

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

In the Matter of:

ELECTRONIC TARIFF FILING OF BIG RIVERS)	
ELECTRIC CORPORATION AND KENERGY)	Case No. 2023-00312
CORP. TO REVISE THE LARGE INDUSTRIAL)	
CUSTOMER STANDBY SERVICE TARIFF)	

**DIRECT TESTIMONY
OF
MURRAY R. HEWITT
ON BEHALF OF
DOMTAR PAPER COMPANY, LLC**

April 22, 2024

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I. INTRODUCTION AND QUALIFICATIONS

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Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Murray R. Hewitt. I am the General Manager for Domtar Paper Company, LLC's ("Domtar") Hawesville Mill. My business address is 4655 Honeysuckle Lane, Owensboro, KY 42303.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I earned a Bachelor of Science in Chemical Engineering from the University of Toronto. As the General Manager of Domtar's Hawesville Mill, I manage all aspects of the Mill including Operations, Maintenance, HR, Financial, Technical, Purchasing, Wood Procurement and Logistics. Before joining Domtar, I managed the design, commissioning, hiring and startup of a

1 Greenfield 100% recycled tissue and newsprint mill and a 100% Recycled Lightweight
2 Linerboard mill. Led implementation of asset reliability program at the Iroquois Falls
3 mill. The process included training, design, implementation and culture change
4 management. Reduced unscheduled maintenance downtime by 1% in less than 5 months.
5 Designed, recruited and led technical companywide Paper Machine audit team.
6 Conducted numerous mill audits to identify technical, operational and supervisory
7 opportunities for continuous improvement.
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10 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

11 A. I am appearing on behalf of Domtar. Domtar is the largest manufacturer and marketer of
12 uncoated freesheet paper in North America and the second largest in the world based on
13 production capacity. Domtar's Hawesville Mill, located in Hancock County, employs
14 approximately 460 people and has an estimated regional economic impact of nearly \$1.3
15 billion. It is one of the largest and strongest economic providers for the region. Its
16 annual production capacity is almost 600,000 tons of paper and 100,000 tons of
17 hardwood market pulp.
18

19 **Q. HOW WOULD YOU CHARACTERIZE THE HEALTH OF THE UNCOATED**
20 **FRESHEET PAPER MARKET?**

21 A. The uncoated freesheet paper market has been waning for more than a decade, declining
22 at a rate of between 4% and 6% per year. In 2023, there was a 21% decline in the
23 freesheet paper market. According to data from the American Forest and Paper

1 Association, over the past 10 years, an average of 1,060,000 tons of North American
2 paper production capacity have been closed annually. That is the equivalent of one
3 Hawesville-sized mill being closed every 7 months. Just recently, in September of 2023,
4 Domtar announced the indefinite idling of 349,000 tons of pulp and paper capacity at our
5 mill in Espanola, Canada that had, prior to its closing, employed 450 people. Also,
6 effective June 1, 2024 Domtar announced that its Ashdown Arkansas paper mill will be
7 shut down.

8
9 **Q. HOW IS DOMTAR'S HAWESVILLE FACILITY IMPACTED BY UTILITY**
10 **RATE INCREASES?**

11 A. Utility rate increases significantly impact Domtar's competitiveness, both domestically
12 and internationally. In addition to competing with suppliers in the U.S., Domtar's
13 Hawesville mill competes for business with foreign suppliers that make and import their
14 paper from overseas. The environmental and labor regulations in many of the exporting
15 countries are well below U.S. standards, giving these imports a significant cost advantage
16 over domestically-produced paper, even when the additional shipping costs are
17 considered. Increases in input costs, like the cost of electricity, make it just that much
18 harder for Hawesville to compete against these foreign imports.

19
20 **Q. WHY DOES IT MATTER IF THE HAWESVILLE MILL'S POWER RATE IS**
21 **LESS FAVORABLE THAN OTHER DOMTAR FACILITIES?**

22 The Hawesville facility competes not just against other paper manufacturers, but against
23 other Domtar facilities for production rights and for Domtar's limited capital resources.

1 The entire bundle of mill operational expenses and input costs, along with mill efficiency
2 and location, dictate each mill's per-unit production costs. Domtar's allocation of capital
3 is largely driven by these per-unit production costs. The largest components of these
4 bundled costs are wood fiber, chemical catalysts, and energy.

