

## Comments to the Interim Committee on Energy and Technology

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Clearwater Paper Corporation Comments on Idaho Woody Biomass Supply

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Clearwater Paper believes in a strong Idaho economy supported by healthy natural market forces and conditions, those conditions do not include state-based or federal non-market subsidies and incentives. Renewable fuels are important to Idaho and the Pacific Northwest region and the United States. As the nation moves forward in reducing the dependency on foreign oil and energy resources, it will need to use multiple replacement power sources to have reliable, low-cost energy. "Green" energy produced by woody biomass is one example of how renewable natural resources can be a part of this effort. Clearwater Paper is generally supportive these efforts and feels the key to increasing renewable energy is to increase availability of fuels such as woody biomass, which is currently in limited supply in Idaho. Reliable, plentiful fiber supply (i.e. logs, chips and sawdust for paper, hog fuel for energy production) is the key to long-term viability of forest products industry in Idaho.

Clearwater Paper, at its Lewiston site, has long been a "green" power producer as the facility has used woody biomass to create heat and power for many years. In 1980, when Boiler #4 came "on line" the power generated was made available through a PURPA contract, approved by the Idaho PUC. The original fuel source for this green energy was woody biomass residuals from lumber mills in the region that were previously burned without environmental controls in open-air burners. Clearwater Paper is proud of the success of this long-term commitment to the power needs of the region as well as the contribution the project has made to cleaner air, and its history of providing long-term employment for Idahoans and tax base for local economies.

Clearwater Paper produces pulp and paper products for sale into US and global markets. The company manufactures quality paperboard and consumer tissue enabling our customers to compete in the highest ends of their markets. Clearwater Paper is a large employer in the forest products business sector in Idaho and until recently was the largest. Currently, Clearwater Paper has approximately 1600 employees and a payroll of approximately \$ 95.8 million annually, plus good benefits. The company also writes vendor payment checks in the region of approximately \$72 million annually, with \$ 35 million being spent in the LC Valley alone. The company pays more than \$ 4.2 million in taxes in Idaho. Clearwater Paper and its employees are dependent upon affordable fiber supply to survive, let alone to remain profitable. Due to lack of affordable and reliable fiber supply in Idaho, we currently transport fiber from a 350 mile radius, while federal controlled timber is left to burn in the forest.

Because of our dependency on affordable fiber supplies from Idaho, Clearwater Paper has followed the activities of the Interim Energy Committee. Our concerns with the 2007 State Energy Plan were the suggestions that the State should provide non-market incentives to increase the amount of green energy. Our statements then, and now, are that the current forest based manufacturing businesses continue to produce and consume all of the fiber available and produce much of the green energy. These firms, like Clearwater Paper, use proven, cost-effective technology to provide this energy—without subsidy. The base source of the woody

biomass used to produce green energy is from mill residues from lumber and wood products manufacturing sector. In Idaho, these mill residues, have been, and continue to be fully utilized.

Current price of incremental hog fuel exceed the natural gas equivalent. Any additional demand on woody biomass for hog fuel will further reduce woody biomass utilization for energy at Clearwater Paper in Lewiston.

Wood residuals from mills, state and private forests (and a tiny amount from National Forest Service lands) create a "woody biomass residuals stream" that is **fully utilized at current free market values**. The price of the residual stream is reflective of the uses of the end product in global, national, regional, and local markets. These products are pulp and paper, steam, heat, electricity, wood shavings for multiple uses, wood pellets for heating building, hog fuel for boilers, etc. These markets are price sensitive, particularly paper and pulp markets. Clearwater Paper competes in the global market of pulp and paper products and any increase in the cost of wood residuals in the 350 mile radius sourcing area has an impact on the company bottom line in Lewiston. If residual purchase prices increase, margins for Clearwater Paper products are reduced. Clearwater Paper's mill in Lewiston is already considered a high-cost mill because of the cost of fiber in the region, as well as transportation costs. Small marginal increases in pricing due to reducing/restricting fiber supply will result in significant reduction in profitability and competitiveness of the Lewiston mill both nationwide and globally.

A common misconception is that the higher value wood chip market will not be affected by a woody biomass-to-energy market. It should be remembered that any upward pressure on wood chip supplies that have traditionally been used in papermaking and could be threatened to be used in power generation or pellets, **will have a negative impact on Clearwater Paper**. In other parts of the country, woody biomass-to-energy plants have caused serious supply and pricing effects in the clean chip market, causing significant harm to pulp and paper businesses.

