Industrial Energy Consumers of Pennsylvania

February 6, 2023
House Republican Policy Committee
Rising Energy Cost in Pennsylvania

Rod Williamson, IECPA Executive Director

Good morning, Chairman Kail and members of the committee. I am Rod Williamson, Executive Director of the Industrial Energy Consumers of Pennsylvania (IECPA). IECPA is a trade organization formed in 1982 by large, energy-intensive customers with one or more facilities in the Commonwealth of Pennsylvania. IECPA regularly monitors Public Utility Commission (PUC) activities, participates in the PUC regulatory process, and participates in the legislative process at the General Assembly on matters impacting large energy users.

IECPA represents companies, operating at more than 30 locations in Pennsylvania providing family-sustaining jobs. IECPA members spend over $300 million on energy every year, consume over 3 billion kWh of electricity and over 30 bcf of natural gas at our Pennsylvania facilities.

IECPA members recognize the need to act on climate change, and many of our member companies are implementing their own, individual sustainability programs. At the same time, we need reliable energy that is priced in a way that allows our Pennsylvania operations to grow and successfully compete in the global markets we serve.

Rod Williamson, Executive Director
rwilliamson@clarkhill.com
910-444-8883

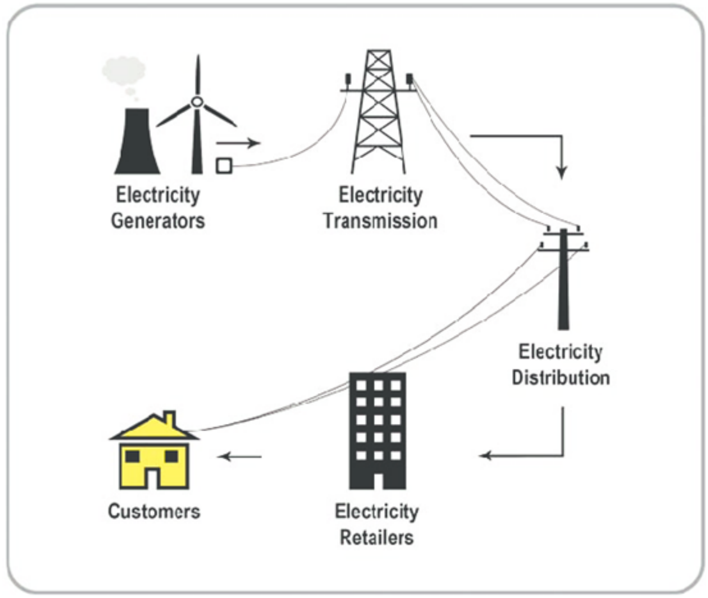
1) <u>IECPA Supports the Electricity Competitive Retail Choice Market Structure in Pennsylvania</u>

Electricity supply has 3 main components:

1) Generators
   Capacity – kW
   (to meet customer Demand)
   Energy – kWh
   (to meet customer Usage)

3) Transmission

4) Distribution



Electricity costs are 30% to 70% of industrial manufacturing costs providing self-motivation to reduce usage and costs.

For large energy user's like IECPA members, a 1 cent per kWh increase in electricity cost can result in over $10 million per year increase in cost!

While the prices in the electric retail choice market can change with the supply and demand in the market, the market provides competition among generation suppliers to control cost. Retail choice also provides greater flexibility for customers to lock-in their price for time periods that are best for them.

HOWEVER non-market, mandated PA State policy initiatives like renewable portfolio / alternative energy standard requirements, energy efficiency requirements, restrictions on what fuel can be used and regional greenhouse gas programs have and will significantly increase customers electricity cost.

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2) <u>Natural gas is a critical fuel source and raw material for industrial manufacturing companies.</u>

For large energy user's like IECPA members, a $1 per MMBtu increase in natural gas cost can result in over $10 million per year increase in cost!

Pennsylvania's natural gas supply has helped provide a competitive advantage to industrial manufacturing companies.

