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**BOISE**

October 10, 2012

Chair Jeffrey Goltz  
Commissioner Phil Jones  
Commissioner Patrick Oshie  
Washington Utilities and Transportation Commission  
PO Box 47250  
1300 S Evergreen Park Drive SW  
Olympia, WA 98504-7250

Re: PacifiCorp Reliability Issues at the Boise White Paper, L.L.C. Wallula Mill

Dear Commissioners:

During the months of July and August, the historically unreliable and substandard facilities used by PacifiCorp to provide electric service to Boise White Paper, L.L.C. ("Boise") at its Wallula mill caused four power outages and uncontrolled mill shutdowns. Boise is attempting to negotiate reimbursement of some of the costs related to these outages, and has renewed its request that PacifiCorp install upgrades that will enable it to provide safe and reliable electric service to the mill. Given PacifiCorp's past refusals to take the steps necessary to provide firm, reliable power, it is unclear whether this issue will be resolved without the involvement of the Commission.

Boise has been experiencing frequent power outages and voltage dips at the Wallula mill since at least the 1980s, caused by the inadequately protected 230 kV transmission line feeding the Wallula substation and the unprotected 69 kV lines interconnecting to the Kraft substation. PacifiCorp consistently has refused to make the modifications necessary to provide reliable service. On July 9, 2012, a disruption in electrical service shut down power to the entire mill. On July 14, 2012, and again on August 21, 2012, a power disruption caused most of the mill to shut down. The substantial costs of these outages were dwarfed, however, by the July 19, 2012 outage. This total electrical power failure lasted for approximately 3.5 hours, costing Boise \$291,399 in lost productivity, \$101,458 in additional maintenance costs, and \$29,583 in extra natural gas purchases, for a total cost of \$422,440 for the July 19<sup>th</sup> outage.

These outages and the associated uncontrolled shutdowns are an extremely serious issue for Boise. During the Mid-American merger proceeding, Boise intervened—through the Industrial Customers of Northwest Utilities—and negotiated a merger condition requiring PacifiCorp to study and evaluate this issue. Condition Wa 25 of the Merger Settlement required PacifiCorp to "[p]repare an engineering study analyzing the cost of installation of adequate lightning protection to the 69 kV sub-transmission system that is interconnected to the 'Kraft Substation.'" Re MidAmerican

Energy Holdings Co., WUTC Docket No. UE 051090, Order No. 7, at App. A, 20 (Feb. 22, 2006). The condition also required PacifiCorp to "[p]repare an engineering study analyzing the cost of installation of adequate lightning protection to the 230 kV transmission system that is interconnected to the 'Wallula Substation.'" Id. It appears that PacifiCorp has never complied with the condition requiring a study of the 230 kV line. It did complete a study of the 69 kV line, but its subsequent refusal to take the remedial actions suggested by the study have rendered the condition meaningless and left the lines without adequate protection.

Boise did not need to insist upon a study in order to find out whether or not there were solutions that would provide "adequate lightning protection" to the transmission lines. The Wallula Mill is the only Boise facility that suffers from constant electric interruptions, despite the fact that its other mills are situated in regions where lightning events are far more common. The purpose of the study condition was to require PacifiCorp to take positive steps toward resolving the issue. In fact, PacifiCorp's report indicated that multiple solutions are available to protect the 69 kV line that provides service to the mill. Thus, preventing or sharply reducing lightning-induced service interruptions is not beyond PacifiCorp's control. Rather than act on the studies it conducted, the utility decided that it would not be "cost effective" to make the improvements suggested by the report.

Not only are electric disruptions expensive, but they also compromise safety and environmental protections. An uncontrolled shutdown may cause rotating machinery hazards, potential chemical and hot water spills, and startling noises. These dangers are further exacerbated because employees may face them unexpectedly while in the midst of difficult mill work. Further, illumination may be reduced or eliminated, leaving mill employees exposed to hazards. Uncontrolled shutdowns can make it difficult to fully comply with environmental permits.

Based on the studies that PacifiCorp has conducted, the utility estimates that it will cost \$2 million to \$9 million, to protect the lines that serve the Wallula mill. Boise believes these cost estimates to be inflated and unreasonable, but even if they are accurate, PacifiCorp cannot ignore either its statutory obligation to serve, or its contractual obligation to provide firm, reliable electrical service to Boise. Further, Boise is a unique customer; as PacifiCorp's largest Washington customer, the electric bill for the Wallula plant is over \$24 million per year. In fact, Boise provides nearly 10% of PacifiCorp's revenue requirement. Further, Boise has benefitted all customers by subsidizing conservation throughout PacifiCorp's system. In the past two years, Boise has paid approximately \$1.6 million through its System Benefit Charge, while receiving back only \$100,000 in benefits. Given Boise's importance to PacifiCorp's Washington system, it is not unreasonable to expect reliable service. Boise has taken every step possible to mitigate the harm caused by these frequent outages and voltage fluctuations, but the losses due to uncontrolled shutdowns continue to mount. To date, Boise has documented millions of dollars in losses.

