August 23, 2019

The Honorable Eric Holcomb
The Honorable Eric Koch
The Honorable Ed Soliday
Members of the 21st Century Energy Policy Development Task Force

Indiana General Assembly
Third Floor State House
200 W. Washington Street
Indianapolis, IN 46204

RE: Recommendations to the 21st Century Energy Policy Development Task Force for Combined Heat and Power ("CHP") and Waste Heat to Power ("WHP") Policy Reform

Dear Governor Holcomb, Chairman Koch, Chairman Soliday, and Members of the 21st Century Energy Policy Development Task Force:

The 21st Century Energy Policy Development Task Force ("Task Force") provides an important opportunity to examine, evaluate, and recommend the policies necessary to ensure a promising future for Indiana's electric generation portfolios. The Alliance for Industrial Efficiency ("Alliance"), **strongly urges the Task Force to include CHP and WHP policy issues on your agenda and make it a cornerstone of Indiana's 21st Century Energy Plan.**

The Alliance is a diverse coalition that includes representatives from the business, non-profit, labor, and contractor communities, including over 190 members in Indiana. We are committed to enhancing manufacturing competitiveness and reducing emissions through industrial energy efficiency, particularly through the use of clean and efficient power generating systems such as CHP and WHP. CHP and WHP capture wasted heat and reuse it, thus using fuels most efficiently while cutting consumer energy costs and emissions. Because they generate power onsite, they improve the reliability of power services by allowing the host to operate even when the grid is down, and they deliver heat—an important and often ignored component in manufacturing.

By making CHP, WHP and other industrial efficiency measures a cornerstone of Indiana's 21st Century Energy Plan, the Task Force would:

- **Make Indiana's manufacturing sector more competitive**. By 2030, Indiana's industrial sector customers can save more than $8.8 billion on electricity costs and reduce CO_2 emissions by 9.2

million short tons annually, using CHP, WHP and other industrial efficiency measures.[1] In 2017 Indiana's industrial sector accounted for 29 percent ($103 billion in 2017) of the total gross state product; employed over 17 percent of the workforce—both of which are the highest percentages across the U.S.[2]; and consumed nearly 46 percent of the total energy used statewide.[3] Additionally, the electricity costs for the state's manufacturing sectors are trending upwards[4]: in May 2019, electricity prices for Indiana's industrial sector were 9 percent higher than the national average.[5]

- **Keep pace with other neighboring states**. Michigan, for example, has analyzed the potential for CHP and WHP to be a part of their energy future and adopted policies, such as reformed Standby Rates[6], which will accelerate adoption of CHP and WHP in its manufacturing sector.
- **Seize unrealized CHP and WHP potential.** Indiana's deployment of CHP and WHP lags far behind its potential to produce power. The state could produce an additional 4,610 MW of power (equal to nine new power plants) from CHP and WHP with more than half of that (2,624 MW[7]) remaining onsite at industrial facilities.[8] But the state has only 38 CHP sites generating 2,300 MW of clean and efficient power.[9]
- **Eliminate barriers to CHP and WHP.** A significant barrier currently inhibiting CHP growth are standby rates—tariffs imposed by utilities to recover infrastructure costs when a CHP system interconnects to the standard grid for backup power during scheduled and unscheduled outages. These standby rates are often burdensome, inflexible, unpredictable or lack transparency, and vary greatly from utility to utility within a single state. In Indiana, these poorly designed standby rates discourage manufacturers from developing CHP projects, deviate from cost of service principles by ignoring the high reliability of CHP systems, prevent companies from realizing the value of the capital investment in CHP systems, and ignore the benefits such systems can provide to other customers through reduced investment by utilities in expensive generation resources. Fortunately, several states have recently enacted policies to fix standby rates restricting CHP development, which can provide a basis for a similar approach in Indiana.
- **Respond to Indiana businesses and other energy consumers.** Last year, Indiana businesses—**Capstone Turbine, Cargill, Centrica Business Solutions, City of Fort Wayne Indiana, Clarke Energy, Direct Energy, Energy Resources Center, GEM Energy, General**

