

Public Utility District No. 1 of Klickitat County
Board of Commissioners Meeting
Tuesday, June 28, 2016
1:00pm

CALL TO ORDER: President Ray Mosbrucker called the meeting to order at 1:00pm as advertised.

PRESENT: Commissioners Ray A. Mosbrucker-President, Randy L. Knowles-Vice President and Dan G. Gunkel-Secretary.

STAFF PRESENT: Jim Smith-General Manager, Ron Ihrig-Chief Operating Officer, Kevin Ricks-Generation Assets & Special Projects Manager, Anita Thompson-Controller, Gwyn Miller-H.R. Manager, Mike DeMott-Interim Power Manager, Ron Schultz-Chief Engineer, Brandy Myers-Customer Service Supervisor, Cynthia Bruce-Accts Payable/Accounting Clerk, Jeff Thayer-Materials Manager, and Kathy Loveland-Executive Assistant.

AGENDA ITEM

A. EXECUTIVE SESSION: Potential Litigation / Contract Negotiations – President Mosbrucker called for an Executive Session at 1:00pm per RCW42.30.110 for the purpose of discussing the Mile Marker 28 Fire, Cliffs Water Rights Contract Negotiations, and H.W. Hill Landfill Gas Contract Negotiations, as advertised. He noted that the session would last for 60 minutes.

RCW 42.30.110 – Executive Sessions.

(1) Nothing contained in this chapter may be construed to prevent a governing body from holding an executive session during a regular or special meeting:

(d) To review negotiations on the performance of publicly bid contracts when public knowledge regarding such consideration would cause a likelihood of increased costs.

The Executive Session concluded at 1:50pm. No action was taken.

RECESS: President Mosbrucker recessed the meeting at 1:51pm.

RECONVENE: President Mosbrucker reconvened the meeting at 2:00pm.

GUESTS: Larry Martin - Attorney at Law with Halverson NW in Yakima, WA; and Karen Van de Graaf - Erickson with Van de Graaf Ranch Properties/Horse Heaven Hills Conservancy.

MINUTES: **MOTION** was made by Commissioner Randy Knowles to approve the June 14, 2016 meeting minutes as amended. Motion carried.

CLAIMS & PAYROLL: Presented by Cynthia Bruce. Vouchers were audited and certified by the auditing officer as required by RCW.42.24.080, and all expense reimbursement claims presented were certified as required by RCW.42.24.090 and were recorded on a listing made available to the Board this 14th day of June, 2016.

MOTION was made by Commissioner Randy Knowles to approve the following as submitted:

- Accounts Payable Voucher numbers 106884 through 107006 in the total amount of \$530,020.08 and Wires, ACH and EFT numbers 8800503 through 8800511 in the total amount of \$707,260.07 for the period ending June 28, 2016; and
- Payroll Warrant numbers 43284 through 43285 and ACH Direct Deposit Payroll transactions 9915559 through 9915635 in the total amount of \$177,231.96 for the payroll period ending June 12, 2016.

Motion carried.

PUBLIC COMMENTS: None at this time.

REPORTS:

COMMISSIONER DAN GUNKEL gave a report on Energy Northwest (ENW), specifically on the conclusions from a recent thorough investigation of the company by a law firm on the east coast. The investigation was prompted by several anonymous letters accusing staff of not supplying the ENW Executive Board fully with information about the performance of the Columbia Generating Station.

The investigation determined that staff was using old INPO (Institute for Nuclear Power Operators) criteria for evaluating the station's performance, instead of new criteria. The bottom line is that the Board was told that the Station was operating in the third quartile of the 99 commercial nuclear reactors in the United States, when in fact the station was operating in the bottom quartile. The lasted several months before staff reevaluated how they were presenting the information. Another interesting thing that came out of the investigation was that they found that the Chief Executive Officer and the Chief Nuclear Officer were frequently out of town during the 51-day outage. It raises an understandable question as to whether travel for other ENW duties was necessary during this important time frame.

The greater observation by Commissioner Gunkel is that while performance had improved dramatically in recent years, the fact is that the performance of the plant has gone downhill measurably recently and that the leader of the organization was offsite and not attending to his staff, which may be a contributing factor to the decreasing performance. Nuclear plants are difficult to run well due to their complexities and it requires a relentless ongoing effort of management to sustain performance. The generating station still has good generation numbers, but that is not necessarily the same as a top quartile plant. When your leader is not leading, it's the little details that get you over time and drag you down. It's not until the Executive Committee demands that the leader be onsite and lays out specific parameters, that they will see sustainable performance. Ratepayers of the region have paid the dollars to have the plant perform well at all levels. ENW needs to improve efforts to ensure that performance is not just improved, but maintained. The responsibility ultimately falls back on the Executive Board and their oversight management. The plant, however, is running safely and generation is good.

