

ADEQ  
AIR QUALITY DIVISION  
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CTS 174655



Catalyst Paper (Snowflake) Inc.  
Spur 277 North  
P.O. Box 128  
Snowflake, AZ 85937

Tel: 928 536 4314  
Fax: 928 536 9436

June 15, 2009

Arizona Department of Environmental Quality  
Air Quality Permits Section, Air Quality Division  
1110 West Washington Street  
Phoenix, Arizona 85007  
Attn: Trevor Baggiore, Manager

Dear Mr. Baggiore:

This letter is in response to your request for additional clarification of the BART proposal for the Power Boiler #2 submitted to your office on January 17, 2008. ADEQ requested additional clarification for the following:

1. Section 3.1.1.5 of the proposal states that low NO<sub>x</sub> burners (LNB) and over fired air (OFA) have the potential to increase the carbon content of the fly ash and may render it unsalable. The loss of the flyash revenue and the cost of flyash disposal is a \$3.1 million annual cost in the analysis of LNB and OFA. Please provide supporting information to justify this cost including proof that the fly ash is currently sold.
2. Please justify the use of a 10.5% interest rate in the economic analysis.

CH2MHill prepared the Catalyst Mill original BART submittal. CH2MHill was asked to clarify the issues ADEQ raised in their letter dated 05/04/2009. I have enclosed a copy of a Technical Memorandum from CH2MHill dated 06/05/2009. I believe this memo addresses both issue 1 and 2 with the exception of the proof of fly ash sales. I have enclosed a copy of the signature pages and the "Fly Ash Sales Agreement Term Renewal" letter that runs through the period ending September 30, 2009. This contract is renewed annually.

Trevor Baggione  
June 15, 2009  
Page 2

Please feel free to telephone me at 928 536-9462, FAX 928 536-9469, or email at [Fred.Mollenhauer@CatalystPaper.com](mailto:Fred.Mollenhauer@CatalystPaper.com) if you have any questions on this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read "Fred Mollenhauer".

Fred Mollenhauer  
Senior Environmental Engineer

cc: J. McKee  
File

## Catalyst Paper BART Analysis Response to ADEQ Questions

PREPARED FOR: Fred Mollenhauer/Catalyst Paper  
PREPARED BY: Gordon Schott/CH2M HILL  
Don Caniparoli/CH2M HILL  
DATE: June 5, 2009

This technical memorandum was prepared in response to questions from the Arizona Department of Environmental Quality, which are listed in their letter correspondence to Catalyst Paper Inc. dated May 4, 2009.

### **ADEQ Question 1:**

*"Section 3.1.1.5 of the proposal states that low NO<sub>x</sub> burners (LNB) and over fired air (OFA) have the potential to increase the carbon content of the fly ash and may render it unsalable. The loss of the fly ash revenue and the cost of fly ash disposal is a \$3.1 million annual cost in the analysis of LNB and OFA. Please provide supporting information to justify this cost including proof that the fly ash is currently sold."*

### **Response:**

From the estimated coal burn rate and fly ash percentage, the BART report estimated that the Snowflake Paper Mill generates 76,429 tons/year of flyash. Using an assumed \$40 per ton disposal cost with an escalation rate of 2% per year, the resultant first year estimated flyash disposal cost is \$3,118,222 which matches the value (with slight rounding differences) listed in the BART report.

$$(76,427 \text{ tons/year}) \times (\$40/\text{ton}) \times (1.02) = \$3,118,222$$

Please note that this cost does not include the "lost opportunity cost" of not being able to sell the flyash for an estimated \$20/ton, which would result in a total estimated impact of \$4,677,332.

The attached "Fly Ash Sales Agreement" between Catalyst Paper (Snowflake) Inc. and Boral Material Technologies Inc. is offered as proof that flyash from the Snowflake Paper Mill is currently sold.

