

ORDINANCE No. 118119

COUNCIL BILL No. 11225

Law Department

The City of Seattle--Legislative

INDEXED

REPORT OF COMMITTEE

Honorable President:

Your Committee on _____

to which was referred the within Council Bill No. _____
report that we have considered the same and respectfully recommend that it

Full Council vote

Committee Chair

Introduced: <u>APR</u>	By: <u>PAGELER</u>
Referred: <u>APR 29 1996</u>	To: <u>UTILITIES & ENVIRONMENTAL MANAGEMENT COMMITTEE</u>
Referred:	To:
Referred:	To:
Reported: <u>MAY - 6 1996</u>	Second Reading: <u>MAY - 6 1996</u>
Third Reading: <u>MAY - 6 1996</u>	Signed: <u>MAY - 6 1996</u>
Presented to Mayor: <u>MAY - 7 1996</u>	Approved: <u>MAY 13 1996</u>
Returned to City Clerk: <u>MAY 14 1996</u>	Published: <u>title</u>
Vetoed by Mayor:	Veto Published:
Passed over Veto:	Veto Sustained:

US5047



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ORDINANCE 118119

AN ORDINANCE relating to the City Light Department; authorizing the execution of the First Amendment to the Centralia Fuel Supply Agreement Dated as of January 1, 1992.

WHEREAS, the City owns an eight percent share of the Centralia Steam Plant which is jointly owned with PacifiCorp Electric Operations, The Washington Water Power Company, Puget Sound Power & Light Company, Portland General Electric Company, Public Utility District No. 1 of Snohomish County, Washington, Public Utility District No. 1 of Grays Harbor County, Washington, and the City of Tacoma, Washington (collectively referred to as the "Owners"); and

WHEREAS, the Owners executed an agreement known as the Centralia Fuel Supply Agreement which became effective January 1, 1991; and

WHEREAS, the Owners desire to amend the pension cost section of the "Accounting Policies and Procedures Related to the Centralia Fuel Supply Agreement" as contained at pages 1 and 2 of Exhibit 1.21 of the Centralia Fuel Supply Agreement; Now, therefore,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. The Superintendent of the City Light Department is authorized to execute for and on behalf of the City the agreement entitled "First Amendment to Centralia Fuel Supply Agreement Dated as of January 1, 1992", substantially in the form of the attached agreement. This Agreement amends the pension cost section of the Centralia Fuel Supply Agreement.

Section 2. Any other act consistent with the authority and

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prior to the effective date of this ordinance is hereby ratified and confirmed.

Section 3. This ordinance shall take effect and be in force thirty (30) days from and after its approval by the Mayor, but if not approved and returned by the Mayor within ten (10) days after presentation, it shall take effect as provided by Municipal Code Section 1.04.020.

Passed by the City Council the 6 day of May, 1996, and signed by me in open session in authentication of its passage this 6 day of May, 1996.

William H. Clark
President ~~of~~ of the City Council

Approved by me this 13 day of May, 1996.

Norman Bruce
Mayor

Filed by me this 14 day of May, 1996.

Janith E. Papp
City Clerk

(Seal)

NOTICE: IF THE DOCUMENT IN THIS FRAME IS LESS CLEAR THAN THIS NOTICE IT IS DUE TO THE QUALITY OF THE DOCUMENT.

