

**Minutes of the Regular Meeting of the Okanogan County
Public Utility District Board of Commissioners
Held in Okanogan February 11, 2003**

Present: Board: Donald Johnson, David Womack, Darrel Bunch
Staff: Harlan Warner, Don Coppock, Derek Miller, Joe Miller,
Debra Peters, Steve Brown, Fred Burke, Janet Crossland,
Dan Boettger, Jerry Day, Brian Martin, Jeremy Welborn,
Julie Pyper
Other: Michael Howe, Legal Counsel
Alan Dashen, Financial Advisor
Robert McGaughey – Okanogan County
Public: Bob Barnes, Jerry Barnes, Lorah Waters, Maeyowa, Susie Ives

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

Summary Agenda

1. Approval of Minutes
2. Approval of Work Orders
3. Approval of Vouchers
4. Approval of Transfer of Accounts
5. Public Comment
6. Refinancing
7. *Clearing Up* Publication
8. Telecom Report – Nortel Contract
9. Renewable Energy Survey
10. Legal Contract for Slice Audit
11. Consultant Cost Share Agreement
12. Purchase Power Transformer
13. CIPV Contract Amendment
14. Oroville-Nighthawk Trail System
15. Public Comment
16. BPA
17. Meetings
18. Executive Session - Litigation

1. Approval of Minutes:

Commissioner Bunch moved to approve the Minutes of the January 28, 2003 regular meeting; Commissioner Womack seconded. Commissioner Johnson offered revisions to the Minutes. The motion passed as amended.

2. Approval of Work Orders:

The following work orders were submitted for approval:

02-0091	District, Omak Substation.....	\$2,087.00
02-0326	Bob McDaniel, Whitestone Lake.....	4,531
02-0457	District, Various.....	3,600.00
02-0721	Tracy Ebbert/Methow Wireless, Bigelow St., Twisp (Rev. #1).....	1,644.00
03-0002&4	Cliff Harrell, Bobcat Lane – Twin Creeks, Tunk Creek.....	1,790.00
03-0036	John Zosel, East Lake Rd., Oroville	650.00
03-0037	Dean Maple, Meadow Rd. – Mt. Hull	3,675.00
03-0038	Doc Elsea, Rodeo Trail	2,821.00
03-0041	District/Skelton, 655 Omak Riverside E. Rd.....	1,275.00
03-0042	David Shields, 115 Alder Creek Rd., Twisp (Rev. #1)	7,723.00
03-0044	District, 9 Brewster Grange Rd., Brewster	2,141.00
03-0045	Christie & Robert Nolin, 25 Ross Rd.	1,646.00
03-0047	Tacoma Land Co., Twin Creeks – Bobcat Short Plat, Tunk Creek Rd.	16,625.00
03-0052	District, Maple Hall Substation	1,058.00
03-0054	District, 7 th St., Brewster.....	1,227.00
03-0056	District, Main St., Riverside	931.00
03-0057	District/Parcher, 11 Breshears Rd.....	750.00
03-0059	District, Okanogan Substation	782.00
03-0060	John Pitts, 997 Conconully Hwy.	953.00
03-0062	Betty Price, 279 Old Riverside Hwy.	1,928.00
03-0066	Schull’s Towing & Parts, 25899 Hwy. 97, Brewster.....	4,002.00
03-0067	District, Monse River Rd.	1,544.00
03-0069	District, Oroville	952.00
Total		\$64,335.00

Commissioner Bunch moved to approve the work orders; Commissioner Womack seconded; motion passed.

3. Approval of Vouchers:

Vouchers No.'s 75777 through 75837 in the amount of \$491,297.27, No.’s 75838 through 75866 in the amount of \$159,933.49, and No.’s 75867 through 75983 in the amount of \$257,244.38 were approved for payment from the revenue fund.

Commissioner Bunch moved to approve the vouchers; Commissioner Womack seconded; motion passed.

4. Transfer of Accounts:

There were no accounts submitted for write-off or collection.

