

**STATE OF CONNECTICUT  
ENERGY & TECHNOLOGY COMMITTEE**

Proposed Bill (LCO No. 3916) –  
An Act Concerning Emergency Response by Electric Distribution Companies  
and Revising the Regulation of Other Public Utilities

**Public Hearing Testimony  
of  
Kimberly-Clark Corporation**

Sponsored by:

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**PUBLIC HEARING TESTIMONY OF NATHAN KENNEY  
ON BEHALF OF KIMBERLY-CLARK CORPORATION  
ON PROPOSED BILL (LCO NO. 3916)**

On behalf of its New Milford, Connecticut, tissue mill ("New Milford Mill" or "Mill"), Kimberly-Clark Corporation ("K-C") appreciates this opportunity to provide comments on Proposed Bill, LCO No. 3916 ("the Bill"). The Bill proposes measures designed to protect Connecticut ratepayers from prolonged service outages by strengthening performance standards for Connecticut's electric distribution companies and to facilitate resilience by incentivizing microgrid development using, among others, Class III resources. K-C supports the Bill's objectives but cautions that certain measured modifications to the Bill are necessary to avoid adverse impacts on businesses, hospitals, and educational institutions with existing Class III sources. In addition, K-C, like other Class III sources, rely on a robust wholesale market to sell excess electricity produced by the cogeneration units. We encourage the Committee to be sensitive to this dynamic as it considers Connecticut's relationship with ISO New England ("ISO-NE" or "ISO").

Maintaining electric service through severe weather and other unexpected threats or incidents is indispensable to daily life. Disruptions in service, especially long-term disruptions, also have economic consequences for businesses. K-C strongly supports Connecticut's efforts to ensure timely restoration of service in the event of an outage. K-C's perspective on this vital issue is influenced by the fact that K-C itself was not adversely affected by recent outages because its on-site Combined Heat and Power ("CHP") generation, developed in response to Public Act No. 05-01, "An Act Concerning Energy Independence," enabled the New Milford Mill to continue operation without interruption during the severe weather that caused the outages.

Based on our experience, K-C firmly believes that customer-side investment in CHP has been, and will continue to be, an important factor in Connecticut solving for resilience. Well-designed Renewable Portfolio Standards ("RPS"), access to New England's wholesale power markets and reliable, and affordable and reliable natural gas supply are also critical factors without which customer-side

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Class III CHP developers at manufacturing facilities, hospitals, and educational institutions across our State would be unable to make a successful business case for undertaking the sizable and long-term capital investment required to develop on-site CHP generation.

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 Class III CHP unit has played, and continues to play, a critical role in allowing the Mill to fulfill K-C's corporate sustainability and environmental stewardship policies as well as controlling the Mill's energy costs and ensuring reliability. K-C's Class III CHP unit helps the Mill remain competitive not only against other K-C tissue mills but also other companies' tissue mills operating in lower cost energy markets. In short, Class III CHP units promote Connecticut's goals of making electricity supply more economic and reliable.

**The Importance of Class III Sources and the Class III RPS**

For K-C, its CHP unit, which qualifies as a Class III source, has been critical in allowing the New Milford Mill to operate without interruption, despite severe weather events and the resulting widespread power outages experienced in recent weeks and prior years. During power outages, K-C's CHP unit enables the Mill to isolate itself from the primary distribution system, thereby permitting the Mill to continue operating. Like many other Connecticut manufacturers, hospitals, and educational institutions with CHP resources, K-C's New Milford Mill operates without interruption during major storms, thereby continuing to support its workforce and the local economy. Not only did the New Milford Mill not lose power during the recent storms that otherwise resulted in sustained outages, the Mill also did not lose power during Hurricane Irene in 2011 or during Superstorm

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Sandy and the October storm of 2012. Of particular importance this year, in light of the current global health pandemic, the New Milford Mill has been designated an essential business, and the Class III CHP unit has played a vital role by enabling the New Milford Mill to operate 24x7 without stop to meet the nation's demand.

K-C shares its experience to underscore that Class III CHP resources present valuable tools for enhancing distribution system reliability in the event of extreme weather and other emergencies that may cause power outages and, in turn, safeguarding other electricity customers, the economy, and critical health and public safety functions. As such, K-C supports the Bill's efforts to promote development of new CHP and microgrids that quality as Class III sources to improve the resilience of the State's energy infrastructure.

While K-C supports the Bill's policy direction, K-C must caution that the existing RPS is simply not designed to accommodate an influx of new Class III sources absent change to the Class III requirements. Unlike other classes of the Connecticut RPS with requirements that increase over time, the Class III requirement is capped at 4% of the total output of the jurisdictional electric distribution companies and suppliers. Given the trend of declining demand, especially under current economic conditions, the 4% target is actually contracting, further limiting opportunities for Class III sources to monetize their Class III designation. Even without the Bill's efforts to increase the State's Class III-qualifying infrastructure, the Class III program is not just saturated but will be oversupplied by more than 200,000 RECs in 2020. Another feature unique to the Class III program is that it has a floor price of \$0.01/kWh. This combination of features means that many existing Class III sources, like K-C, risk not selling their Class III credits under the current supply-demand balance created by the statutory static 4% requirement, independent of the Bill's incentives to promote additional Class III sources. Currently, the Class III credit is trading at the floor price, if it even can be sold at all.

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We offer this perspective into the Class III program for the Committee's consideration because, absent change to the RPS, not only will the envisioned Class III development not be realized, but it will also lead to the unintended consequences of harming existing Class III sources. The revenue stream associated with the Class III credit is vital to defray the ongoing costs associated with CHP and other Class III sources. Initiatives set forth in the Bill to promote new Class III resources as part of a microgrid initiative should not jeopardize investments made by businesses like K-C in response to established and long-standing Connecticut policies.

While well-meaning in intention, the proposed Bill's focus on promoting new investment in Class III without considering the overall impact on the Class III supply-demand dynamics will have a chilling effect on existing CHP sources and future CHP development and Connecticut's RPS goals for those resources. Even without the Bill's incentives to attract additional Class III sources, the Class III program is already out of balance. As such, K-C recommends that the Bill be amended to right size the existing the Class III requirement and increase that requirement on an annual basis comparable with the other classes within the Connecticut RPS.

Moreover, the Bill's language in Section 16 at line 561 suggests that DEEP will be vested with authority to determine *whether* to procure electricity from CHP facilities to meet customers' projected requirements. By logical extension, this provision introduces uncertainty into the Class III RPS program, which could further chill CHP development. K-C recommends that this change either be removed or clarified to ensure that PURA is not authorized to decrease purchases from Class III resources.

**Value of Access to Wholesale Markets for CHP**

The Bill also includes provisions such as the one at Section 16a-3a(b)(7) that indicate Connecticut will re-examine its participation in New England's wholesale power markets. While K-C acknowledges the challenges to State policy presented by federal jurisdiction over wholesale energy markets, exiting the wholesale energy markets administered by ISO-NE would not be a prudent course of action. Such a path would likely require an extraordinary commitment of time and resources merely to extricate Connecticut from the wholesale markets, and an equally extraordinary dedication of time and resources to formulate the alternative market design and address the plethora of unanticipated issues that would surely arise. Furthermore, the regulatory uncertainty during any interim period could result in the addition of risk premiums on electricity products, services, and investments, which would hurt economic development and likely deter investment in energy-related projects and infrastructure, including those that would advance Connecticut's goals of promoting CHP and microgrid development and fostering resilience. Thus, K-C urges the Committee to refrain from supporting any alternative market design options that include exiting the ISO.

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Thank you for your consideration of K-C's testimony on the proposed Bill. 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.