

Mayor David Anderson called the special council meeting of October 8, 2009 to order at 7:10 p.m. Present for the meeting were Mayor Anderson, Council President Dave Gray, Council Members John Langs, Chris Clark, and Connie Wells, Clerk Kris Larson, and City Administrator Stephen Boorman. Also present were Suzanne Cullinane, Jim Tillotson, Jessie Short, Chris Pease, Marc Brinkmeyer and Larry Crowley representing Idaho Forest Group, LLC. Dave Sims, Assistant City Administrator, participated by conference call.

The purpose of the special council meeting was to consider a new electric rate for large industrial to be defined as a customer having over 2.5 megawatts of installed capacity.

Marc Brinkmeyer said he was representing Idaho Forest Group (IFG) and they have been a part of the process with electrical rates at Moyie since 2006. Marc introduced Larry Crowley and said he would also be speaking this evening on behalf of Idaho Forest Group. The goal is to have the same type of relationship with City of Bonners Ferry that they share with Northern Lights and Kootenai Electric Power and to be competitive in the market place in these challenging times. Marc Brinkmeyer from Idaho Forest Group gave a power point presentation. There is an industrial segment, housing segment, and the cash and carry segment (Lowe's and Home Depot) of the forest products industry according to Mr. Brinkmeyer. He said the housing market is down 70 percent and the cash and carry market is down 13 percent. He said the Moyie mill is primarily for the dimension woods for the construction and housing market. Mr. Brinkmeyer said IFG purchased the Louisiana Pacific Mills in 2003 in Moyie, Bonners Ferry, Chilco, and Sandpoint. The Bonners Ferry mill was closed in September, 2003 and was liquidated as well as the Sandpoint mill. The Chilco and the Moyie mills were completely rebuilt. The mill in Laclede was brought up to state of the art. In October of 2008 a merger was made with the Bennett Family who owns the mill in Grangeville. The whole purpose of the merger was successor. The only things merged were the mills not the timber lands or other investments. The mills cannot be run at full capacity at this time. He said Laclede runs two days per week on cedar and Chilco and Grangeville run 64 hours. Production levels are down and the schedules will remain through June, 2010. The mills are 35 billion board feet down and Mr. Brinkmeyer has not seen such a downturn in his history. Marc said the btu value of the log is taking on a whole new look and includes biomass and non-rectangular members of the logs. Lowest housing starts since the war were in 1945 at 325,000 and now in spring of 2009 they are reduced to 432,000 starts. Most of the distributors have gone out of business and Marc estimates that it is reduced by 70 percent. There is a government program that is helping the mill business now with a government rebate of \$8,000 for new home starts. He thinks 2010 will be a bit better than 2009. In 2006 they were at 2.2 million starts and estimate at the end of 2012 to be at a million starts.

Larry Crowley spoke to the group and said the third largest cost for IFG is energy costs. He said the City of Bonners Ferry has the highest industrial rates over Kootenai Electric or Northern Lights. Larry said IFG has been disputing Bonners Ferry's industrial rates since July, 2006. Of the three electric systems that provide IFG power, Larry said City of Bonners Ferry has the

lowest operating costs but has the highest industrial rates. The position is that IFG has been significantly overcharged since July, 2006. The city is proposing a base rate of \$12,000 per month, 2.6 cents per KWH, and \$4.37 per demand. The counter proposal is a base rate of \$5,000 per month, demand of \$4.30, and 2.54 cents per KWH. In addition to the rate they want to propose that IFG acquire the distribution feeder to the mill and ask for a maintenance agreement for that facility. This would be from the Moyie Substation to the mill. Concern was expressed when the rate changed in July, 2006 according to Larry. Average cost of power varied from July, 2006. He also displayed data from the billings in 2007 and the interim rate relief that was granted. No credit was provided in August or September of 2009 by the city. IFG believes that they have been overcharged since July, 2006. They request that the rate proposal that is on the docket for this evening be rejected and adopt the proposal from IFG effective July 1, 2006.