COMMISSIONER RANDY KNOWLES - No report at this time.

COMMISSIONER RAY MOSBRUCKER reported that he attended NWPPA's "financial decision-making" class in Walla Walla, WA on June 22-23, 2016, which was very enlightening and an interesting class.

GENERAL MANAGER – The complete report can be found at:

http://www.klickitatpud.com/topicalMenu/commissioners/GM_Reports.aspx

In addition to the written report, the following information was presented to the Board:

- **BPA Rate Increases** – BPA has announced that initial estimates for the BP-18 rate increases are in the 4-9% range for power and in the 3-5% range for transmission. Their rate process will run about 18 months and any increase would be implemented October 1, 2017. When we completed our financial forecasts last fall, we estimated a 2.5% annual BPA rate increase, or 5% for the rate period.
- **PGP Meeting Follow-up** – A representative from the California ISO (Independent System Operator) attended the June PGP meeting and gave a presentation on California's interest in expanding the ISO area as well as their interest in expanding the Western Energy Imbalance Market (EIM) to include more the West coast. These markets are currently controlled by the legislative process in California and expanding them would give some of this control to other regional entities. Their stated goal is to provide markets that increase efficiencies so that they can integrate more renewable energy into the market place. The goal there is reduced green house gas emissions. To do this, they need a more liquid marketplace that California can buy and sell power on a sub-hourly market to allow them to operate more renewable generation. Their goal is not about increasing efficiencies to reduce power prices.

As an example, CAISO began tracking avoided renewable (wind/solar) curtailments in April 2015. Carbon emission was reduced by 55,114 metric tons when NV Energy joined the EIM in November 2015 due to reduced curtailments of renewable generation.

Commissioner Gunkel inquired as to what the curtailment chart would look like if you laid solar over top of the buildout? Jim will look into it and get back to Commissioner Gunkel, as well as report back to the Board on how many megawatts of solar they will be adding.

Commissioner Knowles noted that there is a bill in the California legislature which speaks specifically to the value to the region of pumped storage, however it has not been passed as of yet.

- Strategic Planning – Mr. Smith announced that he has scheduled a conference call with a facilitator next week and planning on starting a strategic planning process. The intent is to take the work that we have previously completed, update it, involve senior staff, and then take the strategic focuses and support them with specific departmental goals and direction. That will trickle down to individual goals for managers and staff. There will be multiple stages to the process.

The report was accepted as presented.

POWER MANAGEMENT – Mike DeMott presented the monthly Power Management Department report for May, 2016 which included slides with the following information: Short-term weather/slice outlook; short-term slice forecast; 2016 Mid-C power prices; Henry Hub natural gas prices; KPUD high load hours/low load hours net position; KPUD near-term financial net position; May physical position review; White Creek Wind May generation; BPA product switch decision; May swap outcome/additional hedges; and load forecasting.

The normal schedule for moving from BPA's Slice rate product would be October 1, 2019. However, at the request of several customers, BPA is considering allowing customers to move from the Slice product on October 1, 2017. After consideration, Mike is recommending that we notify BPA that we would like to be included in the early switching option. Mike will put together a project plan if the Board authorizes the early out. Mr. Smith doesn't see any reason to wait 3 years to switch and supported Mike's recommendation. It was further noted that staff will be negotiating new contracts with The Energy Authority to decrease our expenses with that entity for power sales/purchases on behalf of the District.

Commissioner Knowles inquired as to whether there would be any changes to our Point-to-Point (PTP) BPA transmission contract with BPA when switching to a load following contract and noted that we worked hard for the PTP and he would not want to change that now. Mike stated that we want to look at our transmission contracts to ensure they are working for us, but there is no plan to change.

Following discussion, it was the consensus of the Board to authorize staff to notify BPA that the District would like to request an early switch out of the BPA Slice contract. Mike will draft a letter for the General Manager's signature.

The report was accepted as presented.

