

**STATE OF CONNECTICUT
ENERGY & TECHNOLOGY COMMITTEE**

**Raised Bill No. 463 – An Act Concerning Financing of Energy Efficiency and
Renewable Energy**

**PUBLIC HEARING TESTIMONY OF
JAMES S. SCHNEIDER
ON BEHALF OF
KIMBERLY-CLARK CORPORATION**

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**Testimony of James S. Schneider
Kimberly-Clark Corporation
Raised Bill No. 463**

Kimberly-Clark Corporation ("K-C") appreciates this opportunity to offer comments on Raised Bill No. 463 ("RB 463"). RB 463 builds upon the strong foundation of Public Act No. 05-01 ("Act 05-01") and 07-242 ("Act 07-242") to advance development of energy efficiency and renewable energy resources in Connecticut. K-C and its New Milford Mill commend the Committee for its leadership and dedicated efforts to promote Connecticut's energy independence and improve the energy outlook for all Connecticut citizens.

In K-C's view, RB 463 supports two vitally important public interest goals. First, the proposed legislation wisely leverages private investment and harnesses competitive forces to support energy efficiency and renewable infrastructure in the State. This will provide all Connecticut ratepayers, residential and business alike, lower energy costs along with substantial environmental benefits. Not only do such investments result in additional electric capacity to the State, at a fraction of the cost otherwise available to electric ratepayers, but such energy efficiency and renewable projects firmly support the State's progressive sustainability initiatives. Equally important is that the proposed legislation encourages economic development by fostering both job retention and growth for businesses that invest in Connecticut's energy future by developing independent Class III resources. RB 463 encourages businesses to make long-term investments in the State in Class III resources, and thus, is an effective tool to retain businesses and jobs in Connecticut.

As many of you know, K-C was encouraged by Act 05-01 to develop and construct a 35 MW Combined Heat and Power ("CHP") System at K-C's New Milford Mill in Southwest Connecticut ("SWCT"). The CHP system meets all of the mill's electric and thermal power needs and generates excess electricity that is available to export to the grid for the benefit

of Connecticut ratepayers. The development and operation of K-C's CHP system has been an undeniable success for K-C, its employees, the local New Milford community and the state as a whole. As you may also know, K-C invested in excess of \$50,000,000 in this facility; K-C considers its investment in Connecticut an indisputable success.

Credit for this success rests with this Committee and the General Assembly in its forward thinking in passage of Act 05-01, which recognized that barriers exist to customers developing this environmentally preferred, but comparatively expensive, technology. The incentives that Act 05-01 afforded to help customers overcome such obstacles included development of the Class III renewable portfolio requirement and associated trading market. This administrative program encourages development and retention of environmentally preferred resources, including not only capital-intensive CHP and independent conservation programs but also ratepayer-supported, utility-administered Conservation and Load Management ("C&LM") programs. Act 07-242 provided further support for Class III resource development by establishing a 1¢/kWh floor value for all Class III credits.

§16-243t. Class III credits. a) Notwithstanding the provisions of this title, a customer who implements energy conservation or customer-side distributed resources, as defined in section 16-1, on or after January 1, 2008, shall be eligible for Class III credits, pursuant to section 16-243q. **The Class III credit shall be not less than one cent per kilowatt hour.**

See Public Act No. 07-242, §42(a) (codified at Conn. Gen Stat §16-243)(emphasis added).

Connecticut's Class III program has been an unqualified success, attracting over 90 MW of CHP-driven generation qualifying for Class III credits. These CHP resources were developed, like K-C's CHP, to enable businesses to remain competitive in Connecticut despite the region's high energy costs.

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The resounding success of the Class III program, however, has also led to some unforeseeable but emerging flaws due to program implementation that RB 463 now prudently seeks to correct. Specifically, Connecticut has experienced a significant increase in Class III credits earned by C&LM programs, which is projected to continue, creating Class III market oversupply. The table below, produced by United Illuminating for the Department of Public Utility Control in Docket No. 05-07-19RE02, demonstrates a current and growing oversupply of Class III credits attributable to C&LM programs:

CONNECTICUT CLASS III DRPS DEMAND / SUPPLY FORECAST			
<u>DEMAND</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
UI System Requirement Forecast (MWh)*	5,591,000	5,428,000	5,382,000
CL&P System Requirement Forecast (MWh)*	<u>24,150,000</u>	<u>23,910,000</u>	<u>23,883,000</u>
	29,741,000	29,338,000	29,265,000
Percentage of generation supply that electric suppliers are required to obtain from Class III resources	<u>3%</u>	<u>4%</u>	<u>4%</u>
Estimated Demand**	<u>892,230</u>	<u>1,173,520</u>	<u>1,170,600</u>
<u>SUPPLY</u>			
UI Certificate Creation Forecast from C&LM Measures	201,718	309,502	388,545
CL&P Certificate Creation Forecast from C&LM Measures	806,871	1,238,010	1,554,179
Certificate Creation Forecast from Others***	<u>460,000</u>	<u>650,000</u>	<u>650,000</u>
Estimated Supply	<u>1,468,589</u>	<u>2,197,512</u>	<u>2,592,724</u>
Estimated Excess Demand / (Supply)	<u>(576,359)</u>	<u>(1,023,992)</u>	<u>(1,422,124)</u>

Because Class III market incentives were a decisive factor in many Class III CHP resources being "greenlighted," the flood of Class III credits from the C&LM fund has rendered CHP projects like K-C's CHP potentially uneconomic, if the Class III oversupply persists. With this growing Class III program imbalance, Class III credit prices have sharply declined from 2.5¢/kWh in early 2009 to the 1¢/kWh floor. In fact, some argue that the "1¢/kWh floor" is, in fact, not a floor, notwithstanding the clearly stated legislative language,

but rather a "transaction price" if, and only if, the available credits have willing buyers. As such, due to the saturation by Class III credits from the C&LM fund, material risk exists that customers with CHP resources may not find buyers for their Class III credits.

RB 463 offers a reasonable cap on the credits earned by ratepayer-funded C&LM programs. Absence of such corrective action jeopardizes Act 05-01's and Act 07-242's objectives of attracting and retaining independent, non-utility-sponsored Class III projects, particularly investments by energy-intensive employers in the State.

K-C also supports RB 463's clarification of the required efficiency standard for Class III credits to earn Class III credits. The existing requirements for a CHP system to earn Class III credits support significant efficiency gains in the State. The clarification set forth in RB 463 merely recognizes that natural gas-fired CHP may have short-term operational and seasonal variances. Although this metric may be more onerous than the measurement approach used to gauge C&LM projects' performance, it is the most accurate analytic measurement to capture a CHP's efficiency performance.

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Thank you for your consideration of K-C's concerns with the Class III program and the need to take action, not only to retain existing independent projects such as CHP resources, but also to attract new Connecticut projects. K-C deeply appreciates the Committee's dedicated efforts to promote Connecticut's energy independence and develop innovative approaches to support economic growth in the State, while simultaneously supporting the State's environmental goals. I am available to answer questions or provide additional detail regarding my testimony.