**IN THE MATTER OF** the *Public Utilities Act*, (R.S.N. 1990, Chapter P-47 (the "Act"), and

**IN THE MATTER OF** a General Rate Application (the "Application") by Newfoundland and Labrador Hydro for approvals of, under Section 70 of the Act, changes in the rates to be charged for the supply of power and energy to Newfoundland Power, Rural Customers Industrial Customers; and under Section 71 of the Act changes in the Rules and Regulations applicable to the supply of electricity to Rural Customers.

# WRITTEN EVIDENCE OF

# ABITIBI-CONSOLIDATED COMPANY OF CANADA,

### STEPHENVILLE DIVISION,

# **ON BEHALF OF THE INDUSTRIAL CUSTOMERS**

September 2, 2003

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#### 5 INTRODUCTION

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7 This testimony has been prepared by Mr. Jean-François Guillot and Mr. Melvin Dean of 8 the Stephenville Division of Abitibi-Consolidated Company of Canada ("ACCC"), and is 9 filed on behalf of ACCC Stephenville as a member of the Industrial Customer ("IC") 10 group which has been formed to present the unified position of the Industrial Customers 11 of Newfoundland and Labrador Hydro ("Hydro") on regulation of industrial electricity 12 rates. In addition to ACCC Stephenville, the group includes ACCC Grand Falls-13 Windsor, Corner Brook Pulp & Paper Limited and North Atlantic Refining Limited, 14 current customers of Hydro, and Voisey's Bay Nickel Company Limited, a potential 15 Industrial Customer of Hydro. 16 17 Jean-François Guillot is a resident of Kippens, Newfoundland and Labrador. He is 18 general manager of ACCC's Stephenville mill. Mr. Guillot has the responsibility for the 19 financial and production performance of the Stephenville mill. In his role as general 20 manager, Mr. Guillot has a general knowledge of the impact that power has on the 21 financial performance of the Stephenville mill. Prior to becoming general manager at the 22 Stephenville mill, Mr. Guillot was the production manager at the Grand Falls – Windsor 23 mill. 24 25 Melvin Dean is a resident of Stephenville, Newfoundland and Labrador. He is a

26 professional engineer and is employed by ACCC as continuous improvement manager at

1 its pulp and paper mill at Stephenville. Mr. Dean has been involved in electrical rate 2 issues since 1987 and has been in his current position since 2001 His responsibilities are 3 primarily power and the management of the continuous improvement activities at the 4 mill. As part of his job, Mr. Dean is required to be familiar with the production costs of 5 ACCC's operations at Stephenville. Since the spring of 1991, he has been assigned the 6 responsibility for reducing the cost per tonne for electrical power. This responsibility 7 includes review of the cost of power to the mill and, with the assistance of the controller, 8 analysis of data relating to the cost of power to be purchased by the mill. He also 9 analyzes the effects of rate changes or other changes affecting the cost of power at the 10 mill and monitors and helps implement internal measures to maximize production and 11 minimize energy consumption. Mr. Dean has also been directly involved in rate hearings 12 before this Board since 1991.

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# 14 **POWER SUPPLY AGREEMENTS**

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16 The Power Supply Agreement in place between ACCC and Hydro for the supply of

17 power to Stephenville mill is the one approved by the Public Utilities Board in Order No.

18 P.U. 7(2002). An agreement dated November 30, 1993 between ACCC's predecessor,

19 Abitibi-Price Inc., and Hydro relating to curtailable power, otherwise called

20 "Interruptible B Power", expired in March, 2003. Hydro does not intend to renew the

agreement for the supply of Interruptible B Power to Stephenville.

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#### NEWSPRINT MARKET CONDITIONS

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- 3 There is currently an oversupply of newsprint in the market. This negatively affects both 4 the ability to sell newsprint and the price at which it can be sold. As a result, most of 5 ACCC's mills have had or will have down time this year. In both 2001 and 2002, ACCC 6 permanently shut down some paper machines.
- 7

8 In as far as possible, ACCC's highest cost newsprint mills take the bulk of the down time 9 due to the current newsprint oversupply. In 2002, the two highest cost mills each took 10 several months of downtime. The projected increase for power in 2004 would make 11 Stephenville the highest cost ACCC Canadian mill. This means that the Stephenville 12 could be facing increasing amounts of market related downtime. In addition, it is difficult 13 for high cost mills to attract capital investment.

14

#### 15 **COST OF POWER IMPLICATIONS FOR ACCC (STEPHENVILLE)**

16

17 ACCC (Stephenville Division) manufactures approximately 190,000 metric tonnes of 18 newsprint per year. The actual production in 2002 was 180,291 tonnes, which is below 19 the normal production level due to market downtime. The 2004 production forecast is 20 189,877 tonnes.

21

22 Newsprint manufactured by ACCC at its plant at Stephenville is primarily sold in Europe 23 and Latin America. This adds additional shipping costs that cannot be passed on to 24 customers. To be competitive in the global marketplace ACCC must be low cost in other

25 areas.

1	The mill in Stephenville employs 272 people directly. In addition, there are 98 ACCC
2	employees in the woodlands required for the supply of wood to Stephenville.
3	
4	Stephenville newsprint is manufactured using 100% thermo-mechanical pulp. This
5	pulping process is energy intensive. Large amounts of energy are required in order to
6	produce the high quality newsprint that is demanded by the pressrooms in the
7	international marketplace.
8	
9	The cost of electrical power is a major consideration for the Stephenville mill. Electrical
10	energy is ACCC's second highest manufacturing cost – second only to the cost of wood.
11	Power represents about 20% of ACCC's manufacturing cost, thus energy usage and
12	power rates have a significant impact on ACCC's bottom line. Since the cost of power
13	currently represents 20% of the total production cost of a tonne of newsprint, changes in
14	the cost of power have a significant effect on ACCC's bottom line. They also have a
15	significant impact on ACCC's competitiveness. ACCC's bottom line is, has been, and
16	will continue to be, extremely important to the short and long term viability of the mill.
17	
18	There are three components to the forecasted 2004 power rate increase for the
19	Stephenville mill:
20	a) An increase in the base demand rate, energy rate and specific allocated amount.
21	b) An increase in the rate stabilization plan rate.
22	c) A loss of the interruptible 'B' power rebate.

