, relatively few units are being built as illustrated in Figure 1. The CHP ITC and improvements to the ITC, can aide in turning this trend around and create needed middle class manufacturing jobs. Unlike solar and wind, all of the major equipment needed to build CHP units is built within the U.S.

¹ "Avoided cost" is essentially the marginal cost for a public utility to produce one more unit of power.

FIGURE 1



BENEFITS OF INDUSTRIAL CHP/WHP

The benefits of CHP/WHP are vast and offer many advantages to manufacturing and the U.S. economy.

- Improves U.S. manufacturing competitiveness by lowering steam energy and electricity operating costs to manufacturers.
- As distributive resources, CHP/WHP improves grid reliability in the event of a disaster.
- CHP/WHP facilities do not require expensive new long distance transmission and distribution (T&D) infrastructure that increase the cost of power for residential consumers. This is in contrast to wind and solar, which often require new transmission or distribution lines.
- CHP/WHP facilities run 24/7 and add to grid reliability. Wind and solar are intermittent and are unreliable.
- Provides an immediate path to lower GHG and criteria pollutant emissions through increased energy efficiency, avoiding emissions from other less efficient fossil fuel burning facilities. Current existing CHP facilities avoid 248 million metric tons of carbon dioxide per year. Industrial CHP can produce electricity at up to 80 percent efficiency, as compared to 34 percent efficiency for conventional coal- or gas-fired combined cycle power generation and stand-a-lone steam production.
- Uses abundant clean domestic energy sources. Over 83% of CHP capacity is fueled by natural gas, biomass, or waste fuels.
- Uses highly skilled American labor.²

² "Chapter 6: Innovating Clean Energy Technologies in Advanced Manufacturing," Quadrennial Technology Review 2015, <http://energy.gov/sites/prod/files/2015/12/f27/QTR2015-6D-Combined-Heat-and-Power-Systems.pdf>.

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We urge you to extend the CHP ITC and increase its applicability to support manufacturing competitiveness and domestic jobs. If you have a hearing on this subject, we would be interested in testifying. We look forward to working with you on this important issue.

Sincerely,

Paul N. Cicio
President

cc: Senate Committee on Energy and Natural Resources; House Committee on Energy and
Commerce