

August 17, 2016

Re: Proposed Rule Changes to IDAPA 20.02.14 – Written Comment Submission for August 18th 2016 Meeting in Sandpoint, Idaho

McFarland Cascade is concerned with the IDL's proposed rule changes to IDAPA 20.02.14, which effectively replace the 1986 Pole Policy and the IDL's pole sales program regulations. Our concerns are as follows:

- In practice, High Value Forest Products sales, as they are called under the proposed regulations, will not be materially different from regular timber sales. Selling all timber together without product differentiation forfeits the higher returns that could be earned for premium products like cedar poles.
- Individual species and product values will be lost using this auction method, as specialty producers are forced to purchase large volumes of wood they cannot use. The IDL will not maximize revenues on the sale of forest products, failing to meet its mandate to the Endowments.
- Because of the ability for a successful bidder to allocate up-bid to specific species or pole lengths after a timber or pole sale, the IDL does not currently know the "market" stumpage values for cedar sawlogs or cedar poles. While IDL sale data does suggest these values are currently closer than they have been historically, the same data suggests that this will not always be the case.
- The IDL has not properly evaluated whether or not the sale of poles, the separate sale of cedar, or the individual sale of other forest products can generate higher returns on IDL timber.

Before changes are made to IDAPA 20.02.14 that could harm specialty producers and the Endowments, we believe that the IDL should confirm its assumptions regarding the market prices of cedar poles and cedar sawlogs. We suggest the following:

- Put the Negotiated Rulemaking process on hold for at least 1 year.
- Continue to sell pole sales as per the Fiscal Year 2017 Sales Plan.
- Leave the 1986 Pole Policy and IDAPA 20.02.14 in place, as written, but sell all poles and associated cedar sawlog volume removed during pole sales on a board foot basis, on actual scale. Since proposed rule changes will not take place until Fiscal Year 2018, this would require only a minor adjustment of the rules, and should only have potential upside for IDL timber sale revenues and the Endowments.
- If deemed necessary, start the negotiated Rulemaking process again at the end of the trial period.



Again, McFarland Cascade believes that the IDL is rushing changes to IDAPA 20.02.14 without proper assessment of the potential impacts to timber sale revenues, returns to the Endowment funds, or the various stakeholders. The proposed rule is simply a reflection of where discussions were when the clock ran out on the Rulemaking process, and IDL's proposed rules will not maximize financial returns to the Endowments in practice.

We believe that changes can be made to IDAPA 20.02.14 that increase revenues to the IDL by isolating higher valued timber. The proposed High Valued Forest Product sale still requires that the successful bidder buy the entire stand, and will not maximize returns to the endowments, as required by the Constitution.

Sincerely,

McFarland Cascade Holdings Inc.