



RESOLUTION NO. U-11176

1 A RESOLUTION relating to Tacoma Water; approving an amendment and
2 extension of the existing Water Supply Agreement with WestRock.

3 WHEREAS the City of Tacoma, Department of Public Utilities, Water
4 Division (d.b.a. "Tacoma Water"), entered into a 10-year contract Water Supply
5 Agreement ("Agreement") with the Simpson Tacoma Kraft Company (under
6 PUB Resolution No. U-10006), commencing on January 1, 2006, and ending on
7 July 31, 2015, that included two optional 5-year extensions, subject to mutual
8 agreement of the parties, and

9 WHEREAS RockTenn, CP LLC, a wholly owned subsidiary of WestRock
10 Company, acquired substantially all of Simpson's Tacoma assets in 2014, and
11 the Public Utility Board ("PUB") through Resolution No. 10686, consented to the
12 assignment of the Contract from Simpson to RockTenn, and

13 WHEREAS the City and RockTenn agreed to extend the initial 10-year
14 term with the first of the 5-year extensions commencing August 1, 2015,
15 through July 31, 2020, and such agreement was authorized through PUB
16 Resolution No. U-10784, and

17 WHEREAS RockTenn, now doing business as WestRock, does not
18 require treated potable water for process use and is seeking alternative water
19 source(s) to reduce operating expenses to remain cost-competitive, and

20 WHEREAS a Memorandum of Agreement (MOA) between the City's
21 Environmental Services Division, Tacoma Public Utilities Water Division, and
22 West Rock, provides that the parties will conduct a Preliminary Evaluation to
23 study the potential of reclaimed water as an alternate source of supply, and
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1 WHEREAS WestRock is unwilling to agree to the second 5-year
2 extension in the original Agreement due to business challenges and the
3 economic uncertainty of the COVID-19 pandemic, amongst other factors, and

4 WHEREAS amending the Agreement to allow for five one-year
5 extensions and extending this Agreement for the first year of the potential five
6 1-year extensions, affords WestRock the ability to align with the expiration of
7 the Tacoma Power Supply Agreement in 2021, to have preliminary results of
8 the reclaimed water supply study, and to evaluate other alternative supply
9 options and/or alternative rate structures, and

10 WHEREAS Tacoma Water is requesting that the Board authorize the
11 Director of Utilities ("Director") to sign the amendment to the original Water
12 Supply Agreement, that authorizes the first 1-year agreement extension and
13 provides for up to four more 1-year extensions with the current mill operator,
14 WestRock, while water supply alternatives and rate structures are evaluated,
15 and
16

17 WHEREAS Tacoma Water is requesting that if the City and WestRock
18 want to exercise any additional 1-year extensions, the Director be empowered
19 to approve said extensions, and

20 WHEREAS the Agreement sets the rate to be paid by WestRock for the
21 water supplied by Tacoma Water, and pursuant to City Charter Section 4.11, all
22 matters relating to rates shall be initiated by the Board, subject to approval by
23 the City Council, Now, therefore,
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BE IT RESOLVED BY THE PUBLIC UTILITY BOARD OF THE CITY OF TACOMA:

1 Sec. 1. Tacoma Water's request to extend the water supply Agreement
2 with WestRock, for 1-year and allow up to four additional 1-year extensions is
3 approved, and the Director is authorized to approve said additional 1-year
4 extensions of the Agreement, if any.
5

6 Sec. 2. The Board requests that the City Council concur in its approval of
7 the proposed amendment and extension of the Agreement, substantially in the
8 form on file in the Office of the Clerk of the Board, to be approved by the City
9 Attorney.

10 Approved as to form:

Chair

11
12 /s/
13 Chief Deputy City Attorney

Secretary

14
15 Clerk

Adopted _____



Board Action Memorandum

TO: Jackie Flowers, Director of Utilities
COPY: Charleen Jacobs, Director and Board Offices
FROM: Scott Dewhirst, Water Superintendent
MEETING DATE: June 24, 2020
DATE: June 15, 2020

SUMMARY: Resolution U-11177 requests that the Board authorize the amendment and extension of the existing Water Supply Agreement with WestRock for one year and allow four additional annual 1-year extensions by mutual agreement of the City and WestRock. The resolution also requests that the Board seek concurrence of the City Council in the Board's decision if the Board approves the amendment and extension.

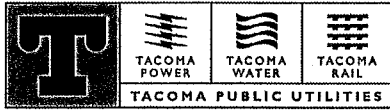
BACKGROUND: The City of Tacoma, Department of Public Utilities, Water Division (d.b.a. Tacoma Water) entered into a 10-year Water Supply Agreement (Agreement) with the Simpson Tacoma Kraft Company commencing on January 1, 2006, and ending on July 31, 2015, which includes two optional 5-year extensions subject to mutual agreement of the parties. (Public Utility Board Resolution No. U-10006).

RockTenn, CP LLC, a wholly owned subsidiary of WestRock Company acquired substantially all of Simpson's Tacoma assets in 2014, and the Public Utility Board through Resolution U-10686 consented the assignment of the Contract from Simpson to RockTenn. The City and RockTenn agreed to extend the initial 10-year term with the first of the 5-year extensions commencing August 1, 2015 through July 31, 2020 (Public Utility Board Resolution No. U-10784).

RockTenn, now doing business as WestRock, does not require treated, potable water for process use and is seeking alternative water source(s) to reduce operating expenses to remain cost-competitive. A Memorandum of Agreement (MOA) between the City's Environmental Services Division, Tacoma Public Utilities Water Division, and WestRock exhibits the commitment of all parties to conduct a Preliminary Evaluation to study the potential of reclaimed water as an alternate source of supply. The MOA that is expected to be signed by all parties in conjunction with an extension of the Water Supply Agreement is attached for reference.

WestRock is unwilling to agree to the second 5-year extension afforded by the original Agreement due to business challenges and the economic uncertainty of the COVID-19 pandemic amongst other factors. Extending this Agreement for the first year of the potential five 1-year extensions, affords WestRock the ability to align with the Tacoma Power Supply Agreement expiration in 2021, to have preliminary results of the reclaimed water supply study, and to evaluate other alternative supply options and/or alternative rate structures.

Resolution U-11177 would authorize the Director of Public Utilities to sign the attached amendment to the original Water Supply Agreement which authorizes the first one year extension and up to four more 1-year extensions with the current mill operator, WestRock while water supply alternatives and rate structures are evaluated. If the City and WestRock want to exercise the additional one year extensions, those extensions will be brought to the Board for review and approval. Because all matters relating to rates are initiated by the Board, subject to approval of the City Council, if the Board adopts the resolution, the Board would also be requesting that the City Council concur in the Board's approval of the amendment and extension.



Board Action Memorandum

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Not Applicable

IF THE EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED.
Not Applicable

IF THE ACTION REQUESTED IS APPROVAL OF A CONTRACT, INCLUDE LANGUAGE IN RESOLUTION AUTHORIZING \$200,000 INCREASE IN ADMINISTRATIVE AUTHORITY TO DIRECTOR? No

ATTACHMENTS: Public Utility Board Resolution No. U-10006 with the original water supply agreement, Public Utility Board Resolution No. U-10784 with Signed Extension/Amendment No. 1 with WestRock Guaranty, Proposed Memorandum of Agreement between Tacoma Environmental Services, Tacoma Water, and WestRock, Proposed Contract Amendment under consideration,.

CONTACT: Scott Dewhirst, Tacoma Water Superintendent, 253.278.0527



TO: Elizabeth Pauli, City Manager
FROM: Scott Dewhirst, Water Superintendent
COPY: City Council and City Clerk
SUBJECT: A Resolution relating to Tacoma Water; approving an amendment and extension of the existing water supply agreement with WestRock; July 7, 2020
DATE: June 17, 2020

SUMMARY AND PURPOSE:

Public Utility Board Resolution U-11177 requests that the Board authorize the amendment and extension of the existing Water Supply Agreement with WestRock for one year and allow four additional annual 1-year extensions by mutual agreement of the City and WestRock. The resolution also requests that the Board seek concurrence of the City Council in the Board's decision if the Board approves the amendment and extension.

BACKGROUND:

The City of Tacoma, Department of Public Utilities, Water Division (d.b.a. Tacoma Water) entered into a 10-year Water Supply Agreement (Agreement) with the Simpson Tacoma Kraft Company commencing on January 1, 2006, and ending on July 31, 2015, which includes two optional 5-year extensions subject to mutual agreement of the parties. (Public Utility Board Resolution No. U-10006).

RockTenn, CP LLC, a wholly owned subsidiary of WestRock Company acquired substantially all of Simpson's Tacoma assets in 2014, and the Public Utility Board through Resolution U-10686 consented the assignment of the Contract from Simpson to RockTenn. The City and RockTenn agreed to extend the initial 10-year term with the first of the 5-year extensions commencing August 1, 2015 through July 31, 2020 (Public Utility Board Resolution No. U-10784).

RockTenn, now doing business as WestRock, does not require treated, potable water for process use and is seeking alternative water source(s) to reduce operating expenses to remain cost-competitive. A Memorandum of Agreement (MOA) between the City's Environmental Services Division, Tacoma Public Utilities Water Division, and WestRock exhibits the commitment of all parties to conduct a Preliminary Evaluation to study the potential of reclaimed water as an alternate source of supply. The MOA that is expected to be signed by all parties in conjunction with an extension of the Water Supply Agreement is attached for reference.

WestRock is unwilling to agree to the second 5-year extension afforded by the original Agreement due to business challenges and the economic uncertainty of the COVID-19 pandemic amongst other factors. Extending this Agreement for the first year of the potential five 1-year extensions, affords WestRock the ability to align with the Tacoma Power Supply Agreement expiration in 2021, to have preliminary results of the reclaimed water supply study, and to evaluate other alternative supply options and/or alternative rate structures.



City of Tacoma

City Council Action Memorandum

Are the expenditures and revenues planned and budgeted in this biennium's current budget?

YES

Tacoma Water has included the anticipated revenue from WestRock in its revenue budget for 2020 and will be included in the 2021/2022 budget proposal.

Are there financial costs or other impacts of not implementing the legislation?

YES

Will the legislation have an ongoing/recurring fiscal impact?

YES

Will the legislation change the City's FTE/personnel counts?

NO

ATTACHMENTS: Public Utility Board Resolution No. U-10006 with the original water supply agreement, Public Utility Board Resolution No. U-10784 with Signed Extension/Amendment No. 1 with WestRock Guaranty, Proposed Memorandum of Agreement between Tacoma Environmental Services, Tacoma Water, and WestRock, Proposed Contract Amendment under consideration,.

MEMORANDUM OF AGREEMENT

The City of Tacoma (**City**) and WestRock CP, LLC (**WestRock**) enter into this Memorandum of Agreement (**MOA**) for the purpose of setting forth the process for determining the feasibility of a project to provide reclaimed water to WestRock as an alternative to the use of potable water from City for process operations.

RECITALS

WHEREAS, the City, acting by and through the Tacoma Environmental Services Department (**ES**), operates the Tacoma Central Treatment Plant (**CTP**), which is subject to increasing regulatory requirements and upgrades needed for current and future environmental compliance, and

WHEREAS, ES is considering the development of a reclaimed water project (**Project**) as an alternative to discharging treated effluent into Commencement Bay and has engaged the services of a consultant to assist in a preliminary evaluation of the Project's costs and permitting requirements associated with up to eight Project alternatives (**Preliminary Evaluation**), and

WHEREAS, WestRock is now receiving from the City, acting by and through Tacoma Public Utilities (**TPU**), the majority of its water supply from the City's municipal potable water supply for WestRock's Tacoma Mill process operations, and

WHEREAS, the cost of providing potable water service has increased over the past 20 years due to capital improvements made to TPU's municipal potable water supply system, and

WHEREAS, WestRock does not require treated, potable water for process use, and is seeking an alternative to TPU's potable water supply, and

WHEREAS, the City supports undertaking the Preliminary Evaluation in an effort to find a solution for the needs of both parties and desires to assist in evaluating and possibly developing the supply of reclaimed water, and

WHEREAS, time is of the essence to evaluate an alternative water supply to the WestRock Mill process operations, and

WHEREAS, the purpose of this MOA is to agree on a process and a schedule for a Preliminary Evaluation of reclaimed water supply options and does not bind the parties to obligations beyond the process set forth herein.

