



INLAND EMPIRE PAPER COMPANY

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October 21, 2005

Executive Secretary
Washington Utilities and Transportation Commission
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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

RE: Testimony presented to the WUTC Board on October 11, 2005

My name is Wayne Andresen and I am the president and general manager of Inland Empire Paper Company (IEP). Inland Empire Paper Company is a pulp and paper facility located in Millwood, Washington, and we are Avista's largest electrical customer in the state of Washington. Our primary product is newsprint of which we currently manufacture slightly over 500 tons per day. Less than 10 percent of our product is utilized in Eastern Washington with the remainder supplied nationally, as far east as Detroit, Michigan, as far south as El Paso, Texas, and as far south along the Pacific coast as San Diego. We compete against the other 49 newsprint manufacturing facilities located throughout the United States and Canada.

The newsprint market is very competitive due to the fact that it is a commodity product in a declining market. This decline has accelerated since September 11, 2001, when there was a precipitous consumption drop due to canceled advertising. Concurrent with this advertising loss, paid circulation has also been steadily decreasing causing a further drop in consumption. This trend continues as statistics show a 3.4 percent decline in North American newsprint consumption for the second half of 2004 and, an additional 5.3 percent decline through August of 2005. This market situation resulted in a dramatic decrease in newsprint prices and caused our industry to operate at a loss in 2002 and 2003. To compensate for the decrease in demand, over 900,000 metric tons of newsprint capacity were taken off line in 2004. Another 500,000 metric tons are scheduled to be shut permanently in 2005.

Inland Empire Paper Company's profitability since 2001 has been significantly affected by Avista's comparatively high electric rates. In the 2004 annual survey conducted by the Pulp and Paper Council for the North American Newsprint Association, IEP had the fifth highest electric power rate of 39 participating mills that buy power from unaffiliated utilities. The survey showed that our Canadian competitors paid an average of \$31.95 per megawatt-hour (MWH), while the U.S. average was \$33.95 per MWH. This compares very unfavorably with the \$41.71 per MWH that Avista charges IEP.

Electricity is our largest manufacturing expense and is currently responsible for over 18 percent of all of our manufacturing costs. We cannot survive in the long term paying these high electric costs that are almost 30 percent higher than our competitors. In reviewing Avista's rate changes

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since October 2001, the WUTC board first approved a 25 percent surcharge. This was followed with the approval of an additional 6.2 percent surcharge in March of 2002. The surcharges were changed in August 2002 into a permanent rate increase of 19.7 percent along with a 12.1 percent surcharge. To date, these increases have resulted in an added electrical expense to IEP of \$7,051,526.20.

Obviously, the days of inexpensive power for industry in the Pacific Northwest are gone. In fact the opposite is now true, as the statistics for our industry show that we have some of the most expensive industrial electric rates in the United States.

Rates, and rate of return for investor owned utilities in the state of Washington are set to help them maintain financial viability. However, the increases Avista is proposing threaten the financial viability of their largest Washington customer and one of the larger private employers in Eastern Washington.

The Spokane region enjoys the benefits of IEP's payroll of \$10.76 million dollars. Data from an Economic Impact study completed by the economics department at Eastern Washington University concluded that we are responsible for 681 jobs in the local economy. We are also responsible for \$194.2 million of impact to the local economy. And perhaps most importantly, we are responsible for bringing \$108 million in *new* money to the Eastern Washington economy from outside of our region.

The competitive marketplace regulates the prices of newsprint and the prudence of our decision making. We have accepted the existence of monopoly utilities with the understanding that an independent body, the WUTC, will review the actions of the utility for the prudence of their decision making. We believe that it is important that the commission study the testimony and arguments of all parties, particularly Avista's customers, before coming to a conclusion on those issues. In light of that, until all parties that have intervned in this process agree to a negotiated settlement, we urge the commission to continue with the normal, full review process and do not accept the proposed settlement between your staff and Avista.

Thank you for your time.

Sincerely,



Wayne D. Andresen

President

and General Manager

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