



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD
POWER RESOURCES DIVISION



TO: Commissioners Brown, Cunningham, Cassidy, Ernst and Farmer
FROM: Clay Norris
DATE: August 31, 2010
SUBJECT: International Paper Joint Operating Agreement

Issue

EWEB staff and International Paper (IP) staff have negotiated a technical amendment to the Joint Operating Agreement (JOA) that improves the way fuel costs are calculated. We believe the new calculation is more equitable, will improve customer relationships, and has a relatively small impact on revenues. Staff seeks Board authority to execute the technical changes to the JOA.

Background

In the mid 1970s, EWEB and Weyerhaeuser entered into a 30 year agreement for EWEB to install a turbine generator unit at Weyerhaeuser's Springfield mill. Weyerhaeuser produced steam using waste products augmented by natural gas in their boilers and EWEB purchased steam from Weyerhaeuser to generate electricity as part of its resource portfolio. The agreement has resulted in a low-cost, mostly renewable, element of the overall resource portfolio.

In 1995, the original agreement was replaced with a 20 year Joint Operating Agreement whereby EWEB's turbine generator, Weyerhaeuser's turbine generator and Weyerhaeuser's boiler equipment would be operated as a system to get optimal value and the parties would share the generation and costs equally.

In 2005, there was an amendment to the Joint Operating Agreement which changed the fuel cost calculation. After operating with that amendment, Weyerhaeuser brought concerns JOA operating committee about the accuracy of the formula in the JOA amendment and equitability of the sharing of fuel costs. In the midst of the discussions, Weyerhaeuser sold the mill to International Paper (IP).

Discussion

The substance of the issue is around calculating how to calculate the fuel chargeable to power. The current agreement has a rather simplified formula with a maximum amount of fuel per MWh of generation that can be charged to the electric production.

As staff has discussed the issue with first Weyerhaeuser and now IP, there are a few salient points. First, the precision in metering within the plant is not sufficient to always provide reasonable results

with the current formula. Second, turbine operating conditions can influence efficiency and that isn't accounted for in the current methodology. Third, mill operations can influence boiler efficiency and that is not accounted for adequately in the current methodology.

Staff has agreed that averaging the results of three different calculation formulas combined with annual calibration of the metering should provide more reliable calculation of the amount of steam used to produce the electricity and account for turbine operating conditions adequately. We have also agreed that there is a normal operating efficiency range for the boilers and that operating outside that range is a function of mill conditions or other extraneous factors and shouldn't influence fuel chargeable to power.

Staff representing the two parties agreed to these principles about 6 months ago but it has taken several months to work out the details of the agreement. Staff believes it's fair and wants to make this agreement effective March 1, 2010 to approximately coincide with our agreement in principle.

Recommendation

Staff recommends that the EWEB agree to amend the Joint Operating Agreement with International Paper to more equitably determine the amount fuel chargeable to the production of electricity.

Requested Board Action

Staff is requesting that the Board approve resolution number 1019 authorizing the General Manager to sign an amendment to the Joint Operating Agreement with International Paper.

Resolution 1019
September 2010
Amendment to Joint Operating Agreement

WHEREAS, the Eugene Water & Electric Board (“EWEB”) is a municipal utility formed and operated pursuant to ORS Chapter 225, the Eugene City Charter and Eugene City Code;

WHEREAS, ORS 225.020(1) authorizes EWEB to build, own, operate, and maintain electric light and power plants for benefit of its ratepayers and for profit;

WHEREAS, the EWEB owns a turbine generator unit at the International Paper facility in Springfield, Oregon that has been operating since 1976;

WHEREAS, EWEB and International Paper have entered into a 20 year Joint Operating Agreement in 1995 with respect to boiler equipment and turbine generators owned by the parties;

WHEREAS, EWEB and International Paper have found that the provisions of the current Joint Operating Agreement with respect to the equitable sharing of costs needs update;

NOW THEREFORE BE IT RESOLVED, that the General Manager is authorized to sign an amendment to the Joint Operating Agreement with International Paper.

Dated this 7th day of September 2010

THE CITY OF EUGENE, OREGON
Acting by and through the
Eugene Water & Electric Board

President

I, DEBRA J. SMITH, the duly appointed, qualified, and acting Assistant Secretary of the Eugene Water & Electric Board, do hereby certify that the above is a true and exact copy of the Resolution adopted by the Board at its September 7, 2010 Regular Board Meeting.

Assistant Secretary