UNITED STATES OF AMERICA
US DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

2012 WHOLESALE POWER RATE ADJUSTMENT PROCEEDING	BPA Docket BP-12

DIRECT TESTIMONY OF GEORGIA-PACIFIC LLC

WITNESS
MICHAEL TOMPKINS

January 21, 2011

Q. Please state your name and business address.

A. My name is Michael Tompkins. My address and qualifications are contained in BP-12-Q-GP-1.

Q. On whose behalf are you offering this direct testimony?

A. This testimony is offered on behalf of Georgia-Pacific LLC (GP).

Q. What is the purpose of your testimony?

A. Georgia-Pacific intends to preserve the challenges that it asserted to the Tiered Rates Methodology in Docket TRM-12, and that have not been finally decided by the Ninth Circuit. The purpose for my testimony is to present evidence of the effect of the rates proposed in BP-12 on contracted for/committed to (CF/CT) load, in support of those challenges.

Q. Please summarize your testimony.

A. The Wauna Mill, served by Clatskanie PUD (Clatskanie or CPUD), is an important part of Georgia-Pacific's manufacturing facilities and plays a significant role in GP's long-term strategic planning. GP has invested nearly $500 million in new machines at the plant in the past eight years. GP's strategic plans may include further expansion of the plant. To justify such expansion, GP has reasonably relied on BPA's promise of the continued availability of energy at BPA's lowest preference rates. GP is relying on BPA to continue to honor its commitment to serve the full CF/CT load recognized for CPUD. However, the rates proposed by BPA in this case restrict the benefits of the federal base system to the Tier 1 rates for existing load, and would deny such benefits to any load growth at the Wauna Mill. Any expansion at the Wauna Mill would be served under Tier 2 rates or from market purchases by CPUD. This imposes a significant financial burden on Wauna, may decrease the on-going value of the operations, and negatively impacts the value of Wauna as an asset in GP's portfolio.

Q. Please describe Georgia Pacific's Wauna facility.

A. GP's Wauna, Oregon facility manufactures towel, tissue, and paper products. Consumer brands made at the facility include Quilted Northern and Angel Soft bath tissue; Brawny and Sparkle paper towels; Vanity Fair, Mardi Gras, and Dixie napkins; plus, many store brands for large chains.

Q. Describe the importance of the mill to the community.

A. The Wauna Mill provides approximately 950 family wage jobs in the community. About 800 of these employees are members of the United Steelworkers union. The average wage of employees is $60,000 to $70,000 a year. Comparatively, the average annual wage of citizens in Columbia County, where the Clatskanie PUD is located, is $30,174.

The Wauna Mill has a strong community partnership and is the largest contributor to United Way in both Columbia and Clatsop Counties with more than $190,000 donated last year. In addition, the mill continually invests in environmental, educational and enrichment projects in the community and donates more than 1,000 cases of retail products each year to United Way agencies and local public schools.

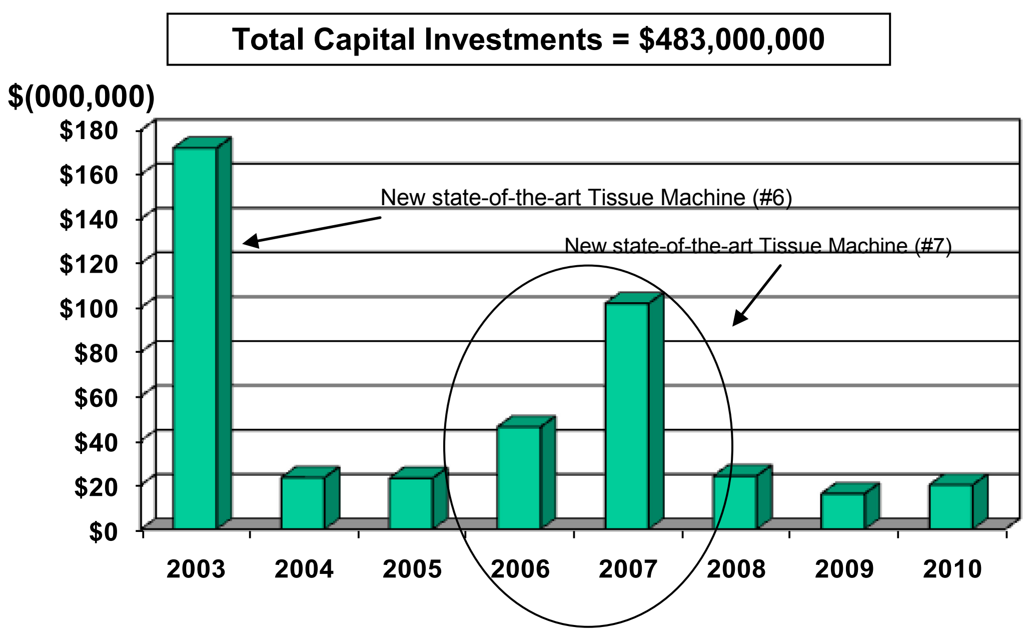
Q. Describe the position of the Wauna facility in GP's business.

