APPROVED 10-26-16

MINUTES
City of Tacoma
Public Utility Board Study Session
October 12, 2016
3:00 p.m.

Mr. Patterson called the Public Utility Board study session to order at 3:00 p.m. at the Public Utilities Administration Building.

Present: Mark Patterson, Monique Trudnowski (arrived 4:32), Karen Larkin, Woody Jones
Excused: Bryan Flint

Tacoma Power: New Large Load Contract Rate Design

Ray Johnson, Power Assistant Section Manager, explained that this is a new large load contract rate design for the Puget Sound Energy liquefied natural gas plant and that this design will set precedent/general policies for new large loads. As background, Tacoma Power's current new large load policy was created in 1984 and is for customer load greater than 10 aMW. Due to the size of a new large load, a specific policy is needed to ensure that existing customers are not negatively impacted. The proposed new large load definition is for a new or expanding load greater than 8 MW but less than 20 MW. The proposed new large rate is based on the existing contract power rate; has a 15 percent adder based on next-resource cost (conservation); the adder represents buy-in to the system and phases out after 10 years. Benefits are that this is equitable for new and existing customers; will adjust with regular rate changes; and the rate is low, stable, and predictable. Christina Leinneweber, Sr. Utilities Economist, then detailed the rate principles and implementation plan. Cost drivers include power production and purchase, transmission, and account service. The industrial rate design has four parts based on cost, energy charge, demand charge, delivery charge, and customer charge. The proposed plant will use approximately two percent of the 2015 load. Ms. Leinneweber shared a graph illustrating that Tacoma Power has a load resource balance that has plenty of capacity to serve this load. The proposed plant is a standard industrial load and will not create a strain on transmission resources. The plant will close if the weather is less than fifteen degrees; and there are no special delivery/customer service needs. Ms. Leinneweber then summarized the portfolio equity, benefits to other customers, and rate competition with peer utilities. Having contracts, not tariffs, allows for greater policy discretion for the Board and Council, is customizable for unique features of each new load, and is adaptable to future utility conditions. In summary, staff recommendation is to have a new large load definition of 8 – 20 MW that has marginal cost pricing for a fixed term. Unique features is that this is a high load-factor load that is constant and steady, has standard industrial electric usage per square foot, and the company is a creditworthy, established business. Next steps include work on a new substation, Board and Council approval of the new large load policy, and approval of the Puget Sound Energy contract by the Board and Council in 2018.

Tacoma Power; Energy Risk Management Update

Ray Johnson, Power Assistant Section Manager, detailed three programs under the energy risk management program: Hedging Program; Credit Risk Management Program; and Energy Risk Management Program.

Hedging Program: The hedging program is part of Tacoma Power's energy risk management policy with the objective to stabilize net revenues from wholesale operations and protect against unacceptable wholesale revenues. The hedging policy enforces dollar cost averaging of surplus sales and prohibits holding deficit positions. A graph illustrating the 2015-2016 biennium hedging value was then detailed.

Credit Risk Management Program: Tacoma Power frequently sells electricity to wholesale trading partners or counterparties, incurring credit exposure. The credit risk management program manages credit risk by extending credit to investment grade counterparties only; setting exposure limits based on creditworthiness; daily monitoring of credit quality; daily monitoring of exposure; and actions including stopping trading with a specific counterparty, requesting collateralization.

Energy Risk Management program: Tacoma Power completed benchmarking current practices against the Committee of Chief Risk Officers (CCRO) standards. The CCRO is a non-profit organization of companies dedicated to the advancement of a broad range of best practices in the field of risk management. Pivotal Risk Advisors and CCRO conducted the benchmarking study. The scope of the study was to benchmark current practices against recommended CCRO industry standards and practices; to identify and recommend improvements for a future state risk management framework; base findings on accepted industry standards; and account for Tacoma Power's unique business objectives, assets, and operations. The study results listed Tacoma Power's program strengths to include defined risk objectives, disciplined hedging program and program oversite, and a systematic establishment and review of counterparty credit exposure. Opportunities for improvement include a periodic review of the hedging program, and updating risk management policy and procedures.

Tacoma Water: Bottle Refill Stations and the Value of Water

Matt Hubbard, Associate Engineer, and Natalie Jones, Water Program Specialist, made the presentation. The program goal of the bottle refill stations is to communicate the value of Tacoma's tap water to customers. Bottle refill stations provide numerous practical locations to educate customers through purposeful, focused messaging. Natalie Jones, Water Program Specialist, shared that the proposed locations for the water bottle filling stations in 2016 is 9th and Broadway by the Pantages Theater. In 2017, locations at 38th and Yakima, as part of the Lincoln District revitalization, and Ruston Way are planned. Staff recommendations have undergone review and approval by the Legal Department. Staff recommendation is the Global Tap model filling station for its durability, company mission, and design. The stations will be cleaned regularly every two weeks and will be decommissioned the second Monday in October through the first Monday in March. This program meets many of the TPU Director's goals as well as Tacoma 2025, City of Tacoma Environmental Action Plan, and the TPU Environmental statement goal.

Tacoma Rail; Rate Adjustment

Dale King, Rail Superintendent, detailed a graph illustrating the 2017/2018 proposed budget. Primary rate payers are line haul rates, which is 84 percent of the total revenue. Railroad platforms are traditionally limited to intermodal. In Tacoma Rail's tariff, a platform is a location within a railcar, used for loading containers, that is separated by articulations. Superintendent King then summarized line haul volumes. Intermodal and commercial traffic analysis and rate history was then reviewed. The proposed switching tariff changes were then detailed. Staff recommendation is increasing intermodal rates by $3.00, commercial and commercial hazmat by $5.00, and miscellaneous rate adjustment of three percent. Rate comparisons with peer short line railroads were presented that show Tacoma Rail rates are the lowest. The new rates will come to the Board for review on October 26 the Council in November with a January 1 effective date.

Miscellaneous

Jim Sant, Deputy Director for Administration, reviewed adjustments made to Tacoma Power's budget to align with Resolution U-10879 regarding Click!. The budget increases can be managed this under the two 5.9 percent rate adjustments, but not the one-time adjustment of seven percent. The adjustment also assumes a Click! rate increases in January 2017 (8.3%), July 2017 (8.2%), January 2018 (8.2%).

Adjournment

The study session was adjourned at 4:51 p.m. until the next regularly scheduled study session on Wednesday, October 26, 2016 at 3:00 p.m.

Approved:	Approved:
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Mark Patterson, Chair	Woodrow E. Jones, Jr., Secretary