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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE
COMMISSION

In The Matter Of: :
: Case No. 2012-00535
Application Of Big Rivers Electric Corporation For :
A General Adjustment In Rates :
:

DIRECT TESTIMONY OF STEVE HENRY
ON BEHALF OF DOMTAR PAPER COMPANY, LLC
AS A MEMBER OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

I. INTRODUCTION AND QUALIFICATIONS

1
2
3 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.**

4 A. My name is Steve Henry. I am the General Manager of Domtar Paper Company, LLC
5 (“Domtar”) Hawesville, Kentucky pulp and paper manufacturing facility. My business
6 address is PO Box 130, Highway 1406, Hawesville, KY 42348.

7
8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
9 **BACKGROUND.**

10 A. I earned a Bachelors of Science in Electrical Engineering from Virginia Polytechnic

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1 Institute and State University (Virginia Tech). I earned a Masters in Business
2 Administration from NOVA Southeastern University. In addition, I have completed
3 graduate pulp and paper coursework at North Carolina State University.

4 I have been an active participant in the pulp and paper industry since 1991,
5 initially with Georgia-Pacific from 1991 to 1996. I have worked in a variety of
6 engineering, operations/maintenance, management, and corporate roles in my career. I
7 was Vice President – Mill Manager for Weyerhaeuser and International Paper’s facility in
8 Cedar Rapids, Iowa from 2007 to 2010. For International Paper, I was the Investment
9 Project Manager of Containerboard Asset Strategy from 2010 to 2011. I joined the
10 Domtar organization and became General Manager of their Hawesville facility in August
11 2011.

12
13 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

14 A. I am appearing on behalf of Domtar and Kentucky Industrial Utilities Customers, Inc.
15 (“KIUC”). Domtar is the largest manufacturer and marketer of uncoated freesheet paper
16 in North America and the second largest in the world based on production capacity.
17 Domtar’s Hawesville Mill, located in Hancock County employs 445 people. It is one of
18 the largest and strongest economic providers for the region. We produce fine printing and
19 writing papers, along with market pulp. Our annual production capacity is almost
20 600,000 tons of paper and 100,000 tons of hardwood market pulp.

21 Domtar is a member of KIUC and is served under the Large Industrial rate by Big Rivers
22 Electric Corporation (“Big Rivers”).

1 **Q. HOW WOULD YOU CHARACTERIZE THE HEALTH OF THE UNCOATED**
2 **FRESHEET PAPER MARKET.**

3 A. The market has been declining at a rate of 4% per year. There have been and will likely
4 continue to be closures in our segment of the paper industry.

5

6 **Q. WHAT IS THE RATE IMPACT OF BIG RIVERS' REQUESTED INCREASE ON**
7 **DOMTAR'S HAWESVILLE MILL?**

8 A. Although Big Rivers' Official Notice of its proposed rate increase states that the
9 proposed percentage increase to the Large Industrial Class is 17.9% Domtar calculates
10 that the real impact to the Hawesville mill will be an approximately 32% increase in our
11 power rate. This is due primarily to the fact that Big Rivers' filing causes changes in non-
12 base rate components of Domtar's bill such as the Fuel Adjustment Clause and the
13 Member Rate Stability Mechanism.¹ If the Commission approves Big Rivers'
14 Application, as filed, Domtar's regulated electric costs will jump by about \$1.6 million
15 per year.

16

17 **Q. IS THE DISCREPANCY BETWEEN THE RATE INCREASE AS NOTICED BY**
18 **BIG RIVERS TO THE PUBLIC AND THE ACTUAL RATE INCREASE THAT IS**
19 **SHOWN IN BIG RIVERS' APPLICATION (IN TAB 59) WELL KNOWN TO BIG**
20 **RIVERS' CUSTOMERS IN YOUR OPINION?**

21 A. Early in this rate case process I noticed that there was a lot of misinformation and
22 misunderstanding among the public regarding the magnitude of the rate increases being

¹ See Tab 59 Attachment to Application of Big Rivers; page 8 of 8.