**FIRST AMENDMENT
TO
CENTRALIA FUEL SUPPLY AGREEMENT
DATED AS OF JANUARY 1, 1992**

THIS FIRST AMENDMENT TO CENTRALIA FUEL SUPPLY AGREEMENT ("First Amendment") is made retroactively effective to January 1, 1992, by and between PacifiCorp Electric Operations, an assumed business name of PacifiCorp, an Oregon corporation ("Seller"); The Washington Water Power Company, a Washington corporation ("Water Power"); Puget Sound Power & Light Company, a Washington corporation ("Puget"); Portland General Electric Company, an Oregon corporation ("PGE"); Public Utility District No. 1 of Snohomish County, Washington, a Washington municipal corporation ("Snohomish"); Public Utility District No. 1 of Grays Harbor County, Washington, a Washington municipal corporation ("Grays Harbor"); the City of Seattle, Washington, a Washington municipal corporation ("Seattle"); and the City of Tacoma, Washington, a Washington municipal corporation ("Tacoma"). Seller, Water Power, Puget, PGE, Snohomish, Grays Harbor, Seattle and Tacoma are sometimes referred to herein individually as a "Party" and collectively as the "Parties." Water Power, Puget, PGE, Snohomish, Grays Harbor, Seattle and Tacoma are sometimes referred to herein individually as a "Buyer" or collectively as the "Buyers."

WHEREAS, prior to 1992, Centralia Mining Company ("CMC") maintained its own separate defined benefit pension plan; and

WHEREAS, beginning with the accounting period which began on January 1, 1992, CMC's pension plan was merged into the retirement plan of Seller; and

WHEREAS, the parties now desire to amend the pension costs portion of the "Accounting Policies and Procedures Related to the Centralia Fuel Supply Agreement" as contained at pages 1 and 2 of Exhibit 1.21 of the Centralia Fuel Supply Agreement.

NOW, THEREFORE, the parties hereto hereby agree as follows:

A. The portion of the text of the "Accounting Policies and Procedures Related to the Centralia Fuel Supply Agreement" contained at pages 1 and 2 of Exhibit 1.21 under the heading "PENSION COSTS" is hereby deleted.

B. The "Accounting Policies and Procedures Related to the Centralia Fuel Supply Agreement" is hereby amended by adding thereto the following paragraphs which shall constitute the entire text under the heading "PENSION COSTS." (Except as otherwise specifically provided herein, defined terms shall have the meaning given in the Centralia Fuel Supply Agreement.)

Prior to 1992, Centralia Mining Company (CMC) maintained its own separate defined benefit pension plan. This amended and restated accounting

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policy covers the period beginning January 1, 1992 when CMC's pension plan was merged into the retirement plan of Seller.

The basic method of financial accounting for pension cost for purposes of determining the pension costs to be included in the Fixed Costs of the Mine under the Centralia Fuel Supply Agreement will be each year's Service Cost attributable to CMC employees. (This Amendment does not affect pension costs allocated to the Plant.) Service Cost has the meaning given to it in the Statement of Financial Accounting Standards #87 (FAS 87) and will be calculated as an end-of-year (December 31) cost using the same actuarial assumptions (including discount rate, salary scale, long-term rate of return, turnover, and mortality) as are used by Seller in its normal FAS 87 pension cost calculations for such year with respect to its retirement plan.

The basic method described above will be modified in two ways:

1. The excess of CMC's pension plan assets over its Projected Benefit Obligation (PBO) as of January 1, 1992, measured as \$6,759,596, will be amortized in level annual installments over eight years at 6% interest and applied as a credit against the Service Cost in each year from 1992 through 1999. The amount so computed as a credit for each of such eight years is \$1,088,538.
2. An adjustment will be made whenever the plan benefits are amended with respect to CMC plan participants. The amount of Prior Service Cost (as defined in FAS 87) created by the plan amendment will be amortized, using the straight line method, over the remaining period to December 31, 2020. Seller will accrue interest at a 6% annual rate on any unamortized Prior Service Cost created by a plan amendment. This Prior Service Cost amortization, plus interest, will be added to the Service Cost allocation for the period; and from the sum of these two components shall be deducted the overfunding credit for the period as described in the preceding paragraph. If the plan amendment results in a credit or reduction of pension costs, such credit or reduction will be recognized in the same manner as the cost increase. If the mine closes earlier than December 31, 2020, any unamortized Prior Service Cost created by a plan amendment will be recovered or refunded through the mine closing process. The calculation will be made as of the amendment's effective date; or if the effective date is not January 1, as of the next subsequent January 1 if the results would not be materially altered thereby.