AGREEMENT

Based on the above Recitals, the parties agree as follows:

- A. The parties shall make decisions in phases for the Preliminary Evaluation and the feasibility study of the Project. Each party shall fully participate in the phases that will allow for review, final decisions and agreements based upon the schedule as described below.
- B. ES has finalized a scope of work for the Preliminary Evaluation (**Scope of Work**) attached hereto as Exhibit A. WestRock shall cooperate with and timely provide information and records to the City as reasonably requested by the City for purposes of completion of the Preliminary Evaluation. If WestRock cannot provide the requested information within three (3) weeks of the date of the request, WestRock will inform the City as to why it cannot meet that timeframe and when it can provide the requested information. The schedule below may need to be adjusted if WestRock cannot provide the requested information within three weeks.
- C. Phase 4 of the scope of work (Business Case Evaluation) provides for screening of the alternatives developed as part of phase 2 scope of work (Alternatives Development). The purpose of the screening is to select the alternatives considered most feasible to be included in the business case evaluation (BSE). At the conclusion of the screening, ES will provide a report to WestRock, describing the selected alternatives to be included in the BSE. At the request of WestRock, ES and its consultant will meet with WestRock, give a briefing of the report and the screening process, and provide an opportunity to ask questions and provide input.
- D. The Parties anticipate that the draft Preliminary Evaluation report (“Draft Report”) will be made available for review and comment by no later than November 30, 2020. WestRock shall submit their comments to ES within 30 days following receipt of the Draft Report. If, after consideration of the submitted comments the Draft Report is revised, ES shall submit the revised Draft Report for final review. Comments by WestRock shall be submitted to ES within 15 days following receipt. ES shall then cause a final Preliminary Evaluation Report (**Final Report**) to be completed and provide a copy of the Final Report to the Parties.
- E. The Parties shall, within 15 days following receipt of the Final Report, meet to develop and approve a schedule of meetings, exchange of information and tasks for the purpose of determining if one or more cost effective alternatives that have been identified in the Final Report, provide a mutual basis for the Parties’ commitment to preparation of a long-term Feasibility Analysis meeting the requirements of WAC 173-219-180 (**Feasibility Analysis**). The parties shall fully cooperate with each other in regard to developing and approving the schedule and providing required information.
- F. In the event that the Parties reach mutual agreement upon the basis for a commitment to the preparation of a Feasibility Analysis, the terms and conditions of such commitment

shall be set forth in writing as an amendment to this MOA or a separate MOA and may include, among other things, terms and conditions for review of the scope of work, a schedule for completion of the Feasibility Analysis, provisions for an exchange of information and cooperation of the Parties, provisions for allocation of costs and liabilities, provisions for the guarantees of the parties, and the material terms of a reclaimed water service agreement.

G. Notifications. The following persons shall be the primary contacts for the Parties:

City of Tacoma	WestRock
<u>Teresa Peterson</u>	<u>Bruce Martin</u>
<u>Glen George</u>	<u></u>

- H. The purpose of this MOA is to commit the Parties to a process for developing the Preliminary Evaluation. The MOA does not commit the City to construct the Project and does not commit WestRock to purchase the reclaimed water. All costs necessary to complete each party's actions in this MOA will be covered separately by each party with no reimbursements.
- I. The Parties agree to collaboratively and in good faith exercise their reasonable best efforts to implement the provisions of this MOA, and, for such purpose, each Party will, at the request of the other Party, promptly provide such information, assistance or take such action as is reasonably necessary to implement any provision of this MOA.
- J. The Parties do not intend to create any third-party beneficiaries, and nothing in the MOA shall be deemed to create any third-party beneficiary relationships.
- K. This MOA may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.
- L. This MOA begins on August 1, 2020, and shall terminate on August 20, 2023, but shall terminate if the Amended Water Supply Agreement is not extended or is otherwise terminated.

Tacoma Public Utilities

WestRock CP, LLC

By _____
Name _____
Title _____

By _____
Name _____
Title _____

Tacoma Environmental Services

By _____
Name _____
Title _____

EXHIBIT A
(Scope of Work)

CITY OF TACOMA CENTRAL TREATMENT PLANT RECLAIMED WATER EVALUATION

Exhibit A:

Scope of Services

Project Understanding

WestRock has approached the City of Tacoma (City) to express an interest in using Central Treatment Plant (CTP) treated effluent for process water uses at their mill located about 1.3 miles from the CTP site. Use of CTP effluent at WestRock would represent a beneficial reuse of reclaimed water and would be subject to Washington State Department of Ecology (Ecology) and Department of Health reclaimed water regulations. The City is considering two primary alternatives: 1) conveyance of Class B reclaimed water to WestRock and 2) production of Class A reclaimed water at the CTP for conveyance to WestRock or other potential users.

Potential benefits to the City related to providing reclaimed water to WestRock include:

- Delay or reduce the costs required to address nutrient discharge limits that may be imposed by Ecology. If treatment processes for the production of reclaimed water include nutrient removal, it may be possible to avoid needing to provide nutrient removal for the entire CTP flow.
- Delay the cost of an expansion of the existing CTP outfall to Commencement Bay.
- Provide a second point of discharge for the CTP to allow flows to be diverted from the existing outfall to facilitate periodic maintenance and inspection.
- Substantially reduce existing potable water use, providing additional capacity for Tacoma Water to serve other customers.

The goals of this project are:

1. Develop planning level cost estimates for the construction and operation of a reclaimed water facility, pump station(s), and pipeline to convey reclaimed water to WestRock or other users that may be identified,
2. Compare the costs of implementing nutrient removal at the CTP to the cost of producing and supplying reclaimed water to WestRock, and
3. Identify permitting issues that would need to be considered if the supply of reclaimed water to WestRock appears to be viable, for example NPDES permitting requirements for the discharge of CTP effluent to Puget Sound via the WestRock outfall.

Key assumptions for this evaluation include:

1. A complete Water Reuse Feasibility Analysis per Washington Administrative Code (WAC) 173-219-180 would be prepared under a separate scope of work if the economics for constructing a reclaimed water facility and/or a conveyance pipeline are found to be favorable.
2. It is assumed that any nutrient limits or other permit conditions imposed on the City's treatment plant discharges in the future will be such that the North End Treatment Plant (NETP) can remain in operation. This evaluation does not anticipate the increase in flows and loads to the CTP that would result if flows from the NETP were to be rerouted to the CTP.
3. The primary reclaimed water customer that has been identified to date is the WestRock facility. Two other potential customers at the Port of Tacoma have been identified and will be

included in this evaluation to identify a likely route for conveyance pipelines to these users and the associated costs.

APPROACH

As many as eight (8) reclaimed water production alternatives will be evaluated using the business case evaluation (BCE) tool following an initial screening of water quality and flow rate scenarios, as described below. The results of the BCE will be used to estimate the costs associated with providing reclaimed water to WestRock that would need to be recovered to make the project feasible.

Six phases will be undertaken to prepare this initial evaluation:

- Phase 100 – Background and Planning Assumptions
- Phase 200 – Alternatives Development
- Phase 300 – Cost Estimating
- Phase 400 – BCE Construction
- Phase 500 – Reporting
- Phase 600 – Project Management

PROJECT DESIGN

Phase 100 – Background and Planning Assumptions

The purpose of this phase will be to develop a project understanding and a set of planning assumptions to set the stage for the development of alternatives to be evaluated.

Specific tasks include:

1. Conduct two initial planning meetings, one with the City to review the project scope, confirm the alternatives to be evaluated and collect background data and a second with City and WestRock staff to collect information on intended reclaimed water uses.
2. Review and summarize existing CTP effluent water quality and temperature data. No additional sampling or flow monitoring will be performed within the scope of this project.
3. Evaluate the impact operation of the Peak Wet Weather Facility (PWWF) would have on the production of reclaimed water.
4. Summarize WestRock reclaimed water needs, as provided by WestRock, with respect to intended use, flowrate, variability, temperature and specific water quality parameters that they identify.
5. Review and summarize reclaimed water standards. Based on discussions with WestRock, develop a list of intended uses for reclaimed water and the class, flowrate and quality of reclaimed water required for each.
6. Review and summarize previous studies evaluating the capacity of the existing CTP outfall and the timing of a project to increase the outfall's capacity.
7. Based on an evaluation of nutrient removal alternatives for the CTP currently being prepared by Brown and Caldwell (BC), develop a Class 5 cost estimate for the treatment technology alternative initially identified as being most feasible to produce a total inorganic nitrogen effluent concentration of 8 mg/L for the entire CTP flow.
8. Based on an evaluation of side stream treatment alternatives for the CTP currently being prepared by BC, develop a Class 5 cost estimate for the alternative initially identified as being most feasible to treat filtrate flows from the CTP dewatering process.
9. Develop planning assumptions for the reclaimed water production and transmission system. Initial planning assumptions include the following:

- a. WestRock will accept reclaimed water on a year-round basis. Usage during peak flow events at the CTP is critical to delay the need for additional capacity in the CTP outfall.
 - b. The preferred location for new reclaimed water facilities is at the northern end of the CTP site where the existing Transmission Maintenance and Customer Service Buildings are located. If the available space is not sufficient to site all of the required facilities, the additional space that is required will be identified. Evaluating alternative locations for reclaimed water facilities is not included in this initial scope of work.
 - c. The route of a new reclaimed water transmission pipeline will be along Portland Avenue East, as described in the 2006 BC Technical Memorandum - *Evaluation of Conveying City of Tacoma Central Treatment Plant (CTP) Secondary Effluent to the Tacoma Simpson Mill*. A second alternative to be evaluated will be the use of an existing unused 12- and 16-inch water main located along Portland Avenue.
 - d. The transmission pipeline will be extended to the WestRock entrance on Portland Avenue. Routing reclaimed water piping inside the WestRock facility will be the responsibility of WestRock. WestRock will indicate the water pressure required at the entrance to their property.
 - e. Flow projections for the CTP will be used to estimate the timing for a future outfall capacity expansion project. The City and WestRock will provide current flow data and projected flows that account for future growth, including estimates of variability in flow and water usage and diurnal curves.
 - f. WestRock will construct facilities to cool the reclaimed water as required for their process uses. No cooling of plant effluent on-site at the CTP will be necessary.
 - g. It is assumed that since the individual discharges at the City and WestRock outfalls are in compliance with existing discharge permits that the combined discharge would also be in compliance. A water quality standards attainment analysis of combined secondary treated effluent, process water, and cooling water discharge to Puget Sound via the WestRock outfall would be performed in subsequent planning stages.
 - h. Initial review of past plant operating data indicates that the Class B fecal coliform standard of 23 per 100 ml is not being met consistently. The City will provide effluent coliform data to assess compliance with Class B disinfection criteria. BC will prepare an assessment of the capacity of the existing disinfection system to meet Class B standards. It is assumed that no other treatment steps at the CTP will be required to meet Class B standards.
10. These assumptions will be confirmed with the City and WestRock prior to beginning subsequent phases of the project. BC will meet with the City to review the draft memo and gather input prior to finalizing the memo.

Deliverable:

- Draft and Final Planning Assumptions Technical Memorandum (TM) documenting the findings of the investigations described above and the associated planning assumptions.

Phase 200 – Alternatives Development

This phase will develop flow/water quality alternatives and select the alternatives to be evaluated as part of the BCE. Twenty (20) alternatives with different flow and water quality requirements will be developed initially:

Reclaimed Water Flow and Water Quality Alternatives Summary				
Reclaimed Water Quality	Reclaimed Water Flow			
	7.5 mgd ⁴	15 mgd (with storage) ⁵	Up to 15 mgd (no storage) ⁶	21 mgd (no storage) ⁶
Class B	1a	1b	1c	1d
Class A	2a	2b	2c	2d
Class A w/ nutrient removal ¹	3a	3b	3c	3d
Class A, enhanced ²	4a	4b	4c	4d
Class A+3	5a	5b	5c	5d

¹Nutrient removal provided as part of reclaimed water treatment process, sized for reclaimed water flows only.

