



KEYNOTE ADDRESS

By Bob Cleaves, President, Biomass Power Association

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Let me begin by thanking the folks at BBI for organizing this great event in this great city — and for inviting me, on behalf of our members at the Biomass Power Association, to share some thoughts about this important industry. A number of our members are with you today, including Bill Carlson of Wellons (the former Chair) and Rich Abrams of Babcock Power, so stop by their booths if you have the chance, and say hello.

Before getting started, a word or two about BPA. Some of you may know us by a different name — the USA Biomass Power Producers Alliance. A real mouthful.

Bill Carlson and I were tired with the name, mostly because by the time we introduced ourselves during Hill visits, our 15-minute time slot had expired. So we shortened our name, moved the organization to the other Portland (Portland, Maine) where nobody confuses us with the Bonneville Power Administration, so here we are.

About BPA itself — we have been around since 1999. Called by some as the “quiet” trade association, we historically have been all about the energy tax. We were

organized to get open loop into the Internal Revenue Code, which we did in 2004 — not a small lift given what Congress actually did was award us PTC status for facilities that had been built many years before date of enactment. We were told that this violated every principle of federal tax law, but a combination of a lot of hard work by our members and some key Congressional support from folks like Wally Herger, and we were able to be successful. I'll touch on this later, but BPA's activities, while still exclusively at the federal level, have expanded beyond taxes in important ways and now include enacting a federal renewable standard and engaging in the climate debate.

Enough about us — lets talk biomass. I don't know about you, but every time I attend one of these events, there's a lot of happy talk. We are on the move. We have incredible growth potential. By the time our kids are in college, every town in America will be combusting wood, gasifying MSW, digesting manure, and making biofuels. But lets get real — this is a very hard business. Plagued by NIMBYs, skeptical federal and state legislators, risk adverse financial institutions, and most of all, a public that is under economic siege and can ill afford above market power, no matter how green. But here's the good news — despite all these challenges, the future of this industry is bright — for all sorts of reasons.

So, my focus today is not to address all the challenges and opportunities out there to make this industry grow — you see in your program the myriad topics ranging from fuel procurement to contract negotiation to technology risk, and beginning this morning with the next panel on existing federal subsidies. I'll leave all that to others — my focus is on

the role of government in providing the correct set of incentives to make this industry — and each of you — successful. Because in the end, in my view, subsidies (or perhaps a carbon or gasoline tax) are what will really drive this industry.

Lets start with the premise that I think we can all agree on — without biomass, this country doesn't stand a chance of meeting renewable energy goals. Look at DOE and EIA data — biomass is the historical leader of the renewable energy pack. Look at this conference. And look at the potential for biomass as a baseload, carbon neutral alternative to coal.

A recent study by Professor Metcalf from Tufts, in testimony before the Senate Finance Committee last week, indicates that by far, biomass is the biggest bang for the taxpayers' buck in replacing carbon. Wind, at 30% capacity factor, costs \$12.28 per ton of carbon removed. Geothermal cost \$7.74. Biomass is close to \$3.00.

So, for every dollar spent on a production tax credit, biomass removes four times the amount of carbon for the same dollar spent on wind. Think about that — four times!! So with all this potential, what is the problem? Why as an industry are we not able to realize faster growth? Greater support? Better traction? The answer is complicated but I have some thoughts, and I think it has a lot to do with failed government policies.

First, we have no uniform definition of biomass — or other terms like “renewable” — or “new renewable” — or “advanced technology.” These terms are applied disparately from

state to state and within the federal government. Take “biomass.” A simple concept. If you look it up in the Internal Revenue Code, it says, essentially, “organic material other than fossil fuel.” Good enough. But wait, there’s more, as they say on those late night infomercials. The Farm Bill has a definition. Which is different from the Transportation Bill. Which is different from FERC’s definition. Which is at odds with EPA, which conflicts with DOD’s definition. So it’s a mess.

