

**STATE OF CONNECTICUT
ENERGY & TECHNOLOGY COMMITTEE**

Raised Bill No. 450 – An Act Concerning Energy Conservation and Renewable Energy

**Written Testimony of
Chuck Smith
on Behalf of
Kimberly-Clark Corporation
As a Member of the Class III CHP Organization ("C3CO")**

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March 20, 2012

WRITTEN TESTIMONY OF CHUCK SMITH
ON BEHALF OF KIMBERLY-CLARK CORPORATION
MEMBER OF CLASS III CHP ORGANIZATION
ON RAISED BILL NO. 450

Kimberly-Clark Corporation ("K-C"), a member of the Class III CHP Organization ("C3CO"), welcomes this opportunity to support Raised Bill No. 450 ("Bill 450"), which proposes to permit micro-grids, including Class III combined heat and power ("CHP") resources, to satisfy no less than 25% of Connecticut's Class I renewable portfolio standards ("RPS") requirement.

K-C installed a 35 MW CHP system, which qualifies as a Class III resource, to meet its New Milford Mill's electric and thermal power needs. The CHP resource is instrumental to controlling costs and K-C remaining competitive in Connecticut. K-C's decision to invest \$50 million in CHP development at its New Milford Mill relied upon projections that Class III credit sales would help to offset the significant development and ongoing operating costs of this more expensive but environmentally preferred generating technology.

In recent years, Class III credit prices have steeply declined, as Class III credits generated by the Conservation and Load Management ("C&LM") program have flooded the market. Class III credits are now trading at the floor price, if they can be sold at all. The serious Class III oversupply jeopardizes an important revenue stream that Class III CHP developers rely upon to justify their investment. Without this stable revenue source, the cost of investing in new or expanding existing CHP resources in this State becomes cost prohibitive. To be clear, the Class III revenue stream should not be viewed as a "profit center" for K-C or any CHP developer but rather an important source of support for ongoing CHP operation, without which the CHP is not economic.

At the same time, Connecticut faces a Class I shortage. According to Connecticut Department of Energy and Environmental Protection's ("DEEP") draft 2012 Integrated Resource Plan, because Connecticut lacks native Class I resources, 95% of the Class I requirement is met through resources located outside the State. In 2011 alone, Connecticut ratepayers paid approximately \$89

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million to purchase Class I credits from out-of-state resources.¹ Thus, Connecticut's RPS policy is driving renewable resource development outside the State at the expense of Connecticut's customers, including in-state CHP developers.

Bill 450 offers a sensible solution to Connecticut's renewable energy dilemma. Specifically, Bill 450 proposes to allow micro-grids, which, by definition, include Class III CHP resources, to satisfy no less than 25% of the Class I requirements. By doing so, Bill 450 diversifies the pool of renewable resources eligible to satisfy Class I requirements to include micro-grids, including Class III CHP. This will also increase competition to supply Class I requirements, tempering Class I credit prices.

Bill 450 alleviates the Class III imbalance by introducing a new market for Class III sources. Because Class III CHP must be located in Connecticut, Bill 450 also positively impacts Connecticut's economy by keeping approximately \$24.8 million (of the \$89 million that is currently flowing to out-of-state resources) for in-state CHP investment.² Connecticut customers also benefit because the proposed carve-out for micro-grids will reduce the costs of Class I RPS compliance.

Passage of Bill 450 would demonstrate Connecticut's commitment to in-state economic development and encourage businesses like K-C not only to continue existing, but also expand their Connecticut presence. This will result in job growth, additional tax revenues for local communities, and related economic benefits of in-state investment, while also securing Connecticut's ability to satisfy its renewable energy policy goals. Absent such a signal, energy-intensive

¹ K-C's back-of-the-envelope calculation is based on the following assumptions: (1) Connecticut's 2011 electric load was approximately 31,000,000 kWh; (2) for 2011, the Class I REC purchase requirement was 8% of load or 2,480,000 RECs; (3) the average price for a Class I REC was \$49; and (4) 90% of Class I RECs are being obtained from resources outside of Connecticut.

² This figure is based on the following calculation: $[(2,480,000 \text{ RECs} * 0.25)] * \$40/\text{REC} = \$24,800,000$.

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businesses considering CHP will have incentives to partner with other states to locate or expand their operations.

Thank you for your consideration of K-C's testimony. K-C appreciates the Committee's dedicated efforts to advance the State's environmental goals while simultaneously developing innovative approaches to support economic growth in Connecticut. I am available to answer questions regarding my testimony.