



MINNESOTA FOREST INDUSTRIES

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903 Medical Arts Building • 324 West Superior Street • Duluth, Minnesota 55802 • 218-722-5013 • Fax 218-722-2065 • www.minnesotaforests.com

December 21, 2015

Minnesota Public Utilities Commission

121 7<sup>th</sup> Place East, Suite 350

St. Paul, MN 55101-2147

RE: PUC Docket No. E015/M-15-984

Minnesota Power's Petition to Ensure Competitive Electric Rates for Energy-Intensive Trade-Exposed Customers

Minnesota Forest Industries (MFI) strongly supports the Energy Intensive Trade Exposed (EITE) rate filing submitted by Minnesota Power. Approval of this filing is vital to the competitiveness of Minnesota's forest products industry. The Minnesota Power filing applies to four of our members producing various grades of paper in the energy intensive, trade exposed and hyper-competitive worldwide paper business.

The erosion of Minnesota's competitive position on energy costs is of such importance that this is the first time that MFI has ever submitted comments to the Public Utilities Commission.

MFI is a trade association representing the forest products industry in Minnesota. MFI members encourage conservation, proper forest management and industry development that forest sound environmental stewardship, multiple use of timber lands and sustainable, long-term timber supply. MFI's members include pulp and paper mills, sawmills, oriented strand board manufacturers, producers of energy from forest biomass, forest landowners, pallet manufacturers and producers of utility poles.

### **Economic Importance to Minnesota**

Minnesota's forest products industry produces products valued at \$8.5 billion, pays \$1.5 billion in wages and employs more than 31,000 people. When induced and indirect production are included, the value of the industry rises to \$15.7 billion annually.

According to the University of Minnesota's Labovitz School of Business, every job in a paper mill creates an additional 3.5 – 4.5 jobs throughout Minnesota. The forest products industry pays

over \$32 million to the State and Counties for standing timber and generates \$450 million in state and local tax receipts annually.

### **Energy Intensity and Cost Comparisons**

Paper manufacturing is very energy intensive. Energy represents twenty-five percent of the cost of manufacturing a ton of paper. This compares with the cost of wood at twenty-two percent, the cost of labor at twenty-three percent and the cost of purchased materials and services at thirty percent of the total cost of manufacturing.

In 2003 the State of Minnesota analyzed the competitiveness of the primary forest products industry. This study showed at that time that Minnesota forest products manufacturers had a competitive advantage in electrical costs versus the jurisdictions that were analyzed.

According to the Energy Information Administration (EIA), from 2002 through 2013 forty-one states have had lower increases in industrial electrical rates than Minnesota. During this time Minnesota has lost its competitive advantage in industrial electrical rates over such key forest products manufacturing states as North Carolina, Oregon and Washington, to name a few, again according to EIA data.

### **Trade Exposure**

Paper manufacturers in Minnesota continue to be exposed to significant foreign trade competition including unfair practices. Following are five examples of recent unfair trade actions in paper grades identical or similar to the types of paper manufactured in Minnesota:

1. Uncoated free sheet paper in sheets (both cut-size and folio sheets) – On August 20<sup>th</sup>, The U.S. Department of Commerce imposed preliminary antidumping duties against imports from Australia, Brazil, China, Indonesia, and Portugal. Final antidumping and injury decisions expected by February 20, 2016.
2. Uncoated free sheet paper in sheets (both cut-size and folio sheets) – On June 20<sup>th</sup>, Commerce imposed preliminary countervailing duties against subsidized imports from China and Indonesia. Final countervailing duty decision is expected by February 20, 2016.
3. Supercalendered paper – Final countervailing duties were imposed in November 2015 on imports from Port Hawkesbury and other Canadian producers.
4. Coated free sheet paper – Antidumping and countervailing duties imposed in 2010 against imports from China and Indonesia. The U.S. 5-year sunset review is expected by the end of 2015.
5. Thermal paper – Antidumping duties were imposed in 2009 on imports from China and Germany. In December 2014, duties on imports from Germany were revoked but continued on imports from China for another 5 years.

## Paper Markets

US Demand for the paper manufactured in Minnesota continues to decline. With continued pressure from imports, including those unfairly imported, increased cost pressures are placed on our paper mills.

The following charts show both the absolute and percentage changes in US demand since 2006 for three of the primary paper grades produced in our state.

### PRINTING-WRITING U.S. PURCHASES (DEMAND)

*000 Short Tons*

Source: American Forest & Paper Association, Inc.

Year	Coated Free Sheet	Coated Mechanical	Total Coated Paper	Uncoated Free Sheet
2006	6,148.3	6,045.7	12,193.9	12,893.2
2007	5,599.8	5,964.5	11,564.3	12,171.6
2008	4,699.2	5,146.5	9,845.7	11,149.6
2009	3,607.6	4,002.7	7,609.9	9,761.2
2010	4,275.1	4,144.7	8,419.8	9,652.6
2011	4,167.6	3,815.6	7,983.2	9,333.4
2012	4,012.2	3,845.0	7,857.2	8,844.7
2013	3,955.5	3,545.5	7,501.0	8,875.9
2014	3,901.0	3,269.6	7,170.6	8,401.4
2014-10 Month YTD	3,293.0	2,716.2	6,009.2	7,068.8
2015 Ten Month YTD	3,211.8	2,435.5	5,647.4	7,039.6

### PRINTING-WRITING U.S. PURCHASES (DEMAND)

*Annual Percent Changes*

Source: American Forest & Paper Association, Inc.

