

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

October 26, 2009

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 October 26, 2009, at the hour of 1:00 p.m., pursuant to proper notice thereof.

Commissioners present were Ann Congdon, Dennis Bolz, Randy Smith and Carnan Bergren. Commissioner Gutzwiler was excused. In attendance were General Manager Rich Riazzi, General Council Carol Wardell and Clerk of the Board Sheila Salmon. Various staff members were also in attendance.

Others in attendance: Bob Huber, Steve Hair (KOHO) and Christine Pratt (Wenatchee World).

Nicole Villacres and TJ Farrell led the Pledge of Allegiance and provided a safety minute.

President Congdon presented the Consent Agenda Items for adoption. She asked if any item on the Consent Agenda should be transferred to the Regular Agenda for further review. No items were requested to be transferred to the regular Agenda. President Congdon presented the Consent Agenda items for adoption as follows:

The minutes of the meetings held on October 5, 2009 (regular meeting), October 6, 2009 (Entiat Public meeting), October 12, 2009 (study session), October 13, 2009 (Tri-Commission meeting), October 20, 2009 (board retreat) and October 21, 2009 (Wenatchee Customer Partnership Group meeting) were presented for approval.

The Auditor's memorandum, dated October 13, 2009, supporting documentation and the District's Computer Report, which certify, pursuant to RCW 42.24.080, that the District received certain goods, services and other considerations specified therein and described as follows were presented for approval:

1. Claims certified by the Auditor for payment and authorization for the Auditor to issue warrants payable by the Treasurer for services, goods and other considerations received by the District in the total amount of \$3,949,192.30;
2. Approval of Customer Deposit Returns payment dated October 13, 2009 in the amount of \$5,787.68; and
3. Approval of the net Payrolls, Warrant Nos. 223199 through 223284 and Advice Nos. 499437 through 500081 for the period ending 9/27/2009 in the amount of \$1,409,223.52.

Motion was made by Commissioner Bergren, seconded by Commissioner Bolz and carried adopting the Consent Agenda consisting of the minutes of the meetings held on October 5, 2009 (regular meeting), October 6, 2009 (Entiat Public meeting), October 12, 2009 (study session), October 13, 2009 (Tri-Commission meeting), October 20, 2009 (board retreat) and October 21,

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2009 (Wenatchee Customer Partnership Group meeting) and the above listed vouchers, which are on file in the offices of the District.

Director of Customer Service John Stoll presented an overview on the Public Utility Regulatory Policies Act (PURPA) Standards. He reviewed two PURPA Standards and compared the Standards to existing District policies. Integrated Resource Planning (IRP), Standard 16, recommends that each electric utility shall consider integrating energy efficiency resources into utility, State, and regional plans and consider adopting policies establishing cost-effective energy efficiency as a priority resource. Director Stoll stated that the District complies with the Washington State RCW 19.280 which mandates an IRP update every two years and includes an evaluation of all resources that meet the needs of the utility at the lowest reasonable cost and risk to the utility and its ratepayers, including conservation and efficiency resources. PURPA Standard 17, Rate Design Modifications to Promote Energy Efficiency Investments, recommends that utilities consider that the rates allowed to be charged by any electric utility shall align utility incentives with the delivery of cost effective energy efficiency and promote energy efficiency investments. Director Stoll stated that the District's rate design and conservation programs efforts support this goal. In complying with Standard 17, each state regulatory authority and each non regulated utility shall consider policy options. (See www.chelanpud.org for the list of options and District comparison to each option)

Director Stoll proposed that the District would not to adopt Standard 16 and 17 as written. It is staff's recommendation to consider those standards but to focus on compliance with Washington State RCW 19.280 (Electric Utility Resource Plans) and RCW 19.285 (Energy Independence Act).

Next, Conservation and Customer Service Manager Andrew Wendell presented Commissioners a draft of a proposed Energy Conservation Incentives Policy. The proposed policy authorizes a process for establishing conservation programs and appropriate incentives and ensures a consistent process for appropriate reporting, documentation and compliance with RCW 19.285. The District is required under RCW 19.285.040 to identify its achievable cost-effective conservation potential through 2019. This ten-year plan will be presented to the Board for approval and the targets will be updated every two years. A Conservation Incentive Committee comprised of District staff will review conservation measures and incentives before making recommendation to the General Manager who will approve, adjust or terminate incentive levels within the Board-approved budget. Mr. Wendell welcomed any comments or revisions to the policy by the Board and the public.

Conservation Program Manager Mark Wisner introduced the proposed Weatherization Incentive Program. The program would pay to homeowners 25 cents per square foot for the addition of insulation to attic, wall and crawlspace areas and \$3 per square for the installation of energy efficient windows and doors. The details of this program are being worked on and would be part of the final Energy Conservation Incentive Policy when approved by the Board.

