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IDAHO PUBLIC  
UTILITIES COMMISSION

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September 5, 2008

***Via Hand Delivery***

Jean Jewell, Secretary  
Idaho Public Utilities Commission  
472 W. Washington St.  
Boise, Idaho 83720

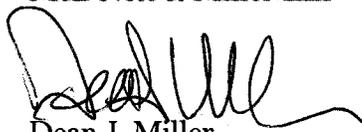
Re: Bennett Forest  
Case No. AVU-E-08-01

Dear Ms. Jewell:

Enclosed for filing in the above matter, please find the original and seven copies of Comments of Bennett Forest Industries Inc.

Kindly return a file stamped copy to me.

Very Truly Yours,  
McDevitt & Miller LLP

  
Dean J. Miller

DJM/hh  
Enclosures

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IDAHO PUBLIC  
UTILITIES COMMISSION

Attorney for *Bennett Forest Industries Inc.*

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE  
 APPLICATION  
 OF AVISTA CORPORATION FOR THE  
 AUTHORITY TO INCREASE ITS  
 RATES AND CHARGES FOR  
 ELECTRIC AND NATURAL GAS  
 SERVICE TO ELECTRIC AND  
 NATURAL GAS CUSTOMERS IN THE  
 STATE OF IDAHO.

Case No. AVU-E-08-01

**COMMENTS OF BENNETT FOREST  
 INDUSTRIES INC.**

COMES NOW Bennett Forest Industries Inc., (Bennett Forest) and, pursuant to Commission Order No. 30622, submits the following Comments.

**Bennett Forest—Background**

Bennett Forest is an electric service customer of the Applicant, Avista Utilities (Avista), and takes service under Schedule 25, Extra-Large General Service.

Bennett Forest operates a large lumber mill in Grangeville, Idaho. It began its operation at the Grangeville location in 1995, and expanded its facilities in 2005/2006. Bennett Forest currently employs 160 persons, making it the largest private employer in the Grangeville area, and consequently, Bennett Forest is an important contributor to the economy of Idaho County and the surrounding area. For example, it purchases

approximately 24,000 truck loads of logs per year from various state, federal and private landowners and it provides approximately 6,500 truck loads of chips and sawdust per year to the Potlatch Pulp Mill in Lewiston, Idaho.

### **Impact of Proposed Electric Rate Increases**

In calendar year 2007, Bennett Forest purchased almost 25,000,000 kWh of electric energy from Avista at a cost of almost \$1,100,000. The increase of Avista's base rates and the concurrent increase in Avista's Power Cost Adjustment (Case No. AVU-E-08-05) results in a 22.56% increase in annualized electric costs based on actual electric costs incurred in calendar year 2007. This results in an increase of \$243,341 on an annualized basis. *See*, Bennett Forest Exhibit 401<sup>1</sup>.

The proposed concurrent rate increases represents a significant increase in Bennett Forest's operating costs—energy is the third largest category of Bennett Forest's operating expense, exceeded only by purchase of raw materials and labor.

Bennett Forest does not have the ability to raise its prices to recover the proposed increase in electric power expense because it sells into a market that is highly competitive and no single supplier has the market power to affect the market price. The increase also comes at a time when market conditions for milled lumber are very difficult. The current demand for milled lumber is the lowest seen since 1981 and the real-dollar prices for milled lumber are at all-time lows.

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<sup>1</sup> Although, at hearing, the Avista witness disagreed with the way Exhibit 401 represents the rate impact to Bennett Forest, the witness admitted that under Avista's calculation of the impact is a 19.5% increase on an annual basis. Whether a person "rounds up" from 19.5% or "rounds down" from 22.5%, the rate increase impact is still approximately 20%.

