

MINUTES OF SPECIAL MEETING OF THE COMMISSION
OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON

April 13, 2009

The special meeting of the Commission of Public Utility District No. 1 of Chelan County, Washington, was held at Confluence Technology Center, 285 Technology Way, Wenatchee, Washington, on April 13, 2009 at the hour of 5:30 p.m., pursuant to proper notice thereof.

Commissioners present were Ann Congdon, Randy Smith, Carnan Bergren and Norm Gutzwiler. Commissioner Dennis Bolz attended via telephone. In attendance were General Manager Rich Riazzi, CFO/CRO John Janney and Clerk of the Board Sheila Salmon. Various staff members were also in attendance.

Others in attendance: Joe Rumble, Dusty Jungquist, Velma Jungquist, Ray Reid, Jack Pusel, Cot Rice, Hank Drewiany, Everett Thornton, Scott King, Conway Narby, Tom Picket, Linda Picket, IW Yancey, Judy Cooper, Rich Cole, Stephen Drake, Dorothy Drake, W.H. Cooper, Bob Huber, Dick Baskin, Hal Lyons, Phil Conner, Rich Nestor, Vicki Martz, Greg Olson, Pat Bauer, Shawn Desy, Verne Lietz, Joe Busowiter, Steve Hisel, Jeff Kerr, Jack Speer, Gary Nelson, Paula Grieb, Ton Honn, Chet Slack, Chai Allen, John Allen, Jean Ludwick, Ed Jardin, Marilyn Jardin, Korey Rowevel and Christine Pratt (Wenatchee World).

General Manager Rich welcomed the public in attendance at the meeting. He stated that no action will be requested from the Board and at the end he would share his recommendation regarding a possible surcharge.

Chief Financial/Risk Officer John Janney provided the Board updated information on the District financial situation and contingency plans. (Refer to 2009 Contingency Plan Update presentation www.chelanpud.org) CFO Janney outlined \$27,291,000 in cost-saving steps the District has taken so far. Steps taken included: Escrow of annual senior debt service payment to relieve stress on senior debt coverage requirement; capital plans put on "hold" including adjusting the pace of Networks build-out; delay of the Electric Automated Metering System and additional capital plans; and operating and maintenance reductions.

Additional actions recently taken: Further Parks O&M reductions; mandatory furlough of 5 unpaid days for all employees; "Double Yes" program; and a volunteer program for employees to change from full to part-time status.

Additional capital program delays under consideration include: Delay 2 units of the Rock Island modernization; defer Lake Chelan Hydro modernization of Unit 2; and to slow the pace of Networks expansion for 2010 & 2011.

Ongoing efforts include: Stimulus package potential (e.g., grants); potential to delay additional capital projects; potential further O&M reductions; employee cost savings suggestions; and apply surcharges as a last resort.

The change in net assets is projected to be a \$19 million loss in 2009, \$22 million loss in 2010 and a \$14 million loss in 2011. The target is a positive change in net assets (bottom line) by

MINUTES OF SPECIAL MEETING OF THE COMMISSION

April 13, 2009

Page 2

2011. Policy has been set to maintain minimum a Utility Services cash reserves of \$130 million but is not necessarily the amount to cover working capital, contingent payment obligations and the financial stability of the District. Cash flow from operations drops into negative numbers in 2009. Retail rates do not cover the cost of providing utility services and the gaps are getting wider. Historically, wholesale revenue has been used to fill the gap. The drop in wholesale sales does not cover the gaps.

General Manager Rich Riazzi recommended a one-year electric rate surcharge of 18% as the next step in contingency planning to keep the District financially healthy. He said the surcharge is needed as part of a balanced approach to close one-half of the projected 2009 gap (roughly \$9 million of the \$19 million projected shortfall). The surcharge would go into effect May 1, 2009 for up to 12 months. It would apply to residential, commercial and industrial customers. It was his recommendation to delay implementation of the new rate design for up to 12 months and to increase existing low income assistance program by 18%.

General Manager Riazzi suggested next steps in the process would include the gathering of input from the public and allowing the Board deliberation time. He presented a potential time line to discuss the contingency plan at April 20, 2009 and April 27, 2009 regular commission meetings with decision to be made by April 27, 2009 and implementation on May 1, 2009.

Mr. Riazzi went on to explain that this is only the second time in the history of the District that a surcharge has been implemented. A 20% surcharge was implemented in 1977. Actions taken to control costs and to drive efficiency through the District have included: two major reorganizations resulting in the elimination of positions to strive to increase the efficiency of the utility, additional cuts to approved budget, backfill of positions, and 23 less FTE's. Additionally, plans are in the works to reduce payroll by offering voluntary part-time status, double yes program with management approval and a mandatory 5-day furlough for all employees.

Mr. Riazzi reiterated that for the last 2 years management has discussed at several public meetings the risk of depending on wholesales sales to keep the utility financially solvent. Financial management staff presented several scenarios over the past two years that would set a rate strategy that would cover the cost to provide the power: 1) series of rate increase was designed with a potential that a surcharge would not be necessary; 2) series of smaller increases that put the potential surcharge in the 20-30% range; 3) rate increases over time with a probability of surcharge at 14% or less. The implementation of a surcharge has always been a contingency plan of last resort.

Again, General Manager Riazzi recommended the Board implement an 18% surcharge at this time.

President Congdon thanked staff and opened the floor to questions and comments from the public:

MINUTES OF SPECIAL MEETING OF THE COMMISSION

April 13, 2009

Page 3

- Rich Cole – The number of employees since 2002 seems to keep going up. In this current economy, Chelan PUD is not cutting back in comparison to other businesses. How can you justify raising rates while giving pay raises and hiring more people? You say you reduced FTE's 23 employees by combining and consolidating resource. Also that you are preparing for new reliability standards and new regulations. It's prudent to balance the consequences of penalties/fines for not having the qualified staff on hand.
- Max Cosner – The financial situation of the PUD today is excellent. Douglas County PUD would have to raise their rates 35% to get up where we are now. Your salary situation is all out of line.
- Joe Rumble – You are painting the worst scenario. A recent bill staffer stated that the average flow from 1929 – 2007 was 103%. Anyone year there was some bad times, but you shouldn't plan your business one year at a time. I suggest you index yourself against other utilities.

General Manager Riazzi stated numbers are annualized numbers, not sugar coated. The question is what if the lower numbers do occur are you willing to take on the burden or would you rather take on part of it now and defer the rest. This is a middle of the road approach.

- Ray Reed - Choices are not easy. I do not dispute the numbers. I dispute the methodology to fill the gaps this year when unemployment in the valley is at 9.2%. There are people in the valley that are underemployed because of lost jobs. A surcharge during this downturn in the economy is morally wrong. I believe in a cash reserve, but it is a pretty healthy one. The underemployed and unemployed do not have a cash reserve. Say "no" to a surcharge for 2009 and use the cash reserve to fill the gaps while you looking for efficiencies. We need courageous leaders who are willing to put the people of our community first.
- Gary Nelson – The numbers presented are discouraging and need to be fixed soon. I am disappointed that the Board would try to sell the rate payers on the need for a surcharge and justify salary increases at the same time. It seems the wrong thing to do at this time, and it discourages the community.
- Hank Drewianny – The structure of the PUD is similar to a business operating with a CEO, CFO, managers, and shareholders. The difference is the shareholders are not allowed to vote. Only the Commissioners get to vote. I do not agree with past investments in mortgage backed securities, the power contracts signed, and the overpayment of executives. You need to control your payroll by keeping employees that produce and get rid of those that don't. Everyone is cutting back and trying to save money. The 5 day furlough that would save \$940, 000 is offset by the raises totaling \$1.4 million. I fault the Board for their oversight. The money spent on litigation of the Graham case would have been better applied to fill the gaps. I question the District policy of rehiring employees. We trusted the Board would make prudent decisions. Be more judicious.

MINUTES OF SPECIAL MEETING OF THE COMMISSION

April 13, 2009

Page 4

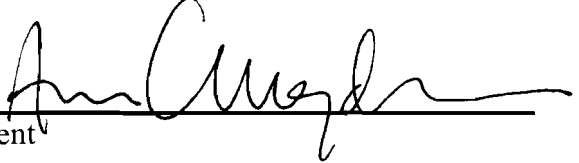
- Conway Narby – Would like to opportunity to speak to the increase in rates that were scheduled to take effect before they are implemented. Disagrees with the litigation process of the Graham case.
- Jim Canterbury – As a former employee, I think the mid-management level is heavy and redundant. The money paid to hire contract workers is taken out of the valley and should be used to pay district workers. What is vehicle replacement policy? Why did we go to five commissioners?

General Manager Riazzi stated that it is a cost savings to purchase new vehicles under the state contract; maintenance is less and the resale value of used equipment is higher. We are examining the number of vehicles necessary to operate.

- Dick Backston –Has the GM considered freezing wages? I would like to see a comparison of the wages and cost of living of other areas compared to Chelan PUD wages.
- Cot Rice – With the economic problems in the country, you must get control over spending. Commissioner Bergren, I strongly encourage you to vote no on anything that is going to cost rate payers money.
- Vickie Martz –As a customer owner of the PUD, I would like to see the organization revamped. Pay for highly skilled people, but those who threaten to leave if for reason of underpay, let them go. There are unemployed people in the community that are just as highly qualified. If Commissioners decide on the General Manager's raise, who oversees the remaining staff raises? Mr. Riazzi said he does. Is nepotism a policy of the district? When was the last time a PUD employee was denied a raise? The furlough amounts to a 1.9% reduction in salary for this year. What about next year? It is not fair to require customer owners to pay the \$1.4 million in raises given to employees. Where do you expect people to find the money to pay an 18% surcharge? We might be able to accept the surcharge if you were to take away the raises. Commissioners, vote "no" on the surcharge. There are better ways to fill the gaps than to do it than on the back of those who can ill afford it.
- Greg Olson – As a business owner, I have seen my salary go from \$172,000 with great benefits to \$25,000 and meager benefits. I would be better off with the fish counter job.
- Cliff Burdick – Can employees cash in unused PL to satisfy furlough? Page 14 of slide shows \$250 million in investments. Use those dollars to cover loss. Vote "no" on this rate increase.
- Joe Rumble – Are you, General Manager Riazzi, still serving on an Idaho board? Mr. Riazzi answered that he resigned that position during his first year at the District.
- Greg Townsend – An 18% surcharge will adversely affect businesses.
- Christine Pratt – I apologize that the head count numbers published in the Wenatchee World article last week were incorrect.

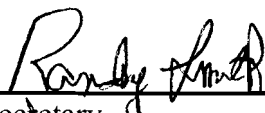
MINUTES OF SPECIAL MEETING OF THE COMMISSION
April 13, 2009
Page 5

There being no further business, the meeting was adjourned at 8:00 p.m.

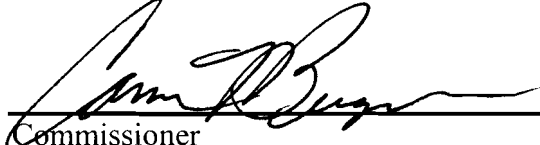


President

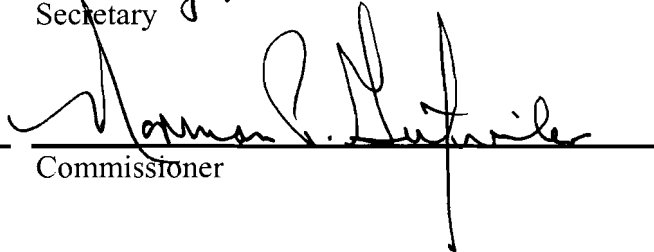
Vice President



Secretary



Commissioner



Commissioner