

**Minutes of the Regular Meeting of the Okanogan County
Public Utility District Board of Commissioners
Held in Okanogan February 27, 2001**

Present:

Board:

Darrel Bunch, Donald Johnson, James Rowland

Staff:

Harlan Warner, Richard Trimble, Frederick Burke, Julie Pyper, Debra Peters,
Joe Miller, Ed Parker, Joy Schultz, Dan Van Arsdale, Marla Davis

Other:

Susie Buchert, Chronicle

Public:

Bill Brauchla, Maeyowa, Craig Vejraska, Mike Poulson, Gary Oestreich, Arnie
Asmussen, John Andrist, Bob Tollefson, David Freels, Terry Paslay

President Bunch called the meeting to order at 8:30 a.m.

Summary Agenda

1. Approval of Minutes
2. Approval of Work Orders
3. Transfer of Accounts
4. Vouchers
5. Employee Service Awards
6. Public Comment
7. Washington Agricultural Legal Foundation
8. Bob Tollefson and David Freels
9. NRU Special Assessment
10. Resolution No. 1207 - Energy Northwest Satsop Site
11. Staff Presentations - Rich Trimble, Debbie Peters and Joe Miller
12. NoaNet Report
13. Nine Canyon Wind Participants Meeting
14. WPUDA/DSI Letter
15. Rates and Revenue Requirements
16. Foster Wheeler Proposal
17. Public Comment
18. Meetings

1. Approval of Minutes:

Commissioner Rowland moved to approve the Minutes of the February 6, 2001 regular meeting; Commissioner Johnson seconded; motion passed.

2. Approval of Work Orders:

The following work orders were submitted for approval:

96-0709 District, Commercial Way, Pateros	45,215.00
98-0157 Julius Baker, Douglas Rd.	1,857.65
98-0169 District, Maple Hall Sub.	1,320.47
98-0170 District, Crawfish Lake	1,054.81
98-0176 District, Malott	558.63
98-0184 District, Stampede Housing, Omak	2,085.40
98-0188 District, Okanogan Fairgrounds	1,838.01
98-0189 District, Central Area	3,241.44
98-0207 Lawrence Kruger, Malott	2,010.99
98-0223 District, Plat 4750	1,133.95
98-0229 District, Black Rd., Omak	2,101.09
98-0248 District, Twisp 115 KV Line	2,378.33
98-0919 District, Granite St., Omak	1,187.84
99-0198 District, Chilliwist	6,796.00
00-0448 Delores Johnson, Antwyne Ln., Havillah Rd.	2,275.00
00-0494 Sam Wright, Cape Labelle Ranches	2,750.00
01-0022 District, Ross Canyon Rd., Omak	59,022.00
01-0032 Pete Colomb, 14A Haussler Rd., Omak	588.00
01-0033 District, Glover Lane & Salmon Creek Rd.	1,067.00
01-0034 District, Okanogan	1,440.00
01-0036 District, Conconully Hwy.	681.00

01-0038 S & H Homes/Baptist Church, Douglas St., Omak	681.00
01-0039 Colville Housing Authority, Moccasin Flat, Omak	814.00
01-0040 District, Ross Canyon Rd.	34,175.00
01-0046 District, 103 Riverside St., Riverside	853.00
01-0047 David Grooms, Barnholt Loop Rd., Okanogan	2,672.00
01-0303 Colville Tribal Service Corp., Hwy. 97 & U.S./Canadian Border	4,250.00
01-0604 District/Calvary Baptist Church, 1112 Methow Valley Hwy.	2,443.00
01-0606 District, Methow Valley #4146	2,753.00
01-0609 District, Gold Creek Loop Rd.	1,342.00
01-0610 District, 206 Bridge St. S., Brewster	751.00
01-0613 District, Brewster Flat	962.00
Total	\$192,298.61

Commissioner Johnson moved to approve the work orders; Commissioner Rowland seconded; motion passed.

