TESTIMONY
BEFORE THE

SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
SENATE SUBCOMMITTEE ON ENERGY

TESTIMONY OF

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INDUSTRIAL ENERGY CONSUMERS OF AMERICA

"Legislative hearing regarding net metering, interconnection standards, and other policies that promote the deployment of distributed generation to improve grid reliability, increase clean energy deployment, enable consumer choice, and diversify our nation's energy"

WASHINGTON, DC

May 7, 2009

Chairman Cantwell, Members of the Subcommittee, I very much appreciate the opportunity to testify before you today. I am employed by MeadWestvaco (MWV) Corporation, a global leader in packaging and packaging solutions with $6.6 billion in revenue and 22,000 employees worldwide. We are members of the Industrial Energy Consumers of America (IECA) a trade association on whose behalf I am also testifying.

The purpose of today's hearing is to consider policies that promote the deployment of distributed generation, because of the numerous environmental and other benefits distributed generation provides. Today, I will focus on just one kind of distributed energy—co-generation, which is also called Combined Heat and Power or CHP.

CHP allows a manufacturing facility or commercial building to recycle its waste energy to very efficiently produce power and steam energy. CHP technology produces power that is at minimum 100 percent more energy efficient than technology used by the electric utility industry and it significantly emits less CO_2, air emissions and uses less water. The technology is commercially available and extraordinarily reliable.

The problem is that over the last several years federal and state barriers have been erected that are preventing proliferation of its use. Removing these barriers is of great importance to MWV, the forest products industry and all IECA member companies.

MWV is a leader in the use of CHP technologies, producing over 70% of the power requirements at our domestic pulp and paper mills through cogeneration, but there is much more potential for its use in the U.S. overall.

A December 2008 Department of Energy report states that there is potential for CHP to supply up to 20% of US electricity generating capacity by 2030 and doing so, would avoid 60 percent of the projected increases in CO_2 emissions over this time period. This is a huge opportunity for the nation to become more energy efficient and to reduce greenhouse gas emissions at a reasonable cost. It would also increase jobs and the competitiveness of the manufacturing sector.

We have identified nine barriers and solutions for each in the written testimony. Working in the energy area for over 20 years, I have personal knowledge that the barriers are real and my company has experienced

firsthand the increased costs, delays, project cancellations and significant opportunity lost from the imposition of these policies.

The first category of barriers includes those associated with an overall federal regulatory policy direction which does not sufficiently distinguish CHP from merchant power plants. This is seen in the interconnection rule for facilities larger than 20 MW where CHP units have to go through the same costly, lengthy and complicated process that merchant generators do if they seek full compensation for the power they may sell to the grid.

In addition, under the rule's "deliverability standard" the new CHP unit is not allowed to compete on price with the incumbent for the use of the grid, even though the incumbent may be a less energy efficient generator. A manufacturer or developer that wants to locate a CHP unit at a manufacturing site which is in a transmission constrained area would be required to finance transmission upgrades as part of the interconnection process.

The second category covers more traditional financial barriers that include the basic cost of the CHP facility; the lack of long term price certainty in wholesale markets which makes it difficult to finance projects; tax incentives that are limited to facilities of 50 MW and smaller; the threat of exit fees; life of contract demand ratchets in industrial tariffs; and prohibitive costs for the standby and maintenance power needed by the manufacturer. Other barriers on our list include environmental permitting and new burdensome reporting requirements instituted by the Electric Reliability Organization for interconnected facilities that make sales to the grid.

A new looming barrier is climate change legislation that does not recognize the environmental benefits of CHP as compared to the electric utility power plant alternative.

It is vitally important that these barriers be addressed and we look forward to working with Members of the Subcommittee on these issues. I would be pleased to address any questions you may have.

Thank you.