



Public Utility District No. 1 of Klickitat County

80 Years of Service * 1938-2018

GENERAL MANAGER'S REPORT TO THE BOARD

For the July 10, 2018 Meeting

AGENDA ITEMS:

- A. **BID AWARD** – Sixprong Substation Relay and Control Panels- Bids were opened at 2pm on July 5th, 2018. We received three bids and Instrument Control Company was the lowest successful bidder. Staff recommends that we award the Sixprong Substation Relay and Control panels bid to Instrument Control Company in the amount of \$68,862.00 plus tax.

NON-AGENDA ITEMS:

1. **Joint meeting with Klickitat County Commissioners-** The joint meeting with the county commissioners begins at 11am on Tuesday July 10th. The PUD agenda topics are quarterly project updates and discussion regarding economic development impacts associated with the development of the Pump Storage project.
2. **Governor Inslee's letter of support for Goldendale Energy Storage Project-** attached is a letter from the Governor in support of the formerly John Day pumped storage project. I know that the project team worked with Matt Steuerwalt in obtaining the support and I know that Miland Walling was in Yakima last week meeting with the Governor on the project as well.

Commissioner Gunkel and I also attended the last County Economic Development board meeting to discuss EDA support for the project going forward. Miland Walling and Dana Peck attended as well.

3. **KPUD Incident-** The employee injured in last Friday's incident obtained his release to work from his doctor and was back on site Thursday. The accident investigation team met Monday morning and included union representation as well as our safety consultant. The report will be completed by the safety committee and will be released as soon as practical.

I want to express my thanks and respect for the efforts of our staff in responding to this incident. Field and office crews had the employee on the helicopter within 45 minutes of the incident and it took some significant efforts to make that happen, including bypassing "normal" EMS protocols as this incident involved electrical contact. I want to make it clear that this was not a typical contact accident in that the electrical shock was generated by a piece of equipment. The 12,470 volt lines were isolated and grounded as per our normal

procedures. The limited energy and DC voltages involved are part of why the injuries were less severe than first thought.

4. **Bonneville Power Administration (BPA) 2019/ 20 Integrated Process Review (IPR)-**

BPA's first IPR draft indicates there are significant efforts being made at BPA to change how they budget. However, there is no indication that there are any true cuts being implemented. Elliott Mainzer's position still seems to be rate increases at or below increase in cost of doing business indices, EXCLUDING any surplus revenue or treasury repayment risks, like their Cost Recovery Adjustment Clause. Public Power Commission (PPC) and Northwest Requirements Utilities (NRU) continue to push for a more aggressive process. Attached are NRU's comments to the group:

- At the kick-off executive session, BPA executives shared that Fiscal Year 2019 will be a “transformational year” as the agency continues to implement cost reductions and reprioritizing work. They noted there are “not infinite resources” and that “getting to flat [program costs] is not enough.” They said BPA is working to reprioritize work and eliminate things they don't need to do. They observed that the BPA Strategic Plan and 10-Year Financial Plan provide a longer-term view for the agency.
- This IPR was different because executives provided top-down guidance to keep program costs flat – no increase for inflation. This resulted in the agency absorbing \$80M/year of inflationary costs. The executives noted that holding program costs flat may not be enough, and they are continuing to scrub for additional reductions.
- The agency is focusing on grid modernization and asset management.
- “Grid modernization” refers to a host of improvements to BPA's systems and processes to make them more efficient and up-to-date. For example, BPA still has a number of manual processes that should be automated for efficiency and accuracy.
- “Asset management” refers to data-driven and risk-informed decision making on which assets to invest in and when. For example, for the federal hydro capital program, this includes analyzing lost generation risk and results in the agency focusing its investments in Grand Coulee and McNary.
- What was lacking in the IPR materials was a comprehensive discussion of BPA's aggregate capital budgets, trajectory, and historic deployment compared to budget. We will be asking for additional information and follow up on these issues. With BPA's constrained capital access, it is imperative for us to understand the planned capital program in total, how various investments are ranked and compared to others, etc. We will also ask for data on historic deployment of budgeted funds for both capital and expense. To the extent BPA is not executing as planned, this results in unnecessary costs (either expense or interest expense) in rates and limits our ability to accurately estimate BPA's remaining debt capacity and need.
- Another area for additional follow up is BPA's grid modernization initiative. While NRU staff believes it is important for BPA to have up-to-date systems and processes, it was challenging to follow the flow of money associated with this initiative.
- Unlike previous IPRs, BPA did not share forecasted rate impacts for Power or Transmission. When asked, they said it was challenging to do so because there are so many moving parts (for example, neither the leverage policy nor financial reserves phase

in have been finalized). We will also push back on this and request BPA provide rate impact analysis under different assumptions.

5. **Dave Warren-** I completed a contract with the Warren Group to retain Dave Warren to assist us with strategy development to support Renewable Natural Gas (RNG). I envision that strategy will potentially involve legislation regarding beneficial tax treatment and support for RNG as a multi-purpose fuel. He will also provide input in other legislation to support the growth of RNG markets in Washington State such as low carbon fuel standards and other carbon legislation. This contract involves lobbying and we will need to formally report that to the State.
6. **Fitch Ratings Call-** Kathy Masterson led the call for Fitch. Nichole, Beth and Mike did an excellent job in preparing for and participating in the call. Fitch said after our discussions that they do not plan to complete a detailed rating review at this time and would like to talk further in October or November. They are also interested in visiting the site. They seemed genuinely interested in our progress and supportive of the efforts.
7. **PURMS Update-** Gwyn will discuss our medical costs to date.