



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Simpson, Brown, Helgeson, Manning and Mital
FROM: Erin Erben, Power Resources & Strategic Planning Manager
Steve Mangan, Key Accounts Manager
DATE: September 6, 2013
SUBJECT: Flakeboard Power Sales Agreement
OBJECTIVE: Board Approval of Resolution No. 1321

Issue:

EWEB's current Power Sales Agreement for service to Flakeboard's Medium Density Fiberboard (MDF) Manufacturing Facility, and the associated extensions, expires September 2013. As an outcome of negotiations conducted over the past year, staff has prepared a proposed new agreement for Board consideration and approval. This item appears on the Board's September 17th Consent Calendar and this memo, along with the attached draft contract, provides background for out requested action.

Background:

Under an existing PSA, EWEB has furnished electric service to the Flakeboard facility since September 2006. Prior to this date, the facility was owned and operated by Weyerhaeuser and electric service was similarly provided under a long term Power Sales Agreement (PSA).

As EWEB's third largest electric consumer, Flakeboard's peak load presently falls in the range of 9.2 to 10.3 megawatts, with annual energy consumption of 65 million kilowatt-hours, and an annual bill of \$3.56 million. Power is supplied at primary voltages (12.47 KV) to two separate delivery points feeding an onsite secondary distribution system that is owned, operated, and maintained by the customer. These characteristics qualify this customer for individual contract service as a single rate class.

The existing five-year PSA was executed May 2006 and via two extensions will expire September 30, 2013. In anticipation of the need for renewal, EWEB staff and Flakeboard representatives met and via a negotiations process crafted elements for a new PSA. We approached these negotiations with the expectation that many of the primary terms and conditions of the new contract would remain consistent with past practice.

By late June 2013, we had reached agreement in principle on essential terms, and turned attention to drafting a new agreement. The new PSA is similar to the previously executed PSA, which the Board approved May 2006. Following a number of iterations and legal review, the attached draft PSA has been prepared for consideration and approval by EWEB and Flakeboard authorities.

The proposed PSA is complete and in substantially final form, subject to inclusion of some of the

related exhibits, and with the possibility of some minor language changes that may be requested during the approval process.

Discussion:

To aid in your review of the proposed agreement, we note the proposed PSA went before the Risk Management Review Committee on several occasions. Additionally, elements of the proposed PSA are identical or very similar to those contained in the current contract. In fact, in most cases the language remains the same, or has simply been updated for current conditions and contemporary legal forms of expression.

The term of the proposed PSA is 3 years and runs through September 30, 2016 with a provision for one-time three year extension. The proposed PSA term is timed to coincide with EWEB's Power Supply Agreements with the Bonneville Power Administration.

With respect to the rate provisions, all charges under the new agreement continue to be cost-based and developed in accordance with EWEB's standard cost-of-service methods. The proposed PSA provides for annual determination of energy and delivery charges based on EWEB's approved budgets and projected calendar year power supply costs.

Each year the base energy charges will be set to recover EWEB's projected net power costs, assuming average stream flows (90 percent of "normal" water) and secondary non-firm sales at budgeted forward prices. A true up is then applied each month (charge or refund) to reconcile differences between projected and actual secondary sales revenue.

Under the terms of the proposed agreement, EWEB reserves the right to make interim adjustments as required to pass through changes in BPA wholesale power costs. These rate provisions are nearly identical to those contained in power sales agreement the Board approved and executed with Weyerhaeuser MDF May 2006.

Staff Recommendation:

Staff recommends Consent Calendar approval of the new Power Services Agreement (PSA) Resolution No. 1321, granting authorization to the General Manager for execution. It is intended that this Board action would permit minor changes to the technical language of the agreement as long as the terms and conditions remain consistent with the substance and intent of the approval draft, as confirmed by EWEB legal counsel and the General Manager.

Please feel free to contact one of us if you have questions, comments, or would like additional information concerning this agreement. While this item appears on the September 17th Consent Calendar, we will be available at the meeting should you choose to pull it for discussion.

**RESOLUTION NO. 1321
SEPTEMBER 2013**

**EUGENE WATER & ELECTRIC BOARD
RESOLUTION APPROVING AND AUTHORIZING NEW POWER SALES AGREEMENT
BETWEEN THE EUGENE WATER & ELECTRIC BOARD AND FLAKEBOARD**

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

WHEREAS, Flakeboard, owns and operates a medium density fiber mill in Eugene served by EWEB; and

WHEREAS, EWEB and Weyerhaeuser Company entered into a Power Sales Agreement dated May 2006 (the “2005 Power Sales Agreement”); and

WHEREAS, Weyerhaeuser Company assigned the 2006 Power Sales Agreement to Flakeboard when Flakeboard purchased the Eugene mill; and

WHEREAS, the 2006 Power Sales Agreement will expire in September 30, 2013 and both parties have pursued negotiations toward implementation of a new power sales agreement; and

WHEREAS, EWEB and Flakeboard staff have reached a common understanding concerning the substantive terms and conditions to be included in the new power sales agreement;

WHEREAS, EWEB and Flakeboard staff have prepared a formal contract document for consideration and approval by their respective governing authorities, subject to necessary further revision by the parties.

THEREFORE BE IT RESOLVED that the General Manager is authorized to enter into the new power sales agreement with the Flakeboard beginning in October 2013 and ending in September 2016, upon final approval of EWEB staff and legal counsel. The final power sales agreement shall reflect the substantive terms and conditions included in the form of agreement presented in this meeting with such changes as the EWEB General Manager, with the advice of legal counsel, shall approve.

Dated This 17th Day of September 2013.

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

President

I, Taryn M Johnson 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 17, 2013 Regular Board Meeting.

Assistant Secretary