A. As Georgia-Pacific's largest retail mill on the West Coast, Wauna is a strategic facility for the company. Georgia-Pacific has invested about $500 million during the past eight years to improve production efficiency, safety and environmental performance as well as focus the mill on producing its highest quality consumer branded products. One example of the continued growth of the product lines produced at the mill justifying this expansion is that the demand for production of paper products for Costco has tripled over the past eight years. Growth in these key brands across strategic channels is expected to continue.

Q. What capital improvements has GP made in the mill?

A. The Wauna Mill is the only mill in the state that has invested more than $450 million in two new machines in the past eight years. This capital investment is shown in this graph:

Capital Investments in Wauna during the past 8 years



Adding two paper machines at one plant in eight years is very significant in the industry. Such improvements create high-paying construction employment for a significant period of time as well as the permanent jobs operating the equipment.

Construction projects of this magnitude provide a significant boost to the local economy. During our most recent expansion, over 1100 construction workers were employed (with about 700 at the peak of construction) on the project. About 88% of these construction workers were from the local area and many local businesses and contractors were used. In addition, Georgia-Pacific values a safe workplace for all employees and construction personnel. In fact, our safety record on this project was over six times better than the national average on large construction jobs.

These improvements have been made as part of GP's long-term strategic plan for the mill. Due to the confidential, proprietary and sensitive nature of business plans I am constrained to limit any discussion of specific future plans. With that caveat, I can state generally that GP's strategic plan may include additional future expansion, if it remains economically justified.

Q. What has prompted GP to make these investments?

A. The three main costs for the facility in order are: fiber, labor and energy. GP's primary competitive advantage in the Northwest relative to GP's facilities in other parts of the country is energy cost. If that is removed, the incentive for investment is reduced. GP has relied on the continued availability of power at the lowest preference rates in making these investments and in considering future major capital investments. If such rates are no longer available, there may be no continuing comparative advantage to expand the mill's facilities as opposed to those in other parts of the country.

Q. Please describe the electric service to the Wauna Mill.

A. The Wauna Mill relies on Clatskanie People's Utility District for 100% of its electricity requirements, which is 90% of CPUD's load. GP's Electric Service Contract with CPUD requires CPUD to charge GP at a rate based upon the actual costs incurred to serve GP's load. CPUD passes along all cost increases directly to GP. As a practical matter, with GP Wauna representing approximately 90% of CPUD's load, there would be no other source of revenue for CPUD to absorb the greatest majority of cost increases.