3. Transfer of Accounts:

Frederick Burke requested to transfer a prepayment work order balance of \$20.00 to electrical account #3490-0 in the name of Kevin Burley. Numerous attempts have been made to collect the remainder of the prepayment for installation of a CT meter at Mr. Burley's residence, without success.

Commissioner Rowland moved to approve the account transfer; Commissioner Johnson seconded; motion passed.

4. Vouchers:

Vouchers No.'s 64779 through 64814 in the amount of \$153,119.64, No.'s 64815 through 64919 in the amount of \$255,399.60, No.'s 64920 through 64977 in the amount of \$281,877.56, No.'s 64978 through 65013 in the amount of \$145,996.06, and No.'s 65014 through 65072 in the amount of \$1,188,793.76 were approved for payment from the revenue fund.

5. Employee Service Awards:

The employees receiving service awards were welcomed to the meeting and

congratulated for their hard work and years of service. President Bunch and Manager Warner presented the awards as follows:

Randy Bird 5 years Mike Beach 15 years
Reid Rubert 5 years LeRoy Parten 20 years
Marla Davis 10 years Joe Miller 20 years
George Webster 10 years Lois Reed 30 years
Verle Rowton 10 years

6. Public Comment:

Maeyowa commented that she felt the SEPA Checklist for the Twisp substation expansion is vague in describing the purpose for expansion. She said PACE found out about the project through the legal notices, but would like to be notified directly when work is being done. She also asked about the project's capacity changes. Don Brantner responded that the District will be installing three breaker positions. He said circuit breakers would give automatic protection, but will not be added at this point.

Maeyowa asked for a headquarters expansion update, which Manager Warner responded is still in development.

Maeyowa requested a commitment from the Board to schedule monthly community meetings, and suggested that the meetings be held in the evenings in the Commissioners' respective areas. The Commissioners responded that the next Board meeting is scheduled in Brewster and that a future meeting would be scheduled in Twisp. Commissioner Rowland advised that notice must be given to the press prior to the Commissioners attending any public meeting together. He also said he had been invited to a meeting in the Methow on March 19, which he plans to attend. Commissioner Bunch said he often attends meetings in Oroville.

7. Washington Agricultural Legal Foundation:

County Commissioner Craig Vejraska addressed the Board regarding the County's notice of action of legal suit against the National Marine Fisheries Service (NMFS). Commissioner Vejraska explained that the essence of the notice is precedence of private water rights over the Endangered Species Act. The County's position is that NMFS has been taking private water rights to support the instream flows they determine are necessary for salmon. The County has retained the Seattle firm of Perkins Coie and intends to file a lawsuit if NMFS does not agree with its position. Since the PUD is significantly affected by these NMFS determinations, the County has requested the PUD contribute to the lawsuit in the amount of \$20,000. Legal fund support will also be requested of other PUDs, cities, school districts, etc. Mike Poulson, Director of the Washington Agricultural Legal Foundation, said the Foundation helps coordinate projects such as this. He was pleased with the county government's

support as the Foundation has been supporting irrigators in the Methow the last couple of years.

Manager Warner commented that the NMFS in Portland has a different view than other NMFS. Commissioner Rowland said he favored testing the matter, but involvement could amount to a much greater financial commitment before conclusion. Commissioner Johnson said he was not comfortable authorizing funding as the District is facing a rate increase that is also important to ratepayers. He said he believes the District's focus should be on power production instead of lawsuits. Audience members said they differed with Commissioner Johnson and asked the Board to support the suit. Commissioner Bunch said he does not like the idea of a lawsuit, but is willing to support the lawsuit because he feels we do not have a choice.

Commissioner Rowland moved for Okanogan PUD to participate in the form of support and \$20,000 initially; Commissioner Bunch seconded; Commissioner Johnson opposed the motion and said he felt we were acting rather fast, that we do not know if the people of Okanogan County want the PUD to spend funding on a lawsuit, and that he does not think we will eliminate NMFS with a lawsuit; motion passed.