²Added treatment for any constituents WestRock identifies.

³To allow direct potable reuse.

⁴Approximate minimum CTP flow that can be reliably sustained.

⁵Storage provided by WestRock and/or Tacoma so that 15 mgd flow rate is provided continuously.

⁶No storage provided by either WestRock or the City, flow would vary based on CTP plant flow during low CTP flow conditions.

The analyses to be performed will be to a level sufficient to develop order of magnitude screening level cost estimates (Phase 300) and to identify “fatal flaws” that would eliminate potential alternatives as infeasible.

Specific tasks will include:

1. Develop characteristic curves for daily CTP plant flow at low flow conditions and typical WestRock reclaimed water usage for the purposes of estimating storage requirements.
2. Perform preliminary hydraulic analysis of the transmission pipeline to determine nominal pipe sizes to be used in cost estimating.
3. Review available pipeline as-built drawings and inspection records for the existing transmission main along Portland Avenue and give direction to the City regarding sections of the pipeline that need to be inspected. The results of that inspection will be used to identify the condition of the pipe and the improvements that would be necessary before it could be put into service as a reclaimed water transmission line.
4. Perform a pipeline routing conflict review, using available City GIS data and Ecology Toxics Cleanup Program database. Results will be used to assess risks related to construction of a pipeline along the assumed conveyance pipeline route. A BCE will be prepared to evaluate the two pipeline options and select the option to be used in evaluating reclaimed water alternatives.
5. Develop an initial concept for pipeline sizing and routing to convey reclaimed water to two other potential customers at the Port of Tacoma and prepare a Class 5 cost estimate for each.
6. Develop process flowsheets and site plans for reclaimed water facility alternatives, including the number and capacity of unit processes and major equipment. Site plans will be initial layouts for discussion and to estimate total space required. More detailed layouts to confirm space availability would be developed as part of the WAC 173-290-180 Feasibility Analysis.
7. Construction cost estimates for this phase will be prepared as part of Phase 300.
8. Document the reclaimed water facility alternatives analysis and pipeline alternatives analysis in two separate TMs. BC will meet with the City to review the drafts and gather input prior to finalizing the memos.

Deliverables:

- Draft and Final Reclaimed Water Facility Alternatives TM presenting details for each of the reclaimed water alternatives including process flow sheet, summary design criteria to identify tank volumes and major equipment sizing, and conceptual site plans.
- Draft and Final Transmission Pipeline Alternatives TM presenting transmission pipeline alternatives, condition assessment of the existing pipeline, capital cost estimates for the construction of a new pipeline and improvements to existing pipeline to be used as inputs into the BCE to select preferred pipeline alternative.

Phase 300 – Cost Estimating

Capital costs to be incorporated into the BCE will be developed under this phase. Capital costs will be developed to American Association for Cost Estimating (AACE) Class 5 standards. This class of estimate is typically used for concept screening that are defined at a level between 0% and 2% of complete definition. This class of estimates typically have an expected accuracy range of 20% - 50% low to 30% - 100% high.

Deliverable:

- Cost estimating reports from BC estimating group
- Draft and Final Capital Cost Estimate TM summarizing the estimates and assumptions.

Phase 400 – BCE Development

The BCE evaluating the selected alternatives will be constructed under this phase. The alternatives developed in Phase 200 and priced in Phase 300 will be screened to select those alternatives considered most feasible. As many as eight screened alternatives will be evaluated as part of a business case evaluation.

The BCE will be loaded with capital costs, operating costs, and repair and replacement (R&R) costs along with placeholders for risk/benefit costs. Specific risks and benefits will be identified and values assigned in collaboration with the City. Where applicable, inputs used in previous BCEs that BC has prepared for the City will be used. For example, labor and power costs, risk costs for permit violations, etc.

Specific tasks will include:

1. Incorporate capital costs for each alternative, as developed in Phase 300 – Cost Estimating.
2. Develop operating costs for each alternative. Operating costs will include the following:
 - a. City labor (operations and maintenance).
 - b. Power and chemical requirements.
3. Include placeholders for revenue generated from the sale of reclaimed water. The BCE tool will be structured so that the revenue required for an alternative to become feasible can be calculated and used by the City as a basis of potential negotiations with WestRock.
4. Develop repair and replacement costs for each alternative. Replacement costs will include in-kind replacement of equipment over their projected service life.
5. Assess benefits of each alternative. One benefit will be reduced potable water usage by WestRock, making water available for sale to other Tacoma Water customers. Another benefit would be the delay in the need to construct additional outfall capacity. The value associated with more qualitative environmental and community benefits, for example the value to the community of developing a “green” reclaimed water utility, will be included as placeholders but will not be developed to the same level of detail as other BCE inputs. The placeholders will allow sensitivity analyses related to these benefits to be performed.

6. Assess risk costs for each alternative. Risk costs, based on likelihood of occurrence and the related consequence cost, may include the following:
 - a. Risk of a sunk investment or loss of revenue if WestRock discontinues use of the reclaimed water due to the water not being suitable for their uses or because the economic benefits are not what they originally anticipated.
 - b. Future changes to regulations and discharge limits impacting the use of reclaimed water by WestRock.
 - c. Inability of the CTP effluent to meet Class B standards during peak flow periods when the ballasted sedimentation process is in service.
7. Prepare the draft BCE and submit to the City for review and comment. Alternatives will be compared to a “Do Nothing” alternative which would entail a project to increase the capacity of the outfall at some point in the future. The previously developed CTP outfall upgrade costs presented in the 2006 BC memo will be escalated based upon published Engineering News Record Construction Cost Index values.
8. Two formal meetings with the City will be conducted as part of this phase – one to review the draft BCE with the City to address initial comments and develop risk and benefit inputs and the other to review the draft memo.

Deliverable:

- Draft and Final BCE TM describing the development of the BCE and the selection of the preferred alternative.

Phase 500—Reporting

This phase will include the preparation of the Reclaimed Water Evaluation report summarizing the findings of the phases described above. The report will include the identification of issues that would need to be evaluated in a complete Feasibility Study per Ecology’s Requirements. These issues would include: 1) permitting issues related to discharging CTP effluent to Puget Sound via the WestRock outfall, and 2) coordination with potable water suppliers.

The draft report will be submitted to the City following the completion of Phase 400. After receiving City review comments, the final report will be prepared and submitted.

Deliverable:

- Draft and Final Reclaimed Water Evaluation reports. The report will summarize the tech memos prepared under each phase above, and present recommendations for next steps.

Phase 600 – Project Management

This phase will provide project management, direction, coordination, and control of all work associated with project schedule, budget, technical quality, monthly progress reports, and invoices for this project. Quality assurance/quality control effort will be tracked as a separate task as part of Phase 600. Quality control reviews will include review of each deliverable by a BC subject matter expert prior to submittal of the draft deliverable to the City for review.

Deliverables

- Monthly progress reports and invoices.
- Monthly check-in meetings (10)
- Project Management Plan

Phase 700 – Contingency

The purpose of this phase is to provide an allowance for additional work that may be required beyond the scope described above. No contingency work will be performed without prior authorization by the City. Tasks that could be performed under this contingency phase could include:

- Additional layout of reclaimed water facilities on sites other than the location at the north end of the CTP site.
- Detailed layout and sizing of transmission lines to reclaimed water users other than WestRock.
- Development of design criteria, flow sheets, and layouts for facilities to cool the CTP effluent prior to transmission to WestRock.

Schedule

A preliminary schedule of key milestones is as follows. The budget assumes monthly check-in meetings with the City to discuss progress and address questions and bi-weekly internal staff meetings.

- Notice to Proceed: October 1, 2019
- Submit Draft Background and Planning Assumptions TM – December 15, 2019
- Submit Draft Alternatives Development TM – February 15, 2020
- Submit Draft BCE TM – March 30, 2020
- City Returns BCE TM Review Comments – April 30, 2020
- Submit Draft Reclaimed Water Evaluation Report – May 30, 2020

Assumptions and Limitations

An overall project duration of approximately 10 months is assumed. Meeting the schedule given above will require reviews to occur and comments to be compiled and returned to BC in the timeframes identified. If the review and associated comments are delayed in their return, the overall project schedule may be delayed as a result.

BC will rely on data provided by the City and WestRock and will not independently verify any of that data unless specifically noted in this scope of work.

Draft and final versions of all documents will be provided electronically unless specifically noted in this scope of work. One round of review for each draft deliverable is assumed with reconciled review comments being returned electronically in a comment tracking spreadsheet or a single pdf document.

Meetings with Tacoma and WestRock will typically include two BC staff and last no more than two hours. All meetings will be held in Tacoma.

The BCE is a tool to be used for planning purposes to evaluate alternatives and select a preferred alternative based on the current level of analysis. BCE results should be confirmed and updated as part of any preliminary design of potential improvements or further analysis by the City, BC, or any other third parties. The BCE developed as part of this scope of work will be prepared in a manner similar to others that BC has prepared for the City in terms of level of detail and the methodologies used.

Cost Estimates:

The scope of this evaluation is limited to a level sufficient to develop order of magnitude costs and to identify “fatal flaws” that would eliminate potential alternatives as infeasible. More detailed cost

estimates and analyses, including further alternatives development, will be completed in subsequent planning stages. The analyses performed will provide for direct comparison of alternatives.

Construction cost estimates are subject to many influences including, but not limited to, price of labor and materials, unknown or latent conditions of existing equipment or structures, and time or quality of performance by the contractor. These influences may not be precisely forecasted and are beyond the control of BC. Actual project costs may vary substantially from the estimates prepared by BC and BC does not warrant or guarantee the accuracy of construction or development cost estimates.