1 proposed by Big Rivers. Based on my conversations with other Big Rivers customers,
2 most people believed that the rate increases from this proceeding would be about 29% for
3 the Rural class and about 18% for the Large Industrial class as noticed by Big Rivers.
4 Few people understood that the real increase would be much higher. According to Big
5 Rivers' own exhibits (see Tab 59 of the Company's Application) the Company projects
6 wholesale rate increases of 41.5% for the Rural class; and 27.9% for the Large Industrial
7 class. Fewer still understood that the rate increase that Big Rivers will propose at the end
8 of June in order to recover the revenue loss from the Alcan departure will likely be even
9 larger than the current proposed rate increase. KIUC witness Mr. Kollen estimates that
10 the 'Alcan' increase will be in the range of 48% to 62% for the Large Industrial
11 customers and 51% to 67% for Rural customers. In my opinion, the actual bill impacts
12 that customers in Western Kentucky will experience from the "pancaked" rate increases
13 increase were not well known.

14 For this reason Domtar, along with Aleris and Kimberly Clark, founded a
15 coalition of Western Kentucky utility consumers, both businesses and individual
16 customers, called Fair Rates Kentucky. Fair Rate Kentucky's mission is to educate the
17 public concerning Big Rivers plan to recover 100% of the lost margins from the loss of
18 the two smelter loads from its remaining ratepayers.

19
20 **Q. WHAT WOULD BE THE CONSEQUENCES OF A 32% SPIKE IN**
21 **HAWESVILLE'S POWER BILL FROM BIG RIVERS?**

22 A. This will move our regulated electric purchases from the most competitively priced of
23 Domtar's five major U.S. mills to second behind our Johnsonburg, PA facility. We know

1 that this rate increase was substantial enough that another of Big River’s industrial
 2 customers, Alcan, has given notice of termination of its contract with Big Rivers and that
 3 Big Rivers has confirmed that the loss of Alcan will cause Big Rivers to file another rate
 4 increase request this summer. It is unclear whether the recent announcement of the sale
 5 of Alcan’s Sebree smelter to Century or the announced deal that the two smelters will be
 6 able to access the wholesale power market will provide any meaningful additional
 7 revenues for Big Rivers that would affect this rate case filing or Big Rivers’ next rate
 8 case filing in June of this year.

9 While the details are still unknown, it is estimated that the ‘Alcan’ increase would
 10 make Hawesville’s regulated electric rates the second highest among all of Domtar’s
 11 major U.S. mills. The Table below shows Domtar’s projection of how the current rate
 12 increase and the imminent ‘Alcan’ increase affects the Hawesville Mills’ position among
 13 Domtar’s major U.S. mills.

Mill	Regulated Rate	Rate Increase
Hawesville (Current)	\$ 35.85	
Johnsonburg	\$ 46.48	
Hawesville (8/21/2013)	\$ 47.37	32.1%
Ashdown	\$ 55.08	
Kingsport	\$ 57.50	
Hawesville (2/1/2014)	\$ 61.40	71.2%
Marlboro	\$ 68.56	

15

1 This Table shows that Hawesville currently has the most favorable regulated
2 power rate of any of Domtar's five major U.S. mills. However, after the current rate
3 increase becomes effective, Hawesville's will move one spot down in the stack behind
4 the Johnsonburg plant. That move will be temporary because Big Rivers' next rate case,
5 which it states will be filed in June, will likely make the Hawesville power rate the
6 second least favorable of Domtar's major U.S. mills by this time next year.²

7
8 **Q. ARE THERE OTHER FACTORS CONSIDERED BY DOMTAR'S**
9 **MANAGEMENT WHEN EVALUATING POWER COSTS BETWEEN DOMTAR**
10 **PLANTS OTHER THAN THE REGULATED ELECTRIC RATE?**

11 A. Yes, while our current "gross" published regulated rate from Big Rivers is attractive
12 compared to the other Domtar facilities, the actual net rate is not. Domtar produces much
13 of its own power at Hawesville and its other facilities and has entered into "buy all/sell
14 all" agreements at each of its major U.S. plants that vary in their favorability to Domtar.
15 When you factor in the effect of "buy all/sell all" agreements, Hawesville's power costs
16 are the 4th most expensive out of 5 at current Big Rivers' rates. When the rate increase
17 from the current case becomes effective the Hawesville mill will move into last place and
18 trail even farther behind the other Domtar U.S. mills in terms of net power rates when the
19 'Alcan' rate increase is put in place. Obviously, Big Rivers and the Commission have no
20 influence over the relative favorability of Domtar's "buy all/sell all" agreements. I
21 mention it only because I think that it is important for the Commission to know that the
22 increases that Domtar is facing have the direct effect of making the net power rate of the

² The Table assumes that the 'Alcan' rate increase will be at the high end of KIUC witness Mr. Kollen's estimated range of 48% to 62% for Large Industrial customers.

