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**Comments by CLECA on the August 3, 2021, Commissioner
Workshop to Accelerate Industrial Decarbonization**

Additional submitted attachment is included below.



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Commissioner Andrew McAllister
Commissioner Siva Gunda
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**RE: CEC Docket 21-IEPR-06;
Comments by the California Large Energy Consumers Association (CLECA)
on the August 3, 2021, Commissioner Workshop to Accelerate Industrial
Decarbonization**

Dear Commissioner McAllister, Commissioner Gunda, and Commission Staff:

The California Large Energy Consumers Association¹ (CLECA) appreciates this opportunity to comment on the August 3, 2021, Integrated Energy Policy Report (IEPR) Workshop to Accelerate Industrial Decarbonization. CLECA members share the perspective of being large, high load factor, and high voltage industrial customers for whom the cost of electricity is a significant factor in the cost of producing their product or service. Thus, this topic is of critical importance to CLECA members.

As CLECA presented at the workshop, CLECA supports the Commission's investigation into best practices for, and development of an industrial decarbonization incentive program.

¹ CLECA is an organization of large, high load factor industrial customers located throughout the state; the members are in the cement, steel, industrial gas, pipeline, beverage, cold storage, and mining industries, and share the fact that electricity costs comprise a significant portion of their costs of production. Some members are bundled customers, others are Direct Access (DA) customers, and some are served by Community Choice Aggregators (CCAs); a few members have onsite renewable generation. CLECA has been an active participant in Commission regulatory proceedings since the mid-1980s, and all CLECA members engage in Demand Response programs to both promote grid reliability and help mitigate the impact of the high cost of electricity in California on the competitiveness of manufacturing. CLECA members have participated in the Base Interruptible Program (BIP) and its predecessor interruptible and non-firm programs since the early 1980s.

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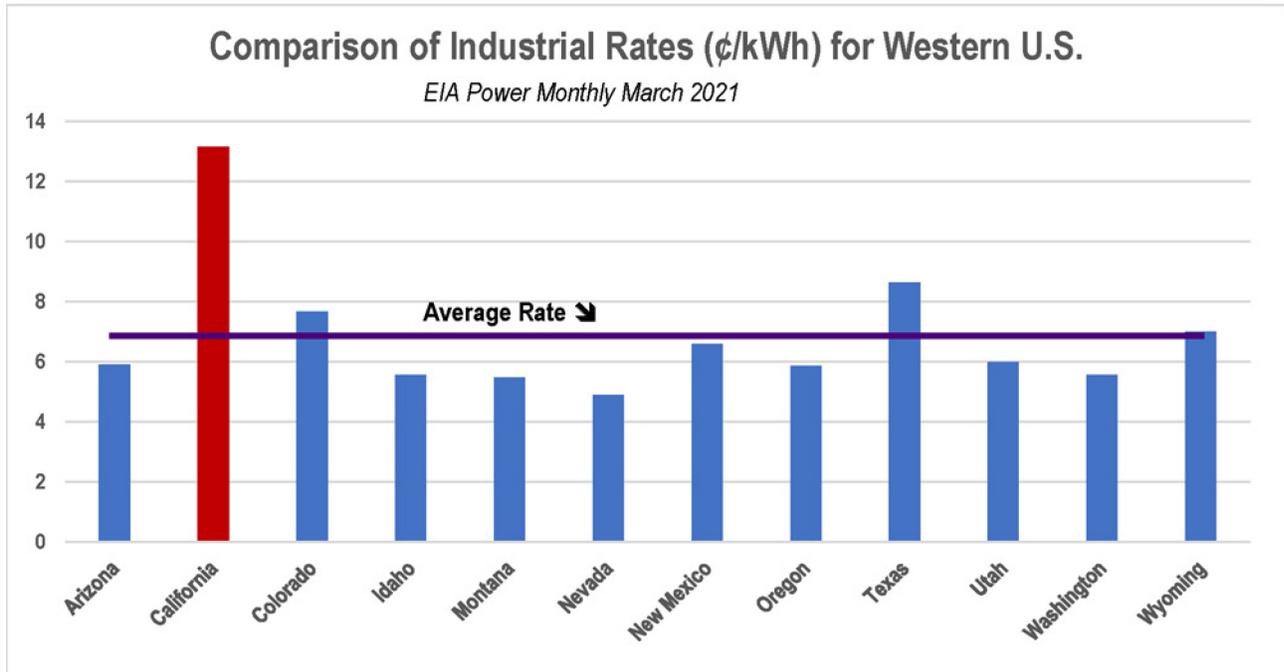
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These comments raise key issues for the industrial class, and offer solutions to these issues. Specifically, development of an industrial decarbonization incentive program should be guided by the following points:

- With already high prices for energy in the state, California should continue to maximize incentives for large industrial companies to remain in the state and reduce the risk of emissions leakage.
- A focus on decarbonization as the primary metric for application evaluation will provide a “best bang for the buck” approach, and recognize that cost is a significant barrier to decarbonization efforts; thus, there should not be a limit on applications or awards based on project size or customer size.
- Addressing opportunities for streamlining the permitting processes will help to reduce transactional friction and ease project implementation.
- The process for any incentive program should be clear and straightforward. A lengthy or complex process is a barrier to participation.
- Any framework must recognize the confidentiality concerns surrounding energy usage by customers, and should tailor the program’s benchmarks appropriately.

