



July 17, 2017

The Honorable Orrin Hatch  
Senate Finance Committee  
104 Hart Office Building  
Washington, DC 20510

Dear Chairman Hatch,

The Alliance for Industrial Efficiency (the “Alliance”) is a diverse coalition representing the business, environmental, labor, and contractor communities. We are committed to enhancing manufacturing competitiveness through the use of combined heat and power (CHP) and waste heat to power (WHP). We appreciate the opportunity to submit comments to the Senate Finance Committee. Our comments offer three key recommendations:

1. Any tax reform legislation or proposal should reinstate and phase out the Section 48 Investment Tax Credit (ITC) for CHP and the other “orphan technologies” that were originally agreed to in – and unintentionally excluded from – the December 2015 tax extenders deal.
2. If the Senate opts not to reinstate the Section 48 ITC for clean and efficient technologies, we support a technology-neutral alternative.
3. We further support a five-year transition period in which taxpayers are allowed to elect MACRS depreciation and deduction of interest expenses in lieu of full and immediate expensing.

These recommendations address several of the Committee’s policy priorities:

- I. Strengthening businesses – both large and small – by lowering tax rates and broadening the relevant tax base in order to put the economy on a better growth path and create jobs.**

CHP and WHP are proven and effective energy resources that can help address current and future global energy needs and enhance manufacturing competitiveness. By generating both heat and electricity from a single fuel source, CHP increases overall fuel efficiency – allowing utilities and companies to effectively “get more with less.” CHP can operate using more than 70 percent of fuel inputs. WHP systems generate electricity from waste heat using no additional fuel and producing no additional emissions. Further, because CHP projects can operate independently of the grid, these projects can increase the reliability of our power sector – ensuring that manufacturers, universities and hospitals “keep the lights on” during extreme weather events that can compromise the electric grid.<sup>1</sup>

Investment in CHP and WHP systems stimulates the local economy both directly and indirectly and can make U.S. manufacturing more competitive. For instance, the ArcelorMittal steel facility in East Chicago, Indiana, reports \$20 million in annual energy savings from its WHP system.

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<sup>1</sup> U.S Department of Energy, U.S. Department of Housing and Urban Development, U.S. Environmental Protection Agency, Sep. 2013, “Guide to Using Combined Heat and Power for Enhancing Reliability and Resiliency in Buildings,” ([https://portal.hud.gov/hudportal/documents/huddoc?id=energy\\_chp\\_for\\_rc.pdf](https://portal.hud.gov/hudportal/documents/huddoc?id=energy_chp_for_rc.pdf)).



The company found that these cost savings made the plant's steel more competitive by effectively lowering the production cost by approximately \$5 per ton.<sup>2</sup> Further, industrial companies with CHP and WHP, such as ArcelorMittal, can use the money they save on energy to expand production and employment.

Installing these projects creates jobs in the design, construction, installation and maintenance of equipment. Under one scenario, the Department of Energy's (DOE) Oak Ridge National Laboratory found that doubling U.S. power generation from CHP would spur more than \$200 billion in private investment and create up to 1 million jobs.<sup>3</sup> A more modest projection found that a two-year extension of the 10 percent ITC for CHP could result in the creation of over 17,000 highly skilled, well-paying jobs.<sup>4</sup>

## **II. The U.S. is falling short of its potential to compete in a global economy.**

Across all CHP categories,<sup>5</sup> there is an estimated 149 gigawatts of remaining technical potential in the U.S.<sup>6</sup> There is presently less than one gigawatt (GW) installed WHP capacity, although DOE forecasts 15 GW of potential.<sup>7</sup> U.S. WHP systems number less than 100, with none in the cement sector, while China has deployed nearly 750 systems in the cement industry alone.<sup>8</sup> This pattern is repeated across industry categories. Financial incentives can jump-start investments in these technologies and enable the United States to compete in a global market.