Policies that unnecessarily restrict the supply or prevent the domestic use of natural gas should be avoided!

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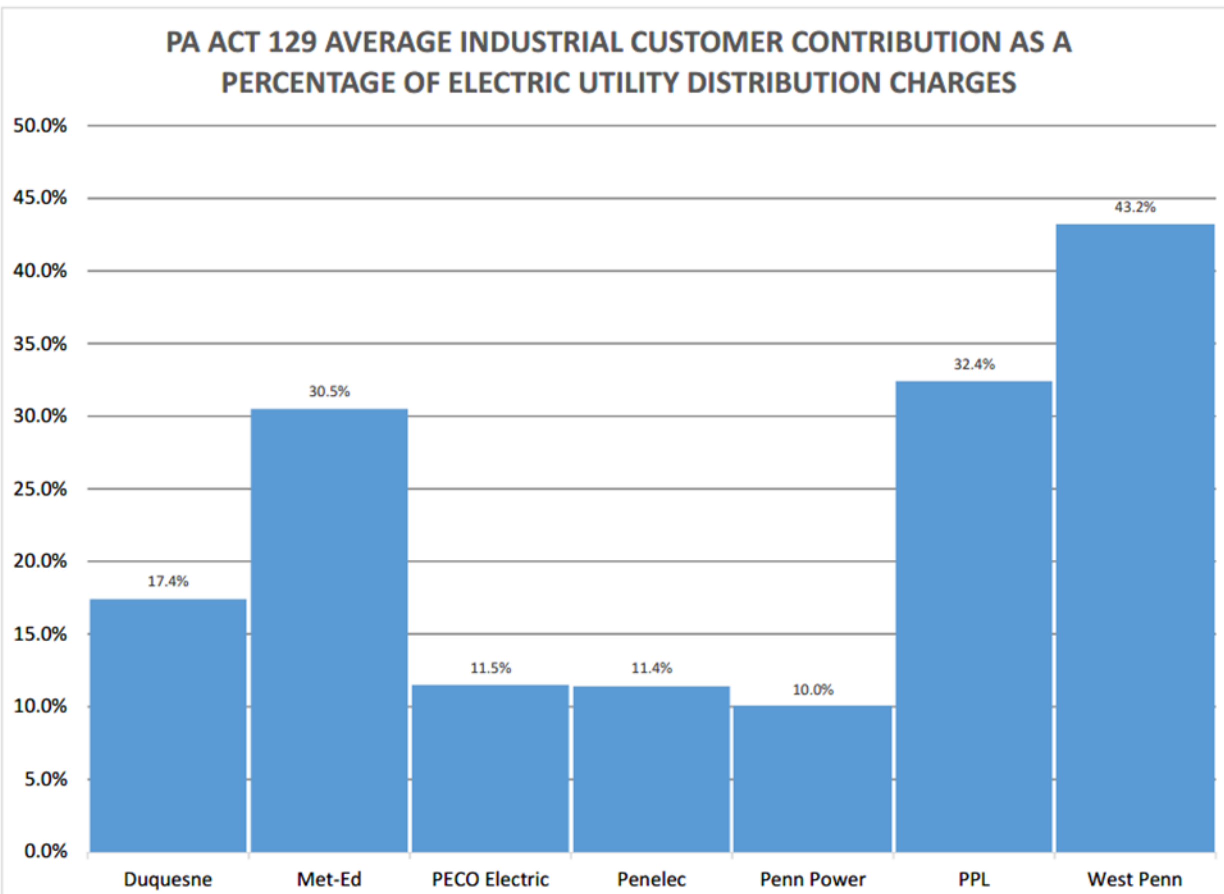
3) <u>Non-Market, Mandated Charges like the Act 129 Energy Efficiency Program are adding Uncompetitive Cost to Industrial Manufacturing Customers</u>

Since the beginning of the EE&C Program in June 2009, utility customers have paid more than $2 billion into these Act 129 compliance programs through the payment of associated EE&C utility surcharges. This includes over $1 billion in program overhead![1]

Act 129 charges are a significant, added cost to the electric distribution utility bill for manufacturing customers - as much as 43% of the utility bill!



