



June 21, 2019

The Honorable John Thune  
511 Dirksen Senate Office Building  
Washington, DC 20510-4105

The Honorable Debbie Stabenow  
731 Hart Senate Office Building  
Washington, DC 20510-2204

Dear Senators Thune and Stabenow,

Thank you for the opportunity to provide comments on behalf of the Alliance for Industrial Efficiency (“the Alliance”) on how tax policy can drive investment in combined heat and power (CHP) and waste heat to power (WHP) technologies. The Alliance believes that increasing the section 48 investment tax credit (ITC) for CHP from 10 to 20 percent, and incorporating WHP into the ITC will allow more American businesses to realize the energy savings and resiliency benefits these technologies provide, as well as enhance the overall competitiveness of the American economy.

The Alliance is a coalition of business, labor, non-profit organizations, and educational institutions committed to advocating for best practices and policies to increase the use of CHP and WHP technologies. The Alliance supports the use of CHP and WHP to harness the heat that is lost during conventional power generation and industrial processes—and using it to make American businesses, manufacturers, and institutions more efficient, competitive and resilient. If CHP provided 20 percent of U.S. electricity capacity, we could create nearly 1 million high-skilled technical jobs, save over 5 quadrillion BTUs of fuel annually (equal to nearly half of U.S. the energy consumed by U.S. households), produce 200,000 megawatts of power (equivalent to 400 conventional power plants), and reduce air pollution by an amount equivalent to that produced by about half the passenger vehicles on the road.

CHP has been successfully and widely deployed in the large, heavy industries, but a huge untapped potential exists for CHP applications in smaller commercial facilities. Currently, 85 percent of CHP capacity is employed in traditional industrial applications such as the chemical, petrochemical industries, pulp and paper, food processing, and primary metals. Typically, these are larger systems located at sites where the end users are familiar with CHP technology and its benefits. However, we see the large potential for new CHP deployment in non-traditional markets such as commercial buildings, institutional settings like hospitals and universities, multi-family housing, and light manufacturing. In these markets the CHP system is small—generally under 15 megawatts. According to the Department of Energy’s 2017 analysis of U.S. technical potential for CHP, over 70 percent of the potential CHP capacity in the country is in these non-traditional markets in which system capacities are under 10 megawatts.<sup>1</sup> The prospective hosts of these smaller systems have limited CHP experience and technical resources, so users and suppliers face higher risks when seeking to realize the potential benefits of CHP installations.

A larger ITC for CHP property would reduce the level of perceived financial risk on the part of both hosts and suppliers and help these energy consumers realize the energy savings CHP can provide in non-traditional applications.

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<sup>1</sup> U.S. Department of Energy. June 2017. *CHP Technical Potential in the U.S.*



In addition, the Alliance urges the Senate Finance Committee to make a small modification to make waste heat to power property eligible for the section 48 investment tax credit. Efforts to make this change have had broad bipartisan support. In the 114<sup>th</sup> Congress, the Senate Finance Committee approved S. 913 without controversy; and in the 115<sup>th</sup> Congress, legislation including this change was championed by Senators Carper, Heller, Graham, and Casey (S. 1409). Senator Carper is updating and preparing the bill for reintroduction, and we urge its inclusion in any tax extenders package or other tax vehicle that may pass during this Congress.

It is a shame to waste energy. WHP is a clean form of energy that uses leftover heat from industrial, commercial and institutional operations to generate electricity for use onsite or for export to the electric grid. WHP systems capture waste heat from sources such as exhaust stacks, pipes, boilers and cement kilns, which would otherwise be lost to the atmosphere, and converts the waste heat into electricity. Because WHP generates electricity with no additional fuel or combustion, WHP is effectively a “zero emission” energy resource. Like wind and solar energy, waste heat is a resource we already have, but it just needs to be captured and used. However, the resource is underutilized in the U.S., since only 10 percent of the 15 gigawatts of WHP project potential across the United States has been realized to date.

Despite the fact that WHP is an innovative, zero-emission energy resource, it does not qualify for any federal tax incentive. When Congress created the ITC for CHP in the Emergency Economic Stabilization Act of 2008 (P.L. 110-343), the legislative intent was to include WHP. However, CHP and WHP have some key differences that have prevented WHP from accessing the ITC as written in law. CHP systems capture waste heat generated in the production of electricity for thermal uses, whereas WHP systems capture waste heat and energy from processes and operations and convert that energy into electricity. These differences were not well understood at the time the CHP ITC was drafted. The IRS has advised the WHP industry that only a legislative clarification is sufficient to resolve WHP’s eligibility for the ITC.

It is time for the tax code to put WHP on par with other clean energy resources, which have access to the ITC. In 2017, the Joint Committee on Taxation estimated that the WHP provision in S. 1409 would cost only \$60 million over 10 years. Including WHP under the ITC would give American businesses a much-needed incentive to make use of a vast resource that is going largely unused today.

The Alliance appreciates the Senate Finance Committee’s previous attention to ensuring that the tax code provides effective incentives CHP and WHP and looks forward to continuing collaboration on these matters. Alliance members would be happy to discuss these matters in greater depth with you and your staff.

Sincerely,

David Gardiner  
Executive Director  
Alliance for Industrial Efficiency