## **III. Congress should remove impediments and disincentives for savings and investment that exist in the current tax system.**

Despite long-term benefits, up-front capital costs deter investments in CHP and WHP. Our three recommendations would help remove this impediment and allow businesses to realize the many benefits that CHP and WHP systems provide:

### Recommendation 1: Provide a Phase Down of the Historic Section 48 Tax Credit

At the close of 2015, Congress passed an omnibus appropriations and tax relief bill, which provided a phased-down extension of the 30 percent Investment Tax Credit for solar energy and the Production Tax Credit for wind. A similar extension was not secured for the remaining clean and efficient Section 48 technologies and they were allowed to expire at the close of 2016. We

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<sup>2</sup> Center for Clean Air Policy, Jul. 2013, "White Paper: Combined Heat and Power for Industrial Revitalization: Policy Solutions to Overcome Barriers and Foster Greater Deployment," at 10 ([http://ccap.org/assets/White-Paper\\_Combined-Heat-and-Power-for-Industrial-Revitalization\\_CCAP\\_July-20131.pdf](http://ccap.org/assets/White-Paper_Combined-Heat-and-Power-for-Industrial-Revitalization_CCAP_July-20131.pdf)).

<sup>3</sup> Oak Ridge National Laboratory, Dc. 2008, "Combined Heat and Power: Effective Energy Solutions for a Sustainable Future" (<http://info.ornl.gov/sites/publications/files/Pub13655.pdf>).

<sup>4</sup> World Alliance for Decentralized Energy, Oct. 2010, "Effect of a 30 Percent Investment Tax Credit on the Economic Market Potential for Combined Heat and Power" ([http://chpassociation.org/wp-content/uploads/2013/05/USCHPA-WADE\\_ITC\\_Report\\_FINAL-v4.pdf#page=24](http://chpassociation.org/wp-content/uploads/2013/05/USCHPA-WADE_ITC_Report_FINAL-v4.pdf#page=24)).

<sup>5</sup> Includes traditional topping cycle CHP, WHP CHP (sometimes referred to as bottoming cycle CHP), and district energy CHP.

<sup>6</sup> U.S. Department of Energy, Mar. 2016, "Combined Heat and Power (CHP) Technical Potential in the United States" (<http://bit.ly/2uoXP0D>).

<sup>7</sup> DOE, 2015, "WHP Market Assessment," (<http://info.ornl.gov/sites/publications/Files/Pub52953.pdf>).

<sup>8</sup> Heat Recovery for the Cement Sector: Market and Supplier Analysis, Institute for Industrial Productivity and International Finance Corporation, June 2014



hope that you will address this oversight and provide parity for CHP, WHP and the other “orphan technologies” in Section 48. In particular, we request that:

- The historic Section 48 ITC for CHP be extended at its previous level of 10 percent until January 1, 2022, and allow projects to qualify for the credit based upon the start of construction, rather than the date they are placed in service.
- This modification be made retroactive, since the credit was allowed to expire at the end of 2016.
- The Committee clarify that WHP property qualifies alongside CHP for the section 48 credit . The ITC for WHP should also continue through January 1, 2022.

#### Recommendation 2: Recognize Thermal Output in Any Technology Neutral Tax Credit

We understand that the Committee is not inclined to “pick winners and losers” and may prefer a tax credit that is not tied to any particular technology. Such a technology-neutral approach would allow the Committee to streamline the tax code by eliminating separate incentives for individual technologies. If the Committee adopts a technology-neutral approach, we urge it to recognize both the thermal and electric output from CHP systems. In particular, we support a tax reform proposal that is based on a technology’s emissions relative to the electric grid. This technology-neutral approach is reflected in Senator Wyden’s recent proposal (the “Clean Energy for America Act,” S. 1068).

#### Recommendation 3: Continue to Offer Accelerated Depreciation

CHP has historically benefited from a five-year MACRS. Such accelerated depreciation of project costs is particularly important for the CHP industry because high capital costs are generally incurred upfront. This faster return of capital may lower the risk premium, thus making a new investment more attractive.<sup>9</sup> Without MACRS, it would take significantly longer for an investor to recover his up-front costs, making financing less desirable. Accordingly, we request that the Committee:

- Reestablish the five-year MACRS for CHP and extend accelerated depreciation to WHP until January 1, 2022.
- Establish a five-year transition period during which taxpayers could elect MACRS depreciation and deduct interest expenses in lieu of full and immediate expensing.

Thank you for the opportunity to comment. We look forward to working with you and other members of the Senate Finance Committee to address these important matters.

Sincerely,

Jennifer R. Kefer  
Executive Director - Alliance for Industrial Efficiency

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<sup>9</sup> US PREF, Nov. 2013, “MACRS Depreciation and Renewable Energy Finance,” at 5 (<http://uspref.org/images/docs/MACRSwhitepaper.pdf>).