STATE OF CONNECTICUT
ENVIRONMENT COMMITTEE

H.B. No. 5363 (Raised) –
An Act Establishing a Carbon Price for Fossil Fuels Sold in Connecticut

Public Hearing Testimony of Kimberly-Clark Corporation

Sponsored by:

Gary D. Wright, Mill Manager
Kimberly-Clark Corporation
58 Pickett District Road
New Milford, Connecticut
gdwrigh@kcc.com

March 14, 2018

On behalf of its New Milford, Connecticut tissue mill, Kimberly-Clark Corporation ("K-C") appreciates this opportunity to voice K-C's grave concerns about Raised Bill No. 5363, LCO No. 1937 ("the Bill"). The Bill proposes the imposition of a significant tax on natural gas and other fossil fuels ("carbon tax") used or sold in Connecticut, while providing little, if any, meaningful advancement of the State's goal of making energy "cheaper, cleaner, and more reliable."[1]

The proposed carbon tax would directly and adversely impact K-C's New Milford Mill and the viability of its natural-gas fired Class III Combined Heat and Power ("CHP") system by raising operating costs by *at least* $2 million in the first year alone. The proposed legislation would disproportionately harm Connecticut manufacturers that have invested in cleaner and more efficient energy supplies, such as Class III CHP systems. Also, by penalizing owners and operators of Class III energy sources, the proposed legislation is counterproductive to achieving Connecticut's stated energy goals. As such, K-C opposes the proposed legislation.

To be clear, Kimberly-Clark shares the Bill's goals of carbon reduction and support for a cleaner environment. K-C has a long-standing energy and climate program to transform financial and environmental performance through energy efficiency, conservation, and alternative energy initiatives that reduce greenhouse gas emissions and climate impacts from both K-C's operation and along K-C's supply chain.[2] K-C's goals include reducing its greenhouse gas emissions by 20% by 2022.[3] Environmental NGOs have recognized K-C’s efforts on this front in the form of a 2018 Climate Leadership Award for Excellence in the Greenhouse Gas Management category, presented by the Bloomberg Philanthropies, the Center for Climate and Energy Solutions and The Climate Registry. Similarly, the Smart Energy Decisions organization honored the

[1] *See* Connecticut Energy Strategy (issued Feb. 8, 2018) at 4.
[2] *See generally* K-C's 2016 Sustainability Report at https://www.sustainability2022.com/-/media/sustainability-files/pdf/kimberly-clark-sustainability-report_2016.pdf.
[3] *Id*. at 17 (describing K-C's energy and climate initiatives).

company with a 2018 Innovation Award for K-C's programs creating a culture of energy conservation at its manufacturing sites and use of innovative technologies and progressive practices by a large electric power user.

K-C has embraced the use of state-of-the-art natural-gas fired generation using CHP technology at several of its manufacturing facilities, such as the mill in New Milford to help reduce its greenhouse gas emissions and boost the competitiveness of mills in regions with historical power reliability or cost challenges.[4] Carbon reduction is a key facet of K-C's sustainability initiatives and, as such, the goals of carbon reduction inherent in the proposed legislation are goals that K-C shares. The Bill's approach to achieving carbon reduction, however, is misguided and threatens many of the sound public policies that Connecticut has established to support environmental goals, reliability, and economic growth in the State.

Enactment of the Bill would jeopardize investments in efficiency made by businesses like K-C in Connecticut in response to established and long-standing Connecticut policies. The Bill's carbon tax targets, among others, those owning generation producing twenty-five thousand kilowatt-hours or more of electricity using any fossil fuel, including natural gas. As such, the Bill would directly tax businesses, like K-C, that installed customer-owned generation facilities that qualify as Class III CHP sources under Connecticut's Renewable Portfolio Standards ("RPS"). While perhaps well-meaning in its inspiration, the Bill would result in a draconian tax on businesses that have invested in CHP and thwart Connecticut's policies supportive of CHP development.

Simply put, the Bill runs counter to Connecticut's well-established policy goal of making energy "cheaper, cleaner, and more reliable"[5] and undermines the critical role of Class III CHP sources in realizing Connecticut's energy policy. Among

---

[4] *Id*.
[5] *See* note 1, *supra*.

other faults, the Bill fails to recognize that Class III CHP sources are environmentally preferred resources under Connecticut's RPS and, as such, Connecticut's long-standing policy has been to promote CHP development. The Bill's passage would thus thwart State policies, such as those under Public Act No. 05-01, "An Act Concerning Energy Independence," and microgrid development, effectively stranding these assets as uneconomic. At a minimum, the Bill should be revised to exempt from the carbon tax those “early adopters” of environmentally preferred energy resources – including CHP– who are investing in response to the State's policy goals.

