

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

Present:

Board:

Darrel Bunch, Donald Johnson, James Rowland

Staff:

Harlan Warner, Richard Trimble, Frederick Burke, Joe Miller, Dan Boettger,
Debra Peters, Derek Miller, Mark Pritchard, Julie Pyper

Other:

Michael Howe, Legal Counsel

Jim Erskine, Bill Stevenson, Arnold Asmussen, David Sexton, Jim Detro, Roger
Haeberle, M. G. Beau, Eve Sapp, Susan Crampton, Tom Berschauer

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. Public Comments
6. Generation Report
7. Conservation/Curtailment Report
8. Fiber System Report
9. Fiber Network Contract Award
10. Tax Issues on Tribal Accounts
11. WNP-1 Feasibility Study
12. Emergency Conservation Summit
13. Borrowing
14. Public Comments
15. Meetings
16. Staff Presentations

1. Approval of Minutes:

Commissioner Rowland moved to approve the Minutes of the March 13, 2001 regular meeting; Commissioner Johnson seconded with clarifications that included an expansion of his response to the Brewster School Superintendent regarding fiber optics and a request that staff follow up on the previous meeting discussion with David Freels regarding off-peak rates, Arnold Asmussen

regarding his conservation proposal, and the individuals that discussed biomass; motion passed.

2. Approval of Work Orders:

The following work orders were submitted for approval:

00-0196 Ed Terney, 11 Xanadu Rd., Malott	1,889
01-0057 Charlie Newell, 1989 Old Highway 97, Okanogan	6,293
01-0308 Verizon, Hwy. 20 E., Tonasket	775
01-0309 Auke Byle, Teas Rd.	925
01-0311 Ron Wilson, Hwy. 97 S., Tonasket	1,030
01-0313 Donald Hart, Hwy. 20 E. of Tonasket	2,550
01-0611 District, Brewster	874
Total	\$14,336.00

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

3. Transfer of Accounts:

There were no accounts submitted for transfer.

4. Vouchers:

Vouchers No.'s 65278 through 65337 in the amount of \$779,851.68, No.'s 65338 through 65371 in the amount of \$147,407.34, and No.'s 65372 through 65449 in the amount of \$1,553,304.48 were approved for payment from the revenue fund.

5. Public Comments:

There were no public comments.

6. Generation Report:

The staff reported on the status of the diesel generation project. Six rental units are now operating at various electrical substations in the PUD system. Those generators each produce 1.1 megawatts, providing a temporary resource while the main generating site is developed. The District has now committed to the purchase of 16 Cummins diesel generators that will be located near the Ophir substation between Malott and Brewster. A temporary site near Ellisforde is also being permitted as an alternate location.

The District has received third-party inquiries from individuals that would like to put their own units on line. The staff is developing a Power Sales Contract that would allow those supplying 1.5 megawatts to get on the grid and deliver energy to the market. The third parties would be responsible for their own permitting and for providing safe and reliable power.

There was a lengthy discussion on the District's projected shortages, which are constantly changing based on the drought and the highly variable market. The PUD is establishing a link to its web site for providing general information on the energy shortage.

Harlan Warner and Larry Felton met in Seattle last week with HRD of Chico, California, a company that specializes in installing wind turbines. The District intends to acquire a wind tower and has been offered assistance by HRD in selecting the best wind site in Okanogan County. A representative of Energy Northwest will also be asked to visit the PUD so that the board and staff may gain additional information on wind towers.

7. Conservation/Curtailment Report:

Debbie Peters distributed a Synopsis of the Load Buy-Back Program and a revised Load Buy-Back Agreement. Commissioner Johnson discussed the negative concern expressed with the program, and said he felt the program progressed further than his intent. He recommended canceling the program and expanding the participation with a rebate program for those reducing their energy consumption. Debbie Peters reported that the program has been opened to residential customers for a minimum disconnection of three months, however, the customers utilizing the program are primarily irrigation accounts. The load buy-back savings of 15 megawatts are projected for the month of March.

There was discussion on other conservation efforts currently underway. The PUD has executed a purchase of compact fluorescent light bulbs that will be made available at cost to various retailers and at the PUD offices. The PUD is looking into solar and wind equipment packages, is working on expanding its no-interest loan program, and is also developing a list of contractors in the county that could perform audits at schools and hospitals. Ms. Peters has talked to a company from Walla Walla that is available to perform audits on a case-by-case basis, has an 800 number available for customers and would work with the local contractors. There was discussion on the best way to distribute energy crisis information to District customers. The Board approved a mailer, and requested that Debbie Peters bring back information to the next meeting for approval and a decision on distribution.