The determination of CMC's annual pension cost will be unaffected by any actuarial gains and losses or by any change in PBO arising from changes in actuarial assumptions. Special benefits provided to participants whose employment

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is terminated at time of mine shutdown will be charged and accounted for as described in #2 above.

C. Except as explicitly amended hereby, the Centralia Fuel Supply Agreement remains in full force and effect as originally written.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed as of the date set forth in the first paragraph hereof.

PacifiCorp Electric Operations, an
assumed business name of PacifiCorp

Date of Execution: _____

By _____
Title _____

The Washington Water Power Company

Date of Execution: _____

By _____
Title _____

Puget Sound Power & Light Company

Date of Execution: _____

By _____
Title _____

Portland General Electric Company

Date of Execution: _____

By _____
Title _____

Public Utility District No. 1 of Snohomish
County, Washington

Date of Execution: _____

By _____
Title _____

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Public Utility District No. 1 of
Grays Harbor County, Washington

Date of Execution: _____

By _____
Title _____

The City of Seattle, Washington

Date of Execution: _____

By _____
Title _____

The City of Tacoma, Washington

Date of Execution: _____

By _____
Title _____

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**FIRST AMENDMENT
CENTRALIA FUEL SUPPLY AGREEMENT
FACT SHEET**

Background

The Centralia Steam Plant is jointly owned by PacifiCorp (47.5 %), The Washington Water Power Company (15.0 %), Puget Sound Power & Light (7.0 %), Tacoma City Light (8.0 %), Seattle City Light (8.0 %), Public Utility District No. 1 of Snohomish County (8.0 %), Public Utility District No. 1 of Grays Harbor (4.0 %), and Portland General Electric Company (2.5 %).

By the terms of the Agreement for the Operation of Centralia Steam Electric Generating Plant ("Operating Agreement"), PacifiCorp was appointed as operator of the project by the remaining, non-operating owners ("NOO's"). The Operating Agreement provides for the sharing of operating expenses, including the payroll expenses of the operator's employees and related employee benefit costs and pension funding expense.

In July 1989, PacifiCorp was formed by the merger of Utah Power and Pacific Power & Light ("PP&L"). After PacifiCorp purchased the mine at Centralia in 1990, they executed an agreement with the NOO's, known as the Centralia Fuel Supply Agreement ("CFSA"), to provide all of the Centralia Plant's fuel requirements for the remaining life of the plant. Under that agreement, the NOO's are obligated to share in the funding of fixed costs of the Centralia Mining Company's ("CMC") mining operation, including pension costs.

Prior to 1992, CMC maintained a separate accounting for its defined benefit pension plan. The cost allocation method used by PacifiCorp was based on total net periodic pension costs for all PacifiCorp holdings combined and costs were allocated to CMC in proportion to service cost. This was a fair and reasonable allocation method until the pension plans merged in 1992. At that time, PP&L's pension plan was slightly overfunded and Utah Power's pension plan was significantly underfunded which resulted in a significant increase in the total pension costs for all former PP&L holdings. Consequently, unfunded liabilities added by the Utah Power plan merger were unfairly allocated to CMC and passed along to the NOO's.

The issue of unfair allocation of pension funding costs came to light in 1994 following the joint Centralia Owners' annual operations audit which showed a dramatic increase in pension costs to the Centralia Owners in 1993 relative to previous years. As a result of that finding, the NOO's hired an actuarial consultant, Edward Heintzberger, to independently review Centralia's pension costs allocation and to represent the NOO's in negotiations with PacifiCorp on this issue. Mr. Heintzberger's subsequent analysis and report confirmed that the allocation methods used by PacifiCorp had resulted in a significant misallocation of costs.

