



Public Utility District No. 1 of Klickitat County

80 Years of Service * 1938-2018

GENERAL MANAGER'S REPORT TO THE BOARD

For the July 24, 2018 Meeting

AGENDA ITEMS:

- A. WHITE CREEK WIND UPDATE- Bjorn Hedges will be here to update the board and staff on the status of White Creek Wind's operations.
- B. RNG UPDATE- Kevin and Mike will present the project update along with an updated schedule.
- C. BID REJECTION-Linden Switchyard Construction- The bid opening was held on July 19th. We received one bid for this project and it exceeded our Engineer's estimate by more than the 15% allowable. We believe the limited resources and availability of work in our area is promoting the construction predicament we continue to run into.
- D. BID REJECTION-Sonova Switchyard Construction- The bid opening was held on July 19th. We received one bid for this project and it exceeded our Engineer's estimate by more than the 15% allowable. We feel we will continue to find lack of bidding options for our current deadlines. We are in the process of reevaluating our construction timelines in order to obtain more complete bidding interest and options.
- E. CALL FOR BID- Linden Switchyard Construction – We are requesting approval to reissue the call for bid for the Linden Switchyard Construction. Staff is confident that if we update our construction timeline we should be able to obtain some competitive bids. We believe that by extending our construction timeframe into next spring it will provide contractors the ability to schedule their work out, and will still provide us time to be prepared ahead of the BPA Scheduled Outage date.

NON-AGENDA ITEMS:

1. Klickitat PUD 2019 EPA Renewable Volume Obligation Testimony July 18th, 2018- Kevin provided testimony at the Environmental Protection Agency's public hearings being held in Ypsilanti, Michigan, along with the Renewable Natural Gas Coalition. The draft volume for 2019 D3 cellulosic RINs increased over the 2018 volume from 288 million gallons to 381 million gallons. The focus this year was to thank EPA for their support in continuing to increase the D3 RIN volumes. Kevin and The Coalition met briefly with EPA staff to thank them for their efforts and EPA expressed gratitude for our input to the process. D3 RIN prices have remained relatively stable, around \$2.30/RIN (≈\$27/mmbtu). We should have ≈6.5 million RINs available on the indexed gas portion of the BP contract. The fixed price portion of the contract doesn't generate RINs.

2. **National Information Solutions Cooperation (NISC)** – we are starting into the details on our conversion to NISC’s customer billing and accounting systems. We are scheduled to move to the billing system in December and the accounting system in January. I want the Board to fully appreciate that this effort will consume pretty much everybody from now until go lives dates. Apart from the drive to complete the RNG facility, this is the largest strategic area we will be focusing on. The effort includes teams from every department as the new system is designed to flow work differently than we currently do. It offers significantly more streamlined data and information processing, but that means we need significant changes to our processes in addition to efforts to clean up our data and ensure that we are starting with a solid base to move forward. So, we are forming the various sub-committees to look at each of the process areas, as well as evaluating conversion to their mapping system. There are many integration advantages to taking that additional step, along with a powerful mobile mapping and “paperless” (or at least less paper) work management system that could provide additional improvements to our work processes and our ability to provide additional information to our customers along with excellent customers. If we go this route, that addition would be part of our 2019 budgeting process.
3. **2018 Capital Work Plan** – as anticipated, we are seeing the same contractor shortages that have affected our RNG construction project and the last water well project we completed. There appear to be very limited contractor crews in almost every discipline. As a result, you will note we are rejecting a couple of bids at the meeting today. We met this week to discuss how we may change our construction schedules to try to find better contractor availability and better pricing. This means putting out our construction bids close to the original schedules but extending the completion dates out potentially as much as a year. We need to take some time to plan this out and that may take a few weeks. This should give contractors a chance to bid these projects and work them into their existing schedules. This creates a few issues operationally that we are evaluating and if we can mitigate these impacts, we will delay these projects. There will be some projects we can’t delay very much and we will deal with those. On the good side, that delays some of our capital outlays, but while we are confident revised schedules will help with cost, it is not clear that construction costs still won’t be higher than our original budgets.
4. **Employee Department Meetings** – I am starting the third round of employee meeting to discuss items of interest to our employees and ensure they are knowledgeable about what we are doing as an organization and why.
5. **Goldendale Energy Storage Project Commerce Funding** – Brian and I are finalizing the scope of work and applications for the Commerce funding for the Goldendale Energy Storage project. They provide for funding for our administrative efforts, which we are

estimating at 3%, which is about \$33,000.

6. **Staffing Update** – We are interviewing an Engineering Manager / Chief Engineer candidate August 6th. Jess Beierle and Gregory Dechand were hired for the Goldendale and White Salmon groundmen positions, and Anthony Lozano filled the Goldendale construction crew lineman position. The Meterman, Payroll Clerk, WS staking engineer, Network Administrator and Superintendent positions are still in process. There are also some back fill positions created by internal hires.

7. **Public Generating Pool (PGP) Carbon and Market Issues** – PGP is starting the reliability study work that looks at electric system reliability under various low carbon, renewable and storage options. If you recall, the Resolve model that E3 employed in our study work regarding the costs of various carbon goals was designed as a market pricing tool, not an hourly system performance tool. Therefore, along with Puget Sound Energy, Avista and Northwestern, PGP has engaged E3 to complete a new study focusing on reliability of the electric system under various carbon and renewable legislative options that have been proposed for carbon reduction. The total study cost is estimated at \$450,000. Our portion through PGP will be \$12,000. The obvious issue we are trying to address is that the system is unlikely to operate reliably with many of the alternatives being considered and a system stability needs to be part of the discussion on viable carbon reduction alternatives.

In the meantime, I believe that the KPUD position should be that we have identified carbon pricing as a least cost option to reduce carbon to meet the 80% reduction goal set by the Governor and we are generally supportive of those options. While 100% clean energy sounds great, studies indicate that getting to that goal will cost an astronomical amount, in excess of \$15 billion MORE than options that could meet the existing 80% carbon reduction goal. In addition, there are serious concerns whether the system will be reliable if this were achieved. I think working towards the 80% goal and considering improvements to that goal as technologies change and provide alternative least cost reductions is a solid path to improve our environment and balance the many other policies and societal needs.

All this matters to our strategic view point for power acquisition in the future, as well as support for the carbon free resources we have, including our BPA power supply, which is over 70% carbon free.

PGP is also putting significant effort into providing input to the CAISO as the Energy Imbalance and Day Ahead markets evolve. There are very strong indications that those in governance in California are beginning to understand the perilous position CA is likely to be in as their solar generation expands and the amount of capacity available to them decreases. The mechanism that is being discussed is called Resource Adequacy (RA). RA would

require that each load serving entity must have SPECIFIED resources to meet their peak needs on an hourly and day ahead basis. This means a utility cannot rely on market purchases to meet peak demand as that market may not be there when needed. There must be a specific source to ensure that the load supply and hence the system remains reliable. This requirement is likely to lead to some sort of capacity market, although whether that is hourly or day ahead, or what have you, is not yet defined. That could be a basis for value for our existing LFG CT generation. These issues also matter to us via BPA surplus revenues and potentially long-term value for carbon free electric power as an alternative to RNG if those markets change significantly in the future.