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March 12, 2012

Ms. Katie King
Committee Counsel
PURC Energy Advisory Council
P O Box 142
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Re: Coastal Conservation League comments on the South Carolina Resource Study Prepared by Black & Veatch for the South Carolina Energy Advisory Council

KapStone Charleston Kraft LLC, a subsidiary of KapStone Paper and Packaging Corporation, appreciates the opportunity to submit a response to the comments submitted by the Coastal Conservation League on February 28, 2012.

KapStone supports the use of renewable energy. However, policies meant to encourage the use of biomass for energy production should not unfairly disadvantage the existing Forest Products Industry – pulp, paper, packaging, wood products, wood chemicals.

In the comments submitted by the Coastal Conservation League, on the subject of biomass was included the following:

“If the B&V study restricts its focus to waste streams, thus avoiding contentious issues such as burning whole trees to generate electricity, then a deeper discussion of the necessary policy changes required to limit increased wood demand to these waste streams is needed”.

KapStone supports the B&V study in taking the initiative to recognize the need to limit the use of biomass for energy to wood waste streams only and also supports the Coastal Conservation League’s assertion that the policies by which this would be done be better defined. In support of our position we offer the following:

Limitation of energy from biomass to wood waste only

The US Forest Service Forest Inventory and Analysis (FIA) data has been incorrectly analyzed over the last few years in South Carolina when distributing tree growth and harvest drain over tree diameter sizes. It is being recognized now by various analysis experts that while total growth/drain numbers are accurate and show a surplus of growth over drain, the situation for small diameter trees versus large diameter trees are very much different than what has been advertised. The discrepancy is more pronounced for the pine than the hardwood resource. Small diameter trees which largely support the pulp and paper industry in SC and which would be further utilized to support biomass operations have been utilized at a significantly higher rate than grown and as a result, the number of small diameter trees has been actually decreasing since the early 2000’s. There is not a surplus of small diameter trees in SC to support any expansion of their utilization. The reasons are many including reduced tree planting rates, increased reliance on intermediate thinnings of tree stands rather than final harvests to provide needed fiber, and expansion of

pulp/paper and OSB production. There is a surplus of large diameter trees in SC and the surplus has been increasing since the early 2000's since growth is exceeding consumption (drain). The surplus is larger than previously recognized and will continue until current trees are utilized and the lack of small diameter trees needed to grow into large diameter trees starts to impact the supply. Large diameter trees largely support the solid wood products industry in the state and are usually too valuable to be utilized for pulp/paper, OSB or biomass. South Carolina is facing a tightening small diameter tree supply to support existing industries and does not need biomass utilization expansion to burn in power boilers to further tighten the supply. Increased regeneration activities today will not start increasing the small diameter tree supply for at least 10 years while the young trees grow. In the meantime, the supply in SC will be tight.

With this precarious supply situation of pulpwood sized trees in SC, any overreach beyond wood waste streams by a renewable energy policy would put existing pulp and paper production in a difficult position to compete with pulp and paper producers in other states. Studies have shown that the use of woody biomass to create forest products provides significantly more jobs and economic value than using biomass solely to produce energy. The American Forest and Paper Association in a communication to the USDA on February 8, 2010 cited two studies that quantified this higher value. A study commissioned by the Confederation of European Paper Industries estimated that the Pulp and Paper Industry in Europe directly created six jobs for every job created by the by the energy alternative, and the ratio rises to 13:1 if total employment (direct and indirect) is considered.¹ Another study concluded that there is a 4-fold to 10-fold greater value to the economy (Product value, plus associated worker's purchasing power) from producing paper than burning wood for electricity alone.²

Definition of Renewable Energy Policies

It is KapStone's position that if and when policies are enacted in the State of SC they must be clear well-defined policies to limit the production of renewable energy from biomass to wood waste streams only. Therefore, a sound definition of "eligible biomass" will be a very important piece of any legislation that is enacted in SC. For example, an ambiguous definition of eligible biomass in the North Carolina Renewable Portfolio Standard led to further litigation and a ruling that eligible biomass was not limited to waste wood. Whereas KapStone believes it is in the best interest of the SC State economy to disallow the harvesting of trees solely for the purpose of producing energy, it is amenable to allowing this to occur in a free market place. KapStone believes market forces, not government mandates and incentives, should determine the use of wood for renewable energy. KapStone is opposed to either state or federal incentives for the harvesting of trees to produce energy.

¹ See Value Added and Employment in PPI and Energy Alternative, Poyry (Dec 2006)

² See B.A. Thorp and Masood Akhtar, "The Best Use of Wood," Paper 360 (Jan/Feb 2009)