8. Bob Tollefson and David Freels:

Bob Tollefson thanked the Commissioners for supporting the County's lawsuit against NMFS and said he thought the residents were behind them.

Mr. Tollefson discussed power generation and said there will be no economic development in Okanogan County without reliable power. He said the PUD is important for providing electricity at a reasonable rate, and he was pleased that fiber optics will be brought in. He suggested natural gas generators in a 10 - 15 year plan, and for the short term the District installing wind turbines, working with the Forest Service for chips to burn at the mill, negotiating for the Omak mill generators and beginning a diesel generator farm as soon as possible. Commissioner Johnson responded that he agreed that these are the kinds of things we need and that management has been trying to get the mill generation going but it is tied up in bankruptcy. He said Chelan PUD is working on diesel and the PUD has asked Foster Wheeler to look into this in their proposal. Commissioner Johnson favored the PUD obtaining three smaller towers with monitoring equipment. Joe Miller said the District has wind speed and other weather data through the Omak substation monitoring by Douglas PUD. Commissioner Rowland suggested that as a member of Energy Northwest, the District look into using Energy Northwest's towers. The Board agreed to research this area. David Freels asked if the District had looked into natural gas at Osoyoos. Manager Warner said the District is working with a private developer regarding a combustion turbine at Oroville. Mr. Freels said he was concerned about the rate increase for high-end users. Commissioner Johnson said he would like the PUD to invest in smart meters for high-end users. Freels

and Tollefson said that in certain areas business is regulated to daylight hours. Arnie Asmussen added that his business must use power at all hours. Bob Tollefson then asked if we should look at a chip burning plant separate from the mill. The Manager responded yes, that Foster Wheeler will be looking at this proposal as are other private individuals in the county. Commissioner Rowland commented that this is a problem we cannot beat in the next 90 days. Maeyowa suggested looking at solar. Commissioner Johnson said he was interested in solar panels for schools and mentioned that compact fluorescents can save lighting energy. Terry Paslay asked if California was the reason for the power problems and if any federal money was available for developing the projects that were discussed. He was told that California was a piece of the problem, but is required to return two for one on the power exchange during low-use periods, and that BPA is the federal agency the District works with.

Regarding the mill discussion, Manager Warner said that GE Corporation is holding \$23 million in outstanding debt and is being consulted closely with the court. Appointing a trustee has been a several week process, but one has recently been selected. The Colville Tribal Enterprise Corporation has discussed purchasing the plant and has asked the PUD for information associated with CTEC delivering power generated at the mill site to the open market. Mr. Warner said getting the power house operating may provide some employment and other business opportunities for CTEC, however, he sees very little power supply advantage to the PUD or its customers.

9. NRU Special Assessment:

Manager Warner distributed an invoice from John Saven, the Director of Northwest Requirements Utilities (NRU), in the amount of \$5,063.00 for Regional Transmission Organization (RTO) year 2001 funding. Mr. Warner strongly recommended supporting the participation and funding for NRU work regarding the RTO.

Following discussion, Commissioner Rowland moved to approve NRU's invoice of \$5,063.00 for representation in the RTO negotiations for 2001; Commissioner Johnson seconded; motion passed.

10. Resolution No. 1207 - Energy Northwest Satsop Site:

Manager Warner presented Resolution No. 1207, directing the entry of a Satisfaction of Judgment in certain litigation respecting Energy Northwest (formerly Washington Public Power Supply System).

The purpose of the Resolution is to authorize the removal of all judgment liens recorded against Energy Northwest property resulting from the bridge and termination loan litigation of Projects WNP 4 and 5. The PUD, as a member of the Supply System, had extended bridge and termination loans with the understanding of being reimbursed. The loans, which were defaulted on and resulted in the PUD's lien, were to pay costs for terminating contracts and

closing the plant because there were no adequate funds to do so. At the present time, Energy Northwest is attempting to transfer clear title to a portion of the Satsop Site to Duke Energy and needs to have all of the judgments released.