In early 1995, Mr. Heintzberger met with Howard Johnson Company (actuaries for PacifiCorp) to develop a method that would provide direct separate accounting for pension costs attributable to services performed at CMC and eliminate sharing of other inappropriate components of pension cost. The actuaries reached agreement on the method for apportioning periodic pension costs to CMC as described below. Language for the proposed amendment was negotiated among the Owners and distributed for execution in February 1996.

Features of the Proposed Amendment

- The proposed amendment revises the pension costs portion of the Accounting Policies and Procedures section of the CFSA.
- The amendment affects the pension cost allocation to CMC only and is effective retroactively to January 1, 1992. The pension cost issue for the Centralia Steam Plant will be addressed separately by the Owners.
- The proposed cost allocation limits the net periodic costs allocation to one component: service cost. Service cost is the estimated amount of benefits to be paid in the future, stated at present value, for services rendered by employees in the current period. This approach eliminates pension adjustments related to unfunded past service liabilities that did not pertain to CMC employees.
- The new method will also allow a special credit with respect to the surplus accumulated under the old CMC plan prior to merger with the PacifiCorp plan. This credit to CMC of \$6,759,596, calculated as the excess of CMC's pension plan assets over its Projected Benefit Obligation will be allocated in level annual installments over eight years at 6 percent interest and will be applied as a credit against the CMC service cost in each year from 1992 through 1999. The annual credit will be \$1,088,538, with Seattle City Light's share being approximately \$87,000 per year which will be offset against future CMC coal invoices.
- The proposed method also addresses how the costs of future amendment to plan benefits of CMC participants will be handled to ensure that the same problems won't be created by future pension plan amendments. Moreover, to minimize the annual cost impacts on the owners, increases or reductions in pension costs that result from future plan amendments will be amortized evenly over the remaining period to December 31, 2020.

Summary

- The proposed new method solves the major problems with the pension cost allocations under the CFSA and can be expected to produce cost allocations which reasonably reflect the intent of that agreement.
- Pension costs allocated to CMC will be limited to costs that are directly related to current services performed by employees at CMC.
- Following execution of this amendment, Seattle City Light will receive a credit of \$87,000 per year against the CMC coal invoices through 1999.

Seattle City Light

Gary Zarker, Superintendent
Norman B. Rice, Mayor



April 18, 1996

The Honorable Jan Drago, President
Seattle City Council
600 Fourth Avenue
11th Floor, Municipal Building
Seattle, Washington 98104-1873

Via: Tom Tierney, Director
Office of Management and Planning

Dear Councilmember Drago:

First Amendment to Centralia Fuel Supply Agreement

Enclosed for your consideration is an Ordinance authorizing Seattle City Light to sign the First Amendment to Centralia Fuel Supply Agreement ("Amendment") with the owners of the Centralia Steam Plant. This Amendment resolves an issue related to allocation of pension cost of Centralia Mining Company ("CMC") employees, which are applicable to cost of fuel under the terms of the Centralia Fuel Supply Agreement of January 1, 1991.

The pension cost allocation issue was raised following the merger of Utah Power with Pacific Power & Light pension plans in 1992, because Utah Power's pension plan was under funded and Pacific Power & Light's pension plan was overfunded. The attached Fact Sheet explains the background and features of the Amendment in more detail. When the Amendment is approved, the City will receive a credit against the cost of CMC coal for excess pension plan assets paid over the Projected Benefit Obligation, which approximates \$87,000 per year for the years 1992 through 1999.

A copy of the Agreement is included as an exhibit of the ordinance. No budget authority is required to execute or implement this Amendment. If you have any questions, please call Paula Green at 386-4530 or Cindy Wright at 386-4533. Thank you.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Gary Zarker', written over a faint, larger version of the same signature.

