

Public Utility District No. 1 of Klickitat County
Board of Commissioners Meeting
Tuesday, November 14, 2017

CALL TO ORDER: President Knowles called the meeting to order at 2:00 pm as advertised.

PRESENT: Commissioners Randy L. Knowles-President, Dan G. Gunkel-Vice President, and Douglas B. Miller-Secretary.

STAFF PRESENT: Jim Smith-General Manager, Kevin Ricks-Generation Assets Manager, Gwyn Miller-Director of HR & Business Services, Mike DeMott- Power Manager, Anita Clever, Energy Services Specialist, Cynthia Bruce-Accounts Payable Clerk, Ron Ihrig- Chief Operating Officer, Ron Schultz- Chief Engineer, Nichole Lantau, Accountant, Beth Schroder, Accountant, and Luann Mata- Executive Assistant.

GUESTS: Larry Bakken, Gerald Cassidy

MINUTES: **MOTION** was made by Commissioner Doug Miller to approve the October 24, 2017 meeting minutes. 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 the 14th day of November, 2017.

MOTION was made by Commissioner Dan Gunkel to approve accounts payable vouchers and payroll in the amounts:

- Accounts Payable Voucher numbers 111220 through 111360 in the total amount of \$639,346.65 and Wires, ACH and EFT numbers 8800814 through 8800819 in the total amount of \$98,286.00 for the period ending November 14, 2017; and
- Payroll Warrant number 43346-43349 and ACH Direct Deposit Payroll transactions 9918469 through 9918551 in the total amount of \$179,940.21 for the payroll period ending October 29, 2017.

Motion carried.

PUBLIC COMMENTS: Larry Bakken spoke to the Board regarding fair and equitable treatment of ratepayers. He relayed personal experiences and his thankfulness for government programs that have helped sustain him. He complimented the PUD, on the Low income/Elderly open house we have planned, to provide information to people who may need assistance. He also questioned how the Wishram community could apply for the LED Street lighting programs. Ron Schultz explained that the cities of Goldendale, Bingen and White Salmon all applied for and received Transportation Improvement Board grants for their cost of installation. Mr. Bakken asked if there are grants available for non-incorporated communities. Staff will research and see if grants for LED lights are available for entities other than cities.

AGENDA ITEMS

A. BUDGET REVIEW - First Draft:

Nichole Lantau presented the first draft of the 2018 Operating Budget. The 2017 budget anticipated requiring a total rate increase of 17% between 2017 and 2021 with borrowing of \$5 million in 2017 and \$9 million in 2018. With actions taken by staff with the RFP for the Cliffs water rights to be

used as mitigation, hedging of Renewable Energy Credits and the development of the Renewable Natural Gas (RNG) project, we were forecasting year ending revenues significantly above budget and forecasted year end expenditures significantly under budget. This is in spite of not implementing the forecasted 3% rate increase in 2017. This work and these financial performance improvements have set the stage for improvements in our 2018 budgets.

The 2018 budget and forecasted five year financial outlook has no electric rate increases included. Total retail rate revenues remain about the same as budgeted in 2017 as we continue to be conservative and budget for average years. The budget includes the revenue from the water supply contract for the Cliffs Water System and has conservative assumptions on the RNG revenue stream, both in terms of volume and pricing, but still results in a total revenue improvement of \$3,577,582 from 2017.

The Operating Expense budget increases \$1.4 million compared to the 2017 budget. This primarily is due to the addition of four (4) full time equivalents (FTE) for staffing, additional tree trimming along with additional depreciation amortization related to RNG and various capital projects. We are still researching the tax treatment of the RNG facility revenues, but we have assumed the worst tax treatment to be conservative. Nichole also noted an increase to our PURMS contributions. This is fueled by the State retirement programs themselves and is updated every 2 years.

The Capital Plan is higher than average years, due to the completion of two substation projects, as well as a 115 kV switching station and a 115 kV transmission line extension that we are advancing in our long range plan due to other customer driven improvements. By making these capital improvements now, it benefits our customers immediately and provides us with future expansion options. This is an increase of \$5 million and is driving a borrowing of \$5 million.

The budget proposal shows a Debt Service Coverage (DSC) ratio of 1.47 and 161 days cash on hand with borrowing \$5 million in 2018. The key issue with the 2018 proposed budget is that our debt service begins to decline in 2019-2022. Without any electric retail rate increases **and with** our assumption of declining RNG revenue; the normal increase in cost of running our business leads us to this rational that our DSC will continue falling through 2023. This leads to our cash reserves decreasing as well. However, the budget looks sound and meets our Financial Policy as we expect that we will define actions to improve our DCS as the 2018 year develops.

