

Governor's Wood to Energy Task Force

Minutes of Meeting – Augusta, Maine

May 28, 2008

Members of the Task Force:

Les Otten, Chair, Maine Energy Systems LLC

Charlie Agnew Biomass Commodities Corp.

Doug Baston Small Woodlot Owners Assoc. of Maine

Bill Bell Maine Association of Conservation Districts

Ian Burnes Maine Office of Energy Independence

Jack Cashman Governor's Office, Senior Economic Advisor

Dana Connors Maine State Chamber of Commerce

Paul Davis Plum Creek Timber Company

Jim Delamater Northeast Bank

Dutch Dresser Maine Energy Systems LLC

John Fitzsimmons Maine Community College System

Doug Gardner Prof. of Wood Science, UMaine

Chip Gavin Bureau of General Services

Jon Hinck Attorney/State Representative

Wick Johnson Kennebec Tool & Die

John Kerry Office of Energy Independence

Sean Mahoney Conservation Law Foundation

Dale McCormick Maine State Housing Authority

Pat McGowan Commissioner, Dept. of Conservation

Ed Miller American Lung Association of Maine

Hemant Pendse Prof & Chr ChB Eng Dept, UMaine

Doug Smith Retired Attorney/State Senator

George Soffron Corinth Wood Pellets

Charlie Spies CEI Capital Management LLC

Patrick Strauch Maine Forest Products Council

Bill Strauss FutureMetrics

Peter Triandafillou Huber Resources Corp.

Keith Van Scotter Lincoln Pulp and Tissue

Welcome by Chair, Les Otten

Introduction of Task Force members, Proxies and Interested Parties

Minutes of May 14, 2008 Task Force meeting accepted as written

Patrick McGowan, Commissioner, Department of Conservation

The Task Force has identified the tremendous problem with the capitalization of the forest products industry, particularly with loggers. FAME, SBA and the Maine Forest Service are here to provide information to the Task Force and discuss their roles and educate us on what is available for loan programs.

The flagship program for FAME is their 7-A program. The cap for that program is \$2 million.

The Maine Forest Service Program has very helpful programs, but is limited in its funding of those programs. Perhaps one of the Task Force's recommendations needs to be more funding for the Maine Forest Service loan programs.

Maine needs to address the problem of how to help the next generation of loggers. In particular, those loggers must have stable markets and long term contracts.

We do have the wood in the state of Maine – we don't have the means to get all the wood out for production. Also, Canada, New Hampshire and Vermont forests are part of our regional approach and we need to continue to look at the region as a whole.

U.S. Small Business Administration (SBA): Helen Brimigion

The SBA's 7-A program loans of up to \$2 million are for a myriad of purposes; there is plenty of money available; lenders do have available monies. Helen provided the Task Force with several handouts and a SBA Resource Guide.

In discussing details of the 7-A program, Helen noted that there is quite a bit of paperwork involved.

Information was provided on their Express Energy Program, which could be used to help finance wood pellet energy installations.

The SBA website lists lenders who are available.

The SBA's 504 program – borrowers can apply for loans up to \$4 million. This program is fixed asset lending.

Current prime is 5 percent. The prime plus rate is what is involved in these loans. The rates are negotiated between the borrower and the lender.

FAME: Charlie Emmons and Elizabeth Bordowitz

The Finance Authority of Maine (FAME) assists borrowers by guaranteeing loans and providing loan insurance to lenders.

Charlie distributed one of FAME's information booklets, the Capital Access Book – it provides information about FAME's loan insurance whereby when a bank wants to loan, but is not quite there with a final negotiation, FAME can insure up to 90 percent of that loan; up to \$4.6 million is available for this program. Most of these types of loans are within the \$300,000 range.

Charlie emphasized that the lender (the bank in most cases) is FAME's customer, not the ultimate borrower.

FAME has an on line answer program. Other programs include a direct loan "economic recovery" loan program and "Maine Seed Capital Tax Program".

FAME and SBA partner quite a bit on loan programs.

FAME has an energy conservation loan program, in which they partner with the PUC. There is a pool containing \$300,000 that can be used on projects that save energy. \$1 million more, however, was added to the program, so individual loan amounts are larger, between \$35,000 - \$250,000. This money may not finance the larger logging machines, but it helps cover some infrastructure costs and FAME and the borrower can partner with banks for larger amounts.

Les Otten

We have the Maine Bankers Association and the Maine State Housing Authority here as well to discuss capitalization. How can we put together a financing package to say to homeowners, here's \$5,000 to make your home more energy efficient, then more money to help retrofit to a new energy source if they want?

The Task Force needs to address the needs of the ordinary homeowner – how do they get access to money to make their homes more efficient and less reliable on foreign oil? We also have to help loggers who are disappearing as we speak.

Can SBA, FAME, Maine Bankers and MSHA work together to offer that type of package?