5. Public Comment:

Manager Warner introduced the employees invited to attend the meeting: Brian Martin, Oroville Journeyman Lineman, and Jeremy Welborn, Oroville Apprentice Lineman.

6. Refinancing:

Financial Advisor Alan Dashen reviewed a financing plan for restructuring the District's \$10 million bank note acquired in 2001 for diesel generator debt, which would relieve rate pressure while maintaining strong debt service coverage and cash reserves. Structuring options of 15 and 20 years were considered, although Mr. Dashen favored a 20-year bond issue because interest rates are low. In addition, he felt that the longer term would allow more flexibility for financing the Methow transmission line if the District plans to build the project in a couple of years. The annual debt service for the 20-year bonds would be as high as \$1.6 million per year until 2022, while the annual debt service for the 15-year bonds would be as high as \$1.8 million per year until 2017. The District's operating revenues and expenses had assumed a rate increase, however, the goal is to have no rate increase in 2003, a 3% increase in 2004 and a 5% increase in 2005, although this schedule will depend on the PUD's actual situation in a couple of years. The 20-year financing structure places the District in a 2.6 to 2.7 debt service coverage ratio -- anything over 2 is healthy and very conservative. The sources of funds to repay the 2001 bank note are \$6.19 million in taxable bonds, \$390,000 in tax-exempt bonds and \$4 million in District cash. The District has accrued \$1.6 million in funds to make the first bank note payment that is due April 30, 2003. This will require the District to use \$2.4 million in unrestricted cash in order to have \$4 million in District cash to pay off the 2001 bank note. Tax-exempt bonds cannot be issued to refinance the Banc of America note because tax-exempt borrowing cannot be used for something that might later be sold, i.e., the diesel generators. The total bond size of \$10,350,000 will result in the PUD having a little less cash than it now has.

Mr. Dashen recommended the District include an early call provision on the taxable portion of the debt at a cost of less than ¼% in higher interest rates. The early call provision would allow payment at any time the District had available funds, as would be the case if the diesel generators were sold. He recommended a normal call provision for the tax-exempt bonds.

Mr. Dashen also recommended the District set aside a portion of 2002 excess revenues in a "Rate Stabilization Fund." This fund was established by the 2002 Bond Resolution to allow the District to use revenues in excess of its current debt service coverage requirement (1.25 times debt service) in future years when revenues may be inadequate to meet the debt service coverage requirement. The District currently has a \$1.5 million "Power Supply Reserve Fund", which is targeted to reach \$3 million by 2006. Mr. Dashen advised that funds cannot be used for coverage purposes unless the fund is named "Rate Stabilization Fund."

The District will apply to Standard & Poor's Corporation for a bond rating and to insurance

companies for bond insurance. The District previously received an “A-“ rating, although Mr. Dashen may seek a higher rating because the utility has little debt and has the Wells Dam interest. He noted, however, that our rural economy may not be viewed as favorably. Three northwest Slice customer utilities were downgraded in their rating because they were viewed as not conservative enough in estimating surplus sales revenue, but Mr. Dashen will reaffirm why Okanogan PUD is different. The purchase of a bond insurance policy guarantees to bond buyers payment of debt, resulting in “AAA” rating on the bonds. There are three insurance companies of stature that may insure PUDs – MBIA, Ambac and FSA. Mr. Dashen recommended Banc of America Securities again as bond underwriter. The rating and insurance presentations are scheduled for February 20th – 21st in San Francisco. The estimated date for the bond sale is March 11th or 18th, but needs to occur on the date of a Board meeting. The receipt of funds is expected on March 31st.

Commissioner Bunch moved to approve a 20-year bond issue for borrowing approximately \$10,350,000 to refinance debt and for capital improvements, and to appoint Banc of America Securities as underwriter and Preston Gates and Ellis as bond counsel; Commissioner Womack seconded; motion passed.

