

**Minutes of the Regular Meeting of the Okanogan County  
Public Utility District Board of Commissioners  
Held in Okanogan October 16, 2001**

**Present:**

Board: Darrel Bunch, Donald Johnson, James Rowland  
Staff: Harlan Warner, Richard Trimble, Frederick Burke, Derek Miller, Carol Wyant, Wolter Abbink, Julie Pyper  
Other: Michael Howe, Legal Counsel; Alan Dashen; Tony Menke; Susie Buchert, The Chronicle; K. C. Mehaffey, The Wenatchee World  
Public: Dena Byl

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 Comment
6. Alan Dashen, Financial Advisor
7. Financial Forecast Review
8. Executive Session - Personnel
9. 2002 Budget
10. PUD Association Office Funding Proposal
11. Nine Canyon Wind Project - Resolution No. 1224
12. Commissioner District Redistricting
13. Power Outage
14. Meter Reader Position
15. Public Comment
16. Meetings

**1. Approval of Minutes:**

Commissioner Rowland moved to approve the Minutes of the October 2, 2001 regular meeting; Commissioner Johnson seconded with the following clarifications:

8. Slice Contract Amendments: Commissioner Johnson requested that MWH figures be included in the following sentence: "Mr. Felton said that until such time as there is an upward pressure, prices still remain low (\$18/MWH) and we have the diesel generators (\$140/MWH) to protect us from high prices."

10. Review Financial Forecast: Commissioner Johnson requested that an expected deficit of \$13.7 million be included in the sentence regarding the Ethernet build out. Following discussion, it was agreed that this amendment will not be included as staff advised that the proposed figure was debt and deficit. The last sentence of the forecast report will be revised as follows: "The Board directed the staff to consider the effect of lowering cash reserves to \$8 million in 2003."

The motion passed as amended.

## 2. Approval of Work Orders:

The following work orders were submitted for approval:

99-0675 Town of Twisp, Riverside Dr. 7,313  
00-0628 City of Brewster, off Methow Ave. 7,046  
01-02&3 Ben Whitley, Windy Hill Rd. 1,330  
01-0147 District, Nichols Rd., Omak 3,018  
01-0170 Robert Walker, Conconully 10,947  
01-0177 Jack Lovitt, Lot 2 - Dent Property, Keystone Rd., Riverside 1,832  
01-0179 District, Omak Airport Rd. 2,845  
01-0182 City of Okanogan, Crestvue Dr. 750  
01-0184 Joe Meek, 145C Hosheit Rd. 3,786  
01-0398 District, Oroville #3000 Circuit (Rev. #1) 23,000  
01-0418 Patrick Taylor, Lot 50, Cape Labelle Ranches 2,050  
01-0420 District, 5000 Circuit Oroville 550  
01-0421 Keven Haney, Anglin Meadows 2,525  
01-0422 Larry & Trish Stell, Lot 19, Div. III, Okanogan River Ranches 4,575  
01-0423 Sandra Quirk, Mt. Hull 1,775  
01-0424 Bob Milligan, Long Lake - Aeneas Valley 2,555  
01-0425 Pacific Calcium, Inc., Ellisforde 2,625  
01-0427 District, Wannacut Lake Rd. 1,950  
01-0428 Bill Musgrave, Aeneas Valley Rd. 3,575  
01-0656 Astrolink-Verestar, Verestar Drive 14,865  
01-0691 Bill Hanson, 166C Gold Creek Loop Rd. 771  
01-0710 Gair Keith, Twisp River Rd. 821  
01-0711 Walt Parker, Twisp-Carlton Rd. 3,685  
01-0716 District, Twisp 1,163  
01-0717 Jerry Owens, Hwy. 153 - M.P. 14.8 4,056  
Total... \$109,408.00

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

## 3. Transfer of Accounts:

There were no accounts submitted for transfer.

#### **4. Vouchers:**

Vouchers No.'s 68261 through 68296 in the amount of \$172,007.34, No.'s 68297 through 68420 in the amount of \$229,736.91, and No.'s 68421 through 68512 in the amount of \$273,419.00 were approved for payment from the revenue fund.

#### **5. Public Comment:**

There was no public comment.

#### **6. Alan Dashen, Financial Advisor:**

Alan Dashen, a financial advisor who has worked with NoaNet and other PUDs regarding telecom financing, discussed the consideration of bonds in developing a financing plan for Okanogan PUD's generation and telecom projects. He indicated that bonds are less expensive for a 15 - 20 year financing structure. Interest rates are about 5%, and have not been as low since the late 1960's.

The tax status of a bond issue depends on the use of proceeds. The generation project may be tax-exempt or taxable, depending on the use of power. The telecom project is probably taxable, unless used for public purpose. In addition, capital improvements are tax-exempt. To minimize the use of taxable debt, Mr. Dashen recommends borrowing for capital improvements and using District cash for telecom. The use of all tax-exempt debt versus half taxable would save the District over \$4 million in interest payments over the term of the bonds.

