

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION)	DOCKETS UE-200900, UG-200901,
)	UE-200894 (<i>Consolidated</i>)
Complainant,)	
)	
v.)	
)	
AVISTA CORPORATION d/b/a)	
AVISTA UTILITIES)	
)	
Respondent.)	
)	
)	
_____)	
)	
In the Matter of the Petition of)	
)	
AVISTA CORPORATION d/b/a)	
AVISTA UTILITIES,)	
)	
For an Accounting Order Authorizing)	
Accounting and Ratemaking Treatment of)	
Costs Associated with the Company's)	
Wildfire Resiliency Plan.)	
)	
)	
_____)	

RESPONSE TESTIMONY OF KEVIN RASLER

ON BEHALF OF

INLAND EMPIRE PAPER COMPANY

(REDACTED VERSION)

April 21, 2021

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EXHIBIT LIST

Confidential Exhibit KR-2C - Non-Binding Term Sheet

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Kevin Rasler, and my business address is 3320 North Argonne Rd,
4 Millwood, WA 99212.

5 **Q. PLEASE STATE YOUR OCCUPATION AND ON WHOSE BEHALF YOU ARE**
6 **TESTIFYING.**

7 A. I am the President and General Manager of the Inland Empire Paper Company (“IEP”)
8 and am testifying on IEP’s behalf.

9 **Q. PLEASE PROVIDE A BRIEF SUMMARY OF YOUR BACKGROUND.**

10 A. I am a 4th generation Washingtonian having grown up in Port Angeles. Graduation from
11 Washington State University brought me to Spokane and a 36-year career with Inland
12 Empire Paper Company. Starting as a Process Engineer, I progressed to become the
13 Technical Superintendent overseeing process testing, regulatory compliance and water
14 treatment operations. Later I moved into operations and managed the pulp mill,
15 including construction and start-up of the mill’s recycling system. As Production
16 Manager, in the late 1990s, I had the opportunity to research and select IEP’s new paper
17 machine and participate in the construction and start-up of that project (2001). The role
18 of Assistant General Manager was offered in 2008 and I became the General Manager in
19 2009. The President’s title was added in 2010 and coincided with the design,
20 construction and start-up of the mill’s Thermo-Mechanical Pulp system that reduced
21 IEP’s natural gas consumption by an additional 77% and is a focal point of this Special
22 Contract discussion. Other notable projects I have had the opportunity to work on
23 include installing a fluidized bed combustor that uses the mill fiber waste as fuel. This

1 project reduced IEP's natural gas consumption by approximately 20%. Several
2 modifications and expansions to the recycling system increased overall capacity 3-fold,
3 allowing IEP to produce 100% recycled paper goods. Most recently the mill has
4 undertaken a massive expansion of its water treatment system to meet Washington State's
5 new water quality regulations. This project includes the first known application of micro-
6 filtration technology in the pulp and paper industry, making IEP's system the most
7 advanced of its kind. Away from work, I spend my free time in the great outdoors of the
8 Pacific Northwest bicycling, hiking and skiing. Other interests include solving regional
9 food insecurity issues, workforce development and education, and land conservation
10 efforts.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 A. This testimony provides an update on the status of negotiations for a Special Contract
13 between IEP and Avista Corp. ("Avista"). It also provides background information on
14 IEP, and discuss IEP's interest in, and ability to pursue, a natural gas-fired cogeneration
15 unit to serve IEP's load. Finally, my testimony discusses IEP's ability to provide demand
16 response to Avista under the Special Contract term sheet currently being negotiated
17 between IEP and Avista.

18 **Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.**

19 A. I recommend that the Washington Utilities and Transportation Commission
20 ("Commission") approve a Special Contract for IEP on the terms provided in
21 Confidential Exhibit KR-2C to my testimony. The Special Contract will provide
22 significant benefits to IEP, Avista, and Avista's other customers. This includes: (1)

1 ensuring IEP remains on Avista’s system and contributes to Avista’s fixed costs; (2)
2 preventing the development of a new natural gas-fired generation resource in Washington
3 during the term of the Special Contract; (3) providing Avista with [REDACTED] of demand
4 response, which will help meet Avista’s peak capacity needs cost effectively and with
5 zero emissions; and (4) ensuring IEP continues to pay its fully allocated costs for all
6 applicable tariff riders, including energy efficiency and low-income assistance.