Arnold Asmussen presented his "Partners in Power" program for the Board's consideration. The PIP program would offer a financial incentive to customers

who were able to reduce their electrical demand based on past usage. In addition, Mr. Asmussen proposed that if a low-interest loan from the PUD could be offered in conjunction with the PIP program, a high level of voluntary conservation from Okanogan County businesses would be a reality.

Commissioner Rowland moved to terminate the Load Buy-Back Program except for legal commitments already extended; Commissioner Johnson seconded; motion passed.

Commissioner Rowland moved to authorize management to enter into discussions for pursuing a "Partners in Power" program as presented by Arnold Asmussen, and that program guidelines be presented to the Board at the next regularly scheduled meeting for discussion and/or adoption; and moved to direct the Manager to develop an incentive-based conservation program to be made available to all customers; Commissioner Johnson seconded; motion passed.

8. Fiber System Report:

Joe Miller reported on the status of the fiber infrastructure and network. Cable has been installed from the Columbia River bridge to the network room in the Brewster PUD office. On March 26, a patch panel manufacturer in Spokane sent two representatives to train the District's crew on installing the Brewster network room patch panel. The hardware has been installed from Brewster to Verestar, and fiber installation is to begin this week. Mr. Miller said that due to the energy crisis, it is important to get fiber deployed between the Brewster, Ophir and Okanogan substations in order to implement relaying and control. The District will be immediately building 48-strand fiber from the Brewster office to the Brewster substation. Interest in connecting to the District's network is increasing dramatically. The schools are very anxious to connect, and the North Central Education Service District may provide a technical coordinator.

The Board recessed for lunch from 12:00 p.m. to 1:20 p.m.

9. Fiber Network Contract Award:

Joe Miller reported that the District evaluated eight proposals in response to the network request for proposals (RFP). The evaluation team consisted of Fred Burke, Bill Freeman, Derek Miller, Joe Miller, Rich Trimble and Dan Van Arsdale. At the end of the evaluation process, the proposals by Cisco Systems and Nortel Networks were chosen for further consideration. Based on the final review, the evaluation team recommends that the District contract with Nortel Networks at a bid price of approximately \$555,000. Included in the proposal is Nortel's voice over IP solution, with unified messaging, for all PUD offices, and Ethernet WAN connectivity for all of the offices. This price does not include a SONET node at Verestar in the approximate amount of \$59,000.

Commissioner Rowland moved to award RFP #290-00 to Nortel Networks, and authorized the staff to proceed with implementing a proposal with Nortel Networks, including a SONET node at Verestar, and negotiating a contract for the Board's approval; Commissioner Johnson seconded; motion passed.

10. Tax Issues on Tribal Accounts:

Attorney Howe reported on the tax issue matter regarding tribal accounts. Virgil Marchand, who resides in East Omak, previously sent the District a letter demanding that the PUD remove the City of Omak's utility tax charge from his electrical billing because Indians are not taxable. The District's counsel had found no authority to support a utility tax exemption for Mr. Marchand and other members of the tribe.

A letter dated March 8, 2001 was received from the office of the Colville Tribal Reservation Attorney relying on newly enacted Washington State revenue regulations that tribal accounts on the reservation should no longer be assessed a utility tax. Prior law exempted tribal members doing business within an Indian reservation from a sales tax, but the new rule is modified to provide that income from the performance of services in Indian country for the tribe or for tribal members is not subject to the public utility tax.

Attorney Howe recommended that the District meet with the tribal attorney and discuss the issues. Fred Burke said tribal customers have been deducting the tax from their PUD bills and are at a point of being subject to disconnection.

The Board agreed to meet as soon as possible with the Colville Tribal Attorney and Council and not to disconnect any accounts at this time. Attorney Howe said this was a statewide issue and he would like to obtain an opinion from the Municipal Attorneys Association. The Board approved his request.

11. WNP-1 Feasibility Study:

Manager Warner reported that a special Washington PUD Association Board of Directors meeting will be held on April 6th to act on a motion calling for a feasibility study to determine if it is economically prudent to consider restart of WNP-1, the partially completed nuclear plant located on the Hanford Reservation. Construction

was halted on this project in 1982 at about 70% completion. The construction permit for WNP-1 will expire in June 2001. The study will cost \$1 million.