7. Clearing Up Publication:

The Board discussed a subscription to the *Clearing Up* publication, which is an independent news service from Energy NewsData that provides a synopsis of regional issues. A year’s subscription of 52 weekly issues is \$1,199. It was noted that Okanogan PUD is one of the few in the Northwest that does not subscribe to the publication.

Although the publication offers value, it duplicates a lot of information provided in other publications. Before making a decision on subscribing to the publication, the Board requested that the Manager determine if extra copies could be made available to the utility at no additional cost.

8. Telecom Report – Nortel Contract:

Joe Miller presented a proposal for Nortel Networks to provide support on the District’s SONET network, including software upgrades, technical support and parts replacement for \$14,520 per year for six nodes.

The District had been obtaining support on the SONET network from Nortel Networks without a contract since the system was turned up in December of 2001. The \$40,000 budgeted for support was cut from the District’s 2003 budget on the assumption that Nortel would continue this support. However, due to a change in Nortel’s support staff, all non-contract support was cancelled on January 1, 2003.

The District used Nortel technical support last year on four occasions. If the District elects not to purchase a support contract, Nortel would provide support on a per incident basis. Mr. Miller

noted that it is doubtful that the District can technically support its network without Nortel support, and it is quite possible that the cost of replacing non-supported hardware will exceed the annual cost of the support.

Commissioner Bunch moved to approve a \$14,520 contract with Nortel Networks to provide SONET network support, including software upgrades, technical support and parts replacement; Commissioner Womack seconded; motion passed.

Mr. Miller reviewed an Ethernet service order summary spreadsheet and noted that about 200 customers can be served out of an Ethernet node. The revenue per customer and the cost to connect are slightly less than projected, i.e., the monthly recurring Ethernet charge estimated at \$175 - \$200 is actually \$132.20 per month.

The District and the ESD have signed a contract and service orders to connect Omak School District and the Wenatchee Valley College North to the PUD's fiber-optic network.

9. Renewable Energy Survey:

The Renewable Energy Survey—Green Power questionnaire approved at the last meeting as a “bill stuffer” was discussed. Concerns were raised about explanatory information, brevity, comparability with the survey of 2000, and procedural issues with regard to customer category (residential or business), location (zip code), and exchange of the form for a CFL bulb.

The 2000 Customer Survey disclosed the need for more information, as well as a 54% interest in purchasing renewable power if offered by the Okanogan PUD. It was also expressed that the importance of additional needs for power, reliability, security, and alternatives to present sources in the presence of energy and security crises should be made clear.

Revision suggestions were requested to be incorporated by the Conservation staff before the next meeting.

10. Legal Contract for Slice Audit:

Manager Warner reported that the Slice Customers have requested that PNGC, Inc. act as the paying agent and engage an accounting firm and law firm to perform the Slice Customers' audit. Therefore, he requested approval to sign a Consultant Retention, Cost Sharing and Reimbursement Agreement and a Slice Audit Cooperation and Confidentiality Agreement. The Agreements provide for the retention of the accounting firm, KPMG LLP, to conduct an audit in conjunction with the Block/Slice Agreement. The Board previously approved the District participating in the Slice audit, however, that Agreement did not include the retention of legal counsel. In signing these Agreements, Okanogan PUD authorizes participation in the audit cost to a maximum of \$250,000 and legal counsel to a maximum of \$50,000. Okanogan PUD's share of these contracts is 2.1880%.

Commissioner Womack moved to authorize Okanogan PUD's participation in a legal contract for the Slice audit to a maximum of \$50,000, with Okanogan's share at 2.1880%, and to authorize the Manager to execute the Consultant Retention, Cost Sharing and Reimbursement Agreement and the Slice Audit Cooperation and Confidentiality Agreement; Commissioner Bunch seconded; motion passed.

11. Consultant Cost Share Agreement:

The Manager requested approval to sign a Consultant Retention, Cost Sharing and Reimbursement Agreement for Okanogan PUD's share of the cost to retain Rich Nassief Consulting to provide administrative support services to the Slice Customers to a maximum amount of \$25,000 for 2003. Benton PUD would be the paying agent within the Slice Customers. Okanogan PUD's share of this service is 2.1880%.

