Present: Robert Casey, Laura Fox, Tom L. Hilyard and Peter Thein (arrived at 3:45 p.m.)
Absent: David Curry

Chair Casey called the Public Utility Board study session to order at 3:03 p.m. at the Public Utilities Administration Building.

Director Gaines provided introductory remarks. There are three items on the agenda today, the first one has to do with a new conservation program that we’re about to launch in cooperation with other Puget Sound area utilities. There will be a brief presentation on some of the environmental work that we’re doing in the Rail area. The last item will be a continuation of our prior discussion on our upcoming contract with Simpson. Director Gaines called on Gary Armfield, Power Superintendent, to introduce the first topic.

Tacoma Power’s proposed EnergySmart Program
Mr. Armfield said Peter Meyer, Asst. Energy Services Manager, and Gary Johnson, project manager engineer, from the Energy Services group will be presenting the topic to the Board and they previously made a presentation to the Power team. This particular program involves the Bonneville Power Administration (BPA).

Mr. Meyer said this is a new program that we have not been involved with in the past. It is on the agenda for consideration during tonight’s meeting and staff wanted to give the Board an opportunity to be able to hear more of the details and ask questions. This program is targeted at the grocery sector and other facilities that have refrigeration equipment. Mr. Meyer introduced Gary Johnson to begin the presentation. Mr. Johnson said this is a program for existing facilities in the retail food sector, more commonly known as the grocery sector. This program is currently being offered by many other utilities in the Northwest. The retail food sector included large groceries and supermarkets, food marts and corner groceries, and convenience stores (C-stores). For the purpose of this program it may also include universities that have cafeterias with refrigeration
equipment, hospitals, kitchens and restaurants. Tacoma Power has approximately 44 major grocers, 26 major national/regional chain stores (Safeway, Albertsons, etc.), and 272 many smaller C-stores and grocery stores. Some other retailers may qualify for this program, such as Costco and Cash and Carry. The 2007 conservation potential assessment identified this sector as a fairly good sector for our economic energy savings potential. The typical large grocery store uses over half of its electric energy in refrigeration. The sales area lighting is also big load. Mr. Johnson discussed current market conditions and market and technical barriers. The EnergySmart Program goals are: 1) Acquire all achievable savings potential over a reasonable timeframe; 2) Reinforce utility relationships with national and regional chain; 3) Encourage greater private sector delivery of energy efficiency products and services; and 4) Penetrate the smaller C-store market.

The Program is going to be managed by Portland Energy Conservation, Inc. (PECI). PECI will perform field audits, work with the customers, oversee measures installed, and send incentive checks directly to customers (Tacoma Power funds). Every two months PECI will provide an estimate of incentives they project they will need and Tacoma Power will provide the funds. In turn, the incentives will go directly to the customers. In response to questions from the Board, Mr. Johnson stated there are currently 67 utilities operating this program through PECI. Previously, we have used PECI for Tacoma’s residential energy programs. Mr. Meyer stated this particular program will be under the Tacoma Power brand. Our account executives already have existing relationships with these customers so they will initially go out into the field and introduce the customers to PECI program managers and to demonstrate that this is a Tacoma Power offering that we’re bringing to them. The account executives have existing relationships with these customers. Mr. Johnson provided some background and credentials for PECI. PECI originally offered this program to the large utilities in California in 2001. PECI has a contract with BPA to deliver energy savings in the retail food sector. PECI has developed sophisticated audit software, where they can analyze energy savings fast. Through this program, PECI will offer no-cost field audits and energy savings report; extensive list of efficiency measures; contractor coordination and contractor referrals; project installation assistance; and design reviews. Mr. Johnson discussed the common efficiency measures and efficiency incentive projects.