### **ADEQ Question 2:**

*"Please justify the use of a 10.5% interest rate in the economic analysis."*

### **Response:**

As noted within the economic analysis provided as Appendix A of the final BART report, 10.5% was listed as the interest rate for the analysis. This rate was an assumption, based upon an estimate of a reasonable economic evaluation factor for Catalyst Paper at the time

the BART report was completed. Although several economic considerations entered into the 10.5% rate assumption, two primary factors were instrumental in the development of this interest rate:

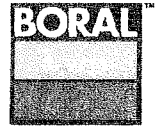
***Prime Rate***

The BART report and economic analysis was completed near the end of 2007. The prime rate in October 2007 was 7.75%, which is significantly higher than the current prime rate. Generally an adjustment is made to the prime rate when completing any economic analyses, since the cost of capital for businesses is higher than the prime rate.

***Catalyst Paper Corporate Structure***

Most BART-affected facility owners are utilities. As a non-utility company, the cost of capital and required rate of return are generally higher for Catalyst Paper than for utilities.

While the 10.5% is higher than current rates, it is a reasonable representation of the economic conditions in late 2007 for Catalyst Paper. It should also be noted that the BART technology analysis utilizes the economic analyses as a relative comparison between alternatives, as well as evaluating the overall cost per ton of pollutant removed. If a lower interest rate had been utilized for the economic analysis, this change would not have altered the relative comparison and selection of technologies.



**BORAL MATERIAL TECHNOLOGIES INC.**  
10851 North Black Canyon Highway  
Suite 730  
Phoenix, AZ 85029  
Phone (602) 861-5100  
Fax (602) 861-0885

September 5, 2007

Mr. John Hillend  
Abitibi Consolidated  
P.O. Box 128  
Snowflake, AZ 85937

Re: Fly Ash Sales Agreement Term renewal

Dear John:

I enjoyed the opportunity last week to provide information and education regarding the importance of fly ash quality. Two power plant operation crews were available for the training. The training for the other crews will take place on October 11 at 7:00 AM. I trust the training was beneficial to those in attendance. The PowerPoint presentation highlighted the origin of fly ash and its value in concrete. The discussion that ensued touched upon the important role that plant operators play in the production of quality fly ash and the value to both Boral and Abitibi from the sale of the fly ash into high value markets.

As agreed during our discussions after the plant meeting, the current agreement which expires on September 30, 2007 would be extended for a period of one year. Therefore, by this letter, Boral respectfully requests that Abitibi Consolidated renew the term of the existing Fly Ash Sales Agreement by drafting Amendment No. 7 with language similar to Amendment No. 6, except that in paragraph 1, the date will be changed to read September 30, 2008 (or later, if Abitibi is so inclined).

I appreciate my working relationship with you, John, and all others at Abitibi that I have had the pleasure to meet and work with. I look forward to hearing from you soon and seeing you on October 11.

Sincerely,

A handwritten signature in dark ink, appearing to read "David P. Allen", with a long, sweeping horizontal line extending to the right.

David P. Allen  
Region Manager

Nov 27 07 01:46p

BORALMTI

(210) 349-2892

p.1

**FLY ASH SALES AGREEMENT  
AMENDMENT NO. 7**

THIS AMENDMENT TO AGREEMENT (hereinafter referred to as "this Amendment No. 7") is made and entered into as of the 10 day of October, 2007 by and between

ABITIBI CONSOLIDATED SALES CORPORATION, SNOWFLAKE DIVISION (hereinafter referred to as "ABITIBI"), a corporation organized and existing under the laws of the State of Delaware, and BORAL MATERIAL TECHNOLOGIES INC. (hereinafter referred to as "BORAL"), a corporation organized and existing under the laws of the State of Delaware.

**WITNESSETH:**

WHEREAS, STONE CONTAINER CORPORATION-SNOWFLAKE (STONE) and WESTERN ASH COMPANY (WA), previously entered into that certain Fly Ash Sales Agreement dated February 24, 1998 (hereinafter referred to as "the Contract"),

WHEREAS, STONE and WA amended the Contract by letter agreement dated July 22, 1993;

WHEREAS, ABITIBI and BORAL amended the Contract by Amendment No. 1 dated September 1, 1998;

WHEREAS, ABITIBI and BORAL amended the Contract by Amendment No. 2 dated October 6, 1999;

WHEREAS, ABITIBI and BORAL amended the Contract by Amendment No. 3 dated October 6, 2001;

WHEREAS, ABITIBI and BORAL amended the Contract by Amendment No. 4 dated August 8, 2003;

