

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND )  
TRANSPORTATION COMMISSION, )  
Complainant, )  
v. ) Docket No. UE-100749  
PACIFICORP d/b/a PACIFIC POWER )  
AND LIGHT COMPANY, )  
Respondent. )  
\_\_\_\_\_ )

**RESPONSIVE TESTIMONY OF NICHOLAS L. NACHBAR  
ON BEHALF OF  
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

**October 5, 2010**

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

2 **A.** My name is Nicholas L. Nachbar. My business address is 31831 H Hwy 12, Wallula,  
3 Washington 99363.

4 **Q. PLEASE SUMMARIZE YOUR EXPERIENCE?**

5 **A.** I am the mill manager for Boise Inc.'s ("Boise") paper mill in Wallula, Washington. I  
6 have over twenty years of experience as a mill manager, supervisor, and engineer, and I  
7 have worked for Boise for about thirteen years. I am appearing in this proceeding as a  
8 witness for the Industrial Customers of Northwest Utilities ("ICNU"). Boise is a member  
9 of ICNU. My qualifications are shown in Exhibit No.\_\_(NLN-2).

10 **I. INTRODUCTION AND SUMMARY**

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

12 **A.** My testimony provides the Washington Utilities and Transportation Commission  
13 ("WUTC" or the "Commission") with information regarding the harmful impact of  
14 PacifiCorp's proposed rate increase upon the Boise Wallula mill.

15 **Q. ARE ELECTRICITY COSTS IMPORTANT FOR BOISE?**

16 **A.** Yes, extremely important. Purchased electricity is one of our top three operating costs.  
17 While the ongoing recession has caused the product markets for many industries to face  
18 deflationary pressures, PacifiCorp continues to relentlessly push for higher rates. Since  
19 January 1, 2007, our mill has seen our PacifiCorp electric rates increase every year (about  
20 a 6.7% increase in 2007, an 8.8% increase in 2008, and a 5.3% increase in 2009). These  
21 increases are much larger than the inflation rate in each of these years.

22 PacifiCorp is seeking about a 21% industrial rate increase in early 2011, despite  
23 the fact that power costs in general and natural gas prices specifically have declined over

1 the past year. In contrast, many of PacifiCorp's customers, including Boise, have been  
2 forced to lower our own operating costs to offset the PacifiCorp's rate increases.  
3 PacifiCorp's proposed 2011 rate increase, combined with the cumulative impact of the  
4 near annual recent rate increases for the past few years, will have a very harmful impact  
5 upon the mill, its employees, and the communities in which they live.

6 A double-digit rate increase, including the 21% increase proposed by PacifiCorp,  
7 impacts the mill's competitiveness. The rate increase could result in layoffs because the  
8 electricity cost increases cannot be passed on to Boise's customers. PacifiCorp's  
9 relentless push for annual rate increases are harming the mill and making it difficult to  
10 engage in long-term planning.

## 11 II. THE WALLULA MILL

### 12 Q. PLEASE PROVIDE AN OVERVIEW OF BOISE AND ITS WALLULA MILL.

13 A. Headquartered in Boise, Idaho, Boise manufactures packaging products and papers  
14 including corrugated containers, containerboard, label and release and flexible packaging  
15 papers, imaging papers for the office and home, printing and converting papers,  
16 newsprint, and market pulp. Boise has a presence in linerboard, corrugated containers,  
17 and specialty label and release products markets and is the third-largest North American  
18 manufacturer of uncoated free sheet paper. Boise operates five paper mills, five  
19 corrugated products plants, a corrugated sheet feeder, a corrugated sheet plant, two  
20 distribution facilities, and a transportation business.

21 The Wallula mill manufactures market pulp, medium for corrugated boxes, and  
22 coated and uncoated paper. The mill also encompasses a trucking terminal and  
23 corrugated container facility, which produces boxes primarily for the food processing and

1 agriculture industries. In 2009, the mill complex produced 422,000 tons of pulp,  
2 corrugated medium, and coated and uncoated paper, as well as 1.4 million square feet of  
3 corrugated boxes.

4 **Q. CAN YOU DESCRIBE THE ROLE OF THE MILL IN THE COMMUNITY?**

5 A. In the year 2010, the mill will have been in operation for 50 years in the community. The  
6 mill and the combined trucking and packaging operations are vital to the economy of  
7 southeastern Washington. We employ over 600 local residents. Our annual payroll is \$57  
8 million. This payroll provides an estimated 900 secondary jobs to the local economy and  
9 state tax base. Our mill is a largest taxpayer and the third-largest private employer in the  
10 county. We spend millions annually in Washington state on goods and services used in  
11 our business. The success of the mill is very much tied to the economies of the  
12 community.