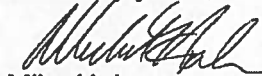
The reliability of electrical power necessary to keep a continuous industrial process operating is more stringent than what is acceptable to most residential and

commercial customers. Boise suggests that for continuous process industries, the SARFI 70 index more closely represents what is required. The SARFI 70 index includes voltage sags below 70% of nominal. The WUTC web site indicates that regulated utilities must report reliability annually using the SAIDI-IEEE and the SAIFI-IEEE methodology. Boise believes that the SAIDI and SAIFI indexes overstate the actual reliability from the viewpoint of a continuous process industry.

Boise believes that an investigation into the reliability of PacifiCorp's service to the Wallula mill is warranted. At a minimum, the issue should be raised in a rate case. Boise believes that the Commission has authority—either as part of a rate case or in a separate investigation—to compel PacifiCorp to provide reliable service. The Revised Code of Washington gives the Commission the authority to hold hearings to “determine the just, reasonable, or sufficient rates, charges, regulations, practices or contracts to be thereafter observed and in force, and . . . fix the same by order.” RCW § 80.28.020. If the Commission finds, after such a hearing, “that the voltage of current supplied for heat, light or power . . . is insufficient . . . inadequate or inefficient, it shall order such improvement.” *Id.* § 80.28.030. The Commission has made clear that service quality may be reviewed during a rate case and considered when setting a public service company's rate of return. WUTC v. U.S. West Commc'ns, Inc., WUTC Docket No. UT-950200, Fifteenth Supp. Order at 28 (April 11, 1996). If PacifiCorp continues to refuse to remedy its reliability problems, Boise would be willing either to assist the Commission's review in an individual docket or to raise the issue as part of a rate case.

Thank you for your consideration in this matter. Please give me a call if you have any questions.

Sincerely yours,



Mike Hale  
Manager, Energy

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**BOISE**

November 29, 2012

Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive S.W.  
P.O. Box 47250  
Olympia, WA 98504-7250

Attention: David Danner  
Executive Secretary

**RE: Letter from PacifiCorp, dated November 8, 2012  
Docket No. UE-121680**

Dear Mr. Danner:

This letter is in response to the November 8, 2012 letter submitted by Pacific Power & Light Company ("PacifiCorp" or the "Company") to the Washington Utilities and Transportation Commission (the "Commission") in the above-referenced docket.

On October 10, 2012, Boise submitted a letter to the Commission detailing the power outages and other reliability issues that have plagued Boise White Paper, L.L.C. at its Wallula Mill site since the 1990s and earlier. Despite Boise's attempts to negotiate directly with PacifiCorp—both for reimbursements related to these outages and for much-needed upgrades to the unprotected transmission line feeding the mill—PacifiCorp continues to deny responsibility. With no way to recoup the costs related to past outages, and faced with an untold number of future reliability problems, Boise requested that the Commission investigate the adequacy of PacifiCorp's electric service to the Wallula Mill.

On November 8, 2012, PacifiCorp submitted a letter in response to Boise's initial communication. As these two letters show, Boise and PacifiCorp fundamentally disagree about the facts underlying this docket. Standing alone, these factual discrepancies, which are discussed in more detail below, should lead the Commission to investigate this long-standing quality of service dispute.

As a condition of Commission approval of its merger with MidAmerican, PacifiCorp accepted a number of "Transaction Commitments." One of these Transaction Commitments, Condition Wa 25 of the Merger Settlement, required PacifiCorp to take a number of actions to remedy the reliability problems at the Wallula

Mill.<sup>1/</sup> Currently, some of PacifiCorp's Transaction Commitments remain unfulfilled, and, contrary to PacifiCorp's assertions, Boise has previously raised the issue of the Company's inaction.<sup>2/</sup> In 2007, in Docket No. UE-061546/UE-060817, the Industrial Customers of Northwest Utilities ("ICNU"), of which Boise is a member, submitted testimony explicitly addressing the "frequent and expensive reliability problems" that afflict the Wallula Mill, and specifically highlighted PacifiCorp's failure to implement the Transaction Commitments.<sup>3/</sup> With respect to reliability issues, Boise Senior Staff Electrical Engineer, Walter W. Bruehl, testified that "Boise... has paid for firm electric power, but has been provided an inferior and, at times, interruptible product."<sup>4/</sup> Mr. Bruehl detailed the litany of reliability issues that Boise has endured since the late 1980s, estimating lost production costs between July 1998 and February 2007 alone as exceeding \$2.5 million.<sup>5/</sup> Moreover, Mr. Bruehl expressed Boise's safety concerns, stating that Boise was "very lucky" to have thus far avoided "serious injuries" to its workforce.<sup>6/</sup>

Mr. Bruehl's testimony supports the conclusion that these reliability failings and safety concerns can be attributed in large part to PacifiCorp's failure to fulfill the Transaction Commitments.<sup>7/</sup> PacifiCorp agreed, among other things, to conduct two separate studies to analyze the possibility of adding lightning protection to the 230 kV lines connected to the Wallula substation and to the 69 kV lines connected to the Cascade Kraft substation.<sup>8/</sup> Instead, PacifiCorp made an independent determination that these measures were cost-prohibitive and declined to conduct the former study and failed to prepare a report covering the results of the latter study.<sup>9/</sup> Nonetheless, PacifiCorp claims that Company has invested "more than \$1.6 million to comply with the Transaction Commitment."<sup>10/</sup> Even assuming that this figure is an accurate estimation of PacifiCorp's investments at Wallula, this figure is dwarfed by the costs associated with PacifiCorp's outages over the same time period. Moreover, the service conditions at the mill—which Boise characterized as "unacceptable" back in 2007—remain largely unchanged.<sup>11/</sup>

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<sup>1/</sup> Re MidAmerican Energy Holdings Co., WUTC Docket No. UE-051090, Order No. 8, at App. A, 18-19 (Mar. 9, 2006).  
<sup>2/</sup> Ltr. from R. Patrick Reiten, Pres. & C.E.O., PacifiCorp, to the Washington Utilities and Transportation Comm'n at 2 (Nov. 8, 2012) ("Reiten Letter").  
<sup>3/</sup> Wash. Utilities & Transportation Comm'n v. PacifiCorp, WUTC Docket Nos. UE-061546/UE-060817, Direct Testimony of Walter W. Bruehl on Behalf of the Indus. Customers of Nw. Utilities at 1, 10-12 (Feb. 16, 2007).  
<sup>4/</sup> Id. at 4.  
<sup>5/</sup> Id.  
<sup>6/</sup> Id. at 2.  
<sup>7/</sup> Id. at 10-12.  
<sup>8/</sup> Id. at 10-11.  
<sup>9/</sup> Id. at 11.  
<sup>10/</sup> Reiten Letter at 2.  
<sup>11/</sup> WUTC Docket Nos. UE-061546/UE-060817, Direct Testimony of Bruehl at 2.

It is incumbent upon PacifiCorp to implement lightning protection measures on the line serving the Wallula Mill. State law requires that electric utilities "furnish and supply such service, instrumentalities and facilities as shall be *safe, adequate and efficient*, and in all respects just and reasonable."<sup>12/</sup> It is simply not enough that PacifiCorp supplies Boise with electrical service; PacifiCorp must also ensure that this service is at a level sufficient to protect workers and sustain business operations. Mr. Bruehl's testimony, which is as accurate today as it was five years ago, indicates that Boise is—and has been for some time—receiving far less than what PacifiCorp is obligated by law to provide.

PacifiCorp acknowledges the defects in its service to Boise, observing that the Wallula Mill experienced three disruptions between July–August 2012 alone.<sup>13/</sup> Rather than recognizing that the Company has fallen short of its obligations under RCW 80.28.010(2), PacifiCorp blames Boise for the inadequacies.<sup>14/</sup> Not only does PacifiCorp underestimate the scope of an electric utility's obligations to its customers as a general matter, but the Company also misstates the facts surrounding Boise's capacitor issues.

Based on the results of a harmonic and power factor study conducted in 2002, PacifiCorp insists that Boise must install 19,200 KVAR of capacitors before it will "experience the full benefit of the upgrades PacifiCorp has made to date on its infrastructure."<sup>15/</sup> What the Company fails to mention, however, is that both the 2002 study and a follow-up study in 2007 identified PacifiCorp as the primary source of Boise's capacitor problems. Both studies concluded that the Boise capacitors were failing due to PacifiCorp's automatic switching of capacitor banks in the Cascade Kraft substation. This switching resulted in an amplified voltage on Boise-owned capacitor banks of up to 194% of nominal voltage and, over time, these repeated over-voltages caused the majority of Boise's 15,000 KVAR capacitors to fail. Thus, if 19,200 KVAR of capacitors are needed, Boise should be obligated for only 4,200 KVAR, or the portion of the need not created by PacifiCorp's own actions. Although PacifiCorp has since modified the capacitor banks in response to the 2002 and 2007 studies, Boise has no knowledge of any follow-up studies or field data demonstrating that the modifications are sufficient to prevent further destruction of Boise-owned equipment.

Boise appreciates the opportunity to address PacifiCorp's response in this docket. Boise believes that the factual disputes surrounding the history of PacifiCorp's service to the Wallula Mill should prompt a Commission investigation into this matter. PacifiCorp is statutorily obligated to provide Boise with electricity that is both safe and adequate; instead, the Company offers service that is at times unreliable. In addition, PacifiCorp has failed to meet all of its merger obligations contained in the Transaction Commitments. Given PacifiCorp's familiarity with these service problems, coupled with

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<sup>12/</sup> RCW 80.28.010(2) (emphasis added).

<sup>13/</sup> Reiten Letter at 3.

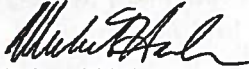
<sup>14/</sup> *Id.* at 4.

<sup>15/</sup> *Id.*

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Boise's substantial financial contributions to the PacifiCorp system, it has long been PacifiCorp's duty to install lightning protection of the line serving the Wallula Mill. Given the Company's persistent unwillingness to do so, Boise has no choice but to request that the Commission step in and conduct an investigation into this matter.

Sincerely,



Michael Hale  
Boise Inc.

CC: R. Patrick Reiten, Pacific Power