John Langs asked about the notice of the formal dispute that was given to the city. Larry said many times IFG spoke to the former Mayor and John asked if the letter pointed out was a letter of formal dispute. Larry said it was. John asked for a copy of the letter.

Mayor Anderson asked who supplies power for the IFG mill in Grangeville. Avista is the supplier. Avista rates are a tariff and are higher than the cooperative rates according to Larry.

Chris Clark asked why IFG wants to purchase the infrastructure. Larry said if they own the facility then we don't have to include the costs in our cost of services and they would work with the city to maintain the facility based on a contract agreement. Marc said they had a contract of this nature for the Laclede mill for distribution between Albany Falls Dam and Libby and this has also been done for the Chilco Mill from the Kootenai Electric Coop and IFG has a contract for maintenance. Marc said the distribution feeder only serves the Moyie mill. Stephen said we have a double circuit on that line that goes to our hydro power plant. He said as a utility, the lines are maintained, and the city self insures for such through a pooled risk and cost. Marc said due to the unique size, they are the largest load on the electric system here as well as on the Northern Lights or Kootenai Electric Cooperative. Marc said when LP owned the mill they owned some of the transformers and IFG owns all the transformers to their mills and they do the maintenance. Stephen said the point of ownership varies depending on the type of service. He also explained the way the mill is fed and how the meters are read.

No comment was received from uncommitted. No comments from support of the rates were received.

John Langs asked what the first and second highest costs are for IFG if power costs are the third highest cost. Marc said logs and labor are number one and two costs. He then said maybe repair and maintenance of the mill may be higher than the power costs.

Chris Clark asked for clarification of the request from IFG. It is for the new rates to take effect back to July, 2006. The rates from the other entities are known at this time but are prior to the new Bonneville Power Administration contracts that take effect October 1st.

Dave Gray asked if the new rates would have an impact or require a subsidy by the citizens of the Bonners Ferry system. Larry said to the best of his knowledge that would not be the case. Dave also asked what the refund would be back to 2006. Larry has not done the calculation. Dave expressed concern about the city's budget position. Marc understands that this would need to be considered.

Dave Gray said the BPA contract has increased by six to seven percent for Bonners Ferry. Marc said IFG is working toward a process to find a proper place in the City of Bonners Ferry system. Stephen said our proposed rate this evening has the BPA rate increase built into it. Marc said there is not a level rate with the other providers. He gave the example of the rate paid in the summer verses the rate in December. Marc thinks this makes the process simpler. He said IFG's goal is to be treated as fairly as possible but not at the expense of others. He said the industrial load is at higher cost than the residential load in Bonners Ferry and it is not like this anywhere else in the state.

Marc said they have tried to work through this situation. Their goal is to work through this and it is a very high pinch point now.

Dave Anderson said he would like to have the cost of service study prepared by Brooks and Associates submitted into the record as a basis for a fair rate as presented this evening. He thinks what the city is presenting this evening is fair and is defensible although he has a couple questions. He would like to pursue his questions but said council can act or table the issue.

John Langs moved to make no decision tonight until additional information is given to the city for consideration.

Marc said if the city should decide that a mutual agreement not be made that IFG be allowed to make a request to pursue power from another supplier at rates that don't leave them in an uncompetitive situation at their facility that relates to their operations because the amounts are significant. Mayor Anderson said we cannot comment on that this evening.

Mayor Anderson closed the hearing at 7:59 p.m. and opened the council meeting for discussion.

Dave Gray seconded the motion because he wants to make sure all the data and information has been considered to be fair to all concerned. He said he wants to make sure the mill succeeds. Chris asked when the decision will be made because we need to let IFG know. Mayor Anderson said he would like to agendize the issue for the next council meeting on October 20, 2009. Connie Wells said she does not see where the city is that far off on the rates and she wants to see the mill succeed but does not want City of Bonners Ferry residents to subsidize the mill either. The motion to postpone passed – John Langs “yes”, Chris Clark “yes”, Connie Wells “yes”, Dave Gray “yes”.

There being no further business, the meeting adjourned at 8:04 p.m.

David K. Anderson, Mayor

Attest:

Kris Larson, City Clerk