13 **Q. CAN YOU DESCRIBE THE MARKETS IN WHICH THE MILL OPERATES?**

14 A. Some of the products manufactured at the mill are commodities that are widely available  
15 and can be readily produced by our competitors, including those with domestic  
16 operations and others operating in low cost regions. Because commodity products have  
17 few distinguishing qualities from producer to producer, competition for these products is  
18 based primarily on price, which is determined by supply relative to demand. Generally,  
19 market conditions that are beyond Boise's control determine the price for the commodity  
20 products we manufacture, and the price for any one of these products may fall below our  
21 cash costs. Making the mill's business even more challenging, demand for pulp and  
22 paper products have been in decline in recent years, especially during the current  
23 economic recession. In a declining demand environment, the mill's profitability and

1 ability to compete depend on managing our manufacturing efficiency and cost structure,  
2 particularly fiber and energy costs. Therefore, any increases in the mill's cost structure  
3 seriously impacts the economics of the mill.

4 **Q. WHAT STEPS HAS BOISE TAKEN TO FACE THESE COMPETITIVE**  
5 **CHALLENGES?**

6 **A.** Boise has taken a number of proactive and defensive steps in response to these  
7 challenges. In 2006 and 2007 we invested nearly \$80 million in a specialty, label and  
8 release product line at the Wallula mill. And controlling and reducing our energy  
9 consumption continues to be a major focus for Boise company-wide.

10 The global market in which we operate makes it critical to control costs. In some  
11 cases, our operations simply could not be sustained and we had to close or curtail mill  
12 operations. Most recently, we significantly reduced production at our mill in St. Helens,  
13 Oregon, eliminating approximately 300 jobs. We continually work to control labor costs,  
14 while still providing reliable, family-wage jobs in Washington. For example, in 2008, we  
15 froze the salaried defined benefit pension program company-wide, and more recently  
16 have been negotiating with our union employees to do the same.

17 **III. THE MILL AS AN ENERGY PRODUCER AND CONSUMER**

18 **Q. CAN YOU DESCRIBE THE MILL'S POWER USAGE AND POWER SYSTEM?**

19 **A.** The mill is a large power customer of PacifiCorp, with an electric bill of about \$21  
20 million. The total average mill load is currently approximately 52 megawatts. The mill  
21 operates at roughly an 88% load factor, making it a highly-attractive customer and a very  
22 efficient customer to serve. We continually review the cost-effectiveness of becoming  
23 even more energy self-sufficient.

1 **Q. WHAT ROLE DO ENERGY COSTS PLAY IN THE MILL'S OVERALL COST**  
2 **STRUCTURE AND WHAT ATTENTION DOES BOISE PAY TO THESE**  
3 **COSTS?**

4 **A.** Paper manufacturing is an energy-intensive process and energy costs represent one of the  
5 single largest costs for the mill. That is why we focus significant attention on  
6 opportunities to minimize costs and save energy, from the highest leadership levels of the  
7 company out to our manufacturing facilities.

8 **Q. WHAT RECENT STEPS HAS BOISE TAKEN TO MINIMIZE ITS ENERGY**  
9 **COSTS?**

10 **A.** During the period from the summer of 2009 to the end of 2010 the Boise Wallula mill is  
11 scheduled to spend over \$2 million on projects focused specifically on reducing fossil  
12 fuel and electrical power use. These projects will reduce natural gas consumption by  
13 over 200,000 mmbtus per year. They include capturing and returning clean condensate  
14 from process streams back to the boilers; capturing exhaust heat from a large infrared  
15 paper dryer and reusing it to displace steam used to heat water; and a large project that  
16 will help provide cleaner water to certain mill processes so it can be used again in other  
17 areas of the mill. Over the last few years the mill has also invested in several large  
18 variable frequency drive devices to optimize the rotational speed of motors and reduce  
19 power consumption by several hundred horsepower.

20 **Q. WHAT STEPS MIGHT BOISE HAVE TO TAKE IN THE FUTURE TO SHIELD**  
21 **ITSELF AGAINST PACIFICORP'S ANNUAL RATE INCREASES?**

22 **A.** From an operating cost perspective, the annual level of PacifiCorp rate increases is  
23 unsustainable. Boise must find power alternatives that will allow the mill to remain  
24 viable and competitive. We will aggressively explore all avenues to position ourselves to

1 reduce our exposure to PacifiCorp rate increases, including additional investments in  
2 conservation. We also might have to reduce the size of our mill, which means job loss.

