

**Minutes of the Regular Meeting of the Okanogan County
Public Utility District Board of Commissioners
Held in Okanogan June 10, 2003**

Present:

Board:	Donald Johnson, David Womack, Darrel Bunch
Staff:	Don Coppock, Derek Miller, Larry Felton, Joe Miller, Debra Peters, Steve Brown, Julie Pyper
Other:	Michael Howe, Legal Counsel
Public:	Dave & Esther Johnson, Rebecca Meadows, Ann McCreary, Vicky Welch, Carol Alexander, Sally Gracie, K.C. Mehaffey, Susie Ives, Maeyowa, Jim Erskine

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. Methow EIS Revised Proposal
7. 2001 Revised Audit
8. Surplus Property – Resolution No. 1257
9. Power Supply Report
10. Public Comment
11. Meetings
12. Executive Session – Litigation

1. Approval of Minutes:

Commissioner Womack moved to approve the Minutes of the May 27, 2003 regular meeting; Commissioner Bunch seconded. Commissioner Johnson presented the following amendments to the Minutes:

Page 3, Item 5 - Public Comment:

Add after “Iraq” in last paragraph (**Manager Warner agreed to follow up.**)

Add after “Survey” (**He suggested the Commissioners had a role to “educate the public” and that the survey may have been biased.**)

Add after “line” (**He felt questions on system analysis, need, cost-effectiveness, and environmental impact should be answered before commitments were made.**)

Add after “proposal” (They stated that before an EIS was initiated 1) the whole transmission system should be reviewed identifying which lines are in most need of an upgrade; 2) costs of various alternatives need to be identified; 3) all probable EIS costs should be addressed; 4) conservation and highway route alternatives should be reviewed; 5) a change in distribution lines, such as the REA found most economical, should be an alternative; and 6) the Foster-Wheeler proposal should include the generation of new data from original research [surveys].)

Page 4, Item 5 – Public Comment:

Add at end of last sentence (Commissioner Johnson expressed concerns for large cost overruns and the exclusion of alternative cost comparisons. In addition he expressed the need for the staff to address the systems analysis and his earlier conclusions before proceeding with an EIS.)

Page 4, Item 6 – Tetra Tech FW Proposal:

Insert after the 6th sentence ending with “required” (Other questions brought up by Commissioner Johnson included 1) the subcontracting of consultants living in Okanogan County, if available, should be requested; 2) the existence of a road plan for the Pateros/Twisp route (necessary for surveys); 3) the need to extend field work to spring 2004; and 4) the credibility of Foster-Wheeler based on conclusions, contradictions, and omissions from their 2001 report.)

Following discussion, it was noted that the concerns/conclusions regarding Tetra Tech FW were those of Commissioner Johnson and not the entire Board. The motion passed as amended.

2. Approval of Work Orders:

The following work orders were submitted for approval:

03-0002	Cascade & Columbia River Railroad, Ellisforde Bridge Rd	\$1,100.00
03-0002	Leroy Hirst, Chesaw Rd. near Hungry Hollow Rd	1,125.00
03-0002	Stan Porter, E. Lake Rd. near Lake Osoyoos State Park	1,650.00
03-0085	Kathy Vasilieff, Tunk Valley Rd	10,060
03-0179	Eileen Emerson, Hwy. 97, Monse (Rev. #1)	2,065.00
03-0257	Rod Silverthorn, Old Spokane Mill Site	1,500.00
03-0258	Okanogan County Public Works, Hwy. 7 S. of Oroville	600.00
03-0260	John & Charyn Zarzycki, Lot 35B, Division I, Aeneas Valley Ranch	16,350.00
03-0262	City of Pateros, Warren Ave	971.00
03-0263	District, Old Hwy. 97/Mtn. View Rd., Brewster	693.00
03-0267	Terry Tonasket, Omak Ave	2,743.00
03-0271	District, Okanogan	794.00
03-0274	District, Frosty Creek Tap	720.00

03-0279	District, Round Lake – Aeneas Valley	957.00
	Total	\$41,328.00

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

3. Approval of Vouchers:

Vouchers No.'s 77271 through 77300 in the amount of \$159,012.16, No.'s 77301 through 77373 in the amount of \$325,569.82, and No.'s 77374 through 77476 in the amount of \$250,693.70 were approved for payment from the revenue fund.