The bond proceeds (assuming tax-exempt) for \$10 million telecom project borrowing and \$10 million generation borrowing would include cost of issuance estimated at \$450,000 and a restricted debt-service reserve account estimated at \$2.2 million. In the alternative, debt fund reserve insurance can be purchased at a cost of \$30,000 - \$40,000. Also included as security for bonds is the pledge to raise rates as necessary to pay back the debt.

Bond ratings are obtained from rating agencies. Mr. Dashen said he would expect the PUD to achieve a good bond rating considering its low debt and generation resources. In addition to a rating, an issuer can apply for bond insurance, which results in a "AAA" bond rating at a lower percentage rate. The types of bond sales are competitive or negotiated. A competitive sale is advertised nationally and sold to the lowest bidder.

Mr. Dashen feels a PUD in the current environment would be better served by a negotiated sale, which is handled by a firm hired to sell bonds to the public on behalf of the PUD. If the District proceeds with the issuance of bonds, the earliest a sale could occur would be late December or early next year.

## **7. Financial Forecast Review:**

Fred Burke presented revised financial forecasts based on issuing debt for both telecommunications and the diesel plant. In addition, he presented a forecast based on a request to consider the effect of lowering cash reserves to \$8 million in 2003, which would lower the District's revenue requirements to 23.3% and would not allow cash to build back through 2006. The staff recommended a 30% revenue increase.

The staff also presented a financial forecast based on what the District's financial situation would have been if the diesels had not been purchased. The best power purchase alternative last spring was a two-year hedge from Avista Energy. Had the contract been executed, the District would have faced a 38% increase now with a projected 8% rate reduction in 2004.

The District's Treasurer was informed that Bank of America could convert the District's present Note to 15 years at 4.5% interest.

Commissioner Rowland questioned whether the community could absorb a 30% rate increase, and said he preferred a 20% increase. He was concerned with capital expenditures on the electric side, including budgeting \$4.5 million in 2003 for the Methow transmission project. In addition, he was not in favor of going forward with Ethernet development in 2002. He wanted to look at borrowing for the generators and adjusting the borrowing for telecommunications.

Commissioner Johnson requested an evaluation of mothballing the diesel generators and eliminating the \$675,000 for operation and \$144,000 wages for five operators included in the 2002 budget as he said the Northwest Power Pool Director announced last week that the northwest has adequate resources to meet this winter's load requirements. BPA officially ended October 3 a power emergency that had been in effect since April 3. Load reductions and falling energy prices were key factors in ending the emergency. Weather analysts predict 50-90% of normal rainfall and normal river flows in December. Manager Warner, however, said he will be attending a meeting on Friday in Portland with BPA and OTED to carve out the procedures on how to do rolling blackouts this winter. Commissioner Rowland added that there was insufficient staff time to develop such an evaluation. Commissioners Rowland and Bunch said the diesels are available as energy if needed and now is not the time to mothball them.

The cash flow analysis includes 2002-2006 power sales from surplus hydro-generated power as a result of improved water flows (\$2 million for years 2003-2006). Although this item is listed as Market/Diesel Augmentation, it didn't consider any diesel generated power sales.

Commissioner Rowland moved to approve a 20% rate increase and adjust the budget by taking the Methow Valley transmission line out and borrowing the necessary amount of funding to build a SONET system without Ethernet at this time. He also moved to finance the diesels at 4.5% over 15 years by restructuring the bank note or by bond issuance, and to fund the Methow project with a separate tax-exempt borrowing. Following a break to allow Mr. Burke time to run this scenario, a spreadsheet was presented based on a 20% rate increase, delaying the Methow project by one year and borrowing an additional \$5 million to finance the Methow project. This scenario was contingent upon the District borrowing for telecommunications and \$5 million in capital improvements in 2004. Commissioner Rowland moved for this scenario; Commissioner Bunch seconded. Commissioner Johnson asked if the 2002 budget should be discussed before the rate increase. Mr. Burke advised that the revenue increase must be addressed prior to the budget. The motion passed.

Manager Warner introduced the staff invited to the Commission meeting: Carol Wyant, a Customer Service Representative in Okanogan, and Wolter Abbink, a Lineman in Brewster.

#### **8. Executive Session - Personnel:**

The Board recessed into executive session at 11:30 a.m. to discuss personnel. The Board reconvened into regular session at 12:25 p.m., and recessed for lunch from 12:25 p.m. to 1:35 p.m.

#### **9. 2002 Budget:**

Manager Warner asked the Commissioners if they had any other items they wanted staff to look at before the final budget is presented on October 30, 2001. Mr. Burke inquired about the telecommunications budget. The Manager said Ethernet funding would be excluded, and the District would borrow bank or bond funds after determining the cost of building the backbone system.