Second, as a nation, we can’t decide which technologies we like or dislike, and why, which causes incredible confusion in the marketplace. Take New England. Connecticut encourages combusting urban wood — indeed provides grant funding. New Hampshire bans it. Massachusetts bans combusting new MSW. Maine excludes it from the RPS. Connecticut provides RECs for it. Massachusetts says old fluidized bed boilers get \$30.00 RECs while newer, “cleaner” stoker boilers get tier 2 RECs. It goes on and on.

And finally, there’s the Tax Code itself. Last week, the Senate Finance Committee held a hearing called “Technology Neutrality in Energy Tax.” I thought to myself — this should be real good. Kind of like attending a hearing on snowshoe experiences in Key West. I couldn’t attend but downloaded it afterwards, and I highly recommend you listen to it. It’s absolutely fascinating, or at least I think so. As this is what you will learn.

First, there’s nothing neutral about energy tax policy. Second, the code is a mish mash of incoherent, inequitable, irrational credits with no basis in economics or sound policy. And finally, on the whole, biomass is not well treated, although our star is rising. Indeed, even Chairman Baucus was forced to admit that maybe, just maybe, an industry’s

success in getting into the Code was more a function of the effectiveness of an industry's lobbying team. Given biomass' treatment, I wasn't sure that was a compliment.

So how does biomass fare? On page 117 of the JCT tax document, you will see a table. It expresses the cost of subsidies to the US taxpayer in terms of MMBTUs. Biomass, again, is the biggest bang for the buck at 34 cents. Wind is 72 cents. Ethanol is \$5.92. Biodiesel is \$8.45.

Now, we all know that the black liquor subsidy has received a lot of press lately. But what the BL controversy has really done for us is shine a very bright light on federal tax policy for renewable energy and force Congress to examine the effects of these subsidies, which frankly is long overdue. Our industry is indebted, in particular, to champions of biomass like Senators Snowe from Maine and Wyden from Oregon. During last week's hearing, Senator Wyden referred to the inequities in the code, and actually called biomass a "1/2 credit technology." So the bottom line is that we need to be treated like other technologies if we are to grow.

Now, I always think it's important to put all of this in historical context, so indulge me for a moment as we take a trip down biomass memory lane. For many of you, you got your start in this industry during the days of PURPA — for you younger guys, PURPA was a federal law passed in the late 1970s that mandated that utilities buy power from IPPs at a projected 'avoided cost.' For many developers, this resulted in very much above

market contracts, some of which still exist today. I call this era the “good old days.” Kind of like when my Dad would come home, make himself a martini, and watch the Walter Cronkite show. Predictable, comforting, stress free.

Then came the ‘death valley of biomass’ era. PPAs went away, electricity prices collapsed, and the industry was much aligned by state and federal policy makers. As a reaction, the industry did two things — first, we worked to develop RPS programs, and second, we high-tailed it to Congress and got ourselves into the Code. As we improve our treatment under the Code, and work to get a federal RES, I’d like to think we are leaving the Valley of Death to create for ourselves a more secure, long-term future that really allows us to grow.

To achieve that, our mission at BPA is multi faceted.

First, we need to preserve what we have. By that, I mean get the PTC extended for existing plants past the expiration date of December 2009. Without that, plants that have been shuttered will remain closed, and plants that are operating on the edge may in fact close.

Second, we need to fight for what we don’t have. There’s no policy justification for being, in Senator Wyden’s words, a “1/2 credit technology.” If this country is really to get serious about renewable energy, it needs to pony up.

Third, we need to become a national force in the RES debate. Later this week, BPA will be announcing a leadership role in a new, national coalition to advocate for the RES, and a major financial commitment by our members to make this happen.

Fourth, we need to reach out to other industries that will play a key role in our future, such as the pulp and paper industry. That industry has gotten more savvy and effective in advocating for itself — it has substantial political clout, controls vast amounts of fuel, and should be considered an ally and not a competitor with us in our efforts in DC.

And finally, we need to get this message out, which is precisely what this conference is all about. So we are grateful to BBI, and look forward to future events where we can participate and spread our message.

So with that, I'd like to turn the podium over to others as we begin today's proceedings. Thank you and enjoy the Conference.