Q. What is the relevance of a "contracted for or committed to" obligation to the Wauna Mill?

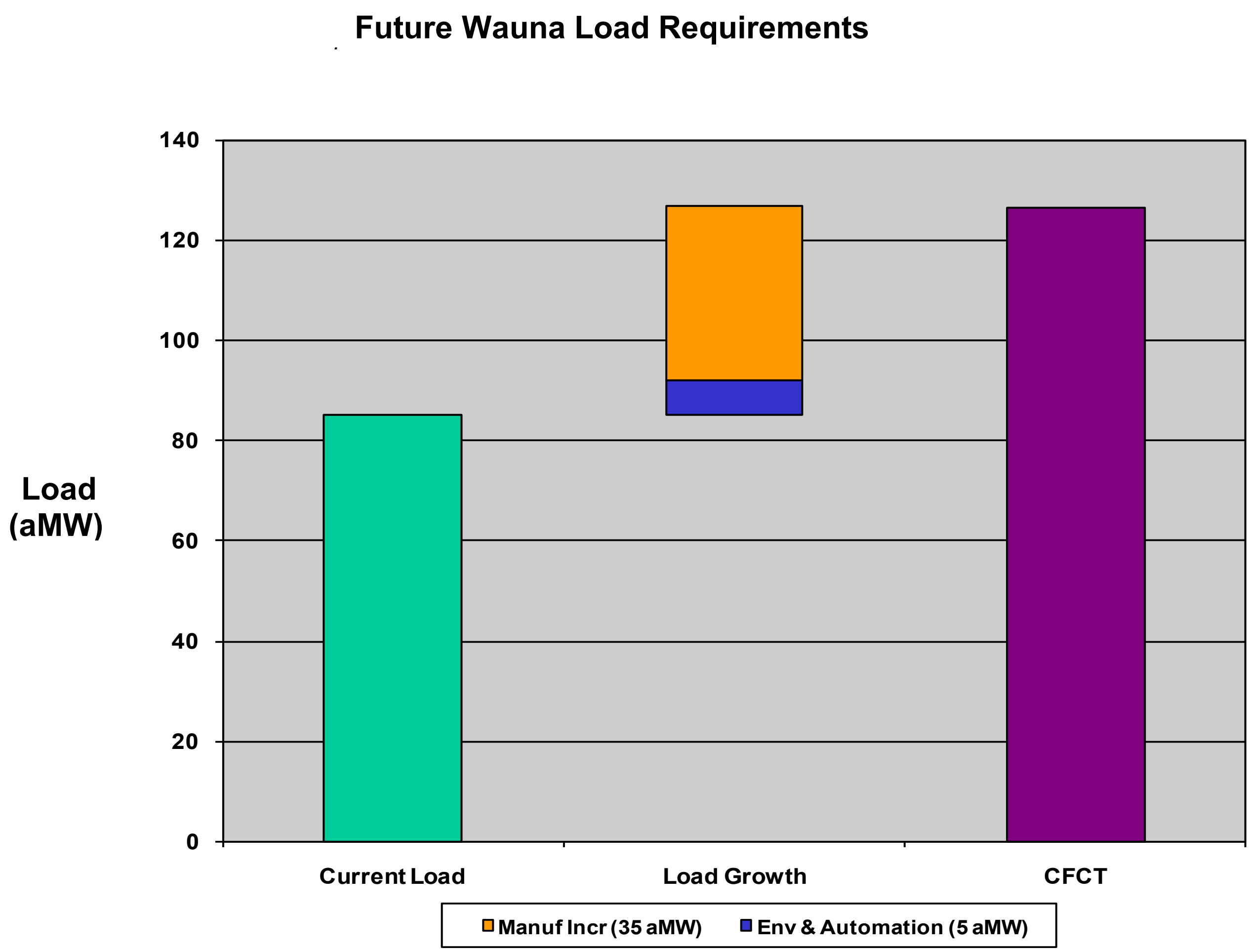
A. The original CF/CT amount for CPUD agreed to by BPA is 126.9 MW as documented by BPA's letter of September 1, 1989, filed concurrently as Attachment A. As GP has added facilities to the Wauna Mill, it has increased the portion of this CF/CT amount which it uses. The Wauna facility currently has an average load of 85 MW in summer months.

The current contract between Clatskanie PUD and Georgia-Pacific for service to the Wauna Mill was originally entered into on June 29, 1990 with James River. The contract provides in Section 3:

> ***3. AMOUNT OF ELECTRIC POWER**.*
>
> *Clatskanie shall make available to James River for purchase firm electric power up to the limit of James River's present demand, which is approximately 102,500 kw. James River may increase or decrease its demand as follows:*
>
> *A. James River may increase its demand without prior written notice to Clatskanie up to a level that does not exceed 126,900 kw, which is Clatskanie's*

"contracted for or committed to" amount as stated on Exhibit K of the power sale contract between BPA and Clatskanie.

The remaining balance of CF/CT capacity will be necessary to serve the anticipated growth in the mill's load. As the following graph demonstrates, most of the remaining headroom will be required to serve the additional facilities projected to be necessary for environmental and automation projects and for manufacturing expansion.



Q. Would such expansion of manufacturing be made by GP in the future if the plant does not have access to Tier 1 rates for all of its CF/CT capacity?