---

[1] The Alliance for Industrial Efficiency. "State Ranking of Potential Carbon Dioxide Emission Reductions through Industrial Energy Efficiency: Indiana Factsheet" September 2016. https://alliance4industrialefficiency.org/wp-content/uploads/2016/10/Final_Indiana-Factsheet_AIE-State-Ranking-Report.pdf

[2] National Association of Manufacturers. "2019 Indiana Manufacturing Facts." 2019. https://www.nam.org/state-manufacturing-data/2019-indiana-manufacturing-facts/

[3] U.S. Energy Information Administration. "Indiana Consumption by End-Use Sector." 2017. https://www.eia.gov/state/?sid=IN

[4] Purdue University. State Utility Forecasting Group. "Indiana Electricity Projections: The 2017 Forecast." December 2017. Figure 7-5. https://www.purdue.edu/discoverypark/sufg/docs/publications/2017%20SUFG%20forecast%20final.pdf

[5] U.S. Energy Information Administration. "Indiana Price Differences from U.S. Average." May 2019. https://www.eia.gov/state/?sid=IN#tabs-5

[6] Michigan Public Service Commission. Case No. U-18255. April 18, 2018. https://mi-psc.force.com/sfc/servlet.shepherd/version/download/068t00000022KiYAAU

[7] The 2,624 MW industrial CHP technical potential number includes 2,151 MW capacity of industrial topping cycle CHP and an additional 473 MW capacity of WHP (located in four industrial sectors: chemicals, petroleum refining, stone/clay/glass, and primary metals).

[8] U.S. Department of Energy. "Combined Heat and Power (CHP) Technical Potential in the United States." March 2016. https://www.energy.gov/sites/prod/files/2016/04/f30/CHP Technical Potential Study 3-31-2016 Final.pdf

[9] U.S. Department of Energy. "Combined Heat and Power (CHP) Installation Database: Indiana." Installations as of December 31, 2018. https://energy.gov/chp-installs

Motors, Heat is Power Association, Indiana Industrial Energy Consumers (INDIEC), International Paper, Midwest Cogeneration Association, Primary Energy, Unilever, and **Veolia**—sent a letter[10] to state policymakers and the Indiana Utility Regulatory Commission ("Commission") reinforcing the need for transparent, efficient, and fair standby rates, as well as expressing their frustration with the Commission's Backup, Maintenance, and Supplemental Power Rate Review[11], stating it didn't go far enough to encourage standby rate reform.[12]

Therefore, we strongly encourage the Task Force to**:**

1. **Prioritize CHP and WHP** in its discussions and the Plan it produces;
2. **Analyze the potential of CHP and WHP** to be a cornerstone of Indiana's plan;
3. **Establish a statewide goal for CHP and WHP deployment;** and,
4. **Acknowledge the problems** with existing standby rates and replace them with best practices.

Thank you for your consideration and attention to this matter. As you move forward, we look forward to working with you to explore the potential for CHP and WHP in Indiana and the appropriate actions to encourage their deployment.

Sincerely,

David Gardiner
Executive Director
Alliance for Industrial Efficiency

CC: Jim Huston, Chairman, Indiana Utility Regulatory Commission
Sarah Freeman, Commissioner, Indiana Utility Regulatory Commission
Stephanie Krevda, Commissioner, Indiana Utility Regulatory Commission
David Ober, Commissioner, Indiana Utility Regulatory Commission
David E. Ziegner, Commissioner, Indiana Utility Regulatory Commission

[10] Alliance for Industrial Efficiency. "Key Stakeholders Support Fair and Transparent Standby Rates in Indiana." October 2018. https://alliance4industrialefficiency.org/wp-content/uploads/2018/10/IN-Standby-Rates-Business-Letter_10.12.2018_final.pdf
[11] Indiana Utility Regulatory Commission. "Backup, Maintenance, and Supplemental Power Rate Review." July 1, 2017. https://www.in.gov/iurc/2954.htm
[12] Analysis performed by 5 Lakes Energy LLC., May 25, 2018, "Reply Comments of the Midwest Cogeneration Association: Attachment A." https://www.in.gov/iurc/files/MCA-%20IN%20-%20GAO%202017-3%20-%205-25-18-%20Attachment%20A.pdf