Year	Coated Free Sheet	Coated Mechanical	Total Coated Paper	Uncoated Free Sheet
2007	-8.9%	-1.3%	-5.2%	-5.6%
2008	-16.1%	-13.7%	-14.9%	-8.4%
2009	-23.2%	-22.2%	-22.7%	-12.5%
2010	18.5%	3.5%	10.6%	-1.1%
2011	-2.5%	-7.9%	-5.2%	-3.3%
2012	-3.7%	0.8%	-1.6%	-5.2%
2013	-1.4%	-7.8%	-4.5%	0.4%
2014	-1.4%	-7.8%	-4.4%	-5.3%
2015 Ten Month YTD	-2.5%	-10.3%	-6.0%	-0.4%

In this type of market, price pressure remains extremely intense with the three primary grades selling for less than they did in 2006 or less than they have during most of the intervening years as shown on the following chart:

**PRINTING-WRITING AVERAGE GROSS VALUE OF SHIPMENTS**

*U.S. DOLLARS PER SHORT TON*

Source: American Forest & Paper Association, Inc.

Year	Coated Free Sheet	Coated Mechanical	Total Coated Paper	Uncoated Free Sheet
2006	986	871	935	931
2007	959	827	891	1,055
2008	1,160	1,137	1,151	1,105
2009	981	874	942	1,045
2010	945	821	894	1,086
2011	1,005	900	961	1,120
2012	974	870	936	1,116
2013	951	872	920	1,073
2014	940	823	894	1,093
<b>2014-09</b>				
YTD	936	825	893	1,092
<b>2015-09</b>				
YTD	958	817	919	1,077

Note: uncoated free sheet average value excludes Cover & Text.

Increasing prices for our paper products is simply not possible in this type of market.

**Mill and Machine Closings**

Minnesota’s paper manufacturers have been forced to reduce capacity since 2002. This includes the permanent closure of two paper machines at UPM Blandin in Grand Rapids; the permanent closure of two paper machines at PCA Boise in International Falls and permanent closure of two machines comprising the entire mill operations at Verso in Sartell.

The University of Minnesota’s Labovitz School of Business utilizing IMPLAN estimated the cost to the regional economy of the closing of the two machines at PCA Boise in excess of \$750 million per year.

The trend of mill and machine closings resulting from decreased demand, flat or declining pricing for many years, imports and unfair trade practices has also resulted in capacity closings throughout the United States. Since 2011 sixteen machines and eleven entire mills producing the grades of paper manufactured in Minnesota have closed.

## **Need for Prompt Approval**

MS 216B.1696 is very clear that the Commission is to render a decision within 90 days of an EITE rate filing. There are no exceptions to this requirement in statute. The Commission should be very aware of the terms of the filing which include customer letters of agreement relating to Minnesota Power's ability to recover costs associated with the filing which is specifically allowed in the same statute.

It is imperative to MFI's members that rate relief occur immediately. Paper capacity continues to be permanently closed in the United States in the grades that we produce in Minnesota and such closures continue to be scheduled for 2016. The legislature took the extraordinary step of declaring that the energy policy of the State of Minnesota is to have competitive electric rates for Energy-Intensive Trade Exposed industries. Delaying a complete Commission decision beyond 90 days violates this clear statutory directive.

Any delay in approval of the entire EITE filing serves only to make paper manufacturing capacity in Minnesota more vulnerable to closure.

## **Conclusion**

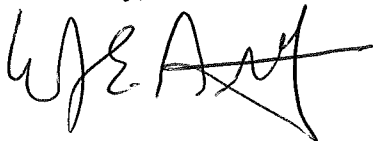
MFI members who manufacture paper are included in Minnesota Power's EITE rate filing. They are defined in statute as being eligible for an EITE rate. As previously shown in these comments they are both energy intensive and trade exposed. They also face intense competitive and price pressures in the marketplace.

Approving this EITE filing will provide a net benefit to the State of Minnesota by improving the competitive position of these manufacturers. This will help protect the jobs, tax revenues, wood purchases from state and county government, direct, indirect and induced economic benefits and social support associated with paper production in Minnesota.

We strongly urge the Commission to approve the Minnesota Power filing in its entirety.

Thank you very much for your time and consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "W.E. Brandt", with a stylized flourish at the end.

Wayne E. Brandt

Executive Vice President

C: Governor Mark Dayton

Attorney General Lori Swanson

Senator Tom Bakk, Majority Leader

Senator David Hann, Minority Leader

Representative Kurt Daudt, Speaker of the House

Representative Paul Thissen, Minority Leader

Senator John Marty, Chair – Environment and Energy Committee

Senator David Osmeck, Ranking Minority Member - Environment and Energy Committee

Representative Pat Garofalo, Chair – House Job Growth and Energy Affordability Policy and Finance Committee

Representative Tim Mahoney, DFL Lead Jobs and Energy

Senator David Tomassoni, Chair – Environment, Economic Development and Agriculture Budget Division

Senator Bill Ingebrigtsen, Ranking Minority Member Environment, Economic Development and Agriculture Budget Division

Commissioner Mike Rothman, Department of Commerce

Commissioner Tom Landwehr, Department of Natural Resources

Commissioner Katie Clark Sieben, Department of Employment and Economic Development

Commissioner Mark Phillips, Iron Range Resources