

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

121 7th Place East, Suite 350
St. Paul, MN 55101-2147

In the Matter of Otter Tail Power's Petition to
Ensure Competitive Electric Rates for Energy-
Intensive Trade-Exposed Customers

PUC Docket No. E-017/M-16-533

AFFIDAVIT OF PETER AUBE

STATE OF MINNESOTA)

) ss.

COUNTY OF BELTRAMI)

I, Peter Aube, being first duly sworn upon oath, state as follows:

1. I am the Lumbermill Manager at the Potlatch lumber mill in Bemidji, Minnesota (the "Potlatch Mill"), the largest lumber producer in the State. The Potlatch Mill produces precision cut studs (in 2"x4" and 2"x6" sizes, 7' to 9' in length).

The Potlatch Mill's Contributions to Minnesota

2. The Potlatch Mill is a large employer in northwest Minnesota, employing 108 people as of March 2016. The total wages for these employees are close to [TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS], the total benefits are approximately [TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS], and the payroll for the Potlatch Mill is roughly [TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS]. Average compensation at the Potlatch Mill is [TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS] per year, and turnover averages less than 5%.

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3. In 2015, the Potlatch Mill paid in excess of [TRADE SECRET DATA BEGINS... [REDACTED] ...TRADE SECRET DATA ENDS] in property and corporate franchise taxes [TRADE SECRET DATA BEGINS... [REDACTED] ...TRADE SECRET DATA ENDS].
4. The annual budget for the Potlatch Mill is approximately [TRADE SECRET DATA BEGINS... [REDACTED] ...TRADE SECRET DATA ENDS].
5. According to the UMD Labovitz School of Business study entitled “The Economic Impact of Minnesota’s Forestry-Related Industries on the State of Minnesota” (the “Labovitz DNR Study”), a copy of which is attached to the affidavit of Wayne Brandt, the Potlatch Mill’s [TRADE SECRET DATA BEGINS... [REDACTED] ...TRADE SECRET DATA ENDS] annual budget multiplies 12.43 times through the northern Minnesota economy, leaving an economic impact of over [TRADE SECRET DATA BEGINS... [REDACTED] ...TRADE SECRET DATA ENDS] million per year.
6. The Labovitz DNR Study also found that Minnesota sawmills like the Potlatch Mill provide 752 direct jobs and 2,180 indirect jobs across other sectors.
7. The Potlatch Mill’s operations also directly support the community. Attached as Exhibit A to my affidavit is a Minnesota Forest Industries PowerPoint presentation detailing the State revenues collected from the Minnesota forest products industry. Half of the Potlatch Mill’s raw material comes from public forests, and revenue from these sales contributes to school trust funds and the State general fund. In addition, the economic activity generated by timber sales is significant. For every dollar spent on public stumpage, \$41 dollars of economic activity are generated. The Potlatch Mill’s

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contribution from this activity is therefore approximately [TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS] dollars annually.

8. Without the Potlatch Mill, the average market for red pine (spread across sawtimber, pulp and bolts, and pulpwood) could be dramatically reduced, resulting in a decrease in value of the State's red pine forests. Attached as Exhibit B to my affidavit is the 2015 Public Stumpage Review and Price Indices dated May 1, 2015 ("Stumpage Review"). The summary table on page 9 of the Stumpage Review details the prices for various species of wood sold by Minnesota public agencies. Of import here is the value of red pine, and the level of the Potlatch Mill's consumption. The Potlatch Mill consumes approximately [TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS] annually, of which approximately [TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS] is red pine. Of the red pine sold by Minnesota public agencies, the Potlatch Mill purchases the vast majority, nearly [TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS], or over [TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS]. If the Potlatch Mill were not operating, that red pine would be valued as pulpwood, which could have two detrimental impacts. First, the dollar multiplier for money spent on public stumpage could significantly decrease because of the drop in value from \$43.09 per cord to \$12.44 per cord. Second, and more broadly speaking, the value of the State's pine forest could drop precipitously. Current prices for red pine pulpwood are approximately 29% of the value of sawbolts. If the State's red pine forests were valued as pulpwood, the resource could lose approximately 71% of its value. Given the fact that Potlatch uses approximately [TRADE SECRET DATA BEGINS... ██████████

