

**THE BOARD OF COMMISSIONERS OF PUBLIC  
UTILITY DISTRICT NO. 1 OF FRANKLIN COUNTY, WASHINGTON**

MINUTES OF MAY 26, 2009  
REGULAR COMMISSION MEETING

**MEETING CALLED TO ORDER**

The Board of Commissioners of Public Utility District No. 1 of Franklin County held their regular meeting at 1411 West Clark, Pasco, Washington, on May 26, 2009.

Those present from the District were: Commissioner Stu Nelson, President; Commissioner Chuck Hall, Vice President; and Commissioner Bill Gordon, Secretary; Ed Brost, General Manager; Steve Palmer, General Counsel; Tim Nies, Director of Administrative Services; Susan Paysse, Director of Human Resources, Dale Gutmann, Director of Operations; Duane Sams, Director of Engineering; Linda Boomer, Director of Power Management; Debbie Bone-Harris, Community and Government Relations Manager, and Susan Bauer, Executive Assistant.

Members of staff present for part of the meeting were: Elena Ramirez, Public Records Officer; Rich Sargent, Power Analyst; and Darroll Clark, Energy Services Manager.

Members of the public present for part of the meeting were: Jim Oakley, Energy Northwest; Larry Felton, Bonneville Power Administration Account Executive; and Ed Ray and Pat Montieth, Conover.

Commissioner Nelson called the regular meeting to order at 1:00 p.m.

**COMMENTS FROM THE PUBLIC**

No comments were presented from the public.

**COMMISSIONER REPORTS**

Commissioner Hall reported that he attended the Information Technology Conference at the Convention Center in Kennewick and the Mid Columbia small business award banquet. He also participated in a tour of Energy Northwest Columbia Generating Station, which is currently undergoing maintenance and refueling outage work. Commissioner Hall reported that he attended the WPUDA meetings that were in Kennewick this month. He also attended the Columbia Snake River Irrigators Association meeting, where members expressed concern regarding the ongoing talk promoting removal of the Snake River dams.

Commissioner Gordon reported that he participated in a tour of the Hanford Reservation led by a representative from the Department of Energy. He also attended the NWPPA meeting in Boise, where there was a session on board members' responsibilities. He noted that there has been a public relations effort asking for active support against removal of the dams.

Commission Nelson reported that he too attended the WPUDA meeting and the NWPPA meeting in Boise.

**CONSENT AGENDA**

The Commissioners reviewed the Consent Agenda.

Commissioner Hall moved and Commissioner Gordon seconded to approve the Consent Agenda as follows:

1. To approve the minutes of the Regular Meeting of April 28, 2009.
2. To approve payment of expenditures amounting to \$6,184,579.05 as audited and certified by the auditing officer as required by RCW 42.24.080, and as certified by the General Manager as required by RCW 54.16.100, and expense reimbursement claims certified as required by RCW 42.24.090 and as listed and made available to the Commission for inspection prior to this action, as follows:
  - a.) Automated vouchers 43498 through 43550, 43552 through 43596, 43598 through 43623, and 43625 through 43664 in the amount of \$2,130,917.74;
  - b.) ACH vouchers 477, 481, 483 through 488, and 490 through 493 in the amount of \$4,871.76;
  - c.) Handwritten vouchers 6697 through 6699 in the amount of \$12,349.09
  - d.) Refund vouchers 43391 through 43496 in the amount of \$18,619.38;
  - e.) Voids in the amount of \$19,293.51; and
  - f.) Wire transfers totaling \$4,007,114.59 to the following:

BANK OF THE WEST	DIRECT DEPOSIT PAYROLL	\$347,327.52
BANK OF THE WEST	EFTPS (PAYROLL TAXES)	\$141,630.55
DEPT RETIREMENT	PERS 1,2,&3	\$74,976.88
ICMA	DEFERRED COMPENSATION	\$50,747.73
REHN	125 PLAN	\$3,223.82
REHN	VEBA	\$16,690.58
BPA	SLICE	\$1,369,142.00
BPA	TRANSMISSION	\$309,613.00
BPA	BLOCK	\$697,721.00
DEPT OF REVENUE	EXCISE TAX	\$217,927.57
LL&P WIND	WHITE CREEK WIND ENERGY	\$248,174.99
FREDERICKSON	ENERGY	\$383,396.47
TERASEN	GAS-FREDERICKSON	\$134,781.51
POWEREX	FINANCIAL SWAP-POWER	\$2,854.20
LEHMAN BROS	FINANCIAL SWAP-POWER (bankruptcy settlement)	\$8,906.77
TOTAL		\$4,007,114.59

3. To approve for write-off uncollectible accounts as listed on the Franklin PUD Customer Write-Off Final report dated May 18, 2009, in the amount of \$19,301.95.
4. To approve payment for work completed from March 23, 2009 to April 25, 2009, by Power City Electric, in the amount of \$109,236.04 for Contract 4944B, 2009 Miscellaneous Projects.

