

DRAFT RECORD OF DECISION:

**DRAFT AMENDMENT TO FIRM POWER SALES
AGREEMENT WITH PORT TOWNSEND PAPER
CORPORATION, CONTRACT NO. 11PB-12330**

May 3, 2012



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I. INTRODUCTION

Bonneville Power Administration (BPA) and Port Townsend Paper Company (PTPC) are parties to a firm power sales agreement (Agreement), designated by BPA as Contract No. 11PB-12330. Power deliveries under the Agreement began on June 1, 2011, and are scheduled to end August 31, 2013.

PTPC and Jefferson County PUD No. 1 (Jefferson PUD), a newly formed public utility, requested that BPA allow Jefferson PUD to serve PTPC's Wheel Turning Load (WTL) and include this load in Jefferson PUD's Total Retail Load and in its Contract High Water Mark (CHWM). Jefferson PUD currently projects that it would begin serving PTPC's WTL in July 2013.

In response to the requests by PTPC and Jefferson PUD, BPA proposes to amend the Agreement (Draft Amendment) to (1) include a definition and quantity of Wheel Turning Load in the amount of 4.982 aMW; and (2) reduce PTPC's Contract Demand and Minimum Demand in the event that Jefferson PUD provides service to some or all of PTPC's WTL.

Prior to making a final determination whether or not to offer PTPC the Draft Amendment, BPA is providing an opportunity for public review and comment on the proposed Draft Amendment and the methodology that BPA used to determine the amount of WTL that will ultimately be served by Jefferson County PUD. The public review and comment period begins on May 3, 2012, and ends on May 17, 2012.

II. BACKGROUND

PTPC is a Direct Service Industry (DSI) currently taking service from BPA at the Industrial Firm Power (IP) rate under a contract that will expire according to its terms on August 31, 2013. The PTPC mill consists of two distinct plant loads, the Old Corrugated Container (OCC) load (3.275 aMW) and the Unbleached Kraft Pulp and Paper (main mill) load (approximately 17 aMW). PTPC's Contract Demand, defined in Exhibit A of the Agreement, currently equals 20.5 MW. PTPC's Minimum Demand, which is the amount that PTPC shall purchase on a take-or-pay basis for each hour of the Agreement, currently equals 13 MW.

Jefferson PUD is in the process of becoming the electricity service provider to retail loads in Jefferson County. Jefferson executed a Contract High Water Mark (CHWM) power sales agreement with BPA in August 2010, and power deliveries under that contract are expected to begin in July 2013. The PTPC Unbleached Kraft Pulp and Paper mill load is located in Jefferson County, Washington, within Jefferson PUD's retail service area. Jefferson PUD has distribution facilities that are capable of providing service to the PTPC load. Since BPA had previously determined, in 2005, that the OCC load was a

new and separate facility from the rest of PTPC's plant load,¹ BPA allowed Jefferson PUD to include the amount of the OCC load in its CHWM as part of its FY 2013 forecast Total Retail Load.

PTPC subsequently asked BPA whether a portion or the entirety of the main mill's Wheel Turning Load (WTL) could be served by Jefferson PUD and included in Jefferson PUD's CHWM. This request was also made by Jefferson.² PTPC's contract currently does not contain a definition of WTL. These requests resulted in the proposed Draft Amendment to the PTPC Agreement that is described in this draft Record of Decision.

Wheel Turning Load

The term "Wheel Turning Load" was defined in BPA's 1981 power sales contracts with its DSI customers. The 1981 power sales contract provided that:

From time to time, the Purchaser may have electrical load which is not integral to its industrial process and is not a part of a Technological Allowance (Wheel Turning Load).³

The 1981 contracts also contemplated that Wheel Turning Load might be served by the DSI's local utility.⁴

The definition of Wheel Turning Load has changed very little over the past 30 years. Wheel Turning Load is currently defined in BPA's 2012 General Rate Schedule Provisions (GRSPs) as follows:

Wheel Turning Load is that portion of Total Plant Load that is not integral to a Customer's industrial process and is not a part of a technological allowance. A megawatt amount of Wheel Turning Load shall be defined in the Customer's power sales contract with BPA, unless such amount is self-supplied.⁵

Based on this definition, WTL could include loads that are not integral to the production process such as electric load needed to run heating, air conditioning, lighting, office equipment, auxiliary emergency equipment, and other equipment including motors and pumps required to operate the mill but not production machines or processes.

¹ See Bonneville Power Administration's Policy for Power Supply Role for Fiscal Years 2007-2011, Administrator's Record of Decision, February 2005, at 56.

