

Committee on Resources

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The Final Piece of the Puzzle- Making Biomass Power Facilities Viable **By William H. Carlson**

This Subcommittee has done yeoman work over the last several years in recognizing the forest health crisis on public lands in the U.S., and in crafting solutions so that federal land management agencies have the tools to begin to address the crisis before all is lost to insects, disease and fire. The new stewardship contracting authority, the National Fire Plan and the Healthy Forest Restoration Act (HFRA) are all pieces of the forest health solution puzzle that have passed before this Subcommittee.

So with these new authorities, and the funding that comes with them, the federal land management agencies are gearing up to begin a massive effort to improve forest health through a combination of prescribed fire and mechanical thinning. The effort needs to be both massive and sustained, as we have, by most accounts, 190 million acres at risk, and even a 5 million acre per year program will take nearly 40 years to do the job; and we do not have that amount of time when you consider we are losing 6-7 million acres per year to catastrophic fire alone. So the question becomes, how do we mount the massive campaign we need to reclaim and restore our federal forests and rangelands to health in the time we have left with the limited funds available?

In terms of the first tool, prescribed fire, I will leave to others the debate over potential escapes, air quality impacts and spotty results. I will confine my remarks to mechanical thinning, an area that I have participated in as a recipient and converter of the fuel fraction from such thinnings for nearly 20 years.

In ramping up mechanical thinning projects throughout the West from their traditional base in northern California, the land management agencies will quickly find that the infrastructure of small log processing facilities and biomass power plants that would take the output, and pay market rates for it, simply does not exist. Without the infrastructure, the cost of thinning will likely be \$800-\$1,000 per acre, a cost that will run the agencies quickly out of money long before they have met their allotted acres to be thinned for the year. By contrast, with infrastructure in place, the cost should fall to \$0-\$200 per acre range, an amount that could be covered by the allotted \$760 million per year in the HFRA.

So the question to be asked and answered by the hearing today is how do we create a set of circumstances that will allow the infrastructure to be developed in support of the needed thinning so that costs are reduced and viable rural economic activity is created and sustained? Others on the panel today will discuss innovative ways to utilize the primarily small logs that are the product of these thinnings, and thus create additional value and lower net thinning cost. All of these products are needed, as well as a fair amount of 2 x 4s and paper, if we are to utilize the massive amount of material, perhaps 250 million tons per year, that will flow from a large scale thinning program of say 5 million acres per year.

Based on our experience, try as you may to utilize every last stick for higher valued uses, there will still be 40% or more of the material that will have no value other than as fuel. That 100+ million tons per year, will need to go to biomass power plants where it could power 8,000mw or more of needed domestic, clean, renewable energy.

But getting the biomass power plant built in support of large scale thinning is no easy task as it is moving against an economic current that has swept away nearly 40% of all biomass plants in the U.S. over the last decade. The combination of previously low fossil fuel prices, utility contract buyouts and an inability to qualify for an existing federal biomass tax credit has doomed many facilities.

It is in this environment that we are now looking to build new plants. To show the difficulty of infrastructure development, let me give you just one example, Mr. Chairman, from your own central Oregon district, that of the Confederated Tribes of the Warm Springs. For many years now, the Tribes have had a small, but stable, forest products industry, complete with sawmill and small biomass power plant, utilizing almost exclusively logs from the Tribe's own forests.

The B&B complex fires of last year, of which you are painfully aware, burned over 90,000 acres of prime federal timber and recreational lands, including touching on the reservation. The fires filled the air of central Oregon with smoke for weeks on end. This fire sensitized many in the area to the need for large scale thinning, both on and off the tribal lands. The Tribes have proposed to modernize and expand their sawmill to focus on this smaller average log size that will come from such thinning, and to increase capacity so as to accept logs from adjacent federal lands in support of thinning efforts. In addition, the Tribes propose to modernize and expand their power plant to accomplish the same purpose. With the proposed expansions in

place, the Tribes' facilities could become the utilization center for much of the thinning activity proposed for the east side of the Cascades in central Oregon.

Fortunately for the Tribes, the decision to seek to expand the biomass power plant coincided with a request for proposals (RFP) for new renewable power issued by PacifiCorp, the Portland utility with which the Tribes are interconnected, and the Tribes submitted a proposal. A short list from that RFP has not yet been announced, and the Tribes and their many supporters are collectively holding their breath.

Typically a renewable auction such as this is dominated by wind power, which typically has a lower delivered cost and, for the last 12 years, has been able to use the same Section 45 Tax Credit that biomass plants have been unable to use. Wind bids typically hold winning bids to only 1- 1 ½ cents/kwh above bulk system power, or about 5- 5.5 cents/kwh, and the winning bids in this auction will likely fall in that range as well. If the Warm Springs bid is accepted, it will make for a low margin operation, despite the advantages of having an existing plant and interconnect, a steam customer, waste fuel for a portion of their needs, and a low projected fuel cost for the remainder of their fuel. A completely new biomass operation on a new site would not stand a chance in this auction.

The missing piece of this puzzle that I referred to in my title, and the piece that would allow competitive biomass power bids, is the ability to utilize the Section 45 wind and biomass tax credit, which has been on the books since 1992 but unutilized by biomass power plants. This is because plants qualify only by combusting "closed loop" biomass, that which is grown exclusively for burning, and something that has never been done commercially. Waste fuels such as forest thinnings do not qualify. For over 5 years now, the USA Biomass Power Producers Alliance has sought to change the definition to include the waste fuels we and others use, and to make the credit available to existing plants as well as to new.

The last several Administration budgets, both Republican and Democratic, have included the requested changes; the changes have been the subject of several bipartisan stand alone bills; and the pending HR6 Conference report includes the changes. But none have made it over the goal line, plants continue to struggle and close, and the Warm Springs bid appears vulnerable.

Currently, an acceptable version of the Section 45 changes (except the in service date for new plants) sits in the Energy Tax Title of S1637, the Senate version of the Foreign Sales Corporation bill. The House version of the same bill, HR4520, which passed last Thursday, does not include the Energy Tax Title, but instead once again extends Section 45 without changes that would make it usable by such plants as the Warm Springs. Should the House version prevail on this point in Conference, the predictable result is that new biomass power infrastructure will not be built in support of thinning projects and existing plants will continue to close.

I last spoke to the Subcommittee on behalf of the USABPPA just over three years ago at a hearing on somewhat the same topic. At that time I left you with our "to do" list that contained several needed policy changes that would dramatically enhance forest health. In that three years you have, to your credit, completed that "to do" list with the exception of only one item. That item is the changes to the biomass tax credit just discussed. We call upon members of the Subcommittee, who understand how the existence of biomass power plants enhances and lowers the cost of forest health activities to assist us in Conference on the Foreign Sales Corp bill by adding the Senate Energy Tax Title or by making the needed changes during the reauthorization of the Section 45 wind and biomass tax credit.

Our industry stands ready to invest ten of billions of dollars in new biomass power infrastructure in support of forest health activities over the next two decades. But this will only happen if we have economically viable projects, and the key to that viability is clearly the existence of a useable biomass tax credit. Those needed changes are in our opinion the only additional order of business for Congress before large scale cost effective thinning and restoration can begin.