#### 3 **IV. HARM TO BOISE**

4 **Q. WOULD PACIFICORP'S PROPOSED RATE INCREASE SIGNIFICANTLY**  
5 **HARM BOISE?**

6 **A.** Yes. Boise has struggled to incorporate the significant PacifiCorp electric rate increases  
7 that have occurred over the past few years. The mill is paying \$3.5 million more  
8 annually for electricity today than it did in 2007. That is an approximate 20% increase  
9 during that time, yet we use only about 2% more energy. Today, the mill's annual  
10 electric costs are about \$21 million. We estimate that the PacifiCorp proposed rate  
11 increase would increase electricity costs by a staggering \$4.4 million annually. This will  
12 be another significant, unplanned cost increase that Boise cannot pass on to our  
13 customers. PacifiCorp's frequent and significant rate increase filings also harm the mill  
14 by creating uncertainty regarding long-term power costs, making it difficult to plan for  
15 capital improvements. To remain competitive, these additional costs will again need to  
16 be absorbed by the mill. If we cannot absorb the costs, additional cost reduction efforts,  
17 including layoffs, will have to be considered.

18 **Q. CAN YOU PROVIDE AN EXAMPLE OF HOW PACIFICORP'S RATE**  
19 **INCREASE CAN HARM BOISE AND THE LOCAL COMMUNITY?**

20 **A.** Yes. Boise Paper prides itself for providing living wage jobs for employees and  
21 contractors. Our employees live in and contribute to the economies of Walla Walla,  
22 Benton, and Franklin counties. Many of our employees are PacifiCorp customers and  
23 will also be affected by this increase at their homes. This proposed increase not only

1 jeopardizes well-paying jobs but will also have a significant negative impact on our  
2 employees, their families, and our communities.

3 The property taxes Boise pays Walla Walla County represents more than 5% of  
4 the total property taxes the county collects. Anything that negatively impacts the  
5 property taxes Boise pays, like an unplanned electrical cost increase leading to mill  
6 downsizing, will also negatively impact Walla Walla County-funded law enforcement,  
7 fire, education and other activities. The uncertainty of long-term power costs and the  
8 resulting difficulty in planning capital projects also negatively impacts local contractors,  
9 who generally perform at least a portion of the capital projects. Another activity in  
10 jeopardy is the mill's ability to support community activities at current levels. Among  
11 other things, the mill's financial contributions underwrite free admission for school  
12 children to a local historical museum; support a local coalition that advocates for  
13 widening the highway serving our mill (with the ultimate goal of making it safer);  
14 support the local county fair's youth livestock program; help recognize outstanding  
15 Hispanic students in our area; support Camp Fire, United Way and the Boys and Girls  
16 Clubs; support a variety of youth sports teams; help provide paper to classrooms; and  
17 help educate students about the papermaking process and sustainability.

## 18 V. RECOMMENDATIONS

### 19 Q. WHAT ACTION DO YOU RECOMMEND THAT THE COMMISSION TAKE IN 20 THIS PROCEEDING?

21 A. I recommend that the Commission reject or significantly reduce PacifiCorp's proposed  
22 rate increase. ICNU's economic expert consultants are sponsoring ICNU's revenue  
23 requirement adjustments, and ICNU may support or adopt certain revenue requirement



1 adjustments proposed by other parties. The Commission should be skeptical of the  
2 Company's rate increase proposal as PacifiCorp has a history of requesting rate increases  
3 much larger than it is entitled to receive. For example, PacifiCorp requested a 15.1%  
4 increase in 2009, but agreed that a 5.3% was sufficient. In 2008, PacifiCorp requested a  
5 17.3% industrial (14.6% overall) increase, but agreed that an 8.5% (8.8% industrial) rate  
6 increase was sufficient. We have not seen the types of cost controls from PacifiCorp that  
7 Boise has been forced to make.

8 When considering the revenue requirement proposals by ICNU and other parties  
9 in this proceeding, the Commission should be mindful of the impact that its decision will  
10 have on PacifiCorp's customers. For example, there may be certain discretionary  
11 programs or costs that should be deferred, delayed, or simply not made in light of the  
12 current economic conditions and/or the size of PacifiCorp's rate increase. The  
13 Commission should make all reasonable efforts to reduce or eliminate any rate increase  
14 in this proceeding.

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

16 **A.** Yes.