Exhibit B: Cost Estimate

Tualuma, City of (HFA) - CTR Reclaimed Water Evaluation																
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total Expenses (\$K)
100 Background and Planning	\$160.00	\$80.00	\$252.00	\$154.00	\$212.00	\$186.00	\$212.00	\$131.00	\$212.00	\$154.00	\$111.00					
101 City of Tualuma & Wastown Initial Planning Meetings	24	6	38	56	20	24	16	0	32	6	0	220	44,220	0	0	44,220
102 Review & Summarize City Effluent Data	8	0	4	0	0	6	3	0	0	0	0	18	4,204	0	0	4,204
103 Evaluate Impact of Peak Wet Weather Flow Facility	0	0	8	6	0	0	0	0	0	0	0	12	1,948	0	0	1,948
104 Summarize WastRock Reclaimed Water Needs	0	0	0	6	0	8	0	0	0	0	0	16	3,248	0	0	3,248
105 Summarize Reclaimed Water Standards	0	0	0	0	0	8	0	0	0	0	0	16	2,720	0	0	2,720
106 Review & Summarize Previous Outfall Studies	0	0	4	8	4	0	0	0	0	0	0	8	1,488	0	0	1,488
107 WastRock Removal Cost Estimate	8	0	0	0	8	0	8	0	16	0	0	40	3,088	0	0	3,088
108 Side Stream Treatment Cost Estimate	0	0	0	0	0	0	8	0	16	0	0	24	8,864	0	0	8,864
109 Develop Planning Assumptions	4	0	8	8	8	0	0	0	0	0	0	28	5,088	0	0	5,088
110 Draft & Final Planning Assumptions Tech Memo	4	6	12	12	0	2	0	0	0	6	0	42	5,984	0	0	5,984
200 Alternatives Development	16	12	64	64	44	44	52	164	0	12	0	472	82,972	0	0	82,972
201 Flow Characteristics & Storage Requirements	0	0	4	0	8	0	8	24	0	0	0	44	7,544	0	0	7,544
202 Transmission Pipeline Hydraulic Analysis	0	0	4	0	0	0	8	16	0	0	0	28	4,800	0	0	4,800
203 Evaluate Portland Avenue Transmission Main	4	0	16	0	0	0	0	12	0	0	0	32	6,644	0	0	6,644
204 Pipeline Routing Conflict Review and Transmission Main BOE	4	0	16	16	12	0	0	16	0	0	0	64	12,176	0	0	12,176
205 Pipeline Concepts for Potential Reclaimed Water Users	0	0	8	8	0	0	16	16	0	0	0	48	8,736	0	0	8,736
206 Reclaimed Water Alternative Process Flowsheets and Site Plans	0	0	0	0	16	40	16	80	0	0	0	152	24,704	0	0	24,704
207 Draft & Final Reclaimed Water Facility Alternatives Tech Memo	4	6	8	24	8	4	0	0	0	6	0	60	10,596	0	0	10,596
208 Draft & Final Transmission Pipeline Alternatives Tech Memo	4	6	8	16	0	0	4	0	0	6	0	44	7,772	0	0	7,772
300 Cost Estimating	4	2	16	8	0	0	0	0	80	6	0	116	24,348	0	0	24,348
301 Capital Cost Estimate	0	0	0	0	0	0	0	0	80	0	0	80	16,960	0	0	16,960
302 Draft & Final Capital Cost Estimate Tech Memo	4	2	16	8	0	0	0	0	0	6	0	36	7,388	0	0	7,388
400 BCE Development	16	4	40	24	80	20	0	44	0	6	0	234	45,624	0	0	45,624
401 Capital Costs for Each Alternative from Phase 300	0	0	0	0	0	0	0	8	0	0	0	8	1,048	0	0	1,048
402 Develop O&M Cost Estimates	0	0	0	0	0	16	0	12	0	0	0	28	4,548	0	0	4,548
403 Revenue Generated Placeholder	0	0	0	0	0	0	0	4	0	0	0	4	524	0	0	524
404 Develop R&R Cost Estimates	0	0	12	0	0	0	0	20	0	0	0	32	5,644	0	0	5,644
405 Assess Benefit Costs	0	0	0	0	20	0	0	0	0	0	0	20	4,240	0	0	4,240
406 Assess Risk Costs	4	0	0	0	20	0	0	0	0	0	0	24	5,280	0	0	5,280
407 Prepare Draft BOE	4	0	8	0	24	0	0	9	0	0	0	36	8,144	0	0	8,144
408 Develop Do Nothing Alternative Cost	0	0	4	0	4	0	0	0	0	0	0	8	1,856	0	0	1,856
409 Draft & Final BOE Tech Memo	8	4	16	24	12	4	0	0	0	6	0	74	14,340	0	0	14,340
500 Reporting	6	12	12	40	16	10	0	0	0	12	0	108	18,804	0	0	18,804
501 Draft Report	4	8	8	32	12	8	0	0	0	8	0	80	13,888	0	0	13,888
502 Final Report	2	4	4	8	4	2	0	0	0	4	0	28	4,916	0	0	4,916
600 Project Management	48	36	32	0	24	24	0	48	0	0	24	238	42,088	500	500	42,588
601 Project Management & Work Plan	16	6	8	0	0	0	0	16	0	0	0	46	8,752	500	500	9,252
602 Invoice & Status Reporting	16	32	16	0	0	0	0	32	0	0	24	104	13,576	0	0	13,576
603 QA/QC	16	0	24	0	24	24	0	0	0	0	0	88	19,760	0	0	19,760
700 Contingency	24	0	24	24	24	40	0	64	0	0	0	200	36,896	0	0	36,896
701 Contingency	24	0	24	24	24	40	0	64	0	0	0	200	36,896	0	0	36,896
GRAND TOTAL	138	74	224	216	208	162	68	320	112	42	24	1,588	294,952	500	500	295,452

Hours and Dollars are rounded to nearest whole number

AMENDMENT TO WATER SUPPLY AGREEMENT

THIS AMENDMENT TO WATER SUPPLY AGREEMENT ("Amendment") is made and entered into as of this ____ day of _____, 2020 ("Effective Date"), by and between **WESTROCK CP, LLC**, a Delaware limited liability company ("**WestRock**"), and the **CITY OF TACOMA**, a first-class charter city of the state of Washington for and on behalf of its Department of Public Utilities, Water Division ("**Tacoma**"). WestRock and Tacoma are individually referred to in this Amendment as a "**Party**" and are collectively referred to in this Amendment as the "**Parties**." This Amendment is made with reference to the following facts:

WHEREAS, on January 1, 2006, Simpson Tacoma Kraft Company, LLC, a limited liability company organized under the laws of the state of Washington ("**STKC**") and Tacoma entered into a Water Supply Agreement, wherein Tacoma agreed to sell and STKC agreed to purchase a water supply from Tacoma for certain STKC industrial operations (the "**Agreement**");

WHEREAS, WestRock is STKC's successor in interest in and under the Agreement and has guaranteed the payment obligations under the Agreement; and

WHEREAS, the Parties now desire to extend the term of the Agreement for a period of up to five (5) years.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants and conditions herein contained, the Parties agree as follows:

1. Effect of Amendment. This Amendment amends the Agreement in accordance with Section 17 of the Agreement. Except as otherwise specifically provided by this Amendment, the terms and conditions of the Agreement as of the Effective Date remain unchanged, as do the respective rights and obligations of the Parties arising under the Agreement, and in all respects the Agreement as of the Effective Date is and remains in full force and effect.

2. Section 9 Term of Agreement.

Section 9 of the Agreement is deleted. By this Amendment, Section 9 of the Agreement is replaced, amended and fully restated in its entirety as follows:

The term of this Agreement shall commence on the 1st day of August, 2005, and end on the 31st day of July, 2021, except as otherwise provided in the termination provisions set forth in sections 6, 11, 13 and 14 of this Agreement. On or before the anniversary of an expiration date, the term of this Agreement may be extended by mutual agreement of the parties for an additional one (1) year term, and if so extended, such one (1) year extension shall be set forth in a written amendment to this Agreement in accordance with Section

17 of the Agreement. In no event, however, shall the term of this Agreement be extended beyond July 31, 2025.

In all other respects, the Agreement as of the Effective Date, is unchanged and remains in full force and effect. The Parties have caused this Amendment to be executed and effective as of the Effective Date.

WESTROCK CP, LLC

By: _____
Print Name: _____
Print Title: _____

CITY OF TACOMA: Department of Public Utilities, Water Division

By: _____
Print Name: _____
Print Title: _____

**AMENDMENT NO. 1
TO CONTRACT BETWEEN ROCKTENN CP, LLC AND THE CITY OF TACOMA, AND
GUARANTEED BY WESTROCK COMPANY**

THIS AMENDMENT, made and entered into this 22 day of July, 2015, by and between the CITY OF TACOMA, a municipal corporation of the State of Washington (hereinafter referred to as the "CITY"), and ROCKTENN CP, LLC (hereinafter referred to as "ROCKTENN").

WITNESSTH

WHEREAS the City entered into a water supply contract with the Simpson Tacoma Kraft Company ("Simpson") to serve the Tacoma pulp and paper mill commencing on January 1, 2006, and ending on July 31, 2015, which includes an option for two five-year extensions ("Contract"), and

WHEREAS RockTenn, CP LLC, ("RockTenn"), a wholly owned subsidiary of WestRock Company, acquired substantially all of Simpson's Tacoma assets in 2014 and the Public Utility Board through resolution U-10686 consented to the assignment of the Contract from Simpson to RockTenn, and


WHEREAS Tacoma Water and RockTenn agree it is in the best interests of both parties to exercise the first option to extend the Contract by five-years.

NOW, THEREFORE, in consideration of the mutual promises and obligations hereinafter set forth, the parties agree as follows:

1. Pursuant to Section 9 of the Contract the term of the Contract is hereby extended by five-years and will expire, unless extended, July 31, 2020.
2. All other terms of the Contract shall remain in full force and effect, unaltered by this Amendment.


IN WITNESS WHEREOF the parties hereto have executed this Amendment as of the day and year first written above.

City Of Tacoma



William A. Gaines, CEO/Director
Department of Public Utilities

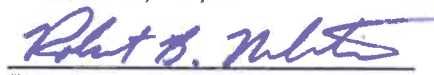
Approved:



Andrew Cherullo, Finance Director

LN

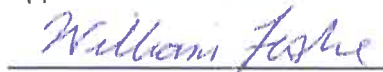
RockTenn, CP, LLC



By: _____
Printed Name: Robert McIntosh
Its: Executive Vice President

RCM

Approved as to form:



Deputy City Attorney

WESTROCK COMPANY GUARANTY

WestRock Company, parent company to RockTenn CP, LLC, hereby guarantees the payment obligations of RockTenn CP, LLC under the foregoing water supply Agreement between the City of Tacoma and RockTenn CP, LLC.

WESTROCK COMPANY,
Guarantor

By: [Signature]
Name: Stephen Meadows
Title: Chief Accounting Officer

RCM

Attest:

By: [Signature]
Name: Robert McIntosh
Title: V.P. General Counsel & Secretary

Acknowledged:

[Signature]
William A. Gaines,
Director of Utilities/ CEO



RECEIVED
JUL 21 2015
LEGAL DIV.

Bob Marshall
Senior Counsel
504 Thrasher Street
Norcross, GA 30071
Direct: 678.291.7174
bob.marshall@westrock.com

July 20, 2015

Via U.S. Mail

Bill Fosbre
Tacoma Public Utilities
P.O. Box 11007
Tacoma, WA 98411

Re: City of Tacoma – Amendment to Water Supply Agreement and Guaranty

Dear Mr. Fosbre,

Enclosed, please find two (2) originals of the above amendment that have been signed by a representative of RockTenn CP, LLC. Also enclosed are two (2) copies of the Guaranty by WestRock Company. Please have a representative of the City of Tacoma sign the originals and return one (1) original to my attention at the following address:

504 Thrasher Street
Norcross, Georgia 30071

Please feel free to contact me, if you have any other questions.

Sincerely,

Tracy Tobin on behalf of Robert C. Marshall

RCM/tit
Enclosures

Sean -
on the Guaranty
by Westrock, I
recommend you type:
Acknowledged:

William A. Graines, CEO/Dir
and have the director sign
both copies. - B



RESOLUTION NO. U-10006

1 WHEREAS the City of Tacoma, Department of Public Utilities, Water
2 Division (d.b.a. "Tacoma Water") has been supplying water service to the
3 Simpson Tacoma Kraft Company by means of contracts for water service for
4 a number of years, and the most recent twenty-year contract expires in
5 January 2007, and
6

7 WHEREAS Tacoma Water proposes a new ten-year contract for water
8 service to the Simpson Tacoma Kraft Company ("Simpson"), effective
9 January 1, 2006, that also includes an option for two five-year extensions with
10 the agreement of both parties, and
11

12 WHEREAS, the proposed contract includes rates that are six percent
13 higher than the current rates adopted by the Board and Council as compared
14 to the projected rates that are scheduled to begin in 2006, with rate increases
15 subsequent to 2006 for the term of the contract to be at the system average
16 for all Tacoma Water customers, and
17

18 WHEREAS there is a benefit to both Tacoma Water in being able to
19 reliably project the stream of revenue derived from the contract, and to
20 Simpson in being able to reliably project the rate structure for its water supply,
21 and
22

23 WHEREAS a copy of the proposed contract has been filed with the
24 Clerk of the Board, and it is in the best public interest to approve the proposed
25 contract with Simpson for water service, as further explained in the
26 memorandum from the Director of Utilities, dated September 30, 2005;



1 Now, Therefore,

2 BE IT RESOLVED BY THE PUBLIC UTILITY BOARD OF THE CITY OF TACOMA:

3 That the proposed contract between Tacoma Water and Simpson Kraft
4 Tacoma Company is hereby approved, and the Council is requested to concur
5 in this approval and authorize the appropriate officers of the City to execute
6 said agreement, substantially in the same form as that on file with the Clerk of
7 the Board and as approved by the City Attorney.
8
9

10 Approved as to form and legality:

Laura Fox
Chairman

12 Anne L. Spangler
13 Chief Assistant City Attorney

Robert Casey
Secretary

14 Elizabeth Larson
Clerk

Adopted October 12, 2005



RESOLUTION NO.