Emissions Leakage

CLECA members, and other similarly situated large commercial and industrial energy users, operate with energy as a significant factor of their production costs. For CLECA members, electricity costs can range from more than 33% up to a staggering 70% of their production costs. As noted by Scott Star for California Steel Industries during the workshop, industrial facilities in California already pay far higher rates for energy compared to rates in surrounding states. The below graph illustrates how California’s industrial electric rates are twice the average rate charged by utilities in surrounding states:



The risk of emissions leakage is real, as these facilities make difficult decisions about relocating production outside of California to reduce production costs and stay competitive. These facilities produce fundamental products such as oxygen, cement, steel products, beverages and food packaging, the demand for which will not go away. However, if California does not develop energy efficiency and carbon reduction programs to incentivize decarbonization in a thoughtful way, these facilities may be forced to locate elsewhere, risking the loss of the emissions-reduction gains already made by the State, and increasing the transportation emissions burden as products are trucked or shipped into the State.

Though CLECA members receive electrical service from a variety of providers, including the investor-owned utilities, direct access providers, and Community Choice Aggregators, all CLECA members face similar challenges with the high costs of energy they consume. Thus, they are active participants in energy efficiency and demand response programs. CLECA members are very supportive of the Commission's efforts to further incentivize industrial decarbonization.

Focus on Decarbonization

The primary lens through which any incentive program must be viewed is maximizing decarbonization. The costs of emissions reduction projects remain a major, if not the most significant, barrier to execution. By way of example, per an informal survey of CLECA members, a new boiler stack carbon dioxide recovery unit costs roughly \$10 million. Carbon capture and sequestration can cost between \$10 million and \$25 million per site. New, efficient boilers can cost around \$5 million, and new, efficient air compressors have a price tag between

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\$500,000 and \$1 million. As discussed above, these industrial facilities are already facing significant cost pressures due to the large energy premium imposed in California compared to competitors in other states.

CLECA thus recommends that any program match funding at levels of 50% to 75% to help facilities overcome the significant cost barrier to decarbonization efforts. Critically, the industrial decarbonization incentive program should not establish application or award restrictions based on a maximum customer size, or size of the project. If the Commission truly wants to promote maximum and most efficient decarbonization, then all projects must be eligible so that an assessment can be made of which projects provide the most emissions reductions per incentive dollar.

To this point, CLECA also suggests policy changes related to bottom-cycle combined heat and power (CHP) facilities. Currently these waste-heat recovery CHP systems do not qualify as energy efficiency - though they should, given the dual benefit provided by the system. Instead, there is a departing load charge that is layered on for CHP. This is an additional cost that can kill a project's economics, and thus kill the project. The Commission should address creative solutions, such as re-categorizing CHP more appropriately as energy efficiency to promote decarbonization.

Additionally, as noted by Steve Coppinger for CalPortland, complex and lengthy permitting issues also present significant barriers, in addition to cost issues. Permitting difficulties arise in the application and review process at various agencies; indeed, the fact that multiple agencies, at multiple levels of government - from local to county to state to federal, must separately review and approve a single project, can stop industrial decarbonization efforts. Any and all opportunities to streamline and simplify the multiple permitting processes to enable more industrial decarbonization should be prioritized, as this could decrease unintended friction and significantly aid industry; this is needed in addition to decarbonization funding.

Application Process

Maintaining a clear, concise, and set process for any incentive program is the best way to maximize participation. Lengthy and unduly complex application processes are a disincentive for industrial participation. Though these facilities are intimately acquainted with energy efficiency and demand response, the Commission should avoid creating additional administrative barriers for the industrial decarbonization incentive program. Similarly, reasonable approval timelines that are known in advance, and processes that are not at risk of changing midstream, especially after an application is submitted, provide the certainty these types of businesses require when engaging in business planning.

CLECA suggests developing the industrial decarbonization incentive program similarly to the Commission's Food Production and Investment Program (FPIP). The FPIP provides a

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streamlined track for “cookie-cutter” projects with known technologies, as well as a custom track for new technologies. CLECA finds this dual-option approach reasonable.

Confidentiality

Finally, as discussed above, energy costs can be a significant portion of the production costs of industrial facilities. Thus, there may be antitrust concerns with specific industries that are energy intensive. CLECA flags this concern around confidentiality of energy usage, and requests the Commission consider these issues when developing cohorts and benchmarks of what is appropriate for levels of efficiency. A solution may be to have a variety of industries represented in different cohorts, rather than grouping individual entities from singular industries all together.

In conclusion, CLECA supports the Commission’s careful evaluation and study of the importance of how to develop the policies and programs needed to help industries accelerate decarbonization. CLECA looks forward to continuing to work with the Commission on such development.

Respectfully submitted,

BUCHALTER
A Professional Corporation



Nora Sheriff
Counsel for the California Large Energy Consumers
Association