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

4. Transfer of Accounts:

The following accounts were submitted for write-off/collection due to nonpayment:

Bennett, Samuel & Suzanne	\$243.89
Cook, Dave	881.43
Cristobal, Rachel K.	106.28
Darrow, Ronald	273.53
Dearden, Elizabeth	180.11
Gregory, Christella	112.21
Hance, Ronald	350.04
Johnson, John A.	149.37
Nicholson, Raymond	73.05
Norris, Ralph	277.84
Ram Investment LLC	113.00
Ram Investment LLC	470.30
Rhoads, Debra	103.94
Tungate, Jim	55.41
Total	\$3,390.40

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

5. Public Comment:

Commissioner Womack moved to eliminate the first public comment period during the Board meetings. He noted that scheduled presenters should not have to wait to address their agenda items until after public comment. It was his preference to take public comment at the conclusion of the meeting, and that presentations should be an agenda item. Commissioner Bunch seconded the motion. Commissioner Johnson disagreed

because of the imposition on the public. He said people may have to go to work or have other things to do, and they should be allowed to make their comments and then leave. He suggested making an exception for the presenters by moving them up on the agenda before public comment. Commissioner Johnson opposed the motion; the motion passed.

Sally Gracie commented that the public needs a chance to speak at the beginning and end of the meetings, but that the time could be limited. In addition, those wanting to comment could notify the PUD by phone or e-mail prior to the meeting. Carol Alexander said she would be opposed to eliminating the first public comment period. The Board agreed to take public comment today. Rebecca Meadows suggested materials be sent to Julie Pyper so she can forward them to the press. Sally Gracie suggested information be available on the website. Commissioner Johnson said that in the future, he will entertain a request for public comment if people need to leave the meeting early. Esther Johnson said that a public comment time limit should be set, or it would be considered a presentation. She noted that public comments sometimes last 45 minutes.

There was also discussion about sending out the agenda earlier, which President Johnson will discuss with the Manager.

Maeyowa said she has requested a number of times to be on the agenda, but has never been placed on the agenda and sometimes it is too late for the public's perception on a matter. In addition, she said that there are 14 different areas of potential costs that Tetra Tech did not include in the EIS estimate. In regards to the audit, she asked the Auditor to inform the public about other issues communicated to the Manager, and said she hoped the staff would recoup the monies from the Buy-Back Program. She concluded by saying she appreciated the Commissioners efforts to involve the public and their concerns.

Carol Alexander asked if any contact had been made with legislative representatives regarding the diesel generators. (Manager Warner sent a letter to Representative Nethercutt asking for his efforts to make appropriate government officials aware of this equipment availability. The Congressman's aide replied with a website to research government projects.) Ms. Alexander also asked if the EIS contract was out for bid. Attorney Howe advised that State law does not allow the PUD to bid for professional services, as the decision cannot be based on price.

6. Methow EIS Revised Proposal:

Tetra Tech FW's revised Proposal dated June 5, 2003 to prepare an Environmental Impact Statement and supporting studies for the proposed Twisp/Pateros transmission line and substation project was distributed.

Commissioner Johnson expressed concerns for large cost overruns and the exclusion of alternative cost comparisons. In addition, he expressed the need for the staff to address the systems analysis and his earlier conclusions before proceeding with an EIS. Chief Engineer Derek Miller presented a written PUD staff response to conclusions arrived at

by Commissioner Johnson with regard to his interpretations from the March 18, 2003 special board meeting.

Mr. Miller noted the primary provisions and cost adjustments in Tetra Tech's revised Proposal - paragraph 4.5, Task 5: EIS Chapters 1 and 2, which resulted from last meeting's discussion. The four alternatives under consideration in the proposal are: 1) the No Action alternative; 2) the proposed Twisp/Pateros transmission line and substation; 3) a "hot" rebuild of the existing Loup-Loup transmission line within the existing right-of-way; and 4) a new transmission line that would overbuild or follow existing distribution along the valley floor. The "hot" Loup-Loup rebuild alternative would also include approximately 15 miles of new transmission line from Pateros to Gold Creek, as well as a new substation in the Gold Creek area. This new transmission line and substation are assumed to involve the same alignment and substation proposed for the Twisp/Pateros transmission line and substation. Commissioner Johnson said that he was not aware of, nor was there any justification for, the "hot" Loup-Loup rebuild alternative to also include approximately 15 miles of new transmission line from Pateros to Gold Creek, as well as a new substation in the Gold Creek area. He said a hot rebuild has always involved upgrading the distribution system. Commissioner Bunch noted that it has been known for several years that something must be done with the transmission line in the lower Methow and that there was a need for a substation in the Methow/Carlton area. He said a proposal to rebuild the distribution system with the new transmission system over the Loup Loup was never discussed, but that if distribution were to be addressed, then the PUD would need to determine how to address distribution in the lower Methow. Commissioner Johnson pointed out that distribution improvements of \$3,666,000 have been on the table with the Loup-Loup alternative since that alternative was considered. Commissioner Womack noted that an express feeder with a distribution line does not have to be within the EIS Scope of Work – it could be looked at internally in terms of cost. Commissioner Womack asked what the advantages/disadvantages were to a new transmission line versus express feeders. Mr. Miller replied that the transmission line option would allow a longer period of time before capital expenditures were necessary. The express feeders, while solving the immediate problem, do not provide the same length of time that a transmission line would. He further said that it was Dr. Christy who pointed out in his presentation during mediation that putting in a transmission line and substation versus express feeders was the best solution to the distribution problem. Commissioner Johnson added that 15 miles of transmission line in the lower valley has never been a considered alternative in any report or cost estimate that he has seen.