Mark Walker (Maine Bankers Association)

Commercial banks work very closely and very well with SBA and FAME; loan programs are aimed at both small and large business borrowers. Individual consumers are different – all banks have money to lend; credit is not tight and there is money to lend; but loan amounts and conditions would depend on the eligibility of the individual borrower (homeowner).

For a \$5,000 - \$10,000 loan to homeowners, Mark is not sure the Task Force would have to recommend a whole new program – we should be able to work with what is available now.

Les Otten

I do think a program is necessary. Do homeowners realize they should spend money now in order to save much more money over time in making their homes more energy efficient?

Caulking, insulating, making their homes tighter to save money is extremely important. Homeowners must be encouraged to make their homes efficient and to learn conservation, before they look at alternative types of fuel other than oil.

Mark Walker

Part of this is educating the homeowner. We should recommend a distribution network for education of what homeowners should do and where they can go for help.

Wick Johnson

Now we are on to something and it would be a significant outcome of this Task Force, if marketed correctly. To educate homeowners, direct them to where they can get resources and tighten up their homes is a terrific goal.

Patrick McGowan

Take this idea on the road to rural Maine to offer these infrastructure loan programs to loggers. Education, then distribution of the capital to the loggers is what we need. These loggers have just been through the worst weather in several decades and they need resources to help with infrastructure in the next 6 months. Logging, trucks, sawmills, equipment, all need resources to survive. But we must emphasize that the need for capital is immediate.

MSHA

MSHA does have a loan program specifically targeted to homeowners for weatherization. It is a fairly new program and new components have been added just in the last year.

CEI Capital Management: Charlie Spiess

CEI has been around for 30 years and it is diverse in its goals. CEI has a Cut to Length Program. Cut to Length machinery and cutting are often the most efficient and cleanest; however the education curve of

learning this style of cutting and the high cost of equipment is a barrier. CEI provides a training program and resources. The cap is \$400,000. This could be mixed and matched with other loan programs such as FAME and SBA, so a partnership is very do-able.

Charlie explained CEI's New Markets Tax Credit Program. Wood Pellet mills, gasification plants, other facilities could take advantage of this tax credit. CEI is working with Maine's Congressional Delegation on the program and it is proving very successful. We need to push it more, however, in Maine's rural areas. \$100 million is available nationally; most projects are in the northern U.S., in rural areas.

Also, CEI is currently working with a biomass gasification plant in New Hampshire.

Don Mansius, Maine Forest Service

How many people think water is a product of the forest? There's a direct connection – actively managed forests are necessary for protecting the quality of water. Best management practices are being emphasized to help protect water.

Working with commercial banks, the Maine Municipal Bond Bank, Farm Credit and other lenders – the Maine Forest Service has financial programs for loggers. \$5 million is available this year; \$3 million was available last year and all was utilized. The maximum for a loan is \$400,000. Don explained how the program works. There is incentive financing to encourage non-polluting logging.

They don't loan to truckers, but there is funding available for all types of logging aspects of the industry.

Albrecht Von Sydow

Albrecht presented information on the European experiences of alternative sources of biomass for energy use; between agriculture and wood – there is lots of activity of all this in Europe. A powerpoint on this subject from Albrecht was emailed around at an earlier date.

Growing energy crops is very attractive economically and the yields are far more productive than yields in the forest – you get more results from farming these types of alternatives. But another note: the ash content is higher than forest timber.

When looking at modifying agricultural fields, there may be negative impacts on current drainages. You need an industrial wood cutting system that can cut the trees every year.

Miscanthus grass (more productive than switchgrass) – very high growth yields. Very beneficial – for Maine, miscanthus grass can be grown wherever corn is grown; it is far more efficient than liquidation.

In terms of negative stories in the press on how the forest increased uses will be potentially harmful – just the opposite should happen with increase uses due to more appropriate production and extraction.

Every forester knows you can improve the inventory of the forest by being able to sustainably cut the lower cost wood; forest production will improve if we do what the Task Force wants to do. Increased forest uses should be seen as a positive, not a negative.

Les Otten

The Task Force needs to clarify the Conflict of interest issue – there have been lots of emails and conversations going back and forth.

When the Task Force was formed, it was not created by the usual Executive Order by the Governor. The Governor asked Les to head up an ad hoc group of experts who could look at wood to energy options and provide the Governor with advice and recommendations of how to tackle our dependence on foreign oil.

The Task Force is giving advice, not advancing legislation – we will be providing recommendations to the Governor. Everyone here is a stakeholder, and each stakeholder will either will be positively or negatively impacted by the final report of this Task Force, which is being written, discussed and will be accepted by consensus of all the Task Force members.

We have been diligent in presenting a myriad of information and have been generous in having all viewpoints heard and discussed. We are all experienced in a piece of this large picture and having all the pieces fit together in the end will help the Governor in advancing this state's energy policies forward.