Gary Zarker
Superintendent

CMW

Enclosures

An Equal Employment Opportunity Affirmative Action Employer
City of Seattle -- City Light Department, 700 Fifth Avenue, Suite 3100, Seattle, Washington 98104-5031
Telephone: (206) 625-3900 TDD: (206) 684-3225 FAX: (206) 625-3709
Accommodations for people with disabilities provided on request
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TIME AND DATE STAMP

SPONSORSHIP

THE ATTACHED DOCUMENT IS SPONSORED FOR FILING WITH THE CITY COUNCIL BY THE MEMBER(S) OF THE CITY COUNCIL WHOSE SIGNATURE(S) ARE SHOWN BELOW:

Margaret Pogel

FOR CITY COUNCIL PRESIDENT USE ONLY

COMMITTEE(S) REFERRED TO: _____

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City of Seattle

Executive Department—Office of Management and Planning

Thomas M. Tierney, Director
Norman B. Rice, Mayor

April 18, 1996

The Honorable Mark Sidran
City Attorney
City of Seattle

Dear Mr. Sidran:

The Mayor is proposing to the City Council that the enclosed legislation be adopted.

REQUESTING
DEPARTMENT: City Light Department

SUBJECT: AN ORDINANCE relating to the City Light Department; authorizing the execution of the First Amendment to the Centratia Fuel Supply Agreement Dated as of January 1, 1992.

Pursuant to the City Council's S.O.P. 100-014, the Executive Department is forwarding this request for legislation to your office for review and drafting.

After reviewing this request and any necessary redrafting of the enclosed legislation, return the legislation to OMP. Any specific questions regarding the legislation can be directed to Yazmin Mehdi at 684-8088.

Sincerely,

Norman B. Rice
Mayor

by

Yazmin Mehdi

for TOM TIERNEY
Director

h:\admin\legis\law\trsmehdi2

Enclosure



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COPY OF
05 APR 18 AM 9:31
CITY ATTORNEY

STATE OF WASHINGTON - KING COUNTY

68214
City of Seattle, City Clerk

--SS.

No. ORDINANCE

Affidavit of Publication

City of Seattle

TITLE-ONLY PUBLICATION

The full text of the following ordinances, passed by the City Council on May 6, 1996, and published hereof this date, will be mailed, at no cost, upon request for two months after this publication. For further information, contact the Seattle City Clerk at 684-8344.

ORDINANCE NO. 118118

AN ORDINANCE authorizing a collective bargaining agreement between The City of Seattle and Seattle Police Dispatchers' Guild, effective through December 31, 1997, and providing payment therefor.

ORDINANCE NO. 118119

AN ORDINANCE relating to the City Light Department; authorizing the execution of the First Amendment to the Centralia Fuel Supply Agreement Dated as of January 1, 1992.

ORDINANCE NO. 118122

AN ORDINANCE relating to the City Light Department; authorizing an easement agreement with the State of Washington Department of Transportation (the "State") for use of the City of Seattle Skagit Transmission Line Right of Way in Skagit County, Washington, for a right of way for State Highway SR 630 (P. M. #341019-3-302).

ORDINANCE NO. 118123

AN ORDINANCE providing for the acquisition by condemnation of land and other property rights in a portion of H. Van Asselt Donation Claim No. 50, being parts of Sections 27, 28, 33 and 34, Township 24 North, Range 4 East, W. M., in King County, Washington, lying south of Riverside Addition, according to the plat thereof recorded in Volume 6 of Plats, page 92, in King County, Washington, for open space, park and recreation purposes (East Duwamish Greenbelt) under the Seattle Open Space and Trails Bond Program.

ORDINANCE NO. 118124

AN ORDINANCE appropriating money to pay certain audited claims and ordering the payment thereof.

Publication ordered by JUDITH PIP-PIN, City Clerk.

Date of official publication in the Daily Journal of Commerce, Seattle, May 21, 1996. 521(68214)

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12th day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CTOT: 118118, 19, 22-24

was published on

05/21/96

The amount of the fee charged for the foregoing publication is the sum of \$ _____, which amount has been paid in full.

Subscribed and sworn to before me on

05/22/96
[Signature]

Notary Public for the State of Washington, residing in Seattle

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