5 Each Domtar mill also has regional advantages and disadvantages. Unfortunately,
6 one of the regional disadvantages for Hawesville is that their local "wood basket" is
7 hardwood only. It takes a mixture of hardwood and softwood fiber to make commercial
8 grades of paper. This forces Hawesville to have softwood fiber delivered from as far
9 away as Arkansas and South Carolina rather than the more economical solution of
10 sourcing it locally if it were available. Kentucky's historical price advantage on energy
11 has always been an important offset to the higher cost of fiber supply at Hawesville.
12 Reduced access to capital and increased costs of production combined with the steady
13 decrease in paper demand could increase both the frequency and duration of idling
14 requests at Hawesville. In addition to economic impacts, idling of the Hawesville mill
15 has environmental impacts. For every two tons of production, our pulping process yields
16 enough residual biomass fuel to offset one megawatt-hour of "brown power" produced
17 from a coal or natural gas-fired facility. In 2022, the Hawesville facility produced
18 renewable energy to offset more than 301,700 MWh of the region's brown power. This
19 is enough renewable energy to power 27,500 average U.S. homes for a year.

20 There's another important consideration that is driven by the local cost of energy
21 – the possible repurposing of the Hawesville site. There is fierce internal competition
22 within Domtar for the limited amount of capital available to the paper fleet for
23 improvements and technological advancements. Getting the lion's share of these

1 discretionary funds is the difference between maintaining a top position on the Domtar
2 roadmap or languishing as one of the next mills to be slated for closure. Energy costs
3 will weigh heavily in future decisions made by Domtar management whether to close or
4 potentially repurpose the Hawesville mill site. And as history has shown, once Domtar's
5 management decides to shut down a mill, that decision will not be revisited.

6
7 **Q. PLEASE DESCRIBE THE HAWESVILLE MILL'S COGENERATION**
8 **FACILITY.**

9 A. Domtar constructed its 52 MW onsite cogeneration facility at the Hawesville mill in
10 2001. The cogeneration facility consists of boilers fueled by tree bark, sawdust and wood
11 chips that the mill cannot process as well as "*black liquor*" which is a byproduct from the
12 pulping process. Black liquor is a renewable fuel resource. Domtar's boilers use this
13 renewable fuel to produce steam that is used in the papermaking process and to generate
14 electricity with the additional benefit that converting it to electricity allows Domtar to
15 capture and reuse its pulping catalysts at a 99% efficiency. Hawesville's QF
16 cogeneration system constitutes a "*Qualifying Facility*" under the Public Utility
17 Regulatory Policies Act of 1978. The facility received a Combined Heat and Power
18 Energy Star award from the U.S. Environmental Protection Agency and U.S. Department
19 of Energy in 2005.

20
21 **Q. HAS DOMTAR CALCULATED HOW THE BIG RIVERS LARGE INDUSTRIAL**
22 **CUSTOMER STANDBY SERVICE TARIFF PROPOSED IN THIS**
23 **PROCEEDING WILL IMPACT HAWESVILLE'S ELECTRIC RATES?**

1 A Yes. According to the analysis of Stephen Baron, replacing our current contract with Big
2 Rivers' proposed Large Industrial Customer Standby Service ("LICSS") tariff would
3 increase the cost of electric supply at the Hawesville mill by 45.5% (\$6.48 million per
4 year) based on a five-year study period from January 2018 through December of 2022.
5 This new rate structure would increase the Hawesville mill's per unit cost, amplify
6 Hawesville's fiber cost disadvantage, and weaken its position in the Domtar hierarchy of
7 mills.

8
9 **Q. DOMTAR WITNESS STEPHEN BARON IS RECOMMENDING THAT THE**
10 **COMMISSION REJECT BIG RIVERS' LICSS TARIFF AND PROPOSES A**
11 **BACK-UP, MAINTENANCE AND SUPPLEMENTAL POWER RATE BASED**
12 **ON DUKE ENERGY KENTUCKY'S GSS TARIFF. IF THE GSS TYPE TARIFF**
13 **IS ADOPTED, MR. BARON HAS SHOWN THAT IT WOULD PRODUCE AN**
14 **17.8% RATE INCREASE (\$2.54 MILLION PER YEAR) ON DOMTAR'S TOTAL**
15 **BILL. WILL SUCH AN INCREASE CREATE PROBLEMS FOR THE DOMTAR**
16 **PAPER PLANT IN KENTUCKY?**

17 A. Yes. While the Commission-approved Duke's GSS type rate is a significant improvement
18 over Big Rivers' proposed LICSS tariff, it still will result in a very large increase,
19 creating significant challenges to maintain the economic viability of our facility in
20 Kentucky. A 17.8% rate increase amounts to over \$2.5 million per year in additional
21 costs, which will significantly impact our operations.

22

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

2 A. Yes.