



# Public Utility District No. 1 of Klickitat County

80 Years of Service \* 1938-2018

## GENERAL MANAGER'S REPORT TO THE BOARD

For the **September 11, 2018** Meeting

### AGENDA ITEMS:

- A. DEPARTMENT OF ECOLOGY AWARDS- The Water/Wastewater staff is being recognized for their exceptional operation of the Klickitat, Lyle, and Wishram systems. This award makes 10 consecutive years of recognition for the Klickitat system. Each year the Department of Ecology recognizes those wastewater treatment plants that remain 100% compliant with their wastewater discharge permits. KPUD's Wastewater Team was previously presented Special Recognition for 10 Consecutive years for Lyle Wastewater Treatment Plant (2006-2015) and Wishram for 5 consecutive years (2009-2013).
- B. BID AWARD\_ Linden Switchyard Upgrade Construction- Staff is requesting the board award the bid for Construction of the Linden Switchyard Upgrade project to Michels Corporation. The bid opening was held on Tuesday September 4<sup>th</sup>. There were two bids received and Michels Corporation was the low successful bid. The bid amount was \$499,067.66 before tax.
- C. PREQUALIFICATION OF PROFESSIONAL SERVICES CONSULTANT- Staff is requesting that the board approve the addition of Specialty Engineering, Inc. and Sapere Consulting, Inc. and agree to add them to our professional services roster for 2018.

### NON-AGENDA ITEMS:

1. **Senator Murray** – will be in Goldendale Monday. Miland Walling arranged the opportunity for her to take a tour of the Goldendale Energy Storage Facility site Monday afternoon and it appears as though she is taking that opportunity. I have no other details at this time other than a 4:00 time frame. I did make an offer of the PUD Suburban and a driver (me, unless one of you wants to attend).
2. **Fire Risk Mitigation** – I have been involved with a task group with WPUDA member utility legal, operational and legislative employees working on strategies to support the WPUDA Fire Liability Action Plan that Collin Willenbrock from Pend O'Reille and I are supporting. I will be attending the September WPUDA Energy Committee meeting to assist Nicholas Garcia of WPUDA to discuss our direction and get any required feedback / support.

Dave Warren, along with Dave Arbaugh (representing Chelan), also had an initial discussion with DNR staff last week to initiate discussions regarding the WPUDA Action Plan. There

will be a legislative outreach starting shortly as well.

3. **Strategic Planning** – Gwyn and I met with Therese Hampton this week to set up the framework for the planning process in November. The intent here is to extend the timeframes in our plan as we evolve this into a more truly strategic plan.
4. **My Notes from an Elliott Mainzer discussion with PPC on September 6th** –

BPA's Integrated Program Review (IPR) costs have decreased by \$60M in the drafts BPA is currently working with. \$55 million in power and \$5 million in transmission. This is equivalent to 3% of their rate revenue. While BPA cannot fix its current issues solely with the IPR costs, but this is a good step in moving the BPA culture forward. However, there are other items that will likely still result in a rate increase. Surplus revenues are again forecast to decrease, they lost a direct sales contract to Aloca that had margins over market, they are "decapitalizing" (is that a word?) energy efficiency costs and they are likely to need additional margin in transmission to meet their liquidity targets. I think Mike is still thinking 5% range, which is about \$750,000 in increased wholesale power costs to us.

The Energy North West (ENW) Participant Review Board (PRB) passed a resolution supporting expanding the use of regional co-operation debt. The arrangement is much like the last one, where there is a multi-year commitment with an annual decision if it makes sense. In this case, the agreement is 10 years and up to \$3.5 billion. BPA's analysis of various sources of funding suggests this is the least cost option for additional capital. Brent Ridge at ENW agrees with this conclusion. The cost of borrowing is currently about 2.7%. In essence, as Energy Northwest pays off Columbia Generating Station debt, it would be replaced with BPA debt. PPC is in agreement with the provisions, however everyone still has concerns of what improvements the funding will be used for, although that is an issue no matter what the funding source. BPA intends to maintain the ability to lease finance, but only for specific projects where the increased administration and interest costs are offset by other advantages. It is clear that rate financing capital expenditures is not being pursued. For reference, if the current planned capital spend programs were rate financed, that would cause a 3% per year escalation for at least the next 5 - 7 years.

Michelle Manary is the new BPA Chief Financial Officer. Previously she was their Vice President of Transmission Sales and Marketing. Michelle has been with BPA about 20 years, including stints in corporate strategy and finance.

Governor Inslee issued a letter BPA supporting hydro spill at Federal dams to 125% of the total dissolved oxygen standard gas cap to support Puget Sound Orcas. Elliott stated they

were totally blind-sided by this divergence from BPA support on spill issues.

5. **Columbia River Treaty** – the first three introductory meetings with Canada have taken place. The first real negotiation meeting is scheduled for October 17<sup>th</sup>.
6. **California Markets** – Senate Bill 100 recently passed in California that would require 100% clean energy resources in California by 2045. Hydro is included in allowable resources.

AB813, that would have created the path for a regional independent system operator did not pass. That means focus will be on the expanded day ahead Energy Imbalance Market. That process is a CAISO process and as a result is completely closed door. BPA has stated that this is not their biggest focus area and that they have advised CAISO that not including the Pacific Northwest in their plans would not be good for anyone, including them. BPA has said they are viewing market developments evolutionary, not revolutionary and the bill failing to pass does not concern them.