Commissioner Bunch moved to authorize Okanogan PUD's participation in the Consultant Cost Share Agreement to a maximum of \$25,000 (Okanogan PUD's share at 2.1880%) and to authorize the Manager to sign the Agreement; Commissioner Womack seconded; motion passed.

12. Purchase Power Transformer:

Derek Miller requested approval to purchase a power transformer from Virginia Transformer for \$169,500 (\$182,382 total including tax) to serve as a backup in the event an existing transformer fails. This second unit was included in the original Bid No. 303-02 for two transformers with a price hold until February 20, 2003, and was budgeted on the condition that Colville Indian Power and Veneer moved forward with the construction of its new substation. The bid came in below the \$200,000 budgeted price.

Commissioner Bunch moved to approve the purchase of a power transformer from Virginia Transformer for \$169,500 (\$182,383 total including tax); Commissioner Womack seconded; motion passed.

13. CIPV Contract Amendment:

Manager Warner presented Amendment #1 to the Power Sales Agreement between Okanogan PUD and the Colville Tribal Enterprise Corporation. This amendment formalizes the verbal agreement between the two entities to construct a new power substation to serve Colville Indian Power and Veneer, with the PUD to be reimbursed for all of its costs. The Tribe will own the new substation and will be responsible for construction and maintenance costs. Derek Miller noted that the Tribe's grant requires the PUD to oversee the design and construction. Attorney Howe indicated a concern with statutory requirements if the PUD is involved in the selection and hiring of an engineer, even on a reimbursable basis. He will review the documents following the meeting to ensure the District's compliance.

Commissioner Bunch moved to approve Amendment #1 to the Okanogan PUD – CTEC Power

Sales Agreement as approved by legal counsel; Commissioner Womack seconded; motion passed.

14. Oroville-Nighthawk Trail System:

As part of the County's process of updating its recreation plan, Robert McGaughey presented a tentative proposal to build a multi-use, non-motorized trail between Oroville and Nighthawk. The County is proposing to use the old railroad bridge across the Similkameen River, which the PUD owns, plus a right-of-way across the other parcels along the way to Nighthawk. Mr. McGaughey noted that the trail is a key segment for the Pacific Northwest Trail Association.

Issues of concern to the PUD are liability, bridge decking and railing, Enloe access and security, and concerns of adjoining property owners. Letters of concern regarding the proposed trail were presented by landowner, Bob Barnes, and by Jerry Barnes on behalf of the Okanogan County Cattlemens Association.

The PUD could block this plan or it could cede its property (and liabilities) to the County in exchange for an easement contract that would assure all PUD interests were preserved. The later course would remove the PUD from the process and allow the County to pursue their project.

Mr. McGaughey said the County is in the process of securing grant funding, and requested an opportunity for its representatives to return at a later date to provide further details on the proposed trail.

15. Public Comment:

There was no public comment.

16. BPA:

Manager Warner noted that BPA's announcement of a proposed 25% Safety Net CRAC increase effective October 1, 2003 was the topic of substantial discussion at the PPC meeting on Thursday. The increase would affect each customer differently depending on how power is purchased. The increase would apply to the District's Block purchase only. The Manager advised he will have Larry Felton report on the impact at the next Board meeting.

17. Meetings:

Commissioner Womack traveled to Olympia on January 30th to attend the Commissioners Roundtable on January 31st.

The next Okanogan PUD Board meeting is scheduled for February 25, 2003.

18. Executive Session – Litigation:

The Board recessed into executive session at 11:30 a.m. to discuss litigation.

The Board reconvened into regular session at 11:45 a.m. There being no further business to discuss, the meeting adjourned at 11:45 a.m.

Donald W. Johnson, President

ATTEST:

David A. Womack, Vice-President

Darrel E. Bunch, Secretary