



Public Utility District No. 1 of Klickitat County

80 Years of Service * 1938-2018

GENERAL MANAGER'S REPORT TO THE BOARD

For the **June 26, 2018** Meeting

AGENDA ITEMS:

- A. RNG UPDATE- McMillen Jacobs has provided us with a update to the project status and schedule.
- B. LETTER OF CREDIT WAIVERS – Cowlitz and Lewis PUD's- Per Transmission Service Agreement executed between KPUD, Cowlitz and Lewis PUD's, KPUD can continue to waive the Letter of Credit requirement if a debt service coverage ratio greater than 1.5 is maintained by the parties. Cowlitz and Lewis have achieved this result and have provided the necessary supporting documents showing this was achieved based on 2017 financial results.
- C. RESOLUTION NO. 1762_ Appointment of Director to Northwest Requirements Utilities Board of Directors (*MIKE*)- Staff is requesting approval of Resolution 1762 delegating Mike DeMott as the Northwest Requirements Utilities Director for Klickitat PUD and also delegating Jim Smith as Mike DeMott's alternate with voting authority in Mike's absence.
- D. PREQUALIFICATION OF CONTRACTORS – Purchasing is requesting approval of JK Directional Bore, Inc. and request that the board approves the addition and agree to have them added to the small works roster. They have met all of the our requirements for approval.
- E. POLICY 7-COLLECTION CHARGES - Staff has reviewed the current collection charges and would like for commissioners to approve some clarification items in the policy along with a collection increase for afterhours re-connect services to cover costs as to not have these after hour services subsidized.

NON-AGENDA ITEMS:

1. **Adjust Capital Budget:** We made a proposal to Republic Services regarding the well field blower upgrades and trim flare installation. We are already moving forward with the trim flare component, which is supported by Republic and is already in our 2018 capital budget. The premise of adding the blower upgrades is to increase the range of weather conditions and flow volumes that we could effectively control the well field vacuum at optimal levels. It would also increase the blower horsepower and that would increase the pressure of the gas from the landfill delivered to the front end of the RNG facility. That will effectively increase the capacity of RNG facility. Given Republic's planned capital improvements, we think we could hit the RNG design capacity next summer. In order to accomplish this, we are asking to move \$300,000 from the LFG spill containment budget item to the existing \$500,000 trim flare project already in the capital budget. We believe that the increased output from the

addition of the blower outweighs the risk of a “potential” clean up at that site. Please note, we are proposing to delay, not delete the \$300,000 expenditure for spill containment, but we are proposing to move it out 1 to 2 years.

2. **2018 Strategic Plan Workshop-** Therese Hampton has room in her schedule to be on site Wednesday, November 14th to facilitate our strategic plan workshop and I wanted to confirm your availability for that date. I would like to have this session after our first budget proposal is provided to you, but also before the second review of the 2019 budget proposal at the November 27th meeting. I do not think this session will affect our 2019 budget deliberations, but it definitely has the potential to impact our 5 year financial forecast included in the budget proposal.
3. **White Creek Turbine 26-** On Tuesday morning, June 26th at the White Creek wind farm, while performing the standard procedure of replacing blades on turbine 26, Siemens experienced a near miss when a blade fell to the ground during a scheduled blade replacement. There were no injuries to personnel or damage to other equipment or structures other than the blade. The procedure they were working through was to loosen the bolts that hold the blade, removing all but 14 bolts with the blade in a vertical position. The hub is then rotated 90 degrees to horizontal so it can be rigged to the crane and lowered to the ground. It appears that the remaining 14 bolts failed as the hub was rotated. Siemens immediately halted the operation and no work will be performed until a full investigation analysis has taken place.



4. **Water Account Inquiry-** We have a water system account issue that leads to a policy question to discuss with you on Tuesday. This is part of our Customer Service and WWW staff WWW account and meter reviews / audits.

The issue we'd like you to start thinking about was found at an apartment building that has five tenant units. The landlord is being billed for an incorrect meter size and all usage for the building, and five basic fees are being billed to the respective tenants. Our current policy in this situation dictates that there would be a larger meter and that meter would be billed the appropriate ME (meter equivalent) and usage. The per unit billing would consist of the initial general facilities charge for each unit, but no basic fee per apartment would be applied.

We know the system was adopted in the early 1970's, and the metering was changed in the early 1990's from one meter feeding a house and this apartment building to one meter feeding the house and one meter feeding the apartment. The apartment meter installed is in fact a 1" meter, which should be billed at 2.5 ME's. It is only being billed for a 5/8 meter with 1 ME. It appears that when this change was made, the billing was NOT changed. However, this was over 20 years ago and the policy at that time was very vague on how apartments were to be handled. This could have been a mistake, it could have been the interpretation of the policy at that time, or it could have been an agreement with the landlord at that time. We are still researching this, but I am NOT confident we will determine the real situation.

The policy concern is that when an error in billing favors the customer, we adjust to the time the error started through the time the error was corrected. If an error is in the District's favor, we will only go back 3 years. In this case if an error exists, **1)** we have an unclear point in time when this started, and **2)** this could mean going back through over 20 years of tenants, who probably average a stay of a year or two, which creates more than a hundred possible tenants. There is no question we will not find many of these previous tenants. We can however find active accounts who were or still are, tenants at this location. The impacts could be \$40,000 over the past 20 years. This calculation is complicated by the fact that the rates have changed over this time period.

The policy questions surround do we go back "forever" and do we apply this to active and inactive accounts, or just active accounts. These situations, although not as long of duration, have come up on the electric side and we have applied policy. This is the first time something of this magnitude has come up on a water or waste water system. The issue here is that some water or waste water systems do not have much more than this in their bank account. That is different than the electric system with its 12,000 customers and our relatively large reserves. We should also consider that any funds refunded that are not claimed, will still paid

by the system, but they will go to the State. I find that a tough situation to support. We are not asking for any decisions and we are not asking for policy change or exemptions, as we are still working through the details, but I am asking for discussion. Commissioner Miller has been assisting staff with finding the history associated with this location, and that has been extremely helpful.

5. **California Markets-** our involvement is limited to our efforts with the Public Generating Pool (PGP). PGP input is in regards to market design, but the issue at stake is really about governance. In order for a west wide marketplace to develop, entities outside California are requiring that the existing governance structure be changed so that the market is not controlled by California. Governor Brown and Governor Inslee both support the expansion of the market outside California in order to integrate and more effectively utilize variable renewable resources. There has been significant pushback within California against this idea from environmental and labor groups who, in my opinion, are driven by lack of knowledge of markets and interests other than the electric market itself, like job creation. I would think that in order for a west wide market to develop, legislators will need to embrace science to understand how value could be derived for both California and other western states.

In relation to the District, there would be significant value to be gained by BPA in their secondary revenues, and potentially to us directly in terms of the potential for capacity markets to emerge, the need for grid scale storage to develop and generally furthered economically sound carbon reduction. That would bode well for continued support for things like RNG and the JD Pool pumped storage project.

Attached is PGP's letter to the California Utilities and Communications Committee and is an excellent summary.

6. **Dallesport Water Association-** we met with one of the Board members from the Dallesport Water Association regarding operations of that system. That Board member was clearly interested in using our certified operators to sign their necessary compliance documents to tide them through, but not interested in us operating their system for any length of time. We know that there are issues with the system operation and we did not agree to sign any documents without the ability to look into, if not look after, liabilities we and our operators would accrue from doing so. I still believe that the District operating their system would provide for sound long-term benefits to the customers, but the Board member clearly was not happy with our response.
7. **Enterprise Risk Management Committee (RMC)-** we met with an expanded RMC for the first time this week to talk about expanding the committee to oversee the overall enterprise risk for the District. While this will be an ongoing process, I am happy to note that most

issues are already being looked after in the District. That said, there is definitely value to be gained by expanding the purview of the RMC. We will report back once we get our framework together for discussion with you. We are planning on meeting monthly as we set up the Committee.

8. **Distributed Generation Conference-** I am planning on attending a conference in Denver this fall. I continue to think that distributed generation will be a major component of how the electric utility business evolves and I want to ensure we are up to date on what is going on elsewhere in the industry so we can learn from those ideas. I am hopeful that there will be input that will directly feed into our strategic planning in November.
9. **NISC Status-** we held our first formal internal meeting as a team this week. We have been working with NISC for some months getting things set up, but this is the first full team get together. Jim Moss will be acting as coordinator for the District. We now have schedules and conversion dates to shoot for and we have provided NISC with the first data set from our systems. They will be on site next week to discuss what they have found. Those meetings here will start to direct our efforts in data clean up, processes we need to change and the other system conversion processes. We are all expecting this to be a painful process, but necessary and valuable to us once we are done.
10. **Electronic Board Packets-** IT has spec'd out tablets and we will be moving forward with this in the next couple of months. We are planning on using existing Adobe .pdfs, hyperlinked table of contents and commenting features, like Doug has been using, but with better hardware. We are planning on providing tablets to the Commissioners, and upgrading Jim's and Gwyn's devices so that the Board level systems are consistent and work every time. Those tablets will also be provided with a data only cell plan to ensure that connecting to email and the internet is functional, reliable and allows you to use the equipment when traveling. If there are issues, we will address those and if we need to make it more complicated to get a good product, we will do so.

We have already started electronic staff meeting packets at the senior staff level. For staff, we are not planning on adding any additional hardware, as parts of the packets can be printed if necessary. In both cases, there is a significant savings in Luann's time in putting together the packets, which frees time for her other supervisory duties.

11. **RNG Markets & Carbon in WA State-** as we strategize about RNG in the future, it is interesting to note that the "electric industry" has looked at using RNG in place of natural gas for thermal plants and the emissions reductions that might have. There is a definite environmental benefit of doing so, but the current and potential supply of RNG is small in the electric generation world. We already know all of this here at the District, but for

reference, PSE recently put out some numbers on the potential for RNG development in Washington State. They conclude that there are currently 2 million mmbtu's / year of RNG already developed (Cedar Hills) and 2 million / year more that they view as potentially economic (I think that is us). They also think there is another 2.5 million / year that would not be economic to develop, as they are small, a long ways trucking wise from markets and a long ways from pipelines. Roosevelt is currently producing about 2 million mmbtu's and we know that is good for 26 MWs from our plant, or closer to 50 MWs from a larger more efficient CCCT facility. Using RNG for this purpose will not make much of a dent in emissions, but might be a home one day for our output if the RNG world changes. The other thing they stated is that there is far more environmental benefits from using RNG as a transportation fuel. Again, we know this, but it is becoming more common knowledge. PSE came across as very negative on RNG, and they aren't wrong on the numbers but I think they don't want RNG sucked up by electric generation as they may need it for local natural gas distribution carbon footprint related requirements. I continue to think that the elevated recognition of the value of RNG in the region will do nothing but good for in the long term, provided the limited supply doesn't mean that efforts to support RNG stop. That will likely be my focus on the legislative side of things.

12. Mark Bailey Talk Show- I was on Mark's talk show on June 7th on the status of the pumped storage project and our role in the past, as well as our role going forward. I thought it went well and Mark got the project transition to National Grid and Rye into the discussion. He is planning to do a follow-up with Nate and Eric at some point.