As this Committee may recall, K-C was encouraged by Public Act No. 05-01 to build a 35 MW Class III CHP system at K-C's New Milford Mill, which is proud to employ more than 350 highly skilled workers at family-sustaining wages. For K-C, and likely many other large commercial and industrial customers with energy-intensive business operations in the State, energy costs represent a significant percentage of total operating costs. The CHP unit has played, and continues to play, a critical role in allowing the New Milford mill to fulfill K-C's corporate sustainability and environmental stewardship policies as well as controlling its energy costs. K-C's CHP unit helps the mill remain competitive against other K-C tissue mills as well as other companies' tissue mills operating in lower cost energy markets.

Due to CHP investments by K-C and other Connecticut manufacturers, educational institutions, and medical facilities prompted by effective public policy, Connecticut has led the nation in CHP development. In turn, Connecticut's CHP initiative has benefited, and will likely continue to benefit, the State by providing its businesses and industry with valuable tools to reduce energy costs, improve competitiveness, promote the development of these more environmentally friendly resources, and support the local tax bases and labor markets of towns like New Milford.

The Bill, however, is likely to extinguish these benefits by imposing a hefty carbon tax that will likely have a negative economic impact on business and industry in general and Class III CHP, in particular. **Based on preliminary calculations, the proposed carbon tax would increase the New Milford mill's costs by approximately $2 million in the first year alone**. In subsequent years, the New Milford Mill would realize continued cost increases of no less than 33% *per year* due to the annual increase in the carbon tax. Notably, this projection does not reflect the "methane adder" set forth at Section 1(b)(5), which would exacerbate the Bill's negative cost impact.

K-C is not uniquely affected in this fashion. Other CHP developers in the State, including manufacturers, universities and hospitals, will confront similar cost increases. In short, the proposed carbon tax will have a substantial negative economic impact on Connecticut businesses if this Bill is passed. The annual escalation of the carbon tax, plus the "methane adder," will likely result in operating costs that are unsustainable for Connecticut businesses, particularly in light of the fact that Connecticut already has some of the highest energy costs in the nation. Such an outcome is particularly egregious as the majority (*i.e.*, 95%) of revenues would result in tax credits and cash payments to residential customers and employers to "transition to cleaner energy options" – in a manner that is not addressed by the Bill nor holds recipients of such financial rewards accountable for undertaking any particular actions – and "mitigate any potential economic harm from the carbon fee."[6]

In addition to the magnitude of the cost impact, the Bill's targeting of Class III resources will likely have an immediate chilling effect on CHP development. Developing, installing, and operating CHP is very costly. Due to the high level of capital investment, CHP developers are extremely sensitive to long-term revenue predictability. Customers contemplating CHP investment do so as part of an

[6] Bill at Section 1(c)(1).

overall business plan, which is necessarily a forward-looking process that anticipates a company's future needs and addresses the means by which it fulfills those needs. To effectively prepare and execute a business plan that includes a large capital investment, a company requires a high degree of certainty with respect to its return on investment during the lengthy payback period as well as its strategy for managing ongoing operating costs. A carbon tax on the use of natural gas used to fuel Class III CHP sources is likely to result in a cost-benefit analysis that does not justify additional Class III CHP development and could render ongoing operation of existing Class III CHP sources uneconomic.

Class III CHP advances Connecticut's goal of making energy more reliable. For K-C, its Class III CHP unit has been critical in allowing the New Milford mill to operate without interruption, despite severe weather events and the resulting widespread power outages New England experienced in recent years. During power outages, the Class III CHP unit enables the New Milford mill to isolate itself from the primary distribution system, thereby permitting K-C to continue operating. Like many other Connecticut manufacturers, hospitals, and educational institutions with CHP resources, K-C's New Milford Mill operated without interruption during major storms in 2011 and 2012, thereby continuing to support the local economy. Thus, CHP resources present valuable tools for enhancing distribution system reliability in the event of extreme weather and other emergencies that may cause power outages, thereby safeguarding other electricity customers, the economy, and critical health and public safety functions.

Thank you for your consideration of K-C's testimony on Raised Bill No. 5363. As the owner, operator, and developer of a Class III CHP unit at its New Milford, Connecticut, manufacturing facility, K-C appreciates the opportunity to share its perspective with the Committee. Beyond the concerns that K-C has with respect to the Bill's impact on Class III CHP, K-C has serious reservations about the economic burdens that such a carbon tax would place on Connecticut. Better approaches exist to advance our shared environmental goals without burdening businesses and residential customers alike.