

MINUTES OF REGULAR MEETING (STUDY SESSION) OF THE COMMISSION  
OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON

July 21, 2008

The regular meeting (study session) of the Commission of Public Utility District No. 1 of Chelan County, Washington, was held in the office of the District, 327 North Wenatchee Avenue, Wenatchee, Washington, on July 21, 2008 at the hour of 11:00 a.m., pursuant to proper notice thereof.

Commissioners present were Norm Gutzwiler, Ann Congdon, Werner Janssen and Dennis Bolz. Commissioner Smith was excused. In attendance were General Manager Richard Riazzi, General Counsel Carol Wardell and Clerk of the Board Sheila Salmon. Various staff members were also in attendance.

Others in attendance: Jim Baxter, Carnan Bergren, and Christine Pratt (Wenatchee World).

General Counsel Carol Wardell led the Pledge of Allegiance and President Norm Gutzwiler provided a safety minute.

Budget Department Manager TJ Farrell presented an overview of the timeline for the 2009 budget. Targets for Capital Investment by System and Operations and Maintenance expenses (O&M) will be drafted in August. Decisions made by the Board during the rate-setting process will be incorporated into the budget. Staff will present to the Board the major goals, projects and budget targets at the September 15, 2008 board meeting. After presentation of the budget draft to the executive team, the preliminary budget will be presented to the Board at October 27, 2008 board meeting. The preliminary budget will include staffing plans as well. The final budget will be presented on November 24, 2008 board meeting. Staff will request Board approval of the 2009 budget at the December 1, 2008 board meeting.

Commissioner Bolz reported on the Balanced Scorecard indicator Ensure policies and processes are in place for appropriate rate setting for services provided listed under the financial objective Maintain Strong Financial Stewardship. Commissioner Bolz distributed various documents supporting and defining the policies for rate setting. The Final Order on Hearings Conducted Pursuant to the Public Utility Regulatory Policies Act (PURPA) of 1978 adopted April 28, 1980 by Resolution 80-6286 followed by staff defines the rate change notice policy and information to Consumers Standard. Commissioner Bolz pointed out it is the duty of the Board members to set the rates, rules and regulations for services and commodities provided by the District as stated in the Board Governance Policy No. 5. RCW 54.24.080 establishes the state law for rates and charges. Excerpts from the 2008A Bond Official Statement rate covenant states the District will fix, establish, maintain and collect rates and charges for electric power and energy, water, wastewater, fiber optics networks and other services to pay O&M, annual debt service on the bonds, the amounts required to be deposited into the Reserve Fund, other amounts the District is

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obligated to pay and to provide for the Bond Coverage Ratio. Commissioner Bolz concluded that there is an abundance of policies and practices in place for appropriate rate setting.

Commissioner Congdon opened discussion on the indicator Annual review of risk issues and mitigation plans and asked staff for examples. In response, General Manager Rich Riazzi gave as an example the mitigation plan related to the HCP targets the District must hit by certain dates. Programs are in place to hit the targets, but if targets are not met then the mitigation plan (also referred to as the contingency plan) is then followed. Other examples of mitigation plans are rate increases, customer surcharges and the establishment of the Rate Stabilization Fund to be utilized in the event of low revenue years.

Joe Jarvis, Chief Financial Officer presented to the Board the Second Quarter 2008 Investment Report according to the District Investment Policy. The average rate of return during the second quarter was 4.22% on an average invested balance of \$376,178,549. Market activity of District investments is following the trend of the Feds and is on its way down.

General Counsel Carol Wardell reported the hearing on the Operators Lawsuit was held Thursday, July 17, 2008 and approved the settlement as fair and reasonable. The judge issued an order in which after an appeal period of 30 days the District has 10 days to make payment to plaintiffs' attorneys and funds will be distributed as appropriated by the judge to the various members of the class.

The meeting recessed at 11:44 a.m. for the purpose of lunch and reconvened at 1:00 p.m. for the purpose of conducting the business of the District.