7 II. SPECIAL CONTRACT NEGOTIATIONS WITH AVISTA

8 Q. WHY ARE IEP AND AVISTA NEGOTIATING THE TERMS OF A SPECIAL 9 CONTRACT?

10 A. There are two primary reasons. First, as discussed in more detail in Section IV of my
11 testimony, IEP has the option to pursue a natural gas-fired cogeneration facility to meet
12 almost all of its current electrical load. Were IEP to pursue this project, it would nearly
13 eliminate IEP’s contribution to Avista’s fixed costs, which would need to be assumed by
14 Avista’s remaining customers. The construction of the cogeneration project is, therefore,
15 akin to an economic bypass option that traditionally forms the basis for special contracts.
16 By agreeing to a Special Contract, IEP would commit not to pursue the cogeneration
17 project while the Special Contract is in force, thus ensuring that IEP continues to
18 contribute to Avista’s fixed costs.

19 Second, in Avista’s 2019 general rate case, Commission Staff identified the
20 substantial difference in load characteristics between IEP and all other customers on
21 Schedule 25, under which IEP currently takes service. Specifically, Mr. Jason Ball noted
22 in his testimony in that case that IEP “has an average demand that is over ten times

1 higher than the class average;” that IEP “uses almost half (45 percent) of all kWh’s;” and
2 that IEP “is responsible for over 80 percent of the primary voltage discount the schedule
3 receives.”^{1/} Mr. Ball expressed concern that, due to these characteristics, Schedule 25 did
4 not serve a homogenous group of customers, which raised rate discrimination and undue
5 preference concerns.^{2/} To remedy this potential legal problem, Mr. Ball made several
6 recommendations, one of which was to develop a special contract for IEP so that it took
7 service apart from Schedule 25.^{3/}

8 During settlement discussions in the 2019 rate case, the parties agreed that IEP
9 and Avista would negotiate the terms of a special contract. Accordingly, the Settlement
10 Stipulation the Commission approved to resolve most issues in the 2019 rate case
11 includes the following provision, excerpted in part: “Avista and IEP, with Commission
12 Staff participation, will negotiate in good faith and using best efforts, to reach agreement
13 on a special contract The effective date of an approved Special Contract will coincide
14 with the rate-effective date of Avista’s next electric general rate case, to avoid potential
15 lost margin.”^{4/}

16 **Q. DOES AVISTA’S OPENING TESTIMONY DISCUSS THE SPECIAL**
17 **CONTRACT WITH IEP?**

18 A. Yes. Mr. Joseph D. Miller’s testimony noted that the negotiations between IEP and
19 Avista were ongoing and that “[s]hould the Parties come to terms on a special contract

^{1/} Docket Nos. UE-190334/UG-190335/UE-190222, Exh. JLB-1T at 24:4-8.

^{2/} Id. at 24:11-24.

^{3/} Id. at 23:28-30.

^{4/} Settlement Stipulation ¶ 14(i).

1 during the course of this proceeding, or a material update to the negotiation process arise,
2 the Company will supplement the record in this proceeding with updated information.”^{5/}

3 **Q. PLEASE SUMMARIZE THE DISCUSSIONS IEP AND AVISTA HAVE HAD**
4 **REGARDING A SPECIAL CONTRACT.**

5 A. IEP and Avista began negotiating a Special Contract in June 2020, approximately two
6 months after the conclusion of Avista’s 2019 rate case. Since that time, the parties have
7 held numerous conference calls and have exchanged draft term sheets. Commission Staff
8 has been an active participant in these discussions, and IEP greatly appreciates Staff’s
9 participation in the process, which has helped direct and drive the negotiations.

10 **Q. HAVE AVISTA AND IEP REACHED AGREEMENT ON A TERM SHEET FOR**
11 **A SPECIAL CONTRACT?**

12 A. No. However, the parties have reached agreement on the majority of material items.

13 **Q. WHAT ITEMS HAVE THE PARTIES REACHED AGREEMENT ON?**

14 A. The parties have reached agreement on the following issues of significance:

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

^{5/} Exh. JDM-1T at 29:14-17.

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]

13 **Q. WHAT ISSUES REMAIN OUTSTANDING AS OF THE FILING OF THIS**
14 **TESTIMONY?**

15 **A.** The following issues are continuing to be negotiated between IEP and Avista:

16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]

1 [REDACTED]

2 Q. [REDACTED]

3 A. [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 Q. [REDACTED]

9 [REDACTED]

10 A. [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 Q. [REDACTED]

18 A. [REDACTED]

19 [REDACTED]

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Q.

[Redacted]

A.