Because Clearwater Paper must compete on the open market for wood fiber for use in the paper, pulp and power facilities in Lewiston, we remain concerned that the State of Idaho, OER might continue to support the use of non-market incentives and subsidies into the market place for wood residuals (hog fuel, clean wood chips, sawdust, in-woods residuals) in a way that skews the market, creating upward pressure on currently available supplies. This should not be acceptable in Idaho, and we urge the Committee to oppose any such effort to include subsidies or subsidization programs in Idaho. Non-market incentives such as business tax credits are a prime example. In the 2007, just the public discussion of tax legislation had an impact in the fiber markets in Idaho. Simple economics tells us that restricted supply and increased demand drives costs upward. Clearwater Paper urges the Committee to keep in mind the number of direct jobs and the general economic health of a major corporation in Idaho has a stake in the outcome of the subsidization debate.

We can also point to the impacts caused in other states where the State Legislature subsidized "green energy" production through "business energy tax credits". We would be happy to supply a lengthy portfolio of articles on the repercussions to the markets and to the budgets of those state programs designed to subsidize green power production. These illustrate that government subsidies often skew the markets causing harm to many.

The most recent Northwest example of ill-conceived market disruption caused by government intervention is what happened this spring and early summer in the mid-Columbia region. The energy glut from spring run-off and wind power projects during this period caused the wholesale

energy market for wind power to go “negative” for certain periods of time. Wind power projects actually paid utilities to take their power in order to obtain the federal production tax credit.

Because Clearwater Paper must compete on the open market for wood fiber to be used in its paper, pulp and power facilities in Lewiston, we are concerned that the State of Idaho may be preparing, through an update of the State Energy Plan, to support or legislate non-market incentives into the market place for wood residuals in a way that skews the market and creates upward pressure on currently available supplies. We urge you to resist any such efforts and to word the State Energy Plan in such a way as to discourage non-market incentives in the forest and wood products business sector.

Instead of focusing on private and state resources, we would urge your attention to the issue of current supply restraints for everyone in Idaho caused by the current management practices of National Forest lands. It is clear from the Forestry Task Force Report that given current supply constraints on National Forest lands, Idaho cannot afford to incentivize the use of woody biomass to energy facilities without significantly increasing the availability of affordable fiber from new sources. The new source would be from the National Forests. We support efforts to find, remove and utilize this large and largely untapped steam of woody biomass. **Once found, removed and utilized, this additional increased stream of woody biomass will keep the cost of wood fiber affordable without incentives, would keep current fiber users whole and energy companies looking to locate Idaho will be able to secure financing without government subsidies or supports. In addition, many local sawmills are resource limited and access to this fiber would rectify this issue.**

Should the Interim Committee feel the need to take actions, Clearwater Paper urges they consider the same proportionate and balanced ways to promote the development of biomass based energy as we presented in 2009:

- Facilitating mobilization of woody biomass from National Forest Service lands;
- Recognizing that the most efficient ways to produce renewable energy from biomass is through use of combined heat and power;
- Conducting a wood basket assessment determining the viability of new renewable energy producing installations with special attention to the impacts on local wood markets and current use;
- Establishing a level-playing field by requiring evidence of sustainability for the procurement of biomass;
- Securing an increased availability of biomass by encouraging the development of energy crops, including short rotation forestry, on abandoned and set aside agricultural land;
- Ensuring woody biomass definitions are as broad as possible to guarantee a sustained delivery of fuel to biomass-based plants;
- Requiring that current woody biomass steam use is prioritized by highest and best use (paper, pulp) before other uses, as this creates more jobs and stimulates the economy more;
- Putting in place supply-side incentives that would complement the demand-side incentives that are already in place, etc.;
- Recognizing the contribution of traditional wood-based industries to climate change mitigation, jobs and value creation;
- Reducing the impacts of renewable energy policies on local wood markets, where disturbances are more immediately perceptible; and

- Seriously assessing the “impact of an increase in energy from biomass on the current use of wood and wood residues by current forest based industries” focusing on the impact to raw materials supply costs to the pulp and paper business.

Clearwater Paper stands ready to assist the Interim Committee and the entire Idaho Legislature in any review or analysis on this matter. Should a report be written or the current State Energy Plan be re-written, we urge you to remove any language that would support or recommend legislation creating non-market incentives in the market place for wood residuals in a way that skews the market and creates upward pressure on currently available supplies.

**NOTE: For many reasons--both Clearwater Paper and Avista’s 62 megawatt boilers in the inland region have not run at full production for the past three years.**