

Agenda Item Information:

May 23 - Finance & Administrative Services Committee (Item #3)

May 28 - City Council Agenda (Item #19)

Department/Division: Utilities Dept. - Water Pollution Control Division

Presenter: Steve Hershner

Description of Agenda Item: Purchases, contracts and agreements

Resolution establishing special rate incentive provided by the Utilities Department – Water Pollution Control (WPC) Division for the International Paper Company (IP) facility located at 4600 C Street SW, to ensure discharge of Cedar Rapids Mill effluent wastewater to City of Cedar Rapids anaerobic pretreatment facility from FY19 through FY22 and authorizing City Manager signature.

Background: Chapter 13, Section 13.17 (Service Charges) of the Municipal Code stipulates that the City Council by resolution may establish special rates for services furnished by the Utilities Department – Water Pollution Control Division. For Group III users, these special rates provided in contractual treatment agreements shall be determined by an equivalent method that also includes consideration of additional economic factors, such as the amenability of source wastewater to anaerobic treatment (UASB – Upflow Anaerobic Sludge Blanket), production of methane gas, and the cost of wastewater pretreatment prior to discharge into a UASB treatment process. These special rates have also been used for a variety of purposes including, economic development incentives, administration of unusual wastewater characteristics, and treatment capacity management.

The incentive would be subject to conditions related to Tier 1 - Biogas Production (wastewater strength) and Tier 2 Flow Optimization (consistent flow range). This agreement was created to provide a mechanism so that International Paper Company had an incentive to contractually commit to discharging their wastewater to WPC. The agreement benefits all WPC customer classes by optimizing methane production from existing anaerobic treatment facilities, lowering natural gas purchases, and minimizing costs from generating and handling secondary solids. WPC uses natural gas and methane produced from anaerobic onsite treatment in our multiple hearth sludge incinerator and steam boilers used to support various solids handling operations.

Tier 1 incentive, if all waste strength conditions are met, would total \$1,640,000, and Tier 2 incentive, if all flow optimization conditions are met, would total \$410,500. Total possible incentive at the end of contract period (FY22), if all conditions are met, would be \$2,050,500.

WPC annual average natural gas expenditures range from \$684,000/year (FY19 YTD) to \$932,000 (FY15) and have averaged \$805,000/year from FY15 to FY19 (projected).

WPC expects to reduce natural gas purchases because consistent effluent strength and flow from IP will optimize WPC methane production and lower natural gas expenditures. Annual savings in natural gas costs are dependent on market prices, and based on recent prices could range from \$267,087/year (05/22/19 price - \$2.60/MMBTU) to \$462,265/year (December 2018 - \$4.50/MMBTU). Based on these examples over the four year incentive period (FY19 – FY22),

total savings in reduced natural gas purchases could range from \$1,068,000 to \$1,849,000, which offsets a substantial portion of the incentive cost.

There are additional benefits and reduced costs to WPC that are more difficult to quantify through reduced production of secondary solids when more IP effluent is diverted through anaerobic treatment rather than conventional activated sludge treatment.

Action / Recommendation: The Utilities Department – Water Pollution Control Division recommends that this resolution providing International Paper Company with a special rate incentive that will be applied for no more than four years (FY19 to FY22).

Alternative Recommendation (if applicable): There is no alternative recommendation but an alternative action is that the City Council could decide not to approve the special rate for this customer of Utility services.

Time Sensitivity: FY19 portion of the incentive would be provided by offsetting some portion of invoiced monthly charges no later than July 31, 2019.