[Redacted]

1 Q. [Redacted]
2 [Redacted]

3 A. [Redacted]
4 [Redacted]
5 [Redacted]
6 [Redacted]
7 [Redacted]
8 [Redacted]
9 [Redacted]
10 [Redacted]
11 [Redacted]

12 Q. [Redacted]
13 [Redacted]

14 A. [Redacted]
15 [Redacted]
16 [Redacted]
17 [Redacted]
18 [Redacted]
19 [Redacted]

20 Q. [Redacted]

21 A. [Redacted]
22 [Redacted]
23 [Redacted]

1 [REDACTED]
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8 [REDACTED]
9 **Q.** [REDACTED]
10 [REDACTED]
11 **A.** [REDACTED]
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19 **Q.** [REDACTED]
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22 **A.** [REDACTED]
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[REDACTED]

Q. WHAT PROCESS DOES IEP ENVISION FOR APPROVING THE SPECIAL CONTRACT?

A. My understanding is that the contract must be presented to the Commission for review and approval. Consequently, if IEP and Avista reach agreement on all terms, it is anticipated that the parties will draft the contract, which could then either be filed in these dockets or in a separate docket. Depending on where it is filed, the contract could be approved in the Commission’s final order in this case, or it could be approved at an open meeting, if filed in a separate docket.

If IEP and Avista do not reach agreement on all terms for the Special Contract, then IEP requests that the Commission approve a Special Contract for IEP and resolve the outstanding issues between Avista and IEP in its final order in this case on the terms provided in Confidential Exhibit KR-2C. If this is the outcome, then IEP anticipates that it and Avista will draft the Special Contract in accordance with the Commission’s final order and bring it to the Commission for review and approval. Because this would occur after the rate effective date of this rate case, IEP would support allowing Avista to defer any reduced revenues resulting from the Special Contract for later recovery from other customers.

1 **Q. WHY SHOULD THE COMMISSION RESOLVE THE OUTSTANDING ISSUES**
2 **BETWEEN AVISTA AND IEP IN THIS CASE?**

3 A. The Settlement Stipulation from the 2019 rate case provides that the effective date of the
4 Special Contract will be the same as the rate effective date for this case. Additionally,
5 while the Settlement Stipulation allows the parties to seek binding arbitration before the
6 Commission, because the number of unresolved issues is so limited, IEP believes
7 arbitration would be an unnecessary use of resources for all parties and the Commission.
8 Finally, because approval of a Special Contract will have rate impacts for other
9 customers, IEP believes it is appropriate to allow representatives of other customers to
10 review and respond to IEP's and Avista's proposals in the proceeding in which those rate
11 impacts will occur, should they feel that a response is necessary.

12 **III. BACKGROUND ON IEP**

13 **Q. PLEASE DESCRIBE IEP AND ITS PRODUCTS.**

14 A. IEP is a pulp and paper manufacturer located in Millwood, WA. It is a private company
15 owned by the Cowles Company, a Spokane-based firm that also owns a variety of other
16 subsidiaries including media, real estate and insurance interests. IEP has been in
17 continuous operation since 1911 and makes several different types of paper products.
18 These include newsprint, specialty and packaging papers in a variety of weights, colors
19 and finishes. IEP's products all include post-consumer recycled fiber ranging in content
20 from 30% to 100%. The most recent addition to the company's product line is ARC
21 Natural, a 100% recycled paper that contains no dyes or bleaches. To make these
22 products, IEP directly employs 145 people in the area, providing them with highly

1 competitive wages and benefits. IEP's associated forest and freight operations also
2 directly employ many additional people in the Spokane area as contractors. A study
3 performed by Eastern Washington University in 2008 determined IEP's paper making
4 operations alone contributed approximately 600 direct and indirect jobs to the Spokane
5 regional economy.

6 **Q. PLEASE DESCRIBE IEP'S PRODUCTION PROCESS.**

7 A. To make its various products, IEP uses two sources of waste material as raw fiber: waste
8 paper collected from Washington and other western states, and regional sawmill waste
9 wood chips. IEP's recycling plant consumes old newsprint and sorted office papers while
10 removing ink from the fibers. Practicing sustainability and circular economy, the mill
11 has a dedicated trucking fleet that delivers products to its customers and returns with
12 recycled paper goods from those same communities. Wood chips are processed in a
13 Thermo-Mechanical Pulping ("TMP") system that physically reduces the chips to
14 individual fibers. A significant portion of the wood chips recovered from sawmills
15 originated on IEP's 120,000 acre Eastern Washington - North Idaho tree farm, managed
16 for sustainable timber production and public recreation. Both processes typically run 24
17 hours per day, seven days per week, providing Avista with a flat, predictable electricity
18 load. IEP's typical electricity load is approximately [REDACTED], with occasional peak usage
19 of approximately [REDACTED].