1 WHEREAS the City of Tacoma, Department of Public Utilities, Water
2 Division, (d.b.a. "Tacoma Water"), has been supplying water service to the
3 Simpson Tacoma Kraft Company ("Simpson") by means of contracts for water
4 service for a number of years, and the most recent 20-year contract expires in
5 January 2007, and

6 WHEREAS Tacoma Water proposes a new ten-year contract for water
7 service to the Simpson Tacoma Kraft Company, effective January 1, 2006,
8 that also includes an option for 2 five-year extensions with the agreement of
9 both parties, and

10 WHEREAS, the proposed contract includes rates that are 6 percent
11 higher than the current rates adopted by the Public Utilities Board and the City
12 Council as compared to the projected rates that are scheduled to begin in
13 2006, with rate increases subsequent to 2006 for the term of the contract to
14 be at the system average for all Tacoma Water customers, and

15 WHEREAS there is a benefit to both Tacoma Water in being able to
16 reliably project the stream of revenue derived from the contract and to
17 Simpson in being able to reliably project the rate structure for its water supply,
18 and

19 WHEREAS a copy of the proposed contract has been filed with the City
20 Clerk, and it is in the best public interest to approve the proposed contract
21 with Simpson for water service, as recommended by the Public Utilities Board;
22 Now, Therefore



BE IT RESOLVED BY THE COUNCIL OF THE CITY OF TACOMA:

That the proper officers of the City are hereby authorized to approve and execute the proposed contract between Tacoma Water and Simpson Kraft Tacoma Company, for the purposes hereinabove enumerated, said document to be substantially in the form of the proposed agreement on file in the office of the City Clerk.

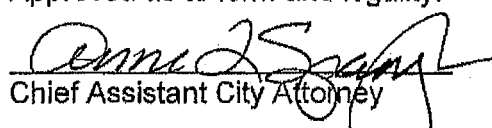
Passed: _____

Mayor

Attest:

City Clerk

Approved as to form and legality:



Chief Assistant City Attorney

Requested by Public Utility Board
Resolution No. U-10006

TACOMA PUBLIC UTILITIES
3628 South 35th Street
Tacoma, Washington 98409-3192

September 30, 2005

To the Chairman and Members of the Public Utility Board and
To the Mayor and Members of the City Council

U-

Tacoma Water requests your consideration of a ten year contract for water service to the Simpson Tacoma Kraft Company.

The proposed contract would become effective on January 1, 2006 and would supersede the contract currently in effect which is scheduled to expire on January 31, 2007. The proposed contract will meet a desire on the part of the Company to assure consistency in rate setting practices over the term of the new agreement and will meet the needs of Tacoma Water to better identify the stream of revenue which will be available from its single largest customer for the next ten years.

In addition to its original ten year term the proposed contract does allow for two contract extensions of five years each with the agreement of both contracting parties.

The operational aspects of the contract are nearly identical to the existing contract. However, some changes in structure to the contract have been implemented. The Company has made significant efforts since the drought of 1987 to reduce its water use. Water use by the Company is now about half of what it was prior to 1987. In addition, Tacoma has been advised that the Company has a goal of reducing its use by 3 mgd in the future. The current contract and previous contracts actually worked against the Company's conservation efforts by creating a disincentive to conservation through a take-or-pay requirement. The proposed contract would remove that disincentive to conservation.

Under the new contract Simpson may request a temporary downward nomination for any part of a calendar year if necessary to address business conditions. This temporary downward nomination would then not be factored into the automatic renomination, based on actual water use, which takes place at the beginning of each calendar year. Simpson could also request temporary or permanent upward revisions to its nominated use, both of which would be at the discretion of Tacoma Water.

The rates, which would take effect on January 1, 2006, would be six percent higher than the current rates adopted by the Board and Council, and scheduled to begin in 2006. Subsequent rate increases for the term of this contract would be at the system average for all Tacoma Water customers. Staff has evaluated the potential for changes in system operation or capital requirements to effect rates charged to Simpson to an extent greater



TACOMA
POWER



TACOMA
WATER



TACOMA
RAIL

Chairman and Members of the Public Utility Board
Mayor and Members of the City Council
September 30, 2005
Page 2

than the system average. There does not seem to be a significant potential for such an impact within the ten year term of the agreement.

Billing components under the new contract will include a distribution charge and a supply charge. The distribution charge will initially be \$42,880 per month for 2006. The initial supply charge in 2006 will be \$542.05 per Million gallons. Both of these charges will be escalated at the system average rate increase in future rate adjustments. Penalty rates for excessive use on both a daily and a monthly basis are included in the contract. This penalty rate is at the large volume rate per Tacoma's Water Rate Ordinance.

In summary, the proposed contract will represent a simplified and more easily understood water sales agreement with Tacoma Water's largest customer. This contract will effectively assure the recovery of Tacoma Water's costs to serve Simpson during the next ten year period and will provide the Company with the desired certainty in rate setting methodology which is necessary for its business planning.

It is recommended that the Public Utility Board and City Council take the necessary approving action.

Sincerely,

A handwritten signature in dark ink, appearing to read "Mark Crisson", written in a cursive style.

Mark Crisson
Director of Utilities

CONTRACT BETWEEN SIMPSON TACOMA KRAFT COMPANY, LLC AND THE
CITY OF TACOMA, DEPARTMENT OF PUBLIC UTILITIES,
AND GUARANTEED BY SIMPSON PAPER COMPANY

WATER SUPPLY AGREEMENT

THIS AGREEMENT, made and entered into this 1st day of January, 2006, by and between the City of Tacoma, a first-class charter city of the State of Washington, for and on behalf of its Department of Public Utilities, Water Division (hereinafter called the "Tacoma Water") and Simpson Tacoma Kraft Company, LLC, a limited liability company organized under the laws of the State of Washington (hereinafter called the "Company").

WITNESSETH:

That the parties hereto, for and in consideration of the mutual covenants herein contained, agree as follows:

1. Definitions

As used in this Agreement, the following words shall have the following meanings:

"Annual Contract Demand" shall mean the level of demand established pursuant to Section 3A.

"Board" shall mean the Public Utility Board of the City.

"Calendar day" shall mean any one twenty-four (24) hour period beginning and ending at 8:00 a.m. or such other 24 hour period mutually agreed upon to facilitate reading of meters.

"Calendar Year" shall mean any one year comprising calendar days beginning on January 1 and ending on December 31.

"City" shall mean the City of Tacoma, Washington, a municipal corporation organized under the laws of the State of Washington.

ORIGINAL

"Company" shall mean the Simpson Tacoma Kraft Company, LLC or any successor thereto.

"Company Monthly Bill" shall mean the monthly amount for which the Company is billed and which the Company agrees to pay pursuant to the provisions of Section 5.

"Contract Demand" shall mean that amount of water determined pursuant to the provisions of Section 3.

"Daily Excess Water Usage Charge" shall mean a charge imposed on the Company under Section 5 for water used daily which exceeds one hundred and nine percent (109%) of the Annual Contract Demand, the Interim Contract Demand or the Temporary Contract Demand, whichever is in effect, multiplied by the rate for Commercial and Industrial-Large Volume Service in effect at the time such excess water is taken by the Company.

"Distribution Charge" means the monthly charge imposed on the Company pursuant to Section 5 to recover all costs of distributing water to the Company under this Agreement such as administrative, general and overhead expenses, and excluding the costs of procuring the water supply which will be collected by the Supply Charge. The initial Distribution Charge is Forty Thousand Dollars (\$40,000.00) per month in 2005 and Forty-two Thousand Eight Hundred and Eighty Dollars (\$42,880.00) in 2006 and may be revised from time to time by the Board, consistent with the calculation set forth in Exhibit A.

"Interim Contract Demand" shall mean a temporary decrease to the level of the water supplied under this Agreement established pursuant to Section 3B(i).

"Monthly Excess Water Usage Charge" shall mean a charge imposed on the Company under Section 5 for water used during a month which exceeds the product of one hundred and three percent (103%) of the Contract Demand, the Interim

ORIGINAL

Contract Demand or the Temporary Contract Demand, whichever is in effect, and the number of days in the month, multiplied by the rate for Commercial and Industrial-Large Volume Service in effect at the time such excess water is taken by the Company.

"Superintendent" shall mean the Tacoma Water Superintendent of the Department of Public Utilities.

"Supply Charge" shall mean a charge per one hundred cubic feet of delivered water, imposed on the Company pursuant to Section 5 to cover the costs incurred to procure and provide water to the Company under this Agreement, and excluding the costs of distributing water to the Company under this Agreement collected by the Distribution Charge. The Supply Charge as of the effective date of this Agreement is \$0.3703752 per one hundred cubic feet of water in 2005 and \$0.3970441 per one hundred cubic feet of water in 2006, and may be revised from time to time by the Board, consistent with the calculation set forth in Exhibit A.

"System Development Charge" means the charge that is imposed to cover the costs of serving new water supply obligations, as established or revised from time to time by the Board and Tacoma City Council by ordinance. In establishing the System Development Charge applicable to the Company under this Agreement, all funds collected from the Company through the System Development Charge that are credited against capital investment will be credited against source, transmission and storage in the same proportions as set forth in Tacoma Water's then most recent System Development Charge study, notwithstanding how such funds are treated in Tacoma Water budget.

"Temporary Contract Demand" means a temporary increase in the amount of water supplied under this Agreement established pursuant to Section 3C(ii).

ORIGINAL
3

2. Sale and Delivery

Tacoma Water agrees to sell to the Company water of usable or potable quality from Tacoma Water's water system, and to deliver the same at the service connection located on Portland Avenue as now laid out in the City at a point approximately 1925 feet northerly from the northerly line of East 11th Street, at a reasonably constant uniform pressure of not less than eighty (80) pounds per square inch.

Nothing contained in this Agreement shall prohibit the Company from using nonpotable water, including, but not limited to, salt water or treated wastewater, in the operation of its plant.

3. Quantity of Water

The quantity of water to be supplied by Tacoma Water to the Company pursuant to this Agreement shall be sufficient to meet the requirements of the Company during the term of this Agreement. Except as provided in Section 3B(ii), however, Tacoma Water shall not be obligated to hold in reserve for or furnish to the Company an amount of water in excess of the Annual Contract Demand determined pursuant to this Section 3.

A. Annual Contract Demand

The Annual Contract Demand, as of the effective date of this Agreement through December 31, 2006, shall be twenty million (20,000,000) gallons of water in any one Calendar Day. Within fifteen (15) days after the end of each Calendar Year during the term of this Agreement, (beginning with Calendar Year 2007), Tacoma Water shall determine the average daily amount of water delivered to the Company pursuant to this Agreement for the Calendar Year just ended. In determining such average daily amounts of water, Tacoma Water shall exclude from the calculation water deliveries made when a Temporary or Interim Contract Demand was in

ORIGINAL

effect, or when deliveries were suspended pursuant to Section 5C(i) or (ii). If the average daily amount of water so determined by Tacoma Water either exceeds or is less than the Annual Contract Demand that was in effect during the preceding Calendar Year by five percent (5%) or more, then the Annual Contract Demand applicable to the Company for the Calendar Year in which such determination is made shall be the average daily amount of water (measured in millions of gallons per day) delivered to the Company in the preceding year pursuant to this Agreement, as determined by Tacoma Water pursuant to this Section 3A. Tacoma Water shall provide to the Company written notification of any revision to the Annual Contract Demand pursuant to this Section 3A, and if requested by the Company, an explanation of the calculation of the Annual Contract Demand. The Annual Contract Demand amount number when revised shall be rounded off to the nearest tenth of a million gallons.

B. Revisions to Annual Contract Demand during the Calendar Year

i. Request to Decrease Contract Demand

At any time during a Calendar Year, the Company may request that an Interim Contract Demand be established at a level lower than the then applicable Annual Contract Demand for any portion of such Calendar Year. Such request shall be made in writing, and shall state the reason for the request, the level of such Interim Contract Demand, the duration of the Interim Contract Demand and the date upon which such Interim Contract Demand would take effect. Such Interim Contract Demand shall require the written approval of the Tacoma Water Superintendent to take effect, which approval shall not be unreasonably withheld.