No other comments were offered by those in attendance.

Les Otten

The draft of first pages of the final report of the Task Force have been distributed, as edited by Les, Chris Howard and Dutch Dresser. The original document that we started with, the “consensus document” has been edited based on comments and emails from Task Force members and interested parties. The Governor's office has reviewed this draft and made no changes at this time.

Comments at first blush from the group are welcomed today and wordsmithing is encouraged.

We have a lot more details to flesh out and the final piece will be listing specific recommendations.

Each stakeholder should provide data and language to fill in more details. All Task Force members are encouraged to look at the part of the report they have the most expertise in and provide language for us to insert.

Mike Footer, Domtar Mill in Woodland.

Mike stated that he totally agrees that we should look at energy alternatives, including LNG and nuclear.

About wood pellets: there is an extreme struggle right now in Maine to buy wood – it has truly become really cut-throat. There is no loyalty amongst people selling wood. The wood is going to the highest bidder. Mike is in favor of wood pellets, but we need to be careful how to go about this whole push.

There is an independent study done in Europe on the values of wood going to pulp and paper industry or going to other uses. We need to take a look at that.

In an ideal world, we should be able to use the junk wood for wood pellets; but we don't have the incentives to do that; we are taking the highest quality wood and we need to get away from that practice.

The pulp and paper mills are in such a competition for wood; it's the worst it's ever been. How can we add wood pellets to this bad situation without making it worse?

So, Mike is not against wood pellets – but encourages the Task Force to figure out how to do it without further hurting the pulp and paper industry.

Les Otten

We are trying to take a really balanced look at this situation; we are trying to keep our mission of looking at wood to energy; one issue is to stop exporting our wood; keep it here in Maine. Our main topics:

Efficiency and Conservation

Environment

Existing Use of the Forest

High Cost of Heating Oil

We need to look at all this to get to some type of end goal. Maybe we can try and be a vehicle to help the current competitive situation of the pulp and paper industry. How can we help?

Bill Strauss

Wood pellets aren't enemies of the traditional pulp and paper industry – we need to look at New Hampshire to see how the two industries (pulp & paper and wood) are helping each other – with infrastructure, labor, etc.

With high fuel costs and facing another harsh winter in the not too distant future, we need to figure out the solution sooner rather than later.

Mike Footer

Mills in Maine have spent a lot of money to increase production. But mills are looking to import wood from other states.

Bill Strauss

But there's wood in Maine – we just need to get to it!

Mike Footer

Yes, we need to figure out how to get the wood out – wood is there, but we don't have a way or the labor to get it out of the Maine forest.

90 percent of Domtar's product is exported to China. Domtar is selling wood like crazy; right now, they don't even have to market – the market comes to them. But, all things considered, the cycle will come back to lower prices.

Albrecht Von Sydow

The current market distorts what wood prices should really be. The highest quality wood vs. the lowest quality wood should go to the most appropriate uses. We need to find a recommendation that allows for that, but it will be difficult.

Ed Miller

We need to talk about wood as a renewable resource in the first paragraph of our report. Also, "residential, small business and industrial" should be the phrase used throughout.

We must reach out to the small businesses in Maine, which are the predominant part of our economy,

Use the phrase "solid biomass" to capture all the types of wood, including the alternative grasses.

Pat Strauch

The sentence "ample wood supply" is a concern – there's potential to increase the production and capturing of the wood, but the forest products industry doesn't like the word "ample".

Dutch Dresser

We need to make sure we are mentioning everything in the context of our region, not just our state. We are looking at Maine and regional forests – we are not just talking about Maine's wood basket.

Pat Strauch

What is interesting though is that regional forests and their accompanying industries are looking at Maine for both importing and exporting. It's a complicated situation with what is coming in and what is going out.

There are twelve biomass plants on line; rec credits are a factor as well, effecting the wood supply and prices.

"The horizon has promise" is more appropriate than "ample wood supply".

Dutch Dresser

Dutch agrees with Pat that it's a complex situation. We also have pellets going to Europe. The proposed growth in residential and small business new heat systems will only grow over time; this won't happen immediately.

Doug Baston

In terms of changing the wording to meet the concern of the forest products industry, just put in a couple of qualifiers – “potential for ample, sustainable wood supply...”

Les Otten

Les asked Pat Strauch and Dutch Dresser to work together and report back language incorporating their remarks.

The next meeting will be Wednesday, June 11 at 10 AM. The next agenda will be only the DOC presentation on Maine’s wood inventory and continuing the discussion on the final report. Edits will be sent to you in an updated version, and please bring your comments to the table at the June 11 meeting.

Public Hearing: It was postponed after discussions with the Governor’s office and their desire to have more of a finished document to put before the public so they can address something specific at the Public Hearing. Doug Baston suggested we hold the Public Hearing in a location where we can broadcast via internet and provide for interactive testimony. We will work on that.