Commission Hall moved and Commissioner Gordon seconded to accept the consent agenda as presented.

The motion passed unanimously.

### **ADOPTING RESOLUTION 1129, AMENDING THE RISK MANAGEMENT & TRADING OPERATIONS POLICY AND PROCEDURES**

Mr. Nies introduced this agenda item, and explained that since becoming a Slice customer in 2001, the District has managed its exposure to wholesale energy commodity market prices under formalized risk management processes. These processes are documented in the Policies and Procedures for Risk Management and Trading Operations, which has not been updated since the District sold its share of Power Resources Managers (PRM) to The Energy Authority (TEA) in June of 2006.

Mr. Nies explained that the Policies and Procedures for Risk Management and Trading Operations have been amended to reflect current risk management practices under TEA. He further indicated that there are no significant policy changes, but noted that TEA has been trading as 'principal' instead of as 'agent' on real time and day-ahead transaction, and that the District has been operating under TEA credit limits and uses their credit processes.

Mr. Nies reported that staff recommends adoption of the amended policies and procedures in substantially the form attached.

Commissioner Hall moved and Commissioner Gordon seconded to adopt Resolution 1129 as presented.

Motion passed unanimously.

### **APPROVING THE PROPERTY AND LIABILITY INSURANCE POLICY RENEWAL**

Ms. Elena Ramirez introduced the agenda item, explaining that because the current insurance policy was due to expire on June 1, 2009, it was time to renew the property and liability insurance policy with the District's insurer, Federated Insurance. Ms. Ramirez introduced Mr. Ed Ray and Ms. Pat Montieth from Federated Insurance.

Mr. Ray reported that he had conducted a review of the District's coverage under the current policy, and had updated it to more adequately cover replacements costs. He

reported that the new policy also takes into account the recent system additions undertaken by the District to meet the significant load growth. Mr. Ray noted the quote for 2009-2010 includes a 12% increase from the previous year's premiums due mainly to: a full reassessment of substation replacement values; overall growth of the District's assets; increased limits in Employers' Liability and Underinsured Motorist coverage; and insurance market rate increase for automobile liability and commercial umbrella liability. Staff requested a two-year quote, and the quote provided is subject to any re-insurance adjustments in the second year. Funding included in the 2009 budget is sufficient to cover the proposed premium increase. Staff recommended that the District renew the insurance policy.

Commissioner Gordon asked if the premium would be the same for both years; Mr. Ray said not necessarily, as re-insurance adjustment may increase or decrease the amount of the overall premium.

Mr. Ray reported that the District administration is doing a good job, and that the 'loss ratio' is satisfactory. Mr. Ray expressed his pleasure in working with Ms. Ramirez and Mr. Palmer.

Commissioner Gordon asked if the break-in and robbery of last year influenced the premium, and Mr. Ray answered that no, it did not.

Commissioner Hall moved and Commissioner Gordon seconded to authorize the General Manager or his designee to renew the District's Property and Liability Insurance with Federated for June 1, 2009 through June 1, 2011 at a cost not to exceed \$215,365 per year, plus any re-insurance adjustments for 2010.

Motion passed unanimously.

#### **AUTHORIZING THE GENERAL MANAGER TO EXECUTE A CONTRACT FOR A MINI DIGGER-DERRICK**

Mr. Gutmann reported that last March the District went out for bid for a Mini Digger-Derrick. The Mini Digger-Derrick, titled "Thurman Dolly" in the 2009 Work Plan, is a piece of equipment that is necessary to haul material such as poles and transformers, to set poles, and to perform pole top maintenance required in a customer's backyard.

He explained how this piece of equipment is exceptional because of its attributes, including its ability to adapt its size to pass through a fence gate and into a back yard. The District will no longer have to tear down and then repair fences and landscaping; the Digger-Derrick can get into a customer's back yard through a gate, and once inside, expands to perform the work.

Sealed Bids were opened Thursday, April 2, 2009 at 2:30 p.m. Bids were as follows:

- Altec Industries submitted a bid with exceptions for \$121,297;
- Titan Truck Equipment submitted a bid with exceptions for \$123,489; and
- S.D.P Manufacturing, Inc. submitted a bid for \$128,861.38.