When an Interim Contract Demand expires and is no longer in effect, the Annual Contract Demand that was in

effect prior to the implementation of the Interim Contract Demand shall be reinstated.

ii. Request to Temporarily Increase Contract Demand

At any time during a Calendar Year, the Company may request that a Temporary Contract Demand be established at a level higher than the then applicable Annual Contract Demand by providing Tacoma Water a written request not later than ten (10) Calendar Days prior to the proposed effective date of the increased Contract Demand. The written request shall state the level of the Temporary Contract Demand and the proposed date upon which the Temporary Contract Demand will take effect. A request for a Temporary Contract Demand may extend for one or more Calendar Years, but no more than five (5) consecutive Calendar Years. Such Temporary Contract Demand increase shall only take effect if Tacoma Water reasonably in its sole discretion determines that it has adequate water supplies to provide the Company with the increased amount of water.

When the Temporary Contract Demand expires or is no longer in effect, then the Annual Contract Demand that was in effect prior to the Temporary Contract Demand shall be reinstated.

iii. Request to Permanently Increase Annual Contract Demand

At any time during a Calendar Year, the Company may make a written request for a permanent increase in the Annual Contract Demand. The written request shall state the level of the Annual Contract Demand sought by the Company, the date the increased Annual Contract Demand will take effect, and the reasons for the request. Such permanent increase in the Annual Contract Demand shall only take

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effect if Tacoma Water reasonably in its sole discretion determines that it has adequate water supplies to provide the Company with the increased amount of water.

C. System Development Charge and Revisions to
Annual Contract Demand

Any increase in the Annual Contract Demand pursuant to Sections 3A or 3B(iii) that results in an Annual Contract Demand that is equal to or less than 20 MGD, or which is equal to or less than an Annual Contract Demand for which the Company has previously paid a System Development Charge, shall not be subject to a System Development Charge. Any increase in the Annual Contract Demand pursuant to Sections 3A or 3B(iii) that is in excess of 20 MGD and which exceeds any prior Annual Contract Demand for which a System Development Charge has been paid shall be subject to the System Development Charge.

Any Temporary Contract Demand increase shall not be subject to the System Development Charge. Any decrease in the Annual Contract Demand, regardless of whether such decrease is pursuant to Sections 3A or 3B(i), shall not relieve the Company of its obligation, if any, to pay a previously imposed System Development Charge.

D. Availability of Water

i. Emergency and Insufficient Water

Tacoma Water's obligation to supply water to the Company pursuant to this agreement shall be limited in the event of an emergency or lack of sufficient water supply, which shall include all legally imposed limitations on Tacoma Water for withdrawal of water from the Green River and other sources. On the other hand, a lack of sufficient water supply shall not be deemed to exist until all reasonable steps have been taken to curtail all non-essential uses of water as contained in a draft or a

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final water curtailment plan, whichever is applicable, approved by the Board.

In the event of such emergency or in the event of lack of sufficient water supply after the Curtailment Plan has been approved as referenced above, Tacoma Water, upon giving notice as required by Section 8, may temporarily change, reduce, limit the time for, or discontinue the delivery of water to the Company. In the event that Tacoma Water determines that there is such a need to limit water availability, the Company shall be obligated to reduce its consumption of water to the extent required by a draft or final water curtailment plan, whichever is applicable, approved by the Board.

ii. Repairs, Extensions and Other Work

Subject to the notice provisions of Section 8, water service to the Company also may be temporarily interrupted by Tacoma Water for the purposes of repairing, extending, or performing other work necessary to the water system.

iii. Duration of Reduced Use

Tacoma Water shall use its best efforts to minimize the duration of any mandated reduced use period applicable to the Company.

iv. Coordination with Company

With regard to any change, reduction, limitation, discontinuance or interruption in water service, Tacoma Water shall take all steps practicable and reasonable in coordination with the Company to minimize the negative impacts upon Company operations.

v. No Liability for Damage

The Company shall indemnify and hold Tacoma Water harmless from any and all claims, actions, and judgments whatsoever arising out of this Agreement,

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including claims arising by reason of accident, injury or death caused to persons or property of any kind occurring by the fault or neglect of the Company, its officers, employees, agents, licensees, or invitees, unless caused by Tacoma Water's negligence.

4. Prohibition of Resale

Water provided to the Company pursuant to this agreement shall not be resold by the Company to any other person, company or entity.

5. Water Rates

A. Monthly Water Rate Charge

i. Company Monthly Bill

The Company agrees to pay a monthly water bill composed of a combination of the following charges, as applicable under subsection ii: The Distribution Charge, the Supply Charge, and any installment payment for the System Development Charge and the greater of any incurred Daily or Monthly Excess Water Usage charges. The Company monthly bill that is composed of these charges shall be billed monthly according to the charges incurred in the previous calendar month and the billed amount shall be paid to the City by the Company on or before the 10th of each month.

ii. Components of Company Monthly Bill

The Company monthly bill will be based on charges, the components of which are explained as follows:

(a) Distribution Charge. The monthly Distribution Charge is the then applicable Distribution Charge, calculated in accordance with Exhibit A and, except as provided in Section 5C, Sections 13 or 14, that the Company is obligated to pay in each month without regard to the amount of water delivered to the Company in such month.

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(b) Supply Charge. The monthly Supply Charge is the amount of water delivered to the Company in any month as metered multiplied by the then applicable Supply Charge per one hundred cubic feet of such water, provided, however, that the Supply Charge shall not be applicable to any amount of water during a month for which the Company pays either the Daily Excess Water Usage Charge or the Monthly Excess Water Usage Charge.

(c) System Development Charge. The monthly System Development Charge is any installment payment of the System Development Charge that is applicable pursuant to section 5B below.

(d) Daily Excess Water Usage Charge. The Company shall pay the Daily Excess Water Usage Charge when applicable, provided, however, that the Company shall not pay the Daily Excess Water Usage Charge in any month in which the Monthly Excess Water Usage Charge applicable to the Company exceeds the sum of the Daily Excess Water Usage Charges for such month.

(e) Monthly Excess Water Usage Charge. The Company shall pay the Monthly Excess Water usage Charge when applicable, provided, however, that the Company shall not pay the Monthly Excess Water Usage Charge in any month in which the sum of the Daily Excess Water Usage Charges applicable to the Company exceeds the Monthly Excess Water Usage Charge for such month.

B. System Development Charge

The System Development Charge is applied to increases in the Annual Contract Demand as set forth in Section 3C above. The initial billing of any System Development Charge applicable to the Company shall be billed separately, and shall set forth the amount of any lump sum payment of such System Development Charge, the calculation

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of the System Development Charge, including the water usage and the applicable charge, and any terms or installment arrangements that are available to the Company.

C. Reduction of Company Obligation to Pay

The Company shall only be obligated to pay a portion of the monthly Distribution Charge under this Agreement as calculated below and only for the following reasons:

i. Inability to Furnish Water or Electricity

When Tacoma Water is unable to furnish water in the Contract Demand amount required by this Agreement or Tacoma Power is unable to supply electricity for the Company's needs, in accordance with the agreement between Tacoma Power and the Company.

ii. Company Inability to Operate Plant-
Temporary Suspension of Rate.

When the Company is unable to operate its plant on account of acts of God, i.e., fire, flood, tornado, or earthquake, or on account of causes beyond the control of the Company, i.e., invasion by public enemy, insurrection or riot, bomb threats, strikes by unions other than those representing Company employees, acts of terrorism, government order to cease or curtail operation, but not including strikes or other labor problems by unions representing Company employees. The number of such periods of suspension pursuant to this Section 5C(ii) shall not be limited, provided that the total number of days of suspension during the term of this Agreement shall not exceed 180 days. If the sum of the number of days of suspension during the term hereof exceeds 180 days, then subsequent to the 180th day of suspension the obligation of the Company to pay the Distribution Charge shall resume as

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provided in Section 5 and 12 for the remainder of the term of this Agreement.

iii. Reduction of Obligation to Pay.

During any month in which the events set forth in Sections 5C(i) or (ii) above occur, and in the case of Section 5C(ii) when the 180 day suspension limit has not been exceeded, the Company shall only be obligated to pay the product of the applicable Distribution Charge for that month and a ratio calculated by dividing the sum of the number of days in the month that Company operations were not suspended pursuant to Sections 5C(i) or (ii) minus two days for plant shutdown and start-up, by the number of days in such month.

D. Ratesetting Procedures/Cost Adjustments

Subsequent to December 31, 2006, the Distribution Charge, the Supply Charge, the Daily Excess Water Usage Charge and the Monthly Excess Water Usage Charge may be adjusted at such times, in such manner, and in an amount proportional to the increase in the system wide average of the rates and charges of all other water users of Tacoma Water, as determined in accordance with Exhibit A. All adjustments to the foregoing charges shall be equal to system wide average rate increase or decrease adopted by the Utility Board for the projected rate period and shall be done in accordance with generally accepted ratesetting practices and contained in Tacoma Water's general water rate ordinance or ordinances.

Tacoma Water shall notify the Company in writing of Tacoma Water's intent to adjust rates and charges no later than one hundred twenty (120) days prior to the intended effective date of those adjustments. Tacoma Water will provide the Company with an opportunity to be heard by Tacoma Water staff on the proposed adjusted rates and

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charges prior to the scheduled passage of an amendatory ordinance by the Board and, upon the written request of the Company, the Company also may have an opportunity to be heard by the Chair of the Board or his or her designee from the Board which need not be limited to one person.

E. Equivalent Customer

If at any time during the term of this Agreement, Tacoma Water sells and delivers water of similar quantity, quality and reliability subject to substantially similar terms and conditions as set forth herein to another customer at a lesser price than the price then paid by the Company, the price charged to the Company for all water thereafter delivered by Tacoma Water hereunder shall be reduced to such lower price or prices.

6. Variations in Water Consumption

The Company, in taking deliveries of water hereunder, will limit variations in its water consumption to the fullest extent reasonably possible. In no event will the Company's rate of water consumption in any one hour be more than twenty-five (25%) percent above the Contract Demand.

It is not the intention of the parties hereto that inadvertent violations by the Company of the provisions of this Section or the violation thereof at infrequent intervals by the Company shall constitute a breach of the provisions of this Agreement that warrants termination or cancellation of the Agreement. However, persistent or repeated violations thereof by the Company shall be sufficient grounds for Tacoma Water's cancellation of this Agreement or, in the alternative, installation at the expense of the Company of appliances to regulate and restrict the flow of water to the amounts permitted under this Agreement, except that such cancellation of the Agreement or installation of appliances shall occur only

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after Tacoma Water's written demand to the Company to discontinue such violation and the passage of a reasonable period of time during which the Company shall be allowed to cure the violation.

7. Meters

Tacoma Water shall maintain any and all necessary meters for measuring the amount of water delivered by Tacoma Water to the Company hereunder. Tacoma Water at its option may locate or relocate any such meter or meters upon the property now owned or hereafter to be acquired by the Company adjacent to the approximate point of the service connection described in Section 2 hereof and with fence or other protection to be erected by Tacoma Water at or near the line of the Company's property. At all times and for all purposes in connection with this Agreement, both parties shall have free access to the other's meter or meters upon reasonable notice.

8. Notice of Down Times and Interruptions

The Company and Tacoma Water shall insofar as reasonably practicable each give the other thirty (30) days' notice of the dates and anticipated duration of any maintenance, shut downs, or operations that will affect the delivery or use of water provided for in this Agreement. The parties recognize that emergencies or other operating interruptions may reduce or even eliminate the ability of a party to give notice as provided herein; in such event, the parties shall provide such notice as circumstances then reasonably allow. The parties will consult and coordinate to minimize down times and interruptions of service hereunder. Tacoma Water recognizes that the Company usually takes one to two major outages per Calendar Year, and will make reasonable efforts to schedule its down times at the same time as the Company outages.

9. Term of Agreement

The term of this Agreement shall commence on the 1st day of August, 2005 and end on the 31st day of July, 2015, except as otherwise provided in the termination provisions set forth in Sections 6, 11, 13 and 14 of this Agreement. This term may be extended with mutual consent of both parties for two (2) five (5) year increments as follows: extension #1 - August 1, 2015 through July 31, 2020; and extension #2 - August 1, 2020 through July 31, 2025.