***Based on PA PUC 2022 Rate Comparison Report (April 15, 2022)**

[1] Based on information gathered from each utilities' Annual Act 129 Energy Efficiency and Conservation Plan Reports.

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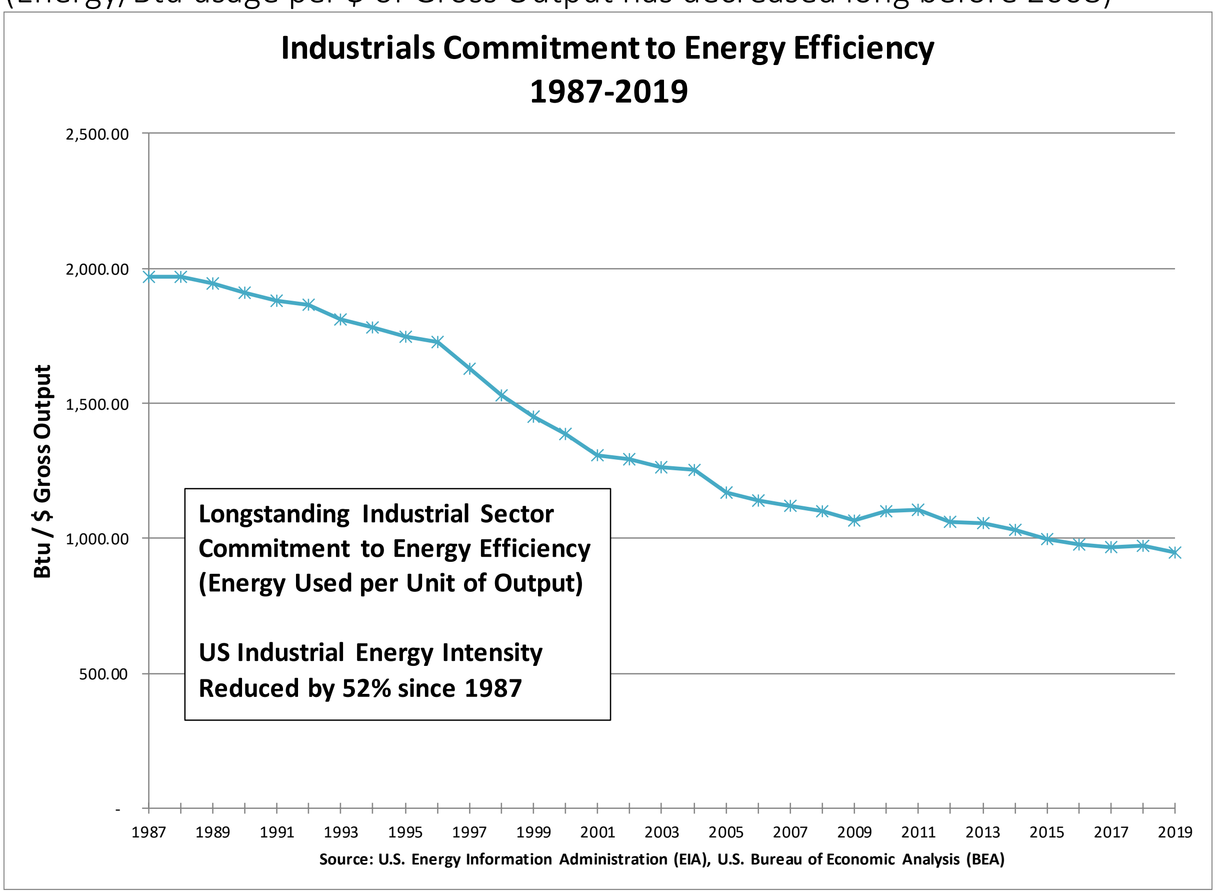
This Act 129 investment by industrial and manufacturing businesses has largely gone without a return to those entities that are unable to participate in utility EE&C offerings since they have already invested in their own operational improvements to be as efficient as possible and remain competitive. Because these manufacturing businesses are exposed to global trade, they cannot merely pass additional costs on to their customers without risking the loss of those customers to their global competition.