Tacoma Power’s role will include: 1) provide advanced funding to PECI for incentive projects and monitor all expenditures; 2) review proposed incentive projects; 3) review each efficiency project’s final costs via the BPA - PTR tracking system; and 4) will help market the program. PECI has told us that they can accomplish 75 field audits in 2008, which would amount to 1,144,000 kWh for the first-year savings. Mr. Johnson said that staff has performed a very detail cost-effectiveness analysis and this program looks very good. Mr. Meyer discussed the analysis in more detail. Mr. Meyer said this program also qualifies for the BPA’s Conservation Rate Credit (CRC) but we did not include this in the analysis which would make the program even more favorable. Mr. Johnson ended the presentation with the proposed program budget. If the Board approves the action tonight, staff will finalize procedures and contractual arrangements.
Tacoma Rail Locomotive Fleet Plan
Paula Henry, Rail Superintendent, said the topic she and her staff will talk about today is on the Rail Fleet Program. We've made substantial changes to that program. Some of the discussion the Board has previously heard. Tacoma Rail has decided to take an aggressive approach to the environment, as did Power and Water divisions. Ms. Henry introduced Alan Hardy, Deputy Superintendent of Rail. Mr. Hardy introduced his team: Phil Hogman, Alan Matteson and Kari Halliday. Phil Hogman and Dan McCabe (also of Rail) will provide discussion on the locomotive program. Before the presentation began, Paula Henry introduced Mike Class, the new marketing manager for Tacoma Rail. Mr. Class has extensive railroad background in operations and marketing.

Mr. McCabe said Tacoma Rail has been one of the front runners for locomotive idling and our environmental responsibility. Mr. McCabe listed Rail’s environment partnerships, such as Puget Sound Diesel Emissions Inventory and Puget Sound Ports Diesel Retrofit. Mr. McCabe provided more detail on each of the partnerships. There are some new Environment Protection Agency (EPA) Tier Requirements. Mr. McCabe explained this system. Tier 0, locomotives built in 1973-2001 (also includes when locomotives are remanufactured) – Tacoma Rail has seven of these locomotives. Tier 1, locomotives built between 2002 – 2004 - Tacoma Rail does not have any Tier 1 locomotives. Tacoma Rail has mostly exempt locomotives which were built before 1973 (11 locomotives). Tacoma Rail has four locomotives that have the current idle reduction technology. Tacoma Rail purchases the locomotives and expects them to last over ten years. We currently have four locomotives that have 16 to 20 years of use on them. Mr. McCabe provided some locomotive facts. Locomotives generally have to idle, which happens to burn three to five gallons of fuel per hour. This increases wear and tear. The reason locomotives need to idle is because have no anti-freeze so they have to keep running in order to keep the fluids moving (especially if the weather is cold). It cannot be shut down in the winter months. In the summer months the locomotives are turned off manually but in order to perform most effectively, we need the idle reduction technology. Mr. McCabe listed Rail’s other environmental projects, such as purchasing fuel injectors to increase fuel savings and reduction of particulate matter, switched to ultra low-sulfur diesel; and beginning a diesel pilot project called the “02 Diesel Pilot Project,” where the Capital Division locomotives will use ethanol blended diesel for further reductions of emissions. Mr. McCabe further discussed Idle Reduction Technology. The benefits of idle reduction technology are: 1) reduced emissions; 2) less wear; 3) noise reduction; 4) building partnerships with regulating agencies; 5) fuel savings; and 5) positions Tacoma Rail “ahead of the curve.” Mr. Hogman stated that Rail came to the Board for approval about a year ago to purchase the idle reduction technology. At that time, Mr. Hogman estimated that Rail would recoup the investment in about a year. The handout that was provided to the Board shows that Rail has recouped its investment in 275 days rather than the entire year. The presentation continued with fuel prices, locomotive replacement fund, and UP locomotive service update.
Chair Casey recused himself from the Simpson Contract discussion because of a potential conflict and physically the study session.

**Simpson Contract Alternatives**

Vice Chair Hilyard called on Director Gaines to introduce the topic. Mr. Gaines said as the Board knows, the Power utility has been working with its large customer, Simpson, on two issues: 1) a new retail power contract; and 2) the interconnection of Simpson’s new cogeneration facility to Tacoma Power facilities. Mr. Gaines said today’s presentation, he believes, is a resolution of essentially all of the outstanding issues between Simpson and the utility. This resolution has benefitted from the previous discussions between the Board and Simpson representatives held last month, as you’ll see the results of those discussions reflected in this recommendation. We’ll briefly run through the presentation and outline where we are on the issues and at the end of the presentation we will go into a brief Executive Session, where we’ll present some of the legal ramifications we’re proposing. Dave McEntee, representative from Simpson, is here with us today to participate in the discussion.