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A public hearing is scheduled for 1:00 pm on November 16, 2009 to receive public input and discussion of the requirements of RCW 19.285 (Initiative 937) and the District's plans to comply with that statute as well as recommendations to comply with the PURPA standards.. Director Stoll told Commissioners that staff would return at that time to request approval of PURPA recommendations and the Energy Conservation Incentives Policy. He noted that the ten year conservation plan is due to be finalized by January 1, 2010.

A motion was made by Commissioner Bolz to set a special meeting on Tuesday, November 17, 2009 at 12:00 noon to 1:30 p.m. for the purpose of the Cashmere Customer Partnership Group meeting to be held at the Cashmere Riverside Center, 201 Riverside Drive, Cashmere, Washington. The motion was seconded by Commissioner Smith and approved.

President Congdon recessed the meeting at 1:50 p.m. for a ten minute break.

Reconvening at 2:03 p.m., the first public hearing on the 2010 preliminary budget was held. Strategic Financial Planning Director Kelly Boyd told Commissioners that staff is planning for a difficult year and that the 2010 budget decisions are based on value to the District and our customers. Reduced levels are for the short term and are not sustainable over the long term. (See www.chelanpud.org for 2010 Preliminary Budget Presentation and 2010 Preliminary Budget Filing)

Human Resources (HR) staff presented the District's Wage and Benefits Plan. Compensation Manager Allison Brodine reviewed the District compensation history and philosophy. She explained that salaries are in line with industry standards and they are continually evaluated to for market competitiveness. She told Commissioners that to maintain our current market competitiveness, it is staff's recommendation to increase wages for the non-bargaining unit employees in 2010 by an average of 3.0 percent. In addition to this 3 percent, .75 percent would be available for promotions and market adjustments and .25 percent would be reserved at the corporate level for one-time targeted market adjustments, as needed. This recommendation does not include an increase in executive management wages. The increase would become effective August 1, 2010. The wage increase for union employees is to be negotiated in 2010. Benefits Manager Beverly Freeman informed Commissioners that staff expects medical plan costs beginning August 1, 2010 to increase by 8 percent.

Next, Director Boyd presented the preliminary budget:

- The 2010 budget projections for Combined Utility Services include:
 - Operating Revenue at \$76,611,000
 - Net Wholesale Revenue at \$49,506,000 based on \$44/MWh
 - Purchased Power-Hydros at \$73,722,000
 - Operations, Maintenance and Taxes at \$42,537,000
 - Depreciation/Amortization at \$18,539,000
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- Net Operating Loss of \$8,681,000
- Net non-operating income of \$741,000
- Net loss before contributions in aid of construction of \$7,940,000
- Combined Hydros Operations and Maintenance budget is \$92,306,000; a 5% increase over the 2009 contingency budget. Staff reductions partially offset the increase of preventive maintenance projects which could not be sustained at contingency level for another year.
- Capital Expenditures have been reduced to \$64,572,000 from the 2009 Contingency Budget of \$80,338,000. She noted that reduced levels are not sustainable over the long term. Major capital projects budget for 2010 include modernization at Rock Island and Lake Chelan, electric system upgrades, transmission line replacements/improvements, fiber optic build-out, hatchery modifications, water reservoir and water main replacements and upgrades to computer software and hardware.
- Staffing is budgeted at 717 full-time-equivalents (FTEs), a reduction of 26 FTEs from the 2009 adopted budget.

At these budget projections, she forecasted for 2010:

- Operating ratio under expected conditions (50% probability) at 105% and under unusual conditions (10% probability) at 118%.
- Change in net asset under expected conditions at a loss of \$8,000,000 and under unusual conditions a loss of \$25,000,000.
- Additional surcharge potential under expected conditions at 0% and under unusual conditions at 18% to meet senior debt coverage requirements (note that technical compliance for 2010 has been met through the escrowing of the 2010 debt service).
- Utility Services reserves at expected conditions at \$218,000,000 and under unusual conditions at \$200,000,000.
- Additional forecasts were provided for 2011 & 2012.
- The need to reevaluate and potentially increase the minimum Utility Services reserves target was discussed and will be a component of the concurrent strategic planning efforts.

Director Boyd summarized that to keep the District strong and reliable; the budgetary focus is to remain in preservation mode for 2010. Staff will continue to monitor and update wholesale forecasts with current information, prioritize and refine the budget and monitor the need for further surcharge and rate increases. The final budget hearing is scheduled for November 30, 2009 and expected Board approval for December 7, 2009.

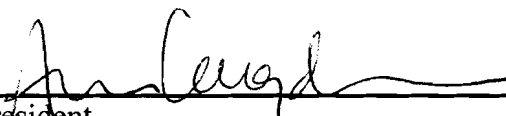
Commissioner Bolz excused himself at 3:17 p.m. for the remainder of the meeting.

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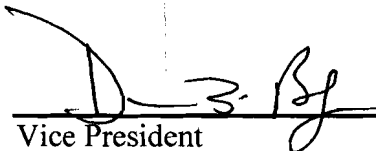
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There being no other business, the meeting adjourned at 4:00 p.m.



President



Vice President



Secretary



Commissioner

Commissioner