Based on the 2004 forecast consumption at Stephenville of 561.7 gwh and a demand of 1 2 71.0 mw, the cost of power at the Stephenville mill will increase from \$20 million to \$27 3 million, an increase of 35%. This is an increase in manufacturing costs of \$37 per tonne 4 of newsprint. The total increase in rates in a three-year period (from 2001 to 2004) is 5 55% or a total increase of \$9.5 million (or \$50 per tonne increase in manufacturing 6 costs). 7 8 The basic rates (demand, energy and specific allocated) represent a 13% increase or 9 approximately \$2.5 million increase a year. The increase in the rate stabilization plan 10 represents about 17% or an increase of about \$3.4 million per year. 11 12 The ACCC-Hydro Interruptible "B" power supply agreement expired in March, 2003 and 13 will not be renewed by Hydro notwithstanding ACCC's request to do so. Failure to 14 renew this agreement will add significant cost to ACCC Stephenville Division, which 15 previously received a credit of \$1,297,200 under the agreement (46,000 kw x \$7.05 16 kw/month x 4 months/year) for its willingness to have its power supply interrupted. 17 18 This proposed increase in power costs of \$7 million per year will make Stephenville the 19 highest cost ACCC mill in Canada. High cost mills are the ones that are more likely to 20 be shut down when there is excess inventory in the marketplace. Mills with higher 21 manufacturing costs are also less likely to attract capital investment. This proposed power

22 rate increase has a significant negative impact on the viability of the Stephenville mill.

# ABITIBI ENERGY COSTS MINIMIZATION STEPS IN RECENT YEARS

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- 3 The Stephenville mill is one of the most efficient and well managed mills in North
- 4 America. The items that are mill controllable are in line or better than average. It is in
- 5 the areas and costs of energy, wood and shipping that ACCC has limited control, and is at
- 6 a disadvantage.
- 7
- 8 ACCC continues to work towards reducing its controllable costs.
- 9
- 10 In terms of energy efficiency, ACCC Stephenville:
- Uses premium efficiency motors this is part of ACCC's motor specification
   when purchasing motors.
- 13 2. Uses high efficiency, high intensity discharge lighting.
- 14 3. In the office areas, has a program to replace the existing fluorescent light with15 high efficiency electronic ballast lighting.
- 16 4. In the last 12 years, has replaced all eddy current couplings drives with more17 efficient variable speed drives.
- 18 5. Made modifications and changed operational procedures in order to allow ACCC
  19 Stephenville to shut down equipment rather than to leave it idle.
- Modified and simplified ACCC Stephenville's electrical distribution and
   eliminated three power transformers which reduced energy losses.
- Reduced water usage (and subsequent energy requirement) on ACCC
  Stephenville's paper machine drive cooling unit
- 24 The energy per wrapped tonne of newsprint has been maintained at the same level since
- 25 1992(3003 kwh/wrapped tonne). This has been accomplished in spite of market
- 26 pressures to increase newsprint quality (i.e. put more energy into the pulp). Also, in
- 27 1992, 3.9% of the total furnished was purchased pulp (which requires low energy) –
- today's accomplishment is with 100% thermo-mechanical (high energy) pulp.

1	Improvements to ACCC's load factor have been made over the years. This reduces
2	ACCC's power cost per tonne. From 1991-1995, average load factor was 83.1%. The
3	forecast load factor for 2004 is 90%. This assumes that the Stephenville mill will not be
4	shut down for market conditions in 2004.
5	
6	ACCC also continues to review its suppliers in order to ensure that it pays the best
7	possible prices for the products used in its operation and to control shipping costs.
8	
9	CONCLUSION-ACCC'S VIEW OF PROPOSED RATE INCREASES
10	
11	ACCC-Stephenville is frustrated by the magnitude of the proposed increases for 2004 and
12	by the implications of Hydro's rate of return and capital structure proposals for the future.
13	Given the burdensome increase associated with the Rate Stabilization Plan, ACCC
14	believes that this is a particularly poor time for Hydro to seek a market return on equity
15	of 9.75%. The anticipated "rate shock" associated with the 2001 General Rate
16	Application lead Hydro to seek only a 3% return on equity. ACCC believes that the same
17	approach is warranted in this hearing.
18	
19	ACCC's success from $1991 - 2001$ in reducing its electrical costs had improved the cost
20	per tonne at Stephenville. This, in turn, improved the viability of the mill. Hydro's
21	proposed rate increase will make the Stephenville mill the highest cost per tonne mill
22	within ACCC in Canada.

ACCC has participated fully in hearings before the Board involving rate issues and has
 worked hard at reducing its electrical costs to ensure competitiveness in the global
 market.

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5 However, from 2001 until 2004, the power rates will increase 55% for the Stephenville

6 mill with a staggering 35% increase being forecast for 2004. This would result in an

7 increase of \$37 per tonne for each tonne of newsprint manufactured.

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9 As noted above, increases of these magnitudes have significant negative impacts on the
10 cost per tonne of newsprint at the mill. This affects the future viability of the mill and is
11 likely to have a significant negative impact on the amount of downtime the mill may
12 experience in the future.