



Public Utility District No. 1 of Klickitat County

79 Years of Service * 1938-2017

GENERAL MANAGER'S REPORT TO THE BOARD

For the **June 13, 2017** Meeting

AGENDA ITEMS

- A. JOHN DAY PUMPED STORAGE (JDPS) AND NATIONAL GRID: Nate Sandvig of National Grid will be on the phone and Erik Steimlie of Rye Energy will be present to discuss the work that National Grid completed with our CURRENT Memorandum of Understanding (MOU). Brian Skeahan will also be attending. National Grid and Rye Energy are currently partnering on projects, including the Swan Lake pumped storage project in Klamath Falls Oregon. I understand that Rye Energy, along with National Grid, are interested in exploring potential opportunities in moving the JDPS project forward.
- B. CONSERVATION PROGRAM REVIEW: Anita and Mike will review our conservation program with you, with the focus being on management of large custom project such as large industrial, large commercial and large irrigation projects. BPA funds received by KPUD for conservation efforts contain amounts paid to customers for specific measures. These funds also include a Performance Payment (PP) portion which is used to offset KPUD program expenses.
- C. LETTER OF CREDIT WAIVER: Transmission Service Agreements with Lewis PUD and Cowlitz PUD state that the Letter of Credit requirement may be waived if debt service coverage ratios of 1.5 or greater are maintained. KPUD Board of Commissioners granted waiver request for these utilities for the prior 12 month period. Both PUD's have submitted required documentation showing this requirement has been met. As a result, staff will be asking the Board to waive the LOC requirement for the next 12 month period.
- D. BID AWARD: Cities LED Street Lighting Project - The Engineering department has been working with the cities for nearly two years now. Each city is receiving funding for upgrading their lights from the Transportation Improvement Board (TIB). After lengthy discussions, we have come to an agreement with the cities that they will install Cree RSW cobra head style lights where existing High Pressure Sodium lights currently reside. This is a replacement program, so no additional new lights will be installed under this project. With the approval of the award of the street light project to Potelco, the project is expected to be completed in October.
- E. PRE-QUALIFICATION OF CONTRACTORS: KPUD staff recommends the approval and addition of the attached contractors to our work rosters.

Note: Agenda is subject to last-minute revisions which may include the Board calling for an executive session.

- F. Executive Session – Per RCW 42.30.110, this Executive Session is to discuss Personnel Matters.

NON-AGENDA ITEMS

1. GM Meeting Attendance:
May 23 – Klickitat Board of County Commissioners Meeting
June 1 – Public Power Council Meeting, Portland
June 5 – John Day Pump Storage presentation, Jaime Herrera Beutler staff
2. RNG Update: The Insurance package for the project being finalized in conjunction with other vendor agreements. Mike and I are meeting with Ralph Epling with IGI/BP today for a status update. We will give you a high level project status update at the meeting, with the normal monthly reporting happening at the second Board meeting of each month.
3. Bonneville Power Administration (BPA): BPA has started a new initiative called Transmission of Tomorrow, which is intended to be a review of the services they provide and how they can maintain reliable and cost effective service into the future, irrespective of the 2028 contract outcomes. Part of this is a review of their products and of their system reliability and capabilities. The system has been described by many as a Cadillac system, in that they have always intended on meeting everyone's system needs in pretty much all cases. They are challenging their staff to look at the system differently. An example is the recent cancellation of the I5 corridor project. They are not saying improvements aren't necessary, but they are saying that they will not spend unlimited amounts of capital to resolve issues as the value is not unlimited. I think Elliott Mainzer is making good steps to try and alter BPA's course.

So far in 2017, BPA has curtailed almost 91,000 MWh of generation. They are hopeful that the costs of their curtailments is under \$5 million for 2017. During the last significant curtailment event in 2012, the costs were \$2.7 million.

4. Elliott Mainzer, BPA Administrator discussion and the June PPC meeting: Elliott stated that they will NOT implement the Cost Recovery Adjustment Clause (CRAC) provisions in 2017. However, there are significant impacts due to the low surplus revenues. They have reduced expenditures by \$100 million this fiscal year to avoid having to implement the CRAC. The bad news is that even with this, they have gone through in the order of \$100 million in cash reserves and the reserves are essentially zero going into the next rate period.

This means there will be increased pressure on rates that will be adjusted October 1st. He stated that they cannot cost cut their way out of the issues they are facing. I do not disagree with him. We have faced a similar revenue issue ourselves. BPA has significant capital investments to make after years of not keeping up with system improvements. Elliot said that they need to address the value of their surplus power and find ways of obtaining more value from their assets. The Transmission of Tomorrow is one way of determining or controlling the value of their generation assets.

I actually was happy with his approach to the PPC group. He challenged back and I could relate to his saying "he is really tiring of trying to run up the downward escalator". We can certainly relate to that. I certainly sensed the frustrations and the strains and firmly believe he understands the implications of their current cost / net revenue curve. He even mentioned re-integrating the power and transmission businesses.