Commissioner Johnson questioned the project schedule because the final response to comments is scheduled to be finished one week prior to the completion of the final field reports.

Since Tetra Tech FW's proposal was received just prior to the Board meeting, it was agreed to not take action until the Board had an opportunity to thoroughly review the revised proposal. President Johnson requested that Derek Miller communicate concerns

regarding the proposal to the Manager and Tetra Tech FW. Ellen Hall of Tetra Tech FW will be consulted via conference call at the June 24th meeting.

7. 2001 Revised Audit:

Don Coppock discussed the District's 2001 Audit. The District received two State Audit reports for 2001 -- the Report on Financial Statements dated May 16, 2003 and an Accountability Audit Report dated May 16, 2003 and reissued June 3, 2003. The reissued Accountability Audit Report was to correct the finding on the Audit Summary page that referred to a \$90,445.88 gift of public funds that should have been \$29,795.88 (the finding stated that District employees entered into contracts [for the Buy-Back Program] that exceeded the authority given by the District Commissioners, and that the District did not follow the contracts and as a result the District provided a gift of public funds). After receiving the reports dated May 16, 2003, the PUD had several discussions with the State Auditor's Office and pointed out the error. During discussions, the Auditor's Office agreed that PUD actions dealing with the Buy-Back program were in the best interest of the District and its customers, however, the Board of Commissioners should have taken a more affirmative action and documented it in the Minutes (i.e., the Board needed to take action on the \$.05 per KWH accepted as a reimbursement to reconnect a Buy-Back customer -- not just be informed of staff actions or desires.)

Commissioner Johnson distributed a summary of his response to the State Auditor regarding his understanding of the Auditor's Findings, letters of February 7, 2003 and the related circumstances. As corrective action, he proposed that all participants who received funds and violated any provision be identified. Since participants had to agree to certify that they would have used electrical service consistent with their prior two years' use, some may have been in violation of that provision. Those individuals should not have received funds and those that did should be required to reimburse all payments in accordance with the terms of the agreement.

With regard to the District's negotiation of an early cancellation of the Buy-Back contract, the customer had an offer to sell its property and the purchaser wanted to reopen the PUD account and cancel the Buy-Back agreement. Mr. Coppock noted that to continue the agreement in force would have resulted in an additional cost to the District, as the sale would not have gone through and the customer would not have purchased power to serve the account. The energy market had fallen between \$.01 and \$.02 -- substantially below the \$.10/KWH offered in the Buy-Back Program. Attorney Howe noted that the District could have held the party to the contract, but the party may not have turned the power on, and it was in the best interest of the party and the District to recoup some of the money. The alternative was to do nothing and wait out the remaining period, and the District would have lost the full amount. Commissioner Johnson disagreed that it was in the best interest of the District to not enforce the contract. Mr. Coppock said that the District would probably end up in Court if it tried to recover on the negotiated agreement. He noted that the list of Buy-Back participants brought to the March 27, 2001 Commission meeting was a status report, but the State used that report to

base its finding. Commissioner Johnson said the motion was to honor legal commitments already extended, which he felt would be in writing. He also said that he had no idea of the magnitude of the program because it was reported at the April 10, 2001 meeting that 45 contracts had been signed and processed and that several others that had committed to the program by the termination date were in the process of being completed (a total of 91 contracts totaling \$1.1 million were approved). Commissioner Bunch said he understood that the PUD would honor any verbal agreements made before the March 27th vote, and believes staff did not exceed its authority. He disagreed with the State Auditor's findings, noting a clause in the Commission's motion to stop the Buy-Back Program covered prior legal commitments. Commissioner Johnson pointed out that expressions of interest are not legal commitments.

Don Coppock also read the Management Letter from the State Auditor's Office on bid law compliance regarding the District's purchase of the diesel generators. The actual purchase for the first eight generators was dated March 12, 2001, however, the Board adopted on March 13, 2001 Resolution No. 1208 declaring an emergency situation. Although this was a technical matter and not a finding, the State Auditor recommended in the future that the District declare an emergency prior to committing to purchases or designate a representative of the District to act on the Board's behalf in case of an emergency. Mr. Coppock noted that the sales order was signed on March 12th, but was not faxed to Cummins Northwest, Inc. until March 13th.