### **The Proposed Concurrent Rate Increases Constitute “Rate Shock.”**

While the term “rate shock” is not precisely defined, it is a short-hand expression for the regulatory policy that favors rate stability and disfavors abrupt and significant changes to current rates. *See, In the Matter of the Application of Idaho Power Company for Authority to Implement a Power Cost Adjustment Tariff*, Case No. IPC-E-92-25, Order No 24806. When the Commission finds that a proposed change in rates constitutes “rate shock” it often takes steps to mitigate the shock through a rate phase-in or other mechanisms. *See, In the Matter of the Joint Application of United Water Idaho and South County Water Company*, Case No. UWI-W-98-2, Order No. 267798.

Under any definition of the term, a 20% increase in electric rates is rate shock. As the Commission said in Order No. 23047, a 20% increase “...would be ‘rate shock’ by anybody’s definition. One hardly needs further evidentiary record to make the assertion.” *In the Matter of the Application of Utah Power*, Case No. UPL-E-89-07.

From the record in this case, it appears that Avista gave minimal, if any, consideration to easing the sudden and substantial rate increase to Schedule 25 customers. Because increasing costs of electric energy is a national problem, mitigation of rate shock has become the subject of renewed interest. *See, Edison Electric Institute, “Mitigation of Rate Shock” June 2007.*<sup>2</sup> That report concludes, “In short, there is no magic bullet to solve the rate shock problem. But there are sound ratemaking and planning approaches that can provide near-term relief and reduce the possibility of rate shocks occurring in the future.” (Pg. 23).

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[http://www.eei.org/industry\\_issues/electricity\\_policy/state\\_and\\_local\\_policies/rising\\_electricity\\_costs/rate\\_shock\\_mitigation.pdf](http://www.eei.org/industry_issues/electricity_policy/state_and_local_policies/rising_electricity_costs/rate_shock_mitigation.pdf)

### **Cost of Service**

The Cost of Service Study (COS) filed by the Company in this case was the same study used in the 2004 rate case. The load data used in the study had not been updated since 1993. (Lobb, Di. Pg. 12). Consequently the "...stale load data was not accurate enough to make meaningful changes in class revenue contribution or justify significant changes in rate design." (Lobb Di. Pg. 3). In the absence of a current cost of service study, it is difficult for the Commission to make a record-based evidentiary finding that allocations to customer classes, and resulting rates, are fair just and reasonable. *See*, Idaho Code 61-502. The Commission's Rules of Procedure require that a general rate application include "appropriate cost of service studies." RP 121.01(e). Failure to comply with the requirements of Rule 121 is grounds to dismiss or return the Application. *See*, RP 121.03.

### **Recommendations**

Bennett Forest does not oppose approval of the Settlement Stipulation and it appreciates the Company's offer, made at hearing, to provide additional information and data. With respect to Avista's intended 2009 rate filing, Bennett Forest recommends:

- That Avista be directed to consider and evaluate possible rate shock mitigation measures for Schedule 25 customers;
- That the Commission take such measures as it thinks appropriate to insure a meaningful examination of cost of service including updated class load data.

**Conclusion**

Bennett Forest appreciates the Commission's favorable consideration of its untimely Petition to Intervene and looks forward to participation in future proceedings.

DATED this 5 day of September, 2008.

BENNETT FOREST INDUSTRIES INC.

By: 

Dean J. Miller

Attorney for *Bennett Forest Industries Inc.*

**CERTIFICATE OF SERVICE**

I hereby certify that on the 5<sup>th</sup> day of September, 2008, I caused to be served, via the method(s) indicated below, true and correct copies of the foregoing document, upon:

Jean Jewell, Secretary	Hand Delivered	<input checked="" type="checkbox"/>
Idaho Public Utilities Commission	U.S. Mail	<input type="checkbox"/>
472 West Washington Street	Fax	<input type="checkbox"/>
P.O. Box 83720	Fed. Express	<input type="checkbox"/>
Boise, ID 83720-0074	Email	<input type="checkbox"/>
<a href="mailto:jjewell@puc.state.id.us">jjewell@puc.state.id.us</a>		

Scott Woodbury	Hand Delivered	<input checked="" type="checkbox"/>
Idaho Public Utilities Commission	U.S. Mail	<input type="checkbox"/>
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BY: Heather Hrule  
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