Power Superintendent Armfield said we’ve put together a team of four individuals representing Tacoma Power and have met with Simpson over the past few months. He believes these meetings were very beneficial in a contract resolution. Ted Coates, Power Manager, said we feel we have a pretty solid recommendation. Mr. Coates began the presentation with a refresher of some of the basis/rationale and some of the issues staff took into account to achieve the rationalization. Mr. Coates provided some background on the ratemaking policy, rate methodology analysis, and cost-of-service methodologies.

As you know we’ve been working with Simpson for quite a while trying to execute a new five-year contract. The proposed contract essentially looks like what we had with them during the first five years since we’ve signed our new contract with the Bonneville Power Administration (BPA). Since we’ve been in negotiations, there has been one major issue in the contract, Article 5. We’ve been operating on a month-to-month contract since the new contract with BPA was executed. During this period of time, Simpson requested an increase in contract demand of 8 megawatts. If we get approval from the Board to move forward, we hope to recommend a new contract for signature so that it coincides with our other Contract Power (CP) customer contracts. The most important decision for us is, as the contract provides, for the Board to consider how that new load will be served and particularly what rate will be most appropriate for them. And we also hope to have a resolution for the Article 5 issue. Mr. Coates discussed the details of the load increase request that will be phased in over time. Only a small part of the increase is associated with the service directly to the cogeneration plant and the rest of the service is due to change of technology for the paper production process. The Board and staff continued their question and answer format discussion.

Mr. Coates discussed the contract alternatives: using the existing embedded cost rate, which is our CP rate; cost of BPA power as the marginal cost; or market-based rate. Mr. Coates said we do have some requirements for the recommendation. We’re proposing a contract that will run through...
September 20, 2011, that would be exactly coincidental with our other industrial customer. We would like to have a signed contract with Simpson (not month-to-month) by June of 2008. We assume and expect that Simpson’s increased load will be on-line through 2010. If Simpson isn’t on-line through 2010, there could be a higher cost to Tacoma Power if BPA doesn’t serve the increased load. We are assuming BPA will serve the increased load and it will be available.

Anne Spangler, Chief Assistant City Attorney, said we are having an Executive Session at the end of this discussion but she can say in open session that we are making a recommendation to the Board to make a change to Article 5 that is responsive to at least part of what Simpson has requested and we have shared that change with Simpson.

Mr. McEntee wished to address the Board and staff. He thanked staff for their diligence and accommodations to Simpson’s request. He understands that both sides are looking for certainty and fairness and he sees today there is a real effort from both parties to find that equitable middle ground.

**Executive Session**
The Board recessed its regular session @ 4:45 p.m. to convene an Executive Session for approximately 30 minutes for the purpose to discuss matters in litigation. The Executive Session ended at 5:17 p.m.

**Miscellaneous**
The Board reconvened its regular study session. Mr. Gaines provided a summary on the succession of the Rail Superintendent per the Board’s request. Paula Henry will be with us through March 31, 2008, and will be present up until that time to help with transition. Our plan is to appoint Alan Hardy as Interim Rail Superintendent, effective April 1, 2008. In a couple months, we will run a competitive recruitment and solicitation open process inviting external applicants to apply and make a selection and appointment, which ultimately will need to be confirmed by the Board. We have already begun to receive indications of interest in this position from people outside Rail. Our intention is to use these next five weeks to introduce Alan to our railroad partners around town and in the industry (UP and BN railroads).

**Adjournment**
The study session was adjourned at 5:30 p.m. until the next regular study session on Wednesday, February 27, 2008, at 3:00 p.m.

Approved:     Approved:

Robert G. Casey, Chair  Laura J. Fox, Secretary