Unlike other energy generation resources, energy efficiency has a direct operational benefit to the individual customer. State policy should not require a manufacturing customer to subsidize / pay for energy efficiency projects at other manufacturing facilities which may be owned by their competitors.

Large energy intensive manufacturers started energy efficiency long before Act 129 in 2008 and will continue long after. Projects were always self-funded without Act 129 and benefited all Pennsylvanians.
(Energy/Btu usage per $ of Gross Output has decreased long before 2008)



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Conditions have changed significantly since Act 129-Type Programs were enacted by several states. Since then, these programs have been modified in at least 29 States (including Pennsylvania neighboring states) to provide an opt-out or self-directed program for large manufacturing customers. (https://database.aceee.org/state/self-direct) *It is long past time to do the same in Pennsylvania!*

4) The RGGI Program will Create a Significant Electricity Cost Increase to Customers

At the current carbon allowance auction price of $13/ton, electricity market prices in PA could increase over $6/MWh. This would result in significant cost increases to all customers and especially harmful to energy intensive customers:

	Electricity Cost Increase	Associated Gross Receipts Tax Increase	Total Annual Increase
Residential	$ 358,943,034	$ 22,505,728	**$ 381,448,762**
Commercial	$ 229,622,729	$ 14,397,345	**$ 244,020,074**
Industrial	$ 315,461,396	$ 19,795,203	**$ 335,256,599**
Total	**$ 904,027,159**	**$ 56,698,276**	**$ 960,725,435**

Not only would this electricity cost increase have a significant direct impact on industrial manufacturing companies' energy bills, it would also significantly raise cost to their employees resulting in further inflationary pressure.

IECPA's issue is not with the underlying goals of reducing carbon emissions, but rather the unnecessary RGGI cost that would be imposed on electric generators in Pennsylvania that will increase the cost of electricity to Pennsylvania residents, commercial businesses, and energy intensive, trade exposed industrial manufacturers.

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The increased electricity cost from RGGI is unnecessary because energy-related carbon dioxide emissions in Pennsylvania have decreased just as much on a percentage basis as the other states participating in RGGI and have decreased MORE than other RGGI states on an absolute basis without the added cost of the RGGI program! This has occurred in large part because of the competitive retail choice market in Pennsylvania driving the development of lower carbon emitting generation.

Table 1. State energy-related carbon dioxide emissions by year (1970–2020)

million metric tons of energy-related carbon dioxide

	Change (2008-2020)	
State	**Percent**	**Absolute**
Connecticut	-11.5%	-3.9
Delaware	-29.7%	-3.7
Maine	-40.9%	-5.5
Maryland	-55.0%	-26.5
Massachusetts	-46.6%	-24.4
New Hampshire	-50.5%	-6.3
New Jersey	-53.1%	-44.5
New York	-32.6%	-46.7
Rhode Island	-8.3%	-0.8
Vermont	-9.4%	-0.5
Virginia	-18.9%	-18.6
AVERAGE of RGGI STATES	**-32.4%**	**-16.5**
Pennsylvania	-39.7%	-76.7

Data sources: U.S. Energy Information Administration (EIA)

, State Energy Data System and EIA calculations made for this table.

https://www.eia.gov/environment/emissions/state/

Note: RGGI's first auction of carbon dioxide emissions allowances in 2008.

In summary, market competition drives innovation and lower energy pricing. Legislation and regulations should not impose unnecessary additional requirements that force a transition to occur faster than the market can react. Such action only results in higher cost and decreased reliability! Thank you for providing IECPA the opportunity to offer input on this critical issue.

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