² Letter from Kenneth McMillen, President, Jefferson Cnty Pub. Util. Dist. No. 1, to Shannon Greene, Account Exec., Bonneville Power Admin. (Sept. 6, 2011) (Attachment A).

³ See Power Sales Contract between Bonneville Power Administration and Crown Zellerbach Corporation, BPA Contract No. DC-MS79-81BP90347, at section 5(e).

⁴ *Id.*

⁵ 2012 Power Rates Schedules and General Rate Schedule Provisions (FY 2012-2013) at 102.

III. DETERMINATION OF PTPC'S WHEEL TURNING LOAD

BPA used the the 2012 GRSP definition as the starting point for its determination of PTPC's WTL. First, BPA examined its historical supply relationship with PTPC and found that PTPC has not previously requested to self-supply WTL. Second, BPA assessed whether the main mill's WTL could be metered. BPA staff found that both production and non-production loads shared the same circuits across the mill's electrical system. This makes metering the WTL extremely complicated and would be ultimately impractical and uneconomical. BPA concluded that, even assuming it were physically possible to allow for separate metering of the WTL, it would be prohibitive to physically isolate the wiring for individual equipment loads and reaggregate those loads into specific electrical panels that could then reasonably be metered.

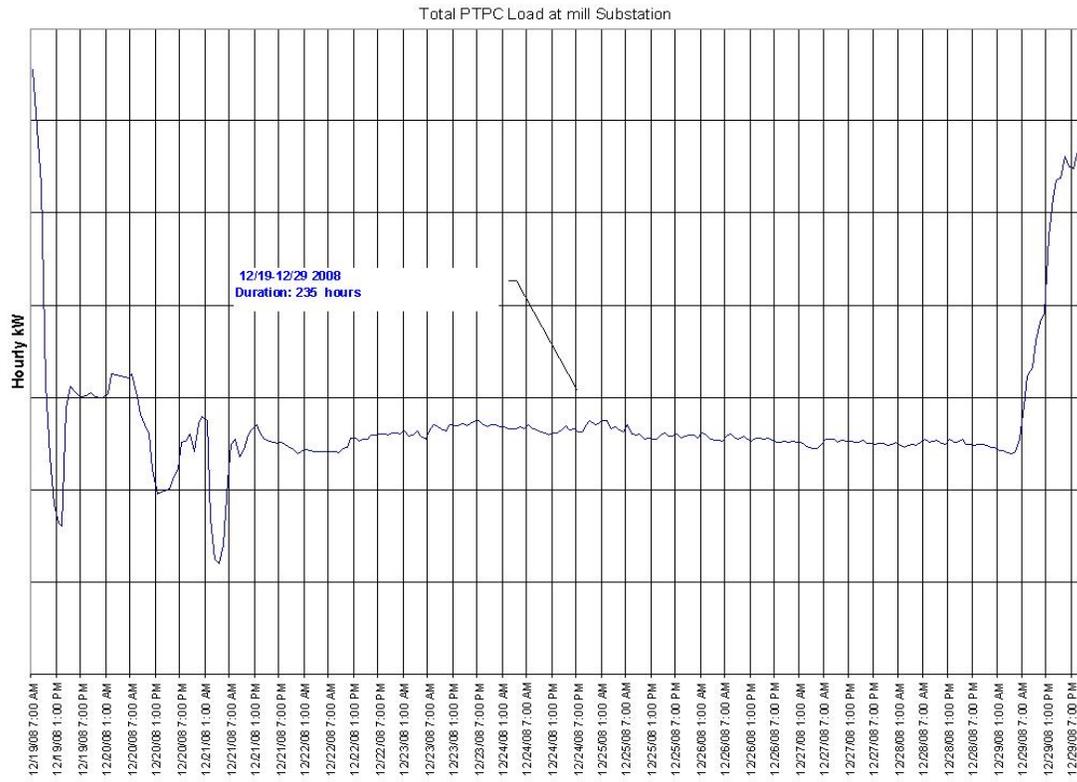
Third, BPA researched past DSI contract actions related to WTL. BPA can find no evidence a WTL value had ever been determined using a defined methodology. . Instead, the amount of WTL has been negotiated between BPA and DSIs as part of the DSI contract. Thus, there does not appear to be a historical methodology available to calculate the WTL amount.

In the absence of a historical methodology, BPA looked for a way to determine what portion of PTPC's Total Plant Load is not integral to PTPC's industrial process.