WHEREAS, ABITIBI and BORAL amended the Contract by Amendment No. 5 dated October 1, 2005;

WHEREAS, ABITIBI and BORAL amended the Contract by Amendment No. 6 dated October 1, 2006;

WHEREAS, ABITIBI and BORAL now desire to modify the Contract as provided in this Amendment No. 7 to address (i) "Term" of the Contract;

NOW, THEREFORE, in consideration of the mutual undertakings, promises, and covenants contained herein and other good and valuable consideration, ABITIBI and BORAL hereby agree to amend the Contract as follows:

1. Section 12 is hereby amended extending the term of the Contract to September 30, 2008.
2. Except as modified by this Amendment, all terms and conditions of the Contract and prior amendments remain in full force and effect.

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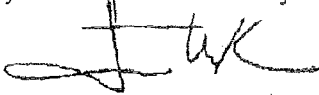
BORAL MATERIAL TECH.

FAX No. 210 979 6235

P. 001/001

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed in duplicate as of the day and year first above written by their duly authorized officers.

WITNESS: 

 GOWER MANAGER  
ABITIBI CONSOLIDATED SALES  
CORPORATION, SNOWFLAKE DIVISION

By: Title:  - *Export, Purchasing - Matt - Transportation*

WITNESS:

BORAL MATERIAL TECHNOLOGIES INC.

By: Title:  - *President*



**FLY ASH SALES AGREEMENT  
AMENDMENT NO. 8**

THIS AMENDMENT TO AGREEMENT (hereinafter referred to as "this Amendment No. 8") is made and entered into as of the 1 day of October, 2008 by and between CATALYST PAPER (SNOWFLAKE) INC. (hereinafter referred to as "CATALYST"), a corporation organized, and existing under the laws of the State of Delaware, and BORAL MATERIAL TECHNOLOGIES INC. (hereinafter referred to as "BORAL"), a corporation organized and existing under the laws of the State of Delaware.

**WITNESSETH:**

WHEREAS, STONE CONTAINER CORPORATION-SNOWFLAKE (STONE) and WESTERN ASH COMPANY (WA), previously entered into that certain Fly Ash Sales Agreement dated February 24, 1998 (hereinafter referred to as "the Contract");

WHEREAS, STONE and WA amended the Contract by letter agreement dated July 22, 1993;

WHEREAS, ABITIBI and BORAL amended the Contract by Amendment No. 1 dated September 1, 1998;

WHEREAS, ABITIBI and BORAL amended the Contract by Amendment No. 2 dated October 6, 1999;

WHEREAS, ABITIBI and BORAL amended the Contract by Amendment No. 3 dated October 6, 2001;

WHEREAS, ABITIBI and BORAL amended the Contract by Amendment No. 4 dated August 8, 2003;

WHEREAS, ABITIBI and BORAL amended the Contract by Amendment No. 5 dated October 1, 2005;

WHEREAS, ABITIBI and BORAL amended the Contract by Amendment No. 6 dated October 1, 2006;

WHEREAS, ABITIBI and BORAL amended the Contract by Amendment No. 7 dated October 10, 2007;

WHEREAS, CATALYST and BORAL now desire to modify the Contract as provided in this Amendment No. 8 to address (i) "Term" of the Contract;

NOW, THEREFORE, in consideration of the mutual undertakings, promises, and covenants contained herein and other good and valuable consideration, CATALYST and BORAL hereby agree to amend the Contract as follows:

1. Section 12 is hereby amended extending the term of the Contract to September 30, 2009.
2. Except as modified by this Amendment, all terms and conditions of the Contract and prior amendments remain in full force and effect.



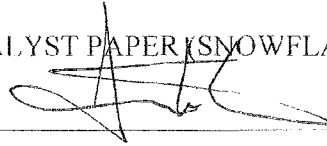
IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed in duplicate as of the day and year first above written by their duly authorized officers.

WITNESS:



CATALYST PAPER (SNOWFLAKE) INC.

By:

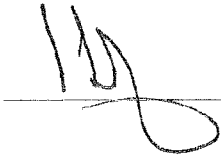


Title:

General Manager



WITNESS:



BORAL MATERIAL TECHNOLOGIES INC.

By:



Title:

V.P. Utility Relations