ACCOUNTING – Anita Thompson presented the monthly financial report for May, 2016 which included the income and cash flow statements and a variance report. Anita reported that the first of our two annual bond payments was made in June in the amount of \$3,452,592. She further noted that when we complete the June financials, we will be completing our second quarter year end forecast. During this process, we intend to improve that departmental expense / capital allocation of labor that we had in the budget. The actual total budgeted labor will not change, but by reallocating the expense / capital split, it should allow us to better evaluate our labor costs on a monthly basis.

The report was accepted as presented.

OPERATIONS DIVISION – Ron Ihrig presented the operations department report for May, 2016. He reported that the reliability goals for 2016 were met in May. The outage hours to date are 2,543 vs. 7,166 at this time last year. Ron also reported that Wishram's upper reservoir was depleted on June 19, 2016, as the well could not keep up with water demand after a planned power outage. Arrangements were made for water to be hauled in by Bishop Sanitation to restore levels in the reservoir. Staff has been meeting with HLA Consulting regarding the Community Development Block Grant (CDBG) for Wishram, who will be scoping the project. There are no water restrictions at this time; however we have been asking the Wishram residents to restrict usage during the hottest portion of the days.

Ron Schultz presented an update on the engineering department projects, which include capital projects on Woodland Road and Old Stage Road; the engineers will be staking the lines within the next two weeks. The two most recent meter shop employees are doing very well, and they are providing ongoing support at the LFG plant due the instrument technician at LFG being on sick leave. The Bingen Substation design is going slow as ECI has been busy, so Ron Schultz has asked that ECI provide another engineer to work on this project. Construction will probably begin early fall with a target to get concrete and below ground work finished before winter. Negotiations are continuing with PacifiCorp in regard to the District purchasing the Condit to Bingen 69 kV transmission line. We are expecting a draft agreement soon.

The reports were accepted as presented.

AGENDA ITEMS (continued):

- B. **CLIFFS WATER RIGHTS, Request for Proposals** – Mr. Smith gave an overview of the bid process and the procedure of such, noting that the proposals were opened on June 9, 2016 as advertised. We received a total of 4 proposals, which were shared with the Board during the Executive Session. Mr. Smith noted that given the stated intent in the RFP, his recommendation to the Board is that, in order to maximize the benefit of the water rights for our rate payers and maximize economic development as it benefits our PUD ratepayers, the Board authorize him to negotiate a water supply agreement with Goodnoe Hills, who is the highest bidder.

PUBLIC COMMENTS: Larry Martin-Attorney at Law with Halverson NW in Yakima, WA; and Karen VandeGraaf-Erickson with VandeGraaf Ranch Properties/Horse Heaven Hills Conservancy presented their comments and questions to the Board, and noted that they have serious interest in the Cliffs Water Rights should the contract negotiations with Goodnoe Hills not work out.

MOTION was made by Commissioner Dan Gunkel to accept the PUD Manager’s selection of Goodnoe Hills proposal for the purpose of commencing contract negotiations for the use of 4,000 acre feet consumptive water under the PUD Cliff’s Water Right to mitigate for the Goodnoe Hills water rights to serve its proposed project for 20 years at the bid price offered by Goodnoe Hills and to negotiate the extensions with the period and price as the Manager deems appropriate, and submit the draft contract to the Board for its review and approval at the Board’s July 26th meeting. Motion carried.

- C. **BID AWARD: Collection & Recycling Services for Scrap Metal** – Bids were opened on June 15th at 2:00pm as advertised. **MOTION** was made by Commissioner Dan Gunkel to award the bid to R.S. Davis Recycling as recommended by staff, for collection & recycling services for scrap metal for the District. Motion carried.
- D. **POLICY APPROVAL: Policy No. 7** – **MOTION** was made by Commissioner Dan Gunkel to approve the revisions to Policy Bulletin No. 7 “Credit Sales-Collections/Charges & Adjustments” as recommended by staff. Motion carried.
- E. **LETTER OF CREDIT WAIVERS: Lewis PUD & Cowlitz PUD** – **MOTION** was made by Commissioner Randy Knowles to authorize staff to notify Lewis County PUD and Cowlitz County PUD that the KPUD Board of Commissioners have agreed to waive their letter of credit requirements for the July 2016 to June 2017 period per their request, and as outlined in the Transmission Service Agreements. Both utilities have met their required debt service ratio. Motion carried.

ADJOURNMENT – There being no further business, the meeting adjourned at 4:08pm.

/s/
Ray A. Mosbrucker, President

/s/
Randy L. Knowles, Vice President

/s/
Dan G. Gunkel, Secretary
Date Approved: 7/12/2016

/s/
Kathy Loveland, Executive Assistant