Commissioner Johnson distributed a summary of the letter he sent to the State Auditor on why he felt the March 12th purchase went beyond the Commissioner's instructions and authorization, and did not comply with bid laws. He proposed that corrective action should be that a competitive bidding process be followed in compliance with state law. He felt that the District declared an emergency allowing the purchase, while the temporary lease of generators could have met the power shortage. The staff noted the Governor's declaration of emergency allowed the District to begin operation of six temporary generators without a permit, however, the Governor's declaration was expiring at the time of purchase and the District was going to have to make other arrangements to meet the air quality requirements. Power Resource Engineer Larry Felton noted that before FERC took action to impose price caps on the market power, the market power was at \$250/MWH and going forward. Commissioner Bunch affirmed that he was adequately informed about the purchase, and that instruction was given to management to develop a Resolution (declaring an emergency exists and authorizing the manager to take immediate action to address the energy shortage). Commissioner Johnson stated that 1) Buying diesel generators beyond the 7 for \$4.6 million did not qualify as an emergency; 2) Additional generators, bringing the total to 16 purchased and 6 leased, were purchased for the stated purpose of meeting a power shortfall projected for February 2002 (11 months later), which did not "...present a real, immediate threat..."; 3) "By not following bid laws the District could not be assured it obtained the best possible price, nor were all possible vendors provided an equal business opportunity"; (this was a \$10.8 million sale).

8. Surplus Property – Resolution No. 1257:

Resolution No. 1257 was presented declaring certain equipment of the District surplus and authorizing the sale thereof. The District intends to sell the items listed on the Resolution at the Chelan County Public Auction on June 28, 2003, except for the postage scale and printer, which will be sold locally by sealed bid.

Commissioner Womack moved to adopt Resolution No. 1257; Commissioner Bunch seconded; motion passed.

9. Power Supply Report:

Larry Felton reviewed the presentation he and Chuck Wagers from Douglas County PUD delivered at the NWPPA annual meeting. The presentation titled “Making the Right Choices: Renewable Resources and Distributed Generation” outlined the process both Douglas and Okanogan PUDs took to arrive at the decision to invest in wind power as a logical compliment to our existing hydroelectric generation (report will be made available on the District’s website).

Douglas PUD handles the integration of Nine Canyon Wind energy for Okanogan PUD through a Service Agreement. The District uses 12 MWs of its BPA Point-to-Point Transmission Agreement for its share of Nine Canyon. Nine Canyon with transmission costs is producing power around 4 cents. This compares very favorably with the market at about the same price. By comparison, Wells is about 8 mills and BPA is 3 – 3 1/2 cents. Solar is at 25 cents, but varies by the region.

Mr. Felton presented an update on calendar year 2003 wholesale power sales through May 2003, compared to a reduction in retail sales and how that loss in revenue nets out. As part of the CY 2003 PUD Budget, Mr. Felton originally estimated \$4.1 million of net wholesale power sales for 2003. By the end of May 2003, he calculated the District was about \$846,000 over the original estimated revenues after taking into account lost retail revenues and other factors. The District’s loads are down about 10% from the original estimate. Most of the load reduction is attributed to a mild winter. The District also experienced an average sales price of 3.3 cents/KWh for January through May 2003, compared to his original estimate of 3.0 cents and higher than expected volume of surplus sales. (The power the District markets for Colville Indian Power and Veneer from their co-gen is basically a pass-thru, which Mr. Felton does not count for budget purposes.)

The Washington Department of Community, Trade and Economic Development (“CTED”) conducts an annual survey of electric utilities operating within the State in order to determine the generation source of the electric energy sold to their respective retail customers. CTED uses this information to develop a statewide database and subsequently provides each electric utility with a “Fuel Mix Report” listing the fuel types utilized in providing their electric service. Mr. Felton distributed a copy of CTED’s calendar year 2002 report for Okanogan PUD, which will be made available to all new District customers.

Mr. Felton informed the Board that the District received an offer from Seattle City Light to provide the District's Operating Reserves at a savings of \$30,000 per year (the District now pays BPA's Transmission Business Line \$250,000 for this ancillary service.) He will recommend to the Manager that the District contract with Seattle City Light for this service. A contract will be presented to the Board for approval at a future meeting.

Website information on Chelan PUD's Sustainable Natural Alternative Power (SNAP) program was made available. Mr. Felton noted that he would have comments regarding the SNAP program when the subject is addressed at a future Board meeting.

10. Public Comment:

Sally Gracie commented regarding the