



# Public Utility District No. 1 of Klickitat County

75 Years of Service \* 1938-2013

## GENERAL MANAGER'S REPORT TO THE BOARD

For the August 9, 2016 Meeting

### AGENDA ITEMS

- A. **MISCELLANEOUS POLE BID EXTENSION FOR 2016-** extension of pole bid agreement with McFarland Cascade/Stella Jones Corporation until August 31, 2017.
- B. **BID AWARD- BINGEN CIRCUIT SWITCHER-** award of circuit switcher bid to General Pacific for the Siemens 115kV Circuit Switcher recommended by staff.
- C. **EXECTUIVE SESSION- CONTRACT NEGOTIATIONS-** LFG contract negotiations discussion.

### NON-AGENDA ITEMS

1. I was on Personal Time Off July 25 – 27 and August 3 – 5. Mike DeMott attended the PPC meeting as my alternate on August 4.
2. Department of Ecology Clean Air Rule – Attached is the letter we filed with the Department of Ecology with respect to treatment of the H.W. Hill electric generation facility in their proposed Clean Air Rule. In this filing we took the position, supported by the Washington Public Utility District Association (WPUDA), that their rule goes against current Washington State Law. After interactions with Ecology, it did not appear to us that they had any intentions of modifying their position. As such, we wanted to ensure we retained our legal position, if we choose to go that direction after the Rule is released. In contrast, with our support the Pubic Generating Pool (PGP) took the position that landfill electric generation should be exempted in accordance with Washington State law, but offered a way to utilize biogenic CO2 emissions to mitigate a tax if Ecology is successful in implementing their proposed rule. Also attached are the public filings from WPUDA, PGP and Republic Services (Attachments).
3. 2015 Debt Service Coverage – we discussed last meeting that we have finally received our audited financial statements from Moss Adams and that there were two significant adjustments made. First was an adjustment for interest income that BPA paid to us during 2008 through 2012 that was not treated as income at that time (the payments from 2013 through the present time have been treated as income). Moss Adams' recommendation is that these funds be adjusted in 2015, rather than adjusting audited financials from 2008 through 2012. Second, in addition according to GASB 68, in 2015 we had to record "our portion" of the State's unfunded pension liability and pension expense. The pension expense amounts to \$533,000 and was included in our DSC calculations, although it did not need to be. The result of adjustments is that our yearend audited DSC is 1.56, versus the year end forecast DSC of 1.41. There were no changes in cash amounts as result of these changes.

We also discussed potentially deferring some of our 2015 revenue into our Rate Stabilization account, as we anticipate that there may be reason to draw on this fund in 2016 and 2017 to stabilize our DSC. According to our Bond Counsel, we can only make this election during the actual year, i.e. prior to the end of 2015. I do not concur with this reading of our bond covenants. Attached are excerpts from our 2015 bond offering Official Statement. The wording in the Rate Stabilization section states any deposits or withdrawals must occur "before the date of calculation", which is undefined. Elsewhere in the Continuing Disclosure section, it states that we must provide financial information 9 months after the end of our fiscal year (i.e. by September 30<sup>th</sup>). This suggests to me that we must provide our bond holders audited information by the end of September and clearly

we must do any transfers before this date so as the published information is correct. I do not see how we can make decisions on the use of the Rate Stabilization account prior to having the audited financials to calculate the appropriate DSC.

Unless the Board tells me differently and unless I see anything that convinces me otherwise, I will likely ask staff to make a \$500,000 deposit to our Rate Stabilization account for 2015, which would decrease our DSC to 1.51, increase the Rate Stabilization account by \$500,000 and decrease our Available Cash in 2016 by \$500,000 (see item 4 of the Manager's Report).

4. Reserve Fund Discussion – I am considering requesting that the Board authorize that the General Manager utilize Reserve Funds to cover some of the costs incurred as a result of the crane failure at our McNary project and as a result of the generator failure at H.W. Hill. As you are aware, the Board declared emergency situations in order for staff to expeditiously repair these projects in the best interests of our rate payers. The added expenditures have created impacts on our total Cash Available for use (that is the cash that is not restricted by bond covenants or Reserve funds). At this time, our estimates for these incidents, net of insurance are \$1,750,000 for McNary capital repairs and \$400,000 for H.W. Hill capital repairs. We also anticipate lost operating revenues of \$500,000, net of business continuity insurance. The amounts that I am considering to be transferred from reserve accounts to available cash accounts are:
- \$600,000 Capital Reserve Fund
  - \$400,000 Emergency Reserve Fund
  - \$1,000,000 Operating Reserve Fund (we budgeted to add \$500,000 to this fund in 2016, so this would be a deferral of the \$500,000 contribution in 2016 and a withdrawal of \$500,000)

Attached is a before and after Cash Flow Statement for your review and for discussion at the Board meeting (Attachments).

5. Regional System Operator Governor Letters – I ran across this letter from Governor Inslee to Governor Brown in California. It is interesting that he is mentioning lower costs when California itself stated that they are doing this for emissions, not lower pricing. Also interesting is that he mentions in his closing paragraph that the technology for dynamic transfer is here today. I know for a fact the BPA is struggling as they still live in an hourly market with their customers, and they have said there is no way they can get sub hourly products to their customers anytime soon, even if they can participate on the boundaries of a regional market.

A key point here is that in a truly regional marketplace, any power not sold bi-laterally goes into the market either through a bidding process or at cost. I don't see this as a good thing for being long generation without long term contracts (Attachment).