Mr. Gutmann explained how the Altec Industries bid had numerous exceptions noted, and that the Mini Digger-Derrick as proposed would not be able to perform as needed by the District. He further explained that while the bid of Titan Truck Equipment also had several exceptions noted, the District determined after further inspection and review, that the exceptions do not detract from the functionality needed by the District. Therefore, Mr. Gutmann explained, the District determined that the exceptions noted by Titan are minor irregularities and should be waived by the District; and as such, Titan was the lowest responsive bidder.

Titan Truck Equipment's bid is within the amount approved in the 2009 Work Plan, and staff recommended that the District award the contract to Titan Truck Equipment.

Commissioner Hall moved and Commissioner Gordon seconded to find that Altec Industries' bid was not responsive, and to find that Titan Truck Equipment is the lowest responsive bidder. Further, Commissioner Hall moved and Commissioner Gordon seconded to authorize the General Manager or his designee to execute a contract with Titan Truck Equipment for a 2009 Mini Digger-Derrick in an amount not to exceed \$123,489.

Motion passed unanimously.

#### **ADOPTING RESOLUTION 1127, APPROVING THE PRE-QUALIFICATION OF ELECTRICAL CONTRACTORS FOR 2009**

Mr. Sams introduced this agenda item to the Commission, asking them to pre-qualify a group of electrical contractors for 2009. He explained that each year, the District pre-qualifies contractors who provide sealed bids for work that may consist of electrical substation, transmission and overhead and underground distribution construction projects. The maximum bids are set at amounts that reflect typical projects.

Staff has reviewed all contractor applications and recommends maximum bid amounts as follows:

<b>Contractors</b>	<b>Maximum Bid Awarded</b>
Basin Tree Service & Pest Control	\$750,000
City Pacific Services (City Electric)	\$1,500,000
Hawkeye Construction, Inc.	\$1,500,000
Intec Services, Inc.	\$500,000
International Line Builders, Inc.	\$1,500,000
Michels Power Corporation	\$1,500,000
Mountain Power Construction	\$1,500,000
Moza Construction, Inc.	\$1,500,000
Osrose Utility Services, Inc.	\$500,000
Pole Maintenance Company, LLC	\$500,000
Potelco, Inc.	\$1,500,000
Power City Electric, Inc.	\$1,500,000

Commissioner Gordon moved and Commissioner Hall seconded to adopt Resolution 1127, Pre-qualifying Electrical Contractors for sealed bid projects for the calendar year 2009.

Motion passed unanimously.

### **AUTHORIZING THE GENERAL MANAGER TO EXECUTE AN AGREEMENT FOR THE SALE OF RENEWABLE ENERGY CERTIFICATES**

Mr. Rich Sargent introduced this agenda item, and reported that the District receives power and purchases power from two wind farms, White Creek and Nine Canyon Wind Projects. The District also receives non-power attributes called Renewable Energy Credits (RECs). One MWH of wind energy generated results in the creation of one REC, and RECs are registered, and can be sold directly or through brokers. The White Creek project is expected to provide the District with approximately 30,000 MWH of energy and RECs annually.

Mr. Sargent explained that the District could market the RECs since we are not currently required to use them. Revenue from the sale of the RECs will reduce the power costs. The District has tried to find the best buyer of the RECs. The District has received a valid offer for its White Creek RECs, and the District can sell them in one of two ways:

Option 1: RECs only ("unbundled") for a 36-month term beginning January 1, 2009 and terminating December 31, 2011 for \$9.00 each. The number of RECs sold is contingent upon actual generation, but the estimated net income from the sale of the RECs would be about \$270,000 annually.

Option 2: RECs and power "bundled" wherein the District would sell the "bundled" product effective June 1, 2009, along with unbundled RECs for January 1 through May 31, 2009. The bundled REC price would be \$17.50 each. The power portion of the bundle would be priced at the Intercontinental Exchange (ICE) Daily Index. A separate and simultaneous power purchase contract would also be executed wherein the District would purchase an equivalent amount of power at the same market price. Delivery Point for both the sale and purchase will be "Mid-C." From January 1 through May 31, 2009, the District will sell unbundled RECs for \$9.00 each. The estimated REC income would be about \$420,000 in 2009 and \$525,000 in 2010 and 2011.

Staff recommended the Commission approve Option 2 described above. The District will not need the RECs during this period to comply with any legislative renewable mandates, and the price compares favorably with other recent market activity for RECs.

Commissioner Gordon asked about the price of the power. Mr. Sargent explained how they would arrive at a price.

Commissioner Hall moved and Commissioner Gordon seconded to approve the sale of White Creek RECs for 2009 through 2011 as described in Option 2 above and to authorize the General Manager or his designee to execute any contracts necessary to implement the sale.