Mr. Burke asked how he should apply the revenue increase. Commissioner Bunch said the increase should be applied across the board. Manager Warner said revenue was applied to the energy component on the last increase. Mr. Burke said that if frost control was included in the 20% increase, that a portion would have to go on horsepower. Commissioner Johnson indicated that an across-the-board increase would not equalize irrigation, as irrigation rates were only increased by 15% in the spring when all other rate classes were raised by

31.5%. He was also concerned for low income and disabled ratepayers, and presented a handout that included a tiered rate schedule with no increase for the first 1500 kWh/month (61% of bill; 28% of use), with an 11% increase for the next 1500 kWh (1501 to 3000); this would raise the rate for 28% of the bills (40% of use) to 4 cents/kWh (55% increase over the March cost of 2.58 cents), power over 3000 kWh (15% bills; 32% use) would be increased to about 5 cents/kWh (39% increase). This rate schedule was suggested to promote conservation and hold rates down for those who use less power. Commissioner Rowland replied that low-income senior discount is a valid discount as well as reassessing irrigation, but he is not ready to do tiered rates on usage. Mr. Burke also indicated that tiered/residential rates would require outside programming or discontinuing budget pay. Commissioner Johnson felt there should be no age requirement for a discount. Commissioners Bunch and Rowland were favorable to looking into tiered rates following the budget implementation. It was also mentioned that there is no irrigation discount available from BPA now that the District is a Slice/Block customer.

Commissioner Rowland moved to adopt a 20% rate increase for implementation October 1, 2001 that would be applied equally to all rate classes, and to increase irrigation rates to account for the lower increase last March. His motion also included a disabled provision, which could be put into a rate class as a floater, and to ask Jim Martin to discuss with the Board programs offered by Community Action; Commissioner

Johnson seconded; motion passed.

#### **10. PUD Association Office Funding Proposal:**

The Board discussed the Washington PUD Association office funding proposal, which will be voted on at the October 19, 2001 WPUDA board meeting. The WPUDA intends to move their office from Seattle and to build or buy an office building in Olympia. The office requirements planning would be based on a 1) ten year loan of \$2 million; 2) 100% member financed/dues assessment over two years; 3) 100% member financed/dues assessment over one year; or 4) dues increase of not more than 10%/year. Okanogan PUD's share of a new office building would be \$62,000; or \$31,000 per year for two years; or \$3,800 additional dues if restricted to a 10% increase per year; or \$9,100 additional dues annually for a ten-year period.

Following discussion, the Board felt relocating to Olympia was an effective way for the WPUDA to operate, but preferred leasing rather than purchasing or building. At the October 19th WPUDA board meeting, Commissioner Johnson will express the District's desire to lease and will vote no on building or buying at this time. The Commissioners indicated that they would be open to further discussion on an office funding proposal when the District's budget problems

are under control and the WPUA shows it is operating efficiently in Olympia.

#### **11. Nine Canyon Wind Project - Resolution No. 1224:**

Manager Warner presented Resolution No. 1224, authorizing the execution of a Continuing Disclosure Agreement as part of the Nine Canyon Wind Project documents. Commissioner Johnson questioned the section of the Resolution that refers to the District being obligated to purchase more than 10% of the Project's output and pay more than 10% of the costs of the Project. It was agreed to revise the Resolution to state that the District is obligated to take more than 10%....

Commissioner Rowland moved to approve Resolution No. 1224 with the revision as discussed; Commissioner Johnson seconded as corrected; motion passed.

#### **12. Commissioner District Redistricting:**

Okanogan PUD received information from Mila Jury of the office of the County Auditor explaining that the County Commissioners moved the Orchard precinct from District #2 to District #3. After each census, the County reviews the population of each district to determine if any changes are necessary. Traditionally, the PUD Commissioner districts have been the same as the County Commissioner districts.

With regard to redistricting, Commissioner Johnson will visit the issue with Ms. Jury. He will look at the mapping/populations of the precincts in determining the best way to resolve the matter for the PUD, and present a report at the next meeting.

#### **13. Power Outage:**

Manager Warner reported that a four-hour power outage has been scheduled in the Methow area on October 19, 2001. The outage is needed to make repairs on the Twisp 115 kV transmission line.

#### **14. Meter Reader Position:**

Derek Miller reported that the District received 260 applications for the Meter Reader position being vacated by Dick Waddell, who will join the engineering department. Five of the applicants are current employees on temporary or limited assignment. Three of the outside applicants have prior utility meter reader experience.

#### **15. Public Comment:**

Wolter Abbink gave Commissioner Johnson a copy of his electrical usage history in response to the discussion on tiered rates.

**16. Meetings:**

The Commissioners had no meetings to report.

The next Okanogan PUD Board meeting is scheduled for October 30, 2001. The meeting on November 13, 2001 at the Twisp Community Center will commence at 4:00 p.m. Additional meetings were scheduled for November 27, 2001, December 11, 2001, and January 8, 2002.

There being no further business to discuss, the meeting adjourned at 3:20 p.m.