1 Hawesville facility the least favorable net power rate of any of Domtar's major U.S. mills
2 by a significant margin.

3
4 **Q. WHY DOES IT MATTER IF THE HAWESVILLE MILL'S POWER RATE IS**
5 **LESS FAVORABLE THAN OTHER DOMTAR FACILITIES?**

6 A. As market demand for paper drops, our Hawesville facility has to compete not just
7 against other paper manufacturers but against other Domtar facilities as well. This
8 competition is based on the cost of finished product but it's not just a competition for
9 production rights but also a competition for Domtar's limited capital resources. We are
10 faced from time to time with taking market downtime. Market downtime refers to a
11 temporary idling, at the direction of senior management, of selected Domtar facilities
12 simply because our overall production capabilities have exceeded market demands. Any
13 increase in the cost of production at Hawesville increases the likelihood that we may be
14 asked to temporarily halt production. In like manner, these increases jeopardize access to
15 what should be Hawesville's share of corporate capital funding for projects needed to
16 keep our manufacturing processes both modern and competitive.

17
18 **Q. WHAT ARE THE CONSEQUENCES OF A REDUCED SHARE OF AVAILABLE**
19 **CAPITAL ON THE HAWESVILLE MILL?**

20 A. Reduced access to capital and increased costs of production combined with the steady
21 decrease in paper demand may further increase idling requests at Hawesville in both
22 frequency and duration. Any idling of our mill has environmental implications too. For
23 every two tons of production, our pulping process yields enough residual biomass fuel to

1 offset one megawatt-hour of “brown power” produced from a coal or natural gas-fired
2 facility. In 2012, the Hawesville facility produced renewable energy to offset more than
3 255,000 MWh of the region’s brown power. This is enough renewable energy to power
4 22,600 average US homes.

5
6 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING**
7 **BIG RIVERS’ RATE REQUEST?**

8 The team at Domtar's Hawesville facility is working hard every day to keep our facility
9 competitive in a declining commodity market. Nevertheless, in a competitive global
10 marketplace we cannot afford to pay for 100% of the costs incurred to serve other
11 customers while Big Rivers’ creditors recoup 100% of their investments. Domtar and the
12 other ratepayers of Big Rivers are not guarantors for the loans taken out by Big Rivers.
13 The employees of our Hawesville facility and I ask that this Commission consider only
14 actions that will keep our electric rates fair, just and reasonable so we can continue to
15 serve our customers, community and stakeholders by continuing to provide a useful, cost-
16 effective, and environmentally-sustainable product at a reasonable price. Thank you for
17 your time and consideration.

18
19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A. Yes.

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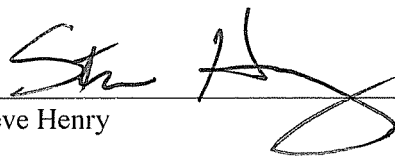
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AFFIDAVIT OF STEVE HENRY

STATE OF KENTUCKY)
) SS
COUNTY OF Hancock)

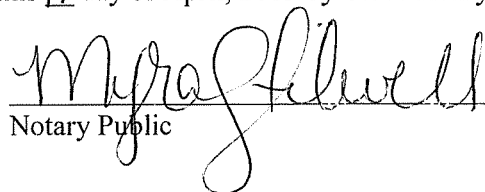
Steve Henry, being first duly sworn deposes and states that:

1. He is General Manager of Domtar Paper Company, LLC.
2. He is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Steve Henry on behalf of Kentucky Industrial Utility Customers and Domtar Paper Company, LLC ";
3. Said testimony was prepared by him and under his direction and supervision;
4. If inquiries were made as to the facts in said testimony he would respond as therein set forth; and
5. The aforesaid testimony is true and correct to the best of his knowledge, information and belief.



Steve Henry

Subscribed and sworn to or affirmed before me this 17th day of April, 2013 by Steve Henry.



Notary Public