As the District's PUD Association representative, Commissioner Johnson said he would plan to attend the meeting and vote for or against the study depending on what he knows at the time the vote is called for. Commissioners Rowland and Bunch said the information on the study was sent to the utility prior to the meeting so the Board could discuss the matter and have a position to send with

the representative. Commissioner Johnson said today he would vote against spending \$1 million on the feasibility study. Manager Warner said the PUD Association Board member represents the utility. With construction permits set to expire in June, Commissioner Rowland said he would vote in favor of allowing Energy Northwest to go forward with a feasibility study of WNP-1.

Commissioner Rowland moved for Okanogan PUD to attend the PUD Association Special Board of Directors Meeting at the WestCoast Olympia Hotel in Olympia on April 6, 2001 to discuss and vote on the feasibility study of WNP-1 and for Okanogan PUD to support the feasibility study; Commissioner Bunch seconded; Commissioner Johnson voted against; motion passed.

12. Emergency Conservation Summit:

Manager Warner distributed information on the Washington Emergency Conservation Summit to be held March 31st at the Jackson Federal Building in Spokane, which he and Debbie Peters plan to attend. Commissioner Johnson said he would also plan to attend.

13. Borrowing:

Fred Burke reported that the rate increase passed by the Board involves the borrowing of \$12 million, and with the purchase of generators the immediacy of the situation is greater. He contacted entities and advised them of the District's need to have responses by March 29th regarding borrowing \$12 million in tax exempt funds over five years, with an option for early repayment. Bank of America responded with options of 1) a loan at 5.26%; 2) a lease option over five years, with a three-year repayment option at 4-1/2% requiring semiannual payments; or 3) a full bond issue, which would take a couple of months and would require a bridge loan in the interim at slightly over 4%. Mr. Burke has spoken with Nancy Neraas at Preston, Gates and Ellis regarding legal services. Her fee as bond counsel in connection with the issuance of a revenue bond or a revenue lease would be \$7,500.

Because debt issuance costs and procedures would be less involved if the amount of debt could be held to \$10 million, there was discussion on borrowing \$10 million now and waiting to see what the BPA increase is before considering the need for additional borrowing next year. That option, however, would require a bond opinion. Commissioner Rowland said he wanted to bring bond counsel on board, but not under the lease option. The Board also discussed seeking an additional \$2 from a different lending institution.

Commissioner Rowland moved to authorize the Director of Finance/Auditor, Fred Burke, to secure \$10 million under a no-lease option and to contact the Board if an alternate option is necessary; Commissioner Johnson seconded; motion passed.

14. Public Comments:

Rob Thompson asked if the PUD would be going into schools to teach conservation measures. He also asked if the PUD will purchase admissions credits for the pollution associated with the generators, and was told that the units would be designed around DOE requirements.

Susan Crampton inquired about micro turbines and asked if other forms of renewables would be comparable to the generator investment. She was told the District has retained a consultant to look at varied options, but there was not another technology to supply the expected deficits in as short a period of time. Ms. Crampton also asked what the PUD is doing to ensure that public power is not penalized for developing new resources. She was told the matter was being addressed and there is no negative impact on the PUD, but every utility is different and the amount of BPA power the PUD purchases could be reduced.

15. Meetings:

Commissioner Johnson reported that he traveled to Olympia on March 15th to attend a PUD Association meeting in Olympia on March 16th, and returned home on the 17th. He also attended an Energy Northwest Participants Review Board meeting in Richland on March 21st.

Commissioner Bunch reported that he traveled to Olympia on March 15th to attend a PUD Association meeting in Olympia on March 16th, and returned home on the 16th. He also attended a meeting with PUD staff at the County Commissioners office in Okanogan on March 19th regarding generator permitting.

Commissioner Rowland had no meetings to report.

16. Staff Presentations:

Derek Miller, a District employee for five years, discussed his current position of Engineering Supervisor.

Mark Pritchard said his duties as Construction Superintendent are to supervise the employees in the operation and maintenance of the system, and be a link between the engineers and operations.

The next meeting is scheduled for April 10, 2001.

There being no further business to discuss, the meeting adjourned at 4:19 p.m.