The general Board discussion was that they are generally good with the 2018 projections. However next fall before the 2019 Operating Budget approval, there needs to be discussions ahead of time on any proposed borrowing or rate increases per Commissioner Gunkel. Commissioner Knowles requested that staff be mindful and bring back ideas on how to lower debt service and increase days cash on hand in 2019. Commissioner Miller would like staff to consider delaying gratification of the potential additional funds that RNG could bring to the table, until we have

addressed debt repayment options and we feel more comfortable about the RNG markets. Jim Smith stated that staff has a few numbers that need to be updated, and that the budget books will be updated with that final information for the next Board meeting on November 28th. A summary of the changes will be provided to the board in their normal staff packets, but we are not expecting any material changes from the first draft.

- B. SET BUDGET HEARING DATE: MOTION** was made by Commissioner Doug Miller to authorize staff to set the budget approval hearing date of December 12th at 4:30 p.m.
- C. CALL FOR BID-Pole Inspection and Treating bid for 2018: MOTION** was made by Commissioner Dan Gunkel to authorize staff to issue a Call for Bids for the 2018 Pole Inspection and Treating project, with a bid opening date of December 7th, 2017 at 2:00pm. Motion carried.
- D. CALL FOR BID-Tree Trimming and Right of Way Clearing 2018: MOTION** was made by Commissioner Doug Miller to authorize staff to issue a Call for Bids for the 2018 Tree Trimming and Right of Way Clearing project for the Glenwood 69 kV transmission line and the Gilmer East transmission line, with a bid opening date of December 7th, 2017. Motion carried. Commissioner Randy Knowles suggested that staff to look into proactively increasing the width of the Right of Way through meetings or outreach with land owners.
- E. PREQUALIFICATION OF CONTRACTORS: MOTION** was made by Commissioner Doug Miller to approve the renewal of Power City Electric and Power Technology, as well as the approval of two vendors, Coastal Services Inc. and HCI Industrial & Marine Coatings and authorize staff to add them to the District's Works Roster. Motion carried.
- F. ANNUAL PHYSICAL INVENTORY UPDATE 2017-** Jeff Thayer, Purchasing Manager, reported that our total adjustments for the 2017 inventory totaled \$477 to true up the inventory. We have been working for years improving the process and systems to get this kind of result. He stated that we have a great team we have working on this. He also reported that he has been actively working on reducing our inventory levels coinciding with the inventory count. Our inventory value was \$1.5million, down from \$1.6 million at this time last year. He said he has been working on timing of orders to ensure that inventory levels do not impact our ability to complete work, and that deliveries for materials for the winter season are already showing up and materials for the construction season are planning for late spring. The annual physical inventory update was accepted as presented.
- G. SET RATE HEARING DATE - Setting of PUD Electrical Services Rate Schedule 8: MOTION** was made by Commissioner Dan Gunkel to set a public hearing date for November 28, 2017 at 3:00pm for the purpose of reviewing, discussing, and adopting staff's proposed reduction to the PUD Electrical Services Rates. Motion carried.
- H. WASHINGTON PUBLIC UTILITY ASSOCIATION (WPUA) Designated Board Member and Alternate: MOTION** was

made by Commissioner Dan Gunkel to designate Commissioner Doug Miller as our alternate Board member for the WPUA Governing Board, providing Doug with voting authority in the absence of Commissioner Randy Knowles.

I. CARBON LEGISLATION & WPUA/COMMISSIONER SUPPORT

Jim discussed the information that PGP was going to present at the WPUA board meeting later this week and that they were going to request WPUA board consider supporting legislation that focuses on a least cost methodology for carbon reduction, rather than support of increased Renewable Portfolio Standards (RPS). As discussed previously, the Public Generating Pool completed a carbon study that demonstrates that as an industry, we would obtain a larger carbon reduction for less cost utilizing carbon pricing mechanisms rather than an increased RPS. The Board affirmed their position that they support the principles of least cost carbon reduction.

J. EXECUTIVE SESSION- *for the Commissioners to plan the strategy to be taken by the governing body during the course of collective bargaining.*

Entered into the Executive Session at 5:40 pm. and the Executive Session concluded at 6:03 pm. No action was taken.

REPORTS:

Generation Asset Report – Kevin Ricks presented the Generation Assets report for October. In addition to the report Kevin discussed that BPA doesn't have a mechanism to exclude the LFG project from transmission curtailments. While BPA is working on a permanent solution, our BPA Account Exec said that if we were unable to comply with the curtailment order, because of environmental constraints, then to state that when asked to curtail for these events and BPA would waive the non-compliance penalties. LFG operators have been instructed to tell TEA and BPA that we are unable to comply due to environmental constraints and document the conversation in the station log. Mike DeMott stated that PowerEx has been very helpful and worked hard to reroute LFG output to help avoid curtailments. Annual source test was conducted the first week of October and the report has been filed with the Department of Ecology.