Motion passed unanimously.

### **CLAIMS**

Mr. Palmer reported that the District has received two claims since the last Commission meeting. One is from a minor vehicle accident; one of our linemen brushed the side of a car with a District vehicle, causing about \$1,100 in damages. The second is from a customer, who had notified the District of a future disconnect request. The District mistakenly disconnected the customer the next day. The customer has made a claim for the cost of lost perishable food stored in fridge and freezer.

### **GENERAL MANAGER'S REPORT**

Mr. Brost reported on a letter that he got from Pacific Northwest Waterways Association, welcoming the District as a new member. Commissioner Hall will be attending PNWA's semiannual meeting held in Chelan in late June.

Mr. Brost reported that the District had been working on the Smart Grid "Letter of Interest" proposals; he reported that the District submitted one letter as an individual proposal, and one letter as a joint proposal, involving several other local utilities. BPA will have further discussions with those that make the short list. Mr. Larry Felton from BPA spoke to the matter, indicating that BPA would support a joint NW proposal, and that the 'short list' of successful submissions should come out this Friday. After that, the utilities will be required to provide a binding letter indicating their commitment to the project.

Mr. Brost reported that he is expecting a letter from Energy Northwest on a modular nuclear project to be located at their old WNP ¼ site. He explained that there has been a series of meetings on this, and that Energy Northwest is asking for interested parties to each fund \$25,000 to complete a \$500,000 feasibility study for the project. Mr. Brost asked the Commissioners for their concurrence to have the District contribute the \$25,000 and the Commissioners agreed.

Mr. Brost said there was no new information on the BPA rates, but that by the first part of August customers wanted BPA to release both the numbers and the methodology for the expected rate increase.

Mr. Brost reported that the District and several utilities signed a letter supporting the proposal of IBEW 77 taking over the NuTech facility. He said that last Thursday at a joint labor management meeting, it was announced that it appears that the take over will be completed, thanks to the support of the utilities.

Mr. Brost reported that at the Manager's Section of the WPUDA meetings, the Managers took action related to the hydrogen hubs, agreeing to support, but not help fund, their initiative. Mr. Brost related that at the WPUDA meeting there was a lot of discussion regarding the governance model of WPUDA, and about how WPUDA does or should decide to take a position on issues. The question asked was whether WPUDA should take a position based on a majority of utilities, or one or two 'big

players; and whether a consensus model or a majority rule decision model should be used? There will be further dialogue about this and it is very important matter for the utilities to decide.

Mr. Brost briefly addressed his attendance at the latest PPC meeting, and the discussion of the issue of preference, and whether BPA, when talking about public preference, is talking about the preference to power or to capacity, or both. There will likely be an education effort undertaken by public power via Liz Loomis and others.

## **STAFF REPORTS**

Ms. Boomer, Director of Power Management, reported that:

1. she also attended the PPC meeting, and she added to Mr. Brost's comments on the issue of preference related to power and capacity reserved for wind firming. Capacity needed to firm wind power was driving the need for public power customers to defend their right of preference to both power and capacity;
2. she has been successful in negotiating the release of a deed for the easement portion of the Glade to Taylor flats line; she has the deed signed and will get it to BPA for signature and then record it at the County offices; and
3. she noted for the record that Randy Gregg from Benton PUD is retiring and going to work for TEA, taking Jeff Fuller's place, and so we will be working with him in the future.

Ms. Paysse, Director of Human Resources, reported that:

1. System Engineer Mark Hay has resigned, and the opening is advertised. Ms. Paysse noted that this is a real loss to the District, given Mr. Hay's extensive knowledge of our system;
2. an offer has been extended to a Substation Electrician, and if accepted, this individual will come on board in late fall;
3. Abby Borchers was selected from over 400 applicants for the Customer Service position, and she started May 18th as a regular employee;
4. at the last meeting of the Unified Insurance Plan (UIP) Trustees, she learned that the self-insured trust is functioning very well, with claims at approximately 95% of premiums;
5. the UIP will be changing carriers for Life Insurance, Accidental Death & Dismemberment Insurance, and Long Term Disability Insurance, and the new carrier, Unum Insurance Company, will provide more benefit at less premium; and
6. she and Dale Gutmann attended a Central Washington Public Utilities labor/management meeting on May 21st, along with other management and labor representatives, to discuss the benefit changes brought about by this change in carriers. The Union representatives were pleased with the changes and gave their approval. The change will be effective August 1, 2009.