1 **Q. HOW HAS IEP WORKED TO IMPROVE THE EFFICIENCY OF ITS**
2 **PRODUCTION PROCESSES?**

3 A. We have made several significant investments in the mill to improve its efficiency and
4 create environmental benefits. Perhaps most significantly, IEP’s newest TMP refiner
5 includes a heat recovery system, which allowed IEP to reduce its natural gas consumption
6 by over 75%, or 500 million cubic feet per year. IEP was awarded the Leadership in
7 Innovation Award by Governor Inslee in 2014 for these reductions. IEP further reduced
8 its natural gas consumption by investing in a fluidized bed combustion system (“FBC”)
9 to meet a portion of the mill’s energy needs with biomass energy. The FBC consumes
10 lost fiber and ink solids recovered in the mill’s wastewater treatment plant, itself likely
11 the most advanced treatment plant in the pulp and paper industry.

12 IEP has also invested in upgrades to its recycling plant, which has increased its
13 capacity, allowing the mill to produce 100% post-consumer recycled content papers.
14 Finally, IEP’s state-of-the-art paper machine uses heat recovery and water reuse to
15 minimize both energy and water consumption. Mill process water consumption has been
16 reduced from 5.5 million gallons per day (“gpd”) to approximately 2.5 million gpd.

17 In addition to the Leadership in Innovation Award, IEP has received numerous
18 other awards for its efficiency and environmental stewardship, including the Leading
19 Environmental Practices Award in 2018 from the Association of Washington Businesses,
20 the Good Earth Award for Exceptional Management of Forestry Lands in 2012, the Clean
21 Air Award from the Spokane Regional Clean Air Agency in 2008, and the Recycler of
22 the Year Award this year from the Washington State Recycler’s Association.

1 **IV. IEP'S OPTION TO PURSUE COGENERATION**

2 **Q. PLEASE DESCRIBE IEP'S ABILITY TO PURSUE A COGENERATION**
3 **SYSTEM TO MEET THE MILL'S ELECTRICITY NEEDS.**

4 A. IEP has both the physical space and infrastructure necessary to support a cogeneration
5 system that could meet nearly all of IEP's electrical load. Specifically, two locations
6 adjacent to the mill have been identified as suitable for locating a cogeneration facility.
7 Those locations are depicted below and are also included in the report included in Exhibit
8 LDK-3 to Dr. Kaufman's testimony. As discussed in the response testimony of IEP
9 witness Mr. Greg Summers, these locations are also suitable from a state permitting
10 perspective.



11 Additionally, IEP is supplied natural gas through a high pressure, four-inch diameter pipe
12 connected to the Northwest Pipeline. As described in Dr. Kaufman's report, this pipe is
13 sufficient to serve both IEP's existing natural gas needs and the needs of a cogeneration
14 system.

1 **Q. WHY IS IEP INTERESTED IN PURSUING COGENERATION AT THE MILL?**

2 A. IEP participates in a highly competitive global market for its product. In recent years,
3 IEP has seen its costs increase, which has the potential to threaten its competitive position
4 in this market. The company understands that Avista is facing many different
5 requirements that may result in increased costs to its customers, including IEP, such as
6 the need to upgrade aging infrastructure, implement new technologies, and reduce the
7 carbon content of its generation portfolio. IEP is concerned that these requirements could
8 further increase cost pressures for IEP.

9 Consequently, IEP commissioned a study from Aegis Insights, Inc. to evaluate the
10 economic viability of constructing a cogeneration system to meet a substantial portion of
11 its electricity needs. That study, which is explained in detail in Dr. Kaufman's testimony,
12 demonstrated that a cogeneration system that meets 97% of the mill's electricity needs
13 would be cost-effective over the 30-year life of the project.

14 **Q. IF COGENERATION IS ECONOMIC FOR IEP, WHY IS IEP INSTEAD**
15 **PURSUING A SPECIAL CONTRACT WITH AVISTA?**

16 A. There are several reasons. First, the rate provided by a Special Contract would provide a
17 portion of the savings projected from cogeneration. Second, a Special Contract avoids
18 the need to make a high capital cost investment at the mill in the near term when the
19 COVID-19 pandemic has created greater market uncertainty for IEP. Third, the Special
20 Contract would avoid the construction of a new gas-fired generation unit and the
21 associated carbon emissions, while simultaneously providing both IEP and Avista's other
22 customers with incremental benefits through a substantial demand response program,

1 which is discussed further below. Fourth, IEP values its relationship with Avista and
2 hopes to continue its collaborative relationship with the utility through this contract.