The Generation Asset report was accepted as presented.

POWER MANAGEMENT – Mike DeMott presented the Power Management report for October. Mike reported recent hedging activity that should set our 2018 LFG revenues in line with the proposed budgets. KPUD and other White Creek Wind (WCW) off takers continue to participate in analysis related to the potential move of WCW from the BPA balancing authority area to other potential providers. A general overview of overall KPUD debt structure was provided and discussion followed concerning how KPUD may seek to accelerate debt repayment if future financial results allow. Mike and Anita Clever have continued review of the KPUD Net Metering program. Staff provided a sample revised Net Metering Billing that includes an infrastructure charge. Our net metering program is still on hold, as we determine the final rate structure. To gather public opinion staff was instructed to conduct workshops on the infrastructure impacts of distributed generation and explore options for addressing these cost shifts.

The Power Management report was accepted as presented.

COMMISSIONER DOUG MILLER – Commissioner Miller reported that Evergreen Rural Water has requested a letter of support in recognition of their expertise and efforts to provide safe drinking water and be consecrate of environmental impacts in our state. They have also asked that we participate in an apprenticeship program to facilitate growth in the industry. We have participated in similar programs in the past. Gwyn noted that we do not currently have and plans for new WWW operators, but we would be interested in this program if we do. Doug also mentioned that he attended a presentation by Beth Looney, the CEO of PNGC and passed the presentation slides along to Jim as he thought the presentation was very informative and was a good overview of the current electric markets. Doug stated he was looking forward to his new position as WPUDA board alternate to WPUDA board.

COMMISSIONER RANDY KNOWLES – Commissioner Knowles reported that he attended The Public Utilities Risk Management Services (PURMS) semi-annual meeting and reported on claims and PURMS forecasts for 2018. PURMS completed a cost comparison of their plans compared to market. The results show that PURMS is very competitive with plans that provide the same benefits. However there are few plans that provide the coverage that PURMS does. Randy was also elected vice-president at this meeting.

COMMISSIONER DAN GUNKEL – Commissioner Gunkel reported that he attended the Klickitat County Economic Development Advisory (KCEDA) board meeting on November 9th. There were discussions around business retention and expansion. There was an example presented of a company who couldn't obtain housing in Klickitat County so they moved their business to Hood River. Another company is trying to work through a rezoning request in Bingen. The group also discussed processes and criteria for budget proposals. There is access to distressed funding available through the county. Group came up with criteria listing and will be moving forward. Dan also provided and update to the group on PUD projects.

GENERAL MANAGER – The complete report can be found at:

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

In addition to the written report, Mr. Smith presented the following information:

Radio system upgrade – Ron Schultz reported that Adcomm programed one of each type of radio we have on site. Lake Howard will be trying out the service on each of these radios in different areas of the county this week to test their performance. All of the wiring at the 911 dispatch center is complete. The Adcomm staff is working on the combiner upgrade for the rest of the week. There were some difficulties with Century Link responding to our request for a Back Haul link at the Burdoin radio site. We were finally able to obtain a contact that could facilitate the process and we should have this completed before the end of the month. The last of the major equipment purchase are scheduled to arrive on November 17th. This final equipment will be installed after Thanksgiving. Ron will talk with Adcomm and request that they attend our December Safety meeting to come back and provide training on the new equipment.

Answering service- Operations is planning that the new answering service will be on line November 27th. Ron Ihrig and Mark Pritchard are waiting to sign contracts. This switch will gets us solid answering services and offers the ability to increase these services if we choose. We appreciate Klickitat county dispatch taking us on when the old answering service burned down, but it is very difficult for them to answer our volume of calls as when we have problems, they usually have EMS related issues to deal with as well.

Customer Survey- We have chosen to postpone the customer survey review until after the first of the year since the returns this year were very low and customer service is extremely busy training new staff.

John Day Pumped Storage project – The National Grid / Rye Energy transfer agreements are all still being discussed. However, Jim requested that we expand the scope of work that we are currently obtaining from a professional services contract with Skeahan Advisory Group to assist in these negotiations and the transfer of the Army Corp of Engineers lease. Jim said that the additional scope

will increase the monthly cost from \$2,500 a month to \$5,000 a month. **Motion** was made by Commissioner Miller to extend the contract for the expanded scope of work and \$5000 per month for a period of 7 months. Jim will bring back the status of the transfer of Corp lease and this professional services contract for review prior to the end of the 7 months. Commissioner Gunkel asked to see the scope of work once completed. Motion carried.

ADJOURNMENT – There being no further business, the meeting adjourned at 6:04pm.

/S/
Randy L. Knowles, President

/S/
Dan G. Gunkel, Vice President

/S/
Douglas B. Miller, Secretary
Date Approved: November 28, 2017

/s/
Luann Mata, Executive Assistant