Reconvening at 1:00 p.m., Director of Strategic Financial Planning Kelly Boyd and Senior Strategic Financial Analyst Mark O'Bryan continued the rate-setting process with a presentation of a draft rate design for Water and Wastewater. Similar to the Electric system draft, the Water and Wastewater drafts were developed from input by the Board, the Cost of Service Analysis (COSA) and collective perspectives, experience and expertise of the rate committee. The draft design supported the following Board philosophies:

- Utility services being provided as an integrated utility (water and wastewater receive some benefit from net wholesale electric sales)
- Closing of operating gaps over time
- Small, incremental increases over time (single digits)
- Phasing in rate alignment towards cost of service between customer classes and rate components
- Moving toward a postage stamp concept in small increments
- Promote water conservation through the tiered rate structure

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The draft rate design for water includes an overall average rate increase of 6.94% which moves toward the cost of service, but doesn't close the entire gap for 2009. The cost of service results for Water showed a revenue requirement need in 2009 (9.1%) and a continuation of a revenue gap in 2010 (18.1% cumulative – or about 9% each year if spread evenly). The 2009 Water cost of service analysis (COSA) includes support from risk-adjusted annual wholesale power revenues of about \$249,000 for water system costs. The draft modifications to water rates included aligning rate components between locations (except Dryden), aligning base charge factors with American Water Works Association (AWWA) service factors, and setting top tier usage rates at approx. 75% higher than first tier rates. Over all, residential rates would increase an average of 6.89% under the 2009 draft which would result in an estimated \$4 increase in monthly bills for a Wenatchee customer who uses an average of 10,000 gallons per month. Comparable monthly bills for Dryden and Chelan Ridge would increase by \$9 and \$7 per month, respectively. Squilchuck and Olalla Canyon bills would decrease by \$2 and \$1 per month, respectively. Commercial rates would average an increase of 7.03% over all, with monthly bill impacts for small commercial customers ranging from a \$9 increase to a \$6 decrease, depending on location.

The draft design for wastewater includes an overall average rate increase of 6.47% which moves toward the cost of service and is a step toward narrowing the operating gap over a long term. The COSA results for Wastewater showed a revenue requirement need in 2009 (25.4%) and a continuation of a revenue gap in 2010 (38.5% cumulative) including support from risk-adjusted annual wholesale power revenues of about \$269,000. The draft modifications to wastewater rates included aligning rate components between locations and aligning rate components with cost of service.

Additional details on the 2009 draft rate design for water and wastewater are included in the presentation found at [www.chelanpud.org](http://www.chelanpud.org), Board Agendas and Recordings, July 21, 2008 Board Meeting. Discussion on the draft changes and Commissioner input will continue at the August 11 & 18, 2008 board meetings. Strategic Planning staff will also present a derivation of the June 23, 2003 draft electric rate design to the Board at the August 11, 2008 board meeting to be followed by additional discussion of all drafts scheduled for the August 18, 2008 board meeting.

Customer Carnan Bergren of Peshastin encouraged Commissioners not to increase Peshastin Wastewater rates at postage stamp rates and to take into consideration that the system is not completely developed.

Executive Manager Energy Resources Randy Lowe reported that the fluctuating Columbia River level is expected and the Rock Island pond variations are typical this time of year. Variations are

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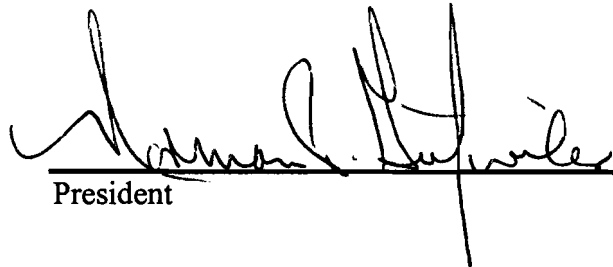
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a result of rapid changes in water flows and load demand. Manager Lowe also stated that systems are operating within the FERC license.

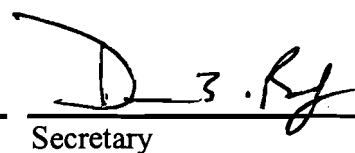
There being no further business, the meeting was recessed at 2:24 p.m. to be reconvened at 5:30 p.m. for the Mid-Columbia Managers/Commissioner Dinner held at the Highlander, 2920 8th St., S.E., East Wenatchee.

The meeting reconvened at 5:30 p.m. Commissioners present were Norm Gutzwiler, Werner Janssen and Dennis Bolz.

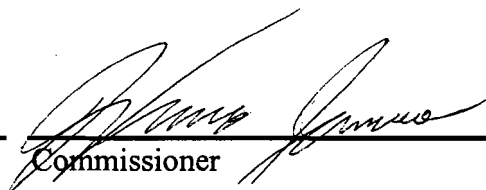
There being no further business, the meeting was adjourned at 8:30 p.m.

  
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President

  
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Vice President

  
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Secretary

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Commissioner

  
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