Commissioner Rowland moved to approve Resolution No. 1207; Commissioner Johnson seconded; motion passed.

11. Staff Presentations - Rich Trimble, Debbie Peters and Joe Miller:

Rich Trimble noted his background prior to joining the PUD in 1999 as Assistant Manager.

Debbie Peters, Energy Services Coordinator, discussed her role in promoting energy-efficient, cost-effective programs and services.

Joe Miller presented a newsletter related to the District's new telecommunications venture. Joe assumed the position of Telecommunications Engineer in November 2000 after spending 20 years on the craft side of the PUD.

12. NoaNet Report:

Rich Trimble noted that revenue projections for NoaNet are down primarily as a result of delays by member PUDs in building their local networks. The financial shortfall could be dealt with by converting to long-term financing, authorizing additional debt, or assessing the members temporarily until revenues catch up. It is hoped that an assessment would act as an incentive to the members to build and market their local networks. Seven out of 17 members have connected, and Okanogan plans to be number eight. Okanogan PUD's assessment would amount to approximately \$280,000 to cover a 2001-2002 shortfall under the current revenue projection.

Assistant Manager Trimble said he had mixed feelings, but likes the incentive that comes along with an assessment. Commissioner Rowland said he favors converting the existing debt to long-term, and Commissioner Bunch said he did not want to go into debt any deeper and preferred the incentives assessment.

13. Nine Canyon Wind Participants Meeting:

Manager Warner reported that a Nine Canyon Wind participants meeting is scheduled for March 8, 2001 in Richland. It was determined that the Manager, Assistant Manger and Commissioner Bunch will attend.

14. WPUDA/DSI Letter:

Manager Warner reported that the Public Power Council and Washington PUD Association (WPUDA) drafted a letter to send to the northwest congressional delegation. The WPUDA requested its members send similar letters encouraging the congressional delegation to support a permanent buy-out by BPA of its

power sales contracts with the direct service industries (DSIs), or at least for the contracts not to have a resale provision in them.

Commissioner Johnson said he supported sending a letter to encourage dissociation of BPA and DSIs. Commissioner Rowland said that in good times, DSIs were our battery. Commissioner Bunch said he has mixed emotions and fears the region will become complacent. At the conclusion of the discussion, Commissioner Johnson moved to be a participant in the WPUDA letter; Commissioner Rowland seconded; motion passed.

The Board recessed for lunch from 12:15 p.m. to 1:20 p.m.

15. Rates and Revenue Requirements:

Manager Warner discussed the District's projected shortage of power from Wells Dam and the significant BPA rate increases. He explained that the Wells generation is running about 80% of its assured capability, which means the District has to provide the deficit. The deficit is expected to be about 6 megawatts, and market prices are near \$350 a megawatt-hour. Mr. Warner discussed short-term options to correct the problem from May 2001 to April 2002 of adding generation, buying off the market and voluntarily curtailing loads. The long-term options are to increase conservation, including the BPA conservation and renewable discount; new generation sources such as wind, net metering, local co-generation; and customer information. Mr. Warner distributed the Washington PUD Association's Energy Crisis Action Plan, which calls upon BPA and the state to try to keep rates at the lowest level by buying out the DSIs at 25% of the market value and reduce load requirements by 10% through a combination of curtailment and the development of new resources.