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████████████████████ **...TRADE SECRET DATA ENDS]** for conservation programs such as efficient plant lighting, energy efficient motors, utilization of frequency drives to manage loads, and utilizing independent professional audits on compressed air utilization and efficiency. The Potlatch Mill has been able to increase production by **[TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS]** while reducing our electricity consumption by **[TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS]** and our demand by **[TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS]**.

16. Because energy is a significant cost to our operations, it is important to compare our energy costs to our competitors in order to understand our overall competitiveness. Attached as Exhibit C to my affidavit is a true and correct copy of pertinent portions of a 2013 study on competitiveness of various lumber mills conducted by the Beck Group (the “Competitiveness Study”). The 17 other studmills in the study are located in Oregon, Washington, Idaho, Montana, Michigan, British Columbia, and Saskatchewan.²

17. Page 26 of the Competitiveness Study shows the various mills’ average electrical power rate. To put the Potlatch Mill’s rates in comparison, it was paying a rate of approximately **[TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS]** in 2013, resulting in a ranking of between **[TRADE SECRET DATA BEGINS... ██████████ ...TRADE SECRET DATA ENDS]** out of 17 mills. Since the

² The Potlatch Mill was not included in the study, but another Potlatch mill in Gwinn, Michigan was included (the “Potlatch Gwinn Mill”), which is why we were permitted to see the results.

Competitiveness Study was completed, the Potlatch Mill's rates have increased approximately 17% with another roughly 13% increase pending before the Commission.

The Potlatch Mill is Subject to Global Pressures

18. In addition to high electric rates, the Potlatch Mill faces intense competition from Canadian mills that have many advantages beyond the Potlatch Mill's control, including weaker Canadian currency, the expiration of tariffs and quotas that protected American mills, lower environmental standards, and subsidies from the Canadian government. Attached as Exhibit D to my affidavit is a graph showing that in 2015, lumber prices have fallen by about 34%. In light of the current exchange rate, Canadian mills are therefore able to sell lumber 25-30% cheaper than 2014 while making the same profit. As a result of these advantages, Canadian mills are adding shifts and restarting mothballed facilities, while American mills are curtailing operations. For example, after dipping to a low of 40% in 2011, the share of Canadian lumber that is exported to the U.S. has increased by 10% each year. Without tariffs and quotas to protect the market, as well as the currency exchange imbalance, it is not unreasonable to expect that Canadian mills will go back to significantly higher imports that we saw in the late 1990s and early 2000s, which will place additional competitive pressures on our Minnesota operation. *See, e.g.*, ¶¶ 13-15 of the affidavit of Wayne Brandt.
19. These pressures from the global market are real and have recently claimed a couple of casualties. In the last three months, two mills in the Pacific Northwest included in the Competitiveness Study have ceased operations.

Consequences of Inaction are Significant

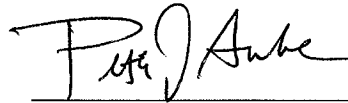
20. [TRADE SECRET DATA BEGINS... [REDACTED]

[REDACTED]
...TRADE SECRET DATA ENDS].

21. There would be significant costs to the region and the State if the Potlatch Mill were to shut down, including lost jobs, decreased tax revenue, lower community investment, and diminished forest stewardship.


22. If the Potlatch Mill receives a 20% rate reduction as a result of the EITE tariff, it is reasonably likely that this discount could be one of the factors that will keep the Potlatch Mill viable.

FURTHER YOUR AFFIANT SAYETH NOT.



Peter Aube, Lumbermill Manager
Potlatch Corporation

Subscribed and sworn to before me
this 28 day of June 2016.


Notary Public