10. Rules and Regulations

The sale of water hereunder shall be subject to all of the provisions of the City Charter, including rate review and adjustment at 5-year intervals, and to the extent not inconsistent with this Agreement, all of the Water Rates and Regulations of Tacoma Water, codified in Title 12 of the Tacoma Municipal Code, as may hereafter be amended, concerning temporary interruptions of service, cut-off, lien for charges, and all other matters now or hereafter prescribed by general ordinance of the City relating hereto, and including the City's draft or final water curtailment plan approved by the Board. Said lien for charges shall be enforceable by termination of service and by any other means of recovery available by law to Tacoma Water, and shall extend to the faithful performance of all the terms and conditions hereof.

11. Termination of City's Obligations

Should the Company default in any payment as herein provided, strictly within the time as herein provided for, or should the Company default in the performance of any of the terms and conditions hereof, or should this Agreement be assigned by the Company without the consent and approval of the Superintendent, Tacoma Water may thereupon at its option terminate its obligations under this Agreement, and all

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rights of the Company hereunder shall thereupon immediately cease and terminate; provided, however, that no default in the Company's performance shall occur until the Company is first given written notice of the default and is then unable to cure such default within thirty (30) days of such notice or if applicable, such other period of longer time as is provided for in Section 6 of this Agreement.

12. Company's Plant Closure

In the event that the Company permanently ceases to operate or permanently closes its plant, so long as this Agreement remains in effect, the City and the Company agree that the City's damages from the plant closure are equal to the amount of the Distribution Charge for the remaining term of this Agreement.

As reasonable and customary liquidated damages, the Company agrees that its obligation to pay the Distribution Charge under this Agreement shall continue even in the event that the Company waives in writing its rights to the water described in Sections 2 and 3 of this Agreement. However, upon such waiver by the Company, the City shall have the right to reallocate fixed assets and/or to sell water to others which it has otherwise reserved to the Company under this agreement and, to the extent that the City determines these assets and/or water previously held in reserve for the Company under this agreement has been beneficially redistributed, the Distribution Charge shall be reduced by the amount of such beneficial redistribution (i.e. a 50% beneficial redistribution results in a 50% reduction in the Company's Distribution Charge obligation).

The annual adjustment to the Distribution Charge will be discontinued immediately upon the City receiving written notice by the Company waiving in writing its rights to the water described in Sections 2 and 3 of this Agreement.

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13. Tacoma Water's Exclusive Right to Terminate Agreement

Tacoma Water may, upon the recommendation of nationally recognized bond counsel, terminate this entire Agreement if it determines that such Agreement results in the following:

i. Tacoma Water's inability to maintain existing or issue new bonds for its water utility the interest on which is exempt from federal income taxation; or

ii. An issuance of such bonds being unreasonably burdensome or costly as a result of application of provisions of the federal tax statutes or regulations. The above powers granted to Tacoma Water are exclusive, absolute, and solely within its discretion; provided, however, that if bonds, the interest on which is exempt from federal income taxation, are not issued by Tacoma Water within 180 days of such termination, then if agreed by the Company, this Agreement shall be reinstated as if such termination had not taken place and an adjustment, if necessary, will be made to apply the Supply Charge of this Agreement retroactively to the date of termination.

In the event of such termination, and in the absence of any further reinstatement, neither party shall have any further obligation hereunder except that the Company shall be obligated to pay any and all bills whenever issued for service provided hereunder prior to such termination.

14. Termination By The Company

A Federal or state legislative action, legislative action by the Tacoma City Council, or regulatory action that renders it impossible for the Company to continue to operate its kraft mill in Tacoma, Washington (the "Simpson Tacoma Kraft mill") will constitute a regulatory force majeure event. In the event that the Company believes that a regulatory force majeure has occurred, the Company may

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provide Tacoma Water with a written request to terminate this Agreement, which notice shall set forth the facts and circumstances that the Company believes constitutes the regulatory force majeure event, and the proposed date of termination. If Tacoma Water reasonably determines that a regulatory force majeure event has occurred, it shall approve the requested termination. If Tacoma Water reasonably determines that a regulatory force majeure event has not occurred, then Tacoma Water shall disapprove the requested termination, and the Agreement shall remain in full force and effect.

15. Conservation of Water

Both parties are committed to conserving water at the Simpson Tacoma Kraft mill, and seek to implement water conservation programs that will reduce water consumption at the Simpson Tacoma Kraft mill. In order to achieve this joint goal, Tacoma Water may make good faith efforts to facilitate funding for water conservation programs that can be implemented at the Simpson Tacoma Kraft mill, including without limitation multiple party transactions. Such good faith efforts may include making available capacity on Tacoma Water's transmission system to facilitate water exchanges in support of such conservation efforts. The Company in good faith may consider and implement water conservation programs that are facilitated by Tacoma Water.

If as a result of the successful installation of such conservation measures pursuant to such water conservation agreement between the parties, or other water conservation measures implemented by the Company, the Annual Contract Demand is reduced pursuant to Section 3(A), then at the same time the Company may suggest a revision to the percentages of Contract Demand that trigger the imposition of the Daily and Monthly Excess Water Usage Charges (at the date of

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execution, one hundred and nine percent (109%) and one hundred and three percent (103%) of the Contract Demand, respectively). The decision as to whether the recommended changes to such percentages should be implemented shall be at the sole discretion of Tacoma Water.

16. Conservation Program Development

When developing water conservation programs, Tacoma Water will notify the Company of program components relative to the Company's interests, and will provide the Company with the opportunity to provide proposals that will reduce water consumption at the Simpson Tacoma Kraft mill. All water conservation proposals submitted to Tacoma Water, including water conservation proposals submitted by the Company, will be evaluated using the same evaluation criteria, which shall include but will not be limited to cost effectiveness, quantity of water to be saved, and seasonal characteristics of the water conserved, among other matters. This Section 16 does not obligate Tacoma Water to undertake any particular level of water conservation, and all decisions relating to the scale, scope, need for and efficacy of any particular water conservation program or programs will be determined at the sole discretion of Tacoma Water and the Board.

17. Amendments

No change, amendment or modification of any provision of this Agreement shall be valid unless set forth in a written amendment to this Agreement signed by the parties.

Upon any revision by Tacoma Water to the Supply Charge imposed on the Company pursuant to Section 5 above, the parties shall execute an amendment revising Section 5 to reflect such Supply Charge as adopted by the City Council, prior to the date the revised Supply Charge takes effect.

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18. Right to Transfer

The Company may transfer its obligation to perform this Agreement to a subsequent purchaser of the Company or substantially all of the assets of the Company with the consent and approval by resolution of the Board.

IN WITNESS WHEREOF, the parties hereto have signed this agreement by their officers "hereunto duly authorized, the day and year first hereinabove written.

CITY OF TACOMA

SIMPSON TACOMA KRAFT COMPANY,
LLC

By Mark Crisson
Mark Crisson
Director of Utilities,
City of Tacoma

By R.P. Tennison
R.P. Tennison
Title: President

By John C. Kirner
John Kirner
Tacoma Water Superintendent

Attest:
By Joseph R. Reed
Secretary

Approved as to form and legality:

Ann S. [Signature]

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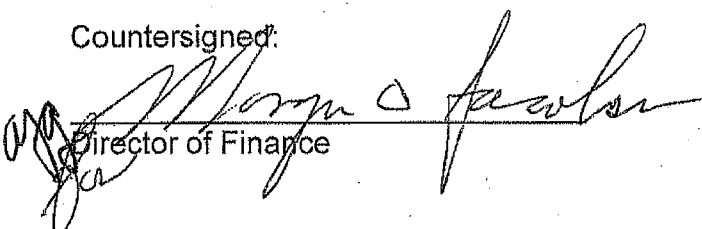
IN WITNESS WHEREOF the parties have executed this Agreement as of the day and year first above written.

CITY OF TACOMA:



City Manager

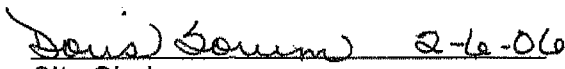
Countersigned:



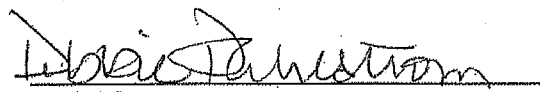
Director of Finance

pls. see previous page
Requesting Department Director (Tacoma Water)

Attest:



City Clerk



Risk Manager

Approved as to form and legality:

pls. see previous page
Legal Contact

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SIMPSON PAPER COMPANY GUARANTY

Simpson Paper Company, parent company to Simpson Tacoma Kraft Company, LLC, hereby guarantees the payment obligations of Simpson Tacoma Kraft Company, LLC under the foregoing water supply Agreement between the City of Tacoma and Simpson Tacoma Kraft Company, LLC.

SIMPSON PAPER COMPANY,
Guarantor

By R.P. Tennison
Name R.P. Tennison
Title: President

Attest:

By Joseph R. Breed
Name Joseph R. Breed
Title: Secretary

ORIGINAL

EXHIBIT A
Distribution Charge and Supply Charge Calculations
Rate Adjustment Procedures

1. Introduction

The parties to this Agreement believe that because of the duration of this Agreement it is important to identify the methodologies to be used to adjust the Distribution Charge and Supply Charge during the term of this Agreement. The language below and the attachments hereto provide the source of the costs and the methodology to be used to revise the Distribution Charge and the Supply Charge during the term of the Agreement.

2. Distribution Charge

The Distribution Charge will be revised at the same time and in an amount equal to the system wide average rate adjustment adopted by the City Council in the general rate proceeding for the customers of Tacoma Water. The system wide average rate adjustment will be determined as a percentage calculated as: the system wide rate revenue increase resulting from the adopted rate revision divided by the corresponding system wide rate revenue absent such adopted increase. A sample calculation using actual numbers is shown below.

Total System Wide Rate Revenues	\$80,000,000	(A)
Adopted Rate Increase	\$10,000,000	(B)
System wide Average Rate Adjustment	12.5%	(C=B/A)
Simpson Distribution Charge	\$40,000	(D)
Simpson Distribution Charge Revision	\$5,000	(E=D*C)
Revised Simpson Distribution Charge	\$45,000	(F=D+E)

3. Calculation of the Initial Distribution Charge

The initial Distribution Charge of \$40,000 per month is applicable on the effective date of this Agreement through 2005. In 2006 the Distribution Charge will be \$42,880 per month.

4. Supply Charge

The Supply Charge will be revised at the same time and in an amount equal to the system wide average rate adjustment adopted by the City Council in the general rate proceeding for the customers of Tacoma Water. The system wide average rate adjustment will be determined as a percentage calculated as: the system wide rate revenue increase resulting from the adopted rate revision divided by the corresponding system wide rate revenue absent such adopted increase. A sample calculation using actual numbers is shown below.

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Total System Wide Rate Revenues	\$80,000,000	(A)
Adopted Rate Increase	\$10,000,000	(B)
System wide Average Rate Adjustment	12.5%	(C=B/A)
Simpson Supply Charge	\$0.385 per CCF	(D)
Simpson Supply Charge Revision	\$0.048 per CCF	(E=D*C)
Revised Simpson Supply Charge	\$0.433 per CCF	(F=D+E)

5. Calculation of the Initial Supply Charge

The initial Supply Charge of \$0.3703752 per CCF is applicable on the effective date of this Agreement through 2005. In 2006 the Supply Charge will be \$0.3970441 per CCF.

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RESOLUTION NO. U-10784

1 A RESOLUTION relating to Tacoma Water; approving a five-year extension of
2 the RockTenn water supply contract, amending and revising Tacoma
3 Municipal Code 12.10.400 water regulation and rates.