Mr. Nies, Director of Administrative Services, reported that:

1. regarding the budget status report, while the reserves are high, that is to be expected at this time of year, and that they will fall later;
2. the Broadband revenues are expected to increase next month as the new rates take effect;

3. he is fine-tuning the rates presentation for next Tuesday's Rate Advisory Committee meeting. The District's internal Rate Committee has recommended that we contract with our rates consultant to review further our costs of service. It is estimated that a full cost of service study would cost approximately \$15,000 to \$38,000. At this point Mr. Brost took a moment to discuss his request to departments about review their budgets to look for savings, specifically \$500,000 in Operating and \$1,000,000 in Capital, and reported that staff responded and that preliminary results indicated that the challenge would be met;
4. regarding the building expansion project, it has become apparent that the roof is in poor condition, and the team is looking at whether roof replacement is going to be required, and if it is, what replacement options are best. Preliminary estimates are in the \$170,000 range, and that would be in addition to the current construction contract. If replacement is required, it would require either a modification to the current contract or a new separate contract. Since a decision would likely be needed before the next Commission meeting, it was agreed that the Commissioners would be contacted individually prior to a decision being made and the decision would be brought to the next meeting for ratification;
5. regarding the Financial Information System, the detailed walkthrough is completed and a written report is due soon; training for the project is moving forward;
6. the phone system replacement project is also moving along, and the 'Scope of Work' document has been received; and
7. he attended the recent NoaNet meeting which was held in Kennewick, and all the utilities signed the line of credit document.

Mr. Gutmann, Director of Operations, reported that:

1. the Operations team is 'on schedule' to get the lines removed and relocated at the Chiwanna School and that the loop feed is no longer active. The work is to be finished by the first part of next week and then the City of Pasco can complete the widening of Argent road and installation of the lighting;
2. regarding the CT site, an operator's meeting was held with Grays' Harbor PUD and all are satisfied with the progress being made. Rich Sargent and Dave Reed attended for the District. NAES found a temporary operator, and pushed back the 'full operation' date from June 1 to July 1. Mr. Gutmann believes that when called upon, the CT should be able to run with all four turbines; and
3. regarding the District's building at 1313 Clark, the building is basically gutted out, has no water usage, and has been 'moth-balled' since 2005. The building currently has a broken window that has been repaired with plywood. More information will be gathered and decisions will have to be made soon about what to do with the building.

Mr. Sams, Director of Engineering, reported that:

1. regarding the Kahlotus line, the consultant has had one more conversation with the land owners. The District is going to profile our current line to optimize its capabilities, and Mr. Sams expects that by the June Commission meeting we will have our line profile;
2. he reported on the GIS part of engineering, and that the team there is working to provide mapping for the District, that staff have been testing and working with IS to upgrade the systems, and doing good work behind the scenes; and

3. since Mark Hay has resigned, they are beginning a search for a Systems Engineer and hoping to get a good pool of candidates.

Mr. Palmer, General Counsel, reported that:

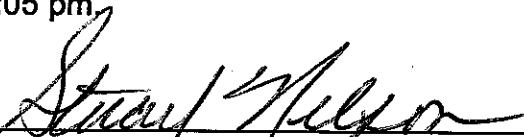
1. he has received the fourth draft of the phone replacement contract, and he is working to get the contract finalized.

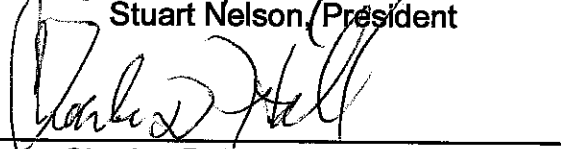
Ms. Bone-Harris, Community and Government Relations Manager, reported that:

1. at the meeting of Northwest River Partners, there was discussion regarding a legislative initiative about recognizing hydro power as renewable, though NWRP may not be the one to take such an initiative forward. NWRP is currently focusing on the recent Judge Redden decision and supporting the federal BiOp. She also believes that being members of PNWA already benefits the District;
2. Terry Flores, Executive Director of NWRP, issued a statement indicating that Judge Redden's statements could fracture the region and set it back decades;
3. PNUCC has come out with a communications strategies plan;
4. she will give a second presentation to the Shriners next Friday, and she will be updating the presentation so it can be presented to local organizations;
5. the new Franklin PUD internet was up and running, and looked great; and
6. on June 15, the Tri-Cities Legislative Council is sponsoring a Legislative Reception.

#### MEETING ADJOURNED

With no further business to come before the Commission, Commissioner Nelson adjourned the meeting at 3:05 pm.

  
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Stuart Nelson, President

  
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Charles D. Hall, Vice President

  
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William Gordon, Secretary