Fred Burke has prepared a five-year operating and cash flow analysis that indicates a substantial rate increase is required to cover the projected shortfalls and maintain the District's reserves. Manager Warner said that staff is recommending the Wells deficit be supplied by immediately ordering seven 1.6 MW diesel generating units, which could be operating as soon as June at a cost near 10 cents per kilowatt-hour. This is projected to save about \$5 million over the expense of purchasing this energy at market cost. A consultant would be retained for the permitting process and citing. Also recommended is a customer load buy-back program at 10 cents per kilowatt-hour. Under this program, the PUD will pay a customer to disconnect their service for a specific period of time. This is primarily directed at irrigation accounts, but could be applied to other customers willing to have a service disconnected. The PUD would average past years' usage to calculate the amount that would be paid to the customer. In addition, the District will look at market purchases, and cover the cost of a rate surcharge that will be removed when flows return in 2002, or 2003 if water conditions are low. With the BPA rate going up October 1, it will be recommended to implement a partial rate increase effective April 1, 2001 and a final rate increase October 1, 2001, after BPA sets its first year numbers.

BPA plans to publish its rates on June 20, 2001, which are expected to increase 60% over five years, with the first year now estimated to be 100 - 200%.

Rich Trimble distributed a handout detailing the diesel and market purchase options. Commissioner Johnson suggested talking to businesses who want off-peak rates and installing smart meters by June. Manager Warner said the District is short energy and off-peak rates would just move the peaks to different times. Assistant Manager Trimble said the biggest concern with diesel is how the PUD markets surplus from its own generation, which has to be done so that BPA does not reduce our BPA purchases, plus the permitting challenge. The District is working with a firm that is contracting with Chelan and Grays Harbor on installing their units.

Arnie Asmussen said he is interested in making conservation improvements at his Pateros Quick Stop in exchange for his power bill being reduced by 20% until the improvements are paid for. Mr. Asmussen is interested in solar for the motel he plans to build near his business in Pateros. He also indicated that he is a member of the county's Partnership 2005. Following discussion, the Energy Services Coordinator said she would be in contact with Mr. Asmussen.

Bill Brauchla of Magi distributed a production analysis based on growers' current electrical costs per bin of fruit and based on the proposed rate increases. He urged the PUD to keep the rate increase away from the agricultural irrigators, pumps and warehouses this season. Mr. Brauchla said growers are currently receiving \$20 a bin less than production costs, and it is the hope of growers that the financial shortfalls can be made up somewhere else than the apple and pear industry.

The Board requested the staff to prepare a financial analysis to include a 30% increase effective April 1, 2001, and calculate what increase that would require on October 1, 2001. Irrigation customers should be assigned a 15% increase effective April 1, 2001. The amount of the rate increase is expected to be established at the next Board meeting.

Commissioner Rowland moved to authorize the Manager to act on behalf of the District to acquire diesel generators by lease or purchase and to begin the permitting process; and to authorize the implementation of a load buy-back program at 10 cents per KWH; Commissioner Johnson seconded; motion passed.

The Board requested the staff to prepare a press release.

16. Foster Wheeler Proposal:

The District received an expanded scope of work from Ellen Hall of Foster Wheeler Environmental Corporation that included consideration of alternatives or additions to the Pateros-Twisp transmission line.

Commissioner Johnson moved to authorize the Manager to enter into a Contract with Foster Wheeler Environmental Corporation for the evaluation of other alternatives; Commissioner Rowland seconded; motion passed.

17. Public Comment:

Maeyowa inquired about fuel cells and micro-hydro. Debbie Peters responded that BPA offered utilities an alpha fuel cell partnership program, which had construction problems and proved to be very expensive. Changes were made, and BPA is now coming out with plans for beta deployment units.

18. Meetings:

Commissioner Rowland had no meetings to report.

Commissioner Johnson reported that he attended PUD Association meetings in Olympia on February 15 and 16, and a biomass meeting on February 21 at the Omak City Hall.

Commissioner Bunch reported that he attended PUD Association meetings in Olympia on February 15 and 16.

The next Okanogan PUD Board meeting is scheduled in Brewster on March 13, 2001.

There being no further business to discuss, the meeting adjourned at 5:08 p.m.