A. The availability of less expensive energy makes manufacturing in the Northwest competitive. If those prices were no longer available, GP would seriously reconsider long-term strategic growth plans. The obvious incentive for that expansion would no longer be available. Wauna would suffer a significant financial burden if it had to purchase the power for its future expansion at Tier 2 rates. GP will suffer the impact on its bills and on its value as an enterprise for as long as tiered rates for CF/CT load are in place. For the 2012-2013 rate period, the proposed rates are known and we can measure that impact. This calculation relies on the rate calculations of Lincoln Wolverton as explained in his testimony in this case filed on behalf of the Industrial Customers of Northwest Utilities (ICNU). To calculate the impact, we assume that GP installs additional manufacturing capacity, such that its demand increases by 35 MW, and that the plant has a load factor of 90%. The annual electric charges from BPA for that 35 MW of CF/CT load would be approximately $9,082,000 if billed under Tier 1 rates, as GP asserts is appropriate. If billed under the market rates BPA forecasts in this case,[1] the annual charges would be approximately $12,589,000, or an increase of more than $3,500,000 per year. Such an increase would impose a very significant financial burden on the Wauna Mill and would certainly negatively impact the value of the plant as an operating asset in GP's portfolio.

Q. Does GP expect the remaining "headroom" in CF/CT to be available indefinitely?

[1] Using the market prices forecast by BPA to set Load Shaping Charges in this case.

A. I am not an attorney and so do not address the legal rights to access the CF/CT obligation indefinitely. From a strategic planning perspective, GP has assumed that the remaining headroom would be available to serve all of its anticipated needs in the future. However, GP recognizes that there are competing interests to be resolved by BPA in this case, and is therefore open to consider reasonable alternatives that would meet GP’s needs for future expansion.

Q. Does this conclude your testimony?

A. Yes.

Attachment A

Department of Energy
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

September 1, 1989

In reply refer to: PMC

Mr. Liston C. Darby
General Manager
Clatskanie People's Utility District
P.O. Box 216
Clatskanie, Oregon 97016

Dear Mr. Darby:

The purpose of this letter is to correct a mathematical error in Bonneville Power Administration's (BPA) determination of the amount of the load at the millsite at Wauna, Oregon, which BPA previously determined to be a "contracted for" load under the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act).

By a letter dated August 30, 1982, BPA made a determination that the Wauna millsite, then owned by Crown Zellerbach, and now owned by the James River Corporation, was a load which had been contracted for prior to September 1, 1979, and therefore was not a new large single load under the Northwest Power Act. The amount of the contracted for load was listed in Table 2 of Exhibit K to Clatskanie PUD's power sales contract with BPA as 113.8 average megawatts (aMW).

Subsequently, in October 1983, BPA agreed to apply a 100 percent load factor to a number of contracted for or committed to loads, including the Wauna millsite, and to revise the contracted for or committed to amounts previously established for those loads. Unfortunately, the amount listed in the revised Exhibit K sent to you in November, 1983, did not reflect a 100 percent load factor for the entire load included in the original determination, but applied the 100 percent load factor only to the portion of the contracted for amount attributed to the planned new paper machine.

The two elements of the Wauna load which were considered in establishing the contracted for amount were: (1) the consumer's load, as forecasted by Crown Zellerbach in a letter forecast sent to Clatskanie on October 12, 1979; plus (2) an additional expansion for the new paper machine, not part of the letter forecast, requested by Crown and approved by BPA in March of 1978. The original amounts of these elements of the load were 101.6 and 12.2 aMW, respectively. The total of these amounts is the 113.8 aMW shown in Exhibit K, Table 2 as revised in August 1982.

When Exhibit K was again revised in November, 1983, to reflect a 100 percent load factor, the 12.2 aMW element of the load was increased to 14 aMW (the peak demand which had been identified for the expansion), but the 101.6 aMW element was not changed in calculating the total contracted for amount.

(The total listed in "Revision No. 1" of Exhibit K, Table 2, transmitted to you in November 1983, was shown as 115.8 aMW rather than 115.6 aMW due to a typographical error.) The correct amount for the forecasted load at a 100 percent load factor, not including the expansion, as shown in Crown's October 12, 1979, forecast letter to Clatskanie, is 112.9 aMW. Therefore, the correct total contracted for amount for the Wauna millsite, based on a 100 percent load factor, is 112.9 aMW for the forecasted load plus 14 aMW for the expansion, for a total of 126.9 aMW.

Enclosed is a revised signed and dated Exhibit K, Table 2, showing the correct amount, 126.9 aMW, for the contracted for load at Wauna. This amended Exhibit should be attached to your utility power sales contract.

Your existing Exhibit K, Table 2, may be discarded. Should you have any questions regarding this exhibit revision, please contact Bill Schulenberg of our Lower Columbia Area Office at (503) 230-4556.

Sincerely,

Edward W. Sienkiewicz
Senior Assistant Administrator
for Power Management

Enclosure:
Exhibit K, Table 2