As BPA reviewed several years of total load data for the main mill, BPA found that in late 2008, PTPC shut down the mill for 10 days due to economic conditions. During this economic curtailment, total plant metered load remained relatively steady. *See* Figure 1. The mill was not producing paper during this time, so it is reasonable to conclude that this is the load "not integral to the industrial process." By averaging the total hourly plant load over the the 235 hours the plant was experiencing the total curtailment of production, BPA determined a WTL amount of 4.982 MW.

BPA believes that this approach yields an objective and reasonable measure of PTPC's WTL because it is based on actual metered data of the total plant load during an extended event where neither the main mill nor the OCC was producing product.

Figure 1. Event 12/19/08 - 12/29/08



BPA considered, but rejected two other approaches. First, BPA considered analyzing the installed equipment in the plant. BPA rejected this approach because it introduced significant ambiguity around equipment load under production and non-production scenarios. Second, BPA considered using load data from the other outage events occurring over the last 4 years, none of which lasted longer than two days. BPA rejected this approach because BPA found that the load data from such events lacked consistency between events as a result of irregular outage patterns at the plant..

III. SUMMARY OF THE DRAFT AMENDMENT

BPA proposes to amend the Agreement to (1) include a definition of Wheel Turning Load; and (2) reduce PTPC’s Contract Demand and Minimum Demand in the event that Jefferson PUD commences to serve PTPC’s WTL.

a. Definition of Wheel Turning Load

In accordance with the 2012 GRSPs, BPA proposes to add Section 2.24 (“Wheel Turning Load”) to the Agreement:

2.24 “Wheel Turning Load” shall have the meaning described in the 2012 GRSPs and, for the purpose of the Agreement, shall equal 4.982 aMW.

b. Contract Demand Revision

The Agreement currently provides that PTPC’s Contract Demand will be reduced in the event that Jefferson PUD commences service to PTPC’s OCC load. A similar reduction will be necessary if Jefferson PUD commences service to PTPC’s WTL. Therefore, BPA proposes to amend Exhibit A of the Agreement to:

- (1) acknowledge that PTPC is working with Jefferson PUD to develop an agreement to provide service for PTPC’s Wheel Turning Load; and
- (2) provide that to the extent Jefferson PUD commences to serve PTPC’s Wheel Turning Load, PTPC’s Contract Demand will be reduced by the additional amount of 4.982 MW to reflect the change in status of that portion of the PTPC load.

c. Minimum Demand Revision

Once Jefferson PUD commences service to PTPC for its OCC load and some or all of its WTL, the current Minimum Demand in PTPC’s Agreement will be higher than the total amount that PTPC will be purchasing from BPA. Therefore, BPA proposes to delete Section 2.9 (“Minimum Demand”) and replace it with the following:

- 2.9 “Minimum Demand” shall mean the lesser of i) 13 megawatts (MW); or ii) the hourly Peak Demand Entitlement established in Exhibit A, Peak Demand. To the extent Jefferson County PUD No. 1 commences to serve the OCC and Wheel Turning Load, Minimum Demand will be reduced to 8 MW to reflect the change in status of that portion of the Port Townsend load.”

IV. ENVIRONMENTAL EFFECTS

BPA is in the process of assessing the potential for environmental effects resulting from implementation of the Draft Amendment, consistent with the National Environmental Policy Act (NEPA). All public comments concerning NEPA compliance and/or potential environmental effects of the proposal received during the public comment and review period will be provided to BPA's NEPA compliance staff for consideration.

V. CONCLUSION

For the above reasons, BPA proposes to amend PTPC’s power sales agreement to (1) include a definition of Wheel Turning Load in the amount of 4.982 aMW; and (2) reduce PTPC’s Contract Demand and Minimum Demand in the event that Jefferson PUD commences to serve some or all of PTPC’s WTL.

Public Utility District #1

Of Jefferson County

6 September 2011

Board of Commissioners

Barney Burke, District 1
Ken McMillen, District 2
Wayne G. King, District 3

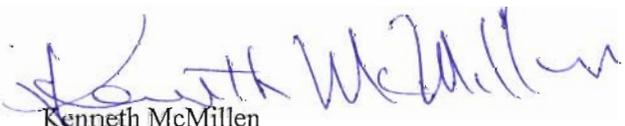
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Shannon:

As part of PTPC's initial request to include its main mill load in Jefferson's CHWM, Jefferson County PUD is requesting that BPA include Port Townsend Paper Company's station service load in Jefferson's CHWM and CDQ values in the event BPA decides to not include the entire mill load. We understand that there is precedence for granting such a request. Jefferson will work with BPA to develop an appropriate forecast and to develop appropriate billing determinants.

If you have any questions please contact our manager, Jim Parker.



Kenneth McMillen
President