3 **Q. COULD THE COGENERATION FACILITY BE PERMITTED IN**
4 **WASHINGTON?**

5 A. IEP retained the services of Anchor QEA to evaluate whether the cogeneration system
6 could be permitted in Washington. Mr. Greg Summers at Anchor QEA prepared a report
7 for IEP identifying the likely permitting requirements that would apply to this project.
8 His report concludes that “this project would be permitted by the regulating agencies
9”^{6/} Of particular importance was the assumption in Aegis Insight’s economic analysis
10 that IEP would purchase offsets to cover 100% of the cogeneration project’s greenhouse
11 gas emissions. Mr. Summers’ report is attached to his testimony in this proceeding as
12 Exh. GS-3.

13 **Q. HAS IEP TAKEN ANY ACTION TO PURSUE THE COGENERATION**
14 **PROJECT?**

15 A. Yes, IEP has begun the process to permit the cogeneration project.

16 **Q. WOULD THE COGENERATION PROJECT BE SUBJECT TO THE**
17 **REQUIREMENTS OF THE CLEAN ENERGY TRANSFORMATION ACT**
18 **(“CETA”)?**

19 A. While I am not an attorney and am not intimately familiar with CETA’s requirements,
20 my attorneys inform me that CETA applies to electric utilities, not customers. Therefore,
21 so long as IEP does not use the cogeneration system to meet 100% of its electricity
22 requirements, it is exempt from CETA’s clean energy mandates.

^{6/} Summers, Exh. GS-3 at 7.

1 **Q. WHY DOES IT MATTER THAT IEP NOT USE THE COGENERATION**
2 **SYSTEM TO MEET 100% OF ITS REQUIREMENTS?**

3 A. Under CETA, a customer that generates electricity to meet 100% of its own needs after
4 CETA's effective date becomes an "affected market customer" and is subject to CETA's
5 clean energy requirements.

6 **Q. HOW MUCH OF IEP'S ELECTRICITY REQUIREMENTS WOULD THE**
7 **COGENERATION SYSTEM MEET?**

8 A. It would meet up to 97% of IEP's requirements.

9 **V. IEP'S ABILITY TO PROVIDE DEMAND RESPONSE**

10 **Q. THE SPECIAL CONTRACT TERMS ALSO REQUIRE IEP TO PROVIDE**
11 **DEMAND RESPONSE TO AVISTA. CAN YOU EXPLAIN YOUR**
12 **UNDERSTANDING OF THOSE REQUIREMENTS?**

13 A. [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]

1 [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 **Q.** [REDACTED]

7 [REDACTED]

8 **A.** [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 **Q.** [REDACTED]

13 [REDACTED]

14 **A.** [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 **Q.** [REDACTED]

22 [REDACTED]

23 **A.** [REDACTED]

24 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 Q. [REDACTED]
5 [REDACTED]
6 A. [REDACTED]
7 [REDACTED]
8 Q. [REDACTED]
9 A. [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
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16 [REDACTED]
17 [REDACTED]
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19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]

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3 **Q.** [REDACTED]
4 [REDACTED]
5 [REDACTED]

6 **A.** [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 **VI. CONCLUSION**

18 **Q. PLEASE SUMMARIZE IEP’S REQUEST TO THE COMMISSION.**

19 **A.** IEP requests that the Commission approve a Special Contract for IEP on the terms
20 provided in Confidential Exhibit KR-2C. Approval of a Special Contract for IEP is in the
21 public interest for several reasons. First, it will ensure that IEP remains on Avista’s
22 system and continues to substantially contribute to the Company’s fixed costs, which
23 reduces rates for all other customers relative to the scenario where IEP self-generates

1 nearly all of its own electricity. Second, the Special Contract will prevent the
2 development of a new natural gas-fired generation resource in Washington, at least for
3 the duration of the special contract. Third, the Special Contract will provide Avista with
4 [REDACTED] of demand response, which may be the largest demand response program in the
5 state. This demand response product will help meet Avista's peak capacity loads in a
6 cost-effective manner, thus benefitting all customers, and reduce the need for incremental
7 peaking capacity generation.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes.