

**STATE OF CONNECTICUT
ENERGY & TECHNOLOGY COMMITTEE**

Governor's Bill No. 6360 – An Act Concerning Implementation of Connecticut's
Comprehensive Energy Strategy

Raised Bill No. 6532 – An Act Concerning Certification of Class I and Class II
Renewable Energy Sources and Class III Sources, Renewable Energy Credits and
Alternative Compliance Payments

**Written Testimony of
James S. Schneider
on Behalf of
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**WRITTEN TESTIMONY OF JAMES S. SCHNEIDER
ON BEHALF OF KIMBERLY-CLARK CORPORATION
ON GOVERNOR'S BILL NO. 6360 AND RAISED BILL NO. 6532**

Kimberly-Clark Corporation ("K-C") welcomes the opportunity to provide comments to inform the discussion on: (i) Governor's Bill No. 6360 ("Bill 6360"), which advances microgrid development in Connecticut and proposes to require annual benchmarking for nonresidential building owners, and (ii) Raised Bill No. 6532 ("Bill 6532"), which introduces changes to registration, reporting, and ongoing compliance obligations for resources eligible to earn Renewable Energy Credits ("RECs") under Connecticut's Renewable Portfolio Standards ("RPS"). As detailed below, K-C:

- Supports the Governor's microgrid initiative and proposes targeted amendments to Bill 6532 intended to revitalize the Class III market to ensure Class III Combined Heat and Power ("CHP") sources remain viable options to support microgrid development in the State;
- Urges lawmakers to amend Bill 6360's benchmarking provisions to safeguard against public disclosure of business sensitive information; and
- Commends Bill 6532 for promoting parity among RPS resources regarding registration, reporting, and compliance requirements.

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

- **Bill 6360's Microgrid Provisions**

K-C supports Bill 6360's measures to promote microgrid development to serve critical facilities and extend microgrid opportunities to energy improvement districts. As recognized in Bill 6360, Class III CHP resources are the type of distributed generation resources that are necessary to power a microgrid. Class III CHP resources have the potential to enhance the resiliency and security of Connecticut's electric distribution system by serving as environmentally friendly generation sources for microgrids.

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Severe weather events and the resulting widespread power outages in recent years have underscored the need for further microgrid development in the State. During power outages, a microgrid would automatically isolate itself from the primary distribution system, thereby permitting interconnected customers to continue operating. Like many other Connecticut manufacturers, hospitals, and educational institutions with Class III CHP, K-C's New Milford Mill operated without interruption during major storms in 2011 and 2012, thereby continuing to support the local economy. Thus, Class III CHP-powered microgrids are central to enhancing distribution system reliability in the event of extreme weather and other emergencies, thereby safeguarding the State's electricity customers, economy, and critical health and public safety functions.

The grave imbalance in the Class III market, however, threatens the success of microgrid development in Connecticut. The influx of Class III RECs produced by Conservation and Load Management ("C&LM") resources has flooded the Class III market. The current Class III market is at the floor price and saturated, creating real challenges for CHP developers to sell their Class III RECs. See Attachment 1. Other Connecticut Class III CHP developers share this serious concern about the viability of the Class III market in light of the oversupply situation.

Moreover, implementation of the Comprehensive Energy Strategy's recommendation for increased C&LM funding, which will result in the creation of additional Class III RECs, will likely worsen the Class III imbalance. As a result, the developers of Connecticut's 120 MW of certified CHP capacity will face the real and likely possibility of not finding any buyers for any of their Class III RECs, thereby jeopardizing an important revenue stream that Class III CHP developers rely upon to justify their significant capital investment and ongoing operating costs. This would have a chilling, if not fatal, affect on CHP development, and consequently, microgrid development in the State.

- **Proposed Amendments to Class III RPS**

In order for Class III CHP to be a viable option to support Connecticut's microgrid initiative, the Class III market must be restructured to provide the necessary incentives for operation of existing, and development of new, Class III CHP resources. To this end, K-C proposes the creation of a new class of resources under Connecticut's RPS – Class IV – that would

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be comprised entirely of C&LM projects, thereby removing such resources from Class III. Alternatively, K-C proposes establishing separate subcategories under Class III for CHP resources and C&LM projects (*i.e.*, Class III and Class IIIA, respectively) akin to the proposal for trash-to-energy facilities in Raised Bill No. 6531. K-C's proposed amendments to Bill 6532 are detailed in Attachments 2 and 3, respectively.

Under either approach, K-C recommends an across-the-board 1% downward adjustment to the Class I RPS requirements and a corresponding re-assignment of those requirements to the new class for C&LM projects. The RPS requirements for Class III would remain unchanged at 4% through 2020. The proposed changes to the RPS requirements are illustrated in Attachment 4. Under K-C's proposals, the contemplated changes would become effective prospectively as of January 1, 2014.

Placing Class III CHP resources and C&LM projects in distinct classes recognizes fundamental differences in funding requirements and sources. Unlike Class III CHP resources, C&LM projects receive support from the C&LM Funds, which are funded via a statutorily mandated adder on customers' invoices for distribution service. A separate classification for C&LM projects will begin to ease the current Class III imbalance and avoid exacerbating the oversupply situation upon implementation of the Comprehensive Energy Strategy's recommended C&LM funding increase. Furthermore, because New England's REC trading platform already separately tracks RECs produced by Class III CHP and C&LM projects, this proposal could be implemented swiftly and with administrative ease.

Finally, as lawmakers may recall, because Connecticut lacks native Class I resources, approximately 95% of these requirements is met through resources outside the State. After 2017, a Class I shortage is expected. Re-assigning a portion of the Class I requirements to the new class for C&LM projects would enable Connecticut to invest more ratepayer funds in Connecticut, given that C&LM projects must be located in the State. It also better positions Connecticut to meet its RPS goals, thereby potentially reducing customers' exposure to costly alternative compliance payments.

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While recognizing the Department's RPS study is underway, K-C encourages Connecticut to take action now to address these real and growing problems before the window of opportunity of this legislative session closes and further CHP and microgrid development is compromised. K-C's proposals represent a targeted measure to support CHP and microgrid development and to reduce ratepayer costs without impairing Connecticut's energy efficiency initiative, which K-C recognizes as an important facet of the State's energy policy. At the same time, K-C is open to working with Committee members to adjust these proposals, as necessary, to make sure a solution is developed that best addresses the important renewable energy matters facing Connecticut.

- **Bill 6360's Benchmarking Provisions and the Need To Protect Public Disclosure of Commercially Sensitive Information**

On a different note, K-C is concerned about the potential for competitive harm to Connecticut's energy-intensive industries stemming from Section 15 of Bill 6360. This provision requires nonresidential building owners to benchmark a building's energy usage and report the energy use data and ratings to the Department, who will subsequently make that information publicly accessible via the internet. As an Energy Star member, K-C appreciates Bill 6360's effort to cultivate a culture of energy efficiency across all customer classes. However, K-C is very concerned that the proposed benchmarking provisions mandate the release of a manufacturer's energy usage data. K-C considers such data to be highly confidential and commercially sensitive information, given that energy consumption represents one of the key operating costs in the energy-intensive and extremely competitive paper-making industry. Given the differences among nonresidential buildings, K-C is also concerned that benchmarking such buildings, even if they are in the same category in terms of size, may not provide an accurate basis to compare energy efficiency levels. Thus, K-C urges lawmakers to consider these comments and, at a minimum, introduce measures to prevent public disclosure of manufacturers' business sensitive information.

- **Bill 6532's Registration, Reporting, and Compliance Obligations for RPS Resources**

Finally, K-C would like to take this opportunity to commend Bill 6532, which introduces a number of changes designed to place all RPS resources on more equal footing with respect

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to registration, reporting, and other compliance requirements. These changes will assist in more accurately tracking the creation, purchases, and sales of all RECs, thereby providing Connecticut with improved information about its progress in meeting its RPS goals.

Thank you for your consideration of K-C's testimony. K-C appreciates the Committee's dedicated efforts to advance the State's energy and environmental goals while welcoming input on approaches to support ongoing and future investment in Connecticut. I am available to answer any questions.