4 WHEREAS Board Resolution U-10006 and City Council Resolution
5 No. 36675 authorized the City of Tacoma, Department of Public Utilities, Water
6 Division (d.b.a. "Tacoma Water") to enter into a water supply contract with the
7 Simpson Tacoma Kraft Company ("Simpson") to serve the Tacoma pulp and
8 paper mill commencing on January 1, 2006, and ending on July 31, 2015, which
9 includes an option for two five-year extensions ("Agreement"), and

10 WHEREAS RockTenn, CP LLC, ("RockTenn"), a wholly owned
11 subsidiary of Rock-Tenn Company, acquired substantially all of Simpson's
12 assets through a 2014 purchase agreement, and the Public Utility Board
13 through resolution U-10686 consented to the assignment of the Agreement
14 from Simpson to RockTenn, and

15 WHEREAS the former Simpson pulp and paper mill has undergone two
16 significant ownership changes in the past year, first with the purchase of the mill
17 from Simpson by RockTenn in May of 2014, and then with the pending merger
18 of RockTenn with MeadWestvaco that was announced in January of 2015,
19 which will ultimately result in the formation of a new company named
20 WestRock, and

21 WHEREAS, pursuant to Section 9 of the Agreement, Tacoma Water and
22 RockTenn are requesting the Agreement be extended for an additional five
23 years through July 31, 2020, and
24
25
26



1 WHEREAS there is a benefit to both Tacoma Water, in being able to
2 reliably project the stream of revenue derived from the Agreement, and to
3 RockTenn (soon to be WestRock) to develop a clearer picture of the future
4 water supply needs of the Tacoma mill as it works to integrate the mill into its
5 multi-national portfolio of mills and develops an approach to comply with new
6 federal regulatory requirements affecting its saltwater intakes in
7 Commencement Bay, and

8 WHEREAS revisions and amendments to the current water rates and
9 regulations ordinance are necessary to implement the extension of the
10 Agreement; Now, therefore,

11 BE IT RESOLVED BY THE PUBLIC UTILITY BOARD OF THE CITY OF TACOMA:

12 Sec. 1. Tacoma Water's request to extend the water supply Agreement
13 with RockTenn, pursuant to section 9 of the Agreement, by five years through
14 July 31, 2020, is approved and the appropriate officers of the City are
15 authorized to execute an extension of the Agreement with the final form to be
16 approved by the City Attorney.
17

18 Sec. 2. The proposed revisions to Tacoma Water's regulations, rates and
19 charges necessary to implement the extension of the Agreement are hereby
20 approved, and the Council of the City of Tacoma is requested to pass an
21 ordinance approving such revisions by amending Tacoma Municipal Code
22 section 12.10.400, as set forth in the attached Exhibit "A" substantially in the
23 form as on file with the Clerk of the Board with the final form to be approved by
24 the City Attorney, where the expiration date associated with the current rates
25
26



and charges will be removed and new rates and charges will be imposed
January 1, 2016.

Approved as to form and legality:

William C. Foster
Chief Deputy City Attorney

Charleen Jacobs
Clerk

William C. Foster
Chair

[Signature]
Secretary

Adopted 6-17-15

Request for Board meeting

CITY OF TACOMA
DEPARTMENT OF PUBLIC UTILITIES

of June 10, 2014

REQUEST FOR RESOLUTION

Date: June 1, 2015

INSTRUCTIONS: File request in the Office of the Director of Utilities as soon as possible but not later than nine working days prior to the Board meeting at which it is to be introduced. Completion instructions are contained in Administrative Policy POL-104.

1. Summary title for Utility Board agenda: (not to exceed twenty-five words)

5-year extension of RockTenn water supply agreement and adoption of rates that are in accordance with that agreement.

2. A resolution is requested to: (brief description of action to be taken, by whom, where, cost, etc.)

Extend the term of the water supply agreement with the RockTenn pulp and paper mill from July 31, 2015 to July 31, 2020 and adopt rates that extend existing rates in section 12.10.400.I through December 31, 2015, and then increase those rates by 4.0% on January 1, 2016.

3. Summarized reason for resolution:

The purpose of this resolution is to utilize one of the options in the existing water supply agreement with RockTenn to extend the term of that agreement by 5 years in order to provide time for the mill to comprehensively evaluate its water supply needs in the context of recent ownership transitions and pending federal regulations. In accordance with that agreement, this resolution seeks to implement rate adjustments that operate in accordance with that extended agreement. Those rate adjustments will continue to be made according to the "system average." The first of these adjustments has already been made for 2015 through July 31, 2015, and so this rate simply needs to be extended through the remainder of 2015. A 4.0% rate adjustment, effective January 1, 2016 needs to be incorporated into section 12.10.400.I of the Tacoma Municipal Code.

4. Attachments:

- a. Letter to Public Utility Board from William Gaines dated June 1, 2015.
- b. RockTenn Water Supply Agreement (on file with Clerk of the Board).

5. ☐ Funds available ☒ Proposed action has no budgetary impact

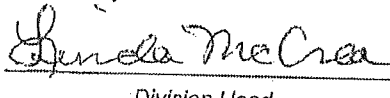
6. Deviations requiring special waivers: None

Originated by:



Section Head

Requested by:



Division Head

Approved:



Director of Utilities



TO: Mayor and City Council
FROM: William A. Gaines, Director of Utilities/CEO *W. A. Gaines*
COPY: T. C. Broadnax, City Manager and City Clerk
SUBJECT: Amend Tacoma Municipal Code Chapter 12.10.400.I- July 7, 2015
DATE: June 1, 2015

SUMMARY:

The purpose of this memo is to request approval by the City Council of water rate adjustments for the RockTenn pulp and paper mill in support of an extended agreement with RockTenn that is being considered by the Public Utility Board on June 17, 2015. These rate adjustments would extend effective rates beyond their current July 31, 2015 end date, and would schedule a rate adjustment of 4.0% on January 1, 2016.

STRATEGIC POLICY PRIORITY:

This water supply agreement encourages and promotes an efficient and effective government, which is fiscally sustainable and guided by engaged residents. In working collaboratively with RockTenn to better understand their future water supply needs, we can continue to foster an active business dialogue with one of the City's most important employers, and work towards providing for their business needs in a financial and economically sustainable manner.

BACKGROUND:

On March 17, 2015, the City Council adopted water rate adjustments that went into effect on April 1, 2015 for all customers served by Tacoma Water. While these rate increases included an 8.3% rate adjustment for the RockTenn pulp and paper mill, the resulting rates paid by the mill were scheduled to terminate after July 31, 2015, after which both Tacoma Water and RockTenn staff expected to have a renegotiated agreement in place.

Over the period of time during which Tacoma Water was engaged with mill staff in discussions about a renegotiated water supply agreement, the mill has undergone two ownership changes – RockTenn purchased the Simpson Tacoma Kraft mill in May of 2014, and in January of 2015 a merger between RockTenn and MeadWestvaco was announced and is currently pending. Also in May of 2014, The U.S. Environmental Protection Agency announced new regulatory standards affecting cooling water intakes, which could significantly affect the mill's two existing saltwater intakes in Commencement Bay.

Due to these significant transitions and associated unknowns, time is required to better understand the future water supply needs of the mill. Staff members from Tacoma Water and RockTenn have reached conceptual understanding on an extension of the existing water supply agreement that will enable the parties to collaboratively develop solutions to the mill's future water supply needs in a manner that accounts for their joint environmental and financial sustainability objectives. This extension will be considered by the Public Utility Board at its June 17, 2015 meeting, and, if approved, would require commensurate extension of the pricing provisions contained in that agreement.

RockTenn is currently Tacoma Water's largest customer, generating \$5.8 million, or 8.3% of total service revenues, on water sales of 16.6 million gallons per day in 2014.

ISSUE:

RockTenn's water supply agreement contains provisions that adjust the rates paid by the mill according to the "system average" rate increase paid by all other customer classes on the water system. In the event



that these rate adjustments are not made, Tacoma Water would be in default according to the terms of that agreement.

ALTERNATIVES:

There is only one alternative that allows Tacoma Water to comply with the terms of the water supply agreement, and that is to extend currently effective rates beyond July 31, 2015 until January 1, 2016, at which time they will increase by 4.0%, a rate increase structure that is provided for by the agreement.

RECOMMENDATION:

Tacoma Water recommends that the City Council adopt rates that adjust according to the RockTenn water supply agreement, which will extend the rates currently in effect until January 1, 2016, at which time those rates will be increased by 4.0%, or the "system average" of rate increases for all other customer classes at that time.

FISCAL IMPACT:

There is no fiscal impact.



TACOMA PUBLIC UTILITIES
3628 South 35th Street
Tacoma, Washington 98409-3192

June 2, 2015

To the Chair and Members of the Public Utility Board

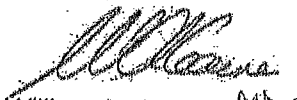
Tacoma Water requests approval by the Public Utility Board to extend the term of the existing water supply agreement with the RockTenn pulp and paper mill for a period of five years beyond the current term, through July 31, 2020, and adopt rates that extend beyond the term of the existing agreement in support of that extension. This extension is enabled by the existing agreement, which includes provisions for up to two five-year extensions upon the mutual agreement of the parties.

The RockTenn pulp and paper mill has undergone two significant ownership changes in the past year, first with the purchase of the mill from Simpson by RockTenn in May of 2014, and then with the pending merger of RockTenn with MeadWestvaco that was announced in January of 2015, which will ultimately result in the formation of a new company named WestRock. The proposed extension would allow WestRock to develop a clearer picture of the future water supply needs of the Tacoma mill, as the company works to integrate the mill into its multi-national portfolio of mills and develops an approach to comply with new federal regulatory requirements affecting its saltwater intakes in Commencement Bay.

During this period of time, the parties are committed to working in good faith towards a renegotiated agreement, and to that end have developed a joint letter agreement that specifies certain milestones related to information exchange that must be achieved by both parties during the period of the extension.

The RockTenn pulp and paper mill is Tacoma Water's largest customer. The mill paid \$5.8 million for 16.6 million gallons per day of water in 2014. That represents 8.3% of Tacoma Water's service revenues, and nearly 33% of all water deliveries by volume.

Sincerely,


William A. Gaines
Director of Utilities/CEO

Attachments:
RockTenn Water Supply Agreement
Tacoma Municipal Code 12.10.400 I



EXHIBIT A

Amending Tacoma Municipal Code (TMC) Section 12.10.400 I

~~TMC 12.10.400 I. Simpson-Tacoma-Kraft Company/RockTenn Contract. The rates, terms, and conditions in the contract between the City and Simpson-Tacoma-Kraft Company/RockTenn CP, LLC ("RockTenn"), formally assigned to RockTenn CP, LLC ("RockTenn") on May 16, 2014, are applicable, except as modified by this section. The current assigned contract with RockTenn expires on July 31, 2015, and in the absence of a revised or extended contract after this date, the rate applicable to RockTenn will be the Commercial and Industrial - Large Volume rate schedule as described herein.~~

For a nominated contract demand, the water rate will be based on a monthly distribution charge and the daily supply charge. If the monthly water use exceeds 103% of the contract demand or the daily water use exceeds 109% of the contract demand, an excess water usage charge will be applied. The excess water usage charge will be either the daily excess water use charge or the monthly excess water use charge, whichever is greater.

1. Water use within the range of contract demand plus 3 percent: The charge will consist of a monthly distribution charge and daily supply charge per ccf metered as stated below.
2. Daily water use greater than one hundred and nine percent (109%) of the contract demand: The charge will consist of a monthly distribution charge, daily supply charge, plus a Daily Excess Water Usage Charge (based upon the commercial and industrial-large volume rate) for water metered daily in excess of the contract demand plus 9 percent as stated below.
3. Monthly water use greater than one hundred and three percent (103%) of the contract demand: The charge will consist of a monthly distribution charge, daily supply charge, plus a Monthly Excess Water Usage Charge (based on the commercial and industrial-large volume rate) for water metered during a month in excess of the contract demand plus 3 percent, as stated in the following table.

Billing Components	Commencing	
	4/1/15-7/31/15	1/1/16
Distribution Charge per Month	\$71,377.26	\$74,232.35
Supply Charge/CCF	\$0.6609151	\$0.6873517
Daily or Monthly Excess Water Usage Charge (Commercial and Industrial - Large Volume Rate) per CCF	\$1.510	\$1.557

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4. The Superintendent is hereby authorized to execute a contract with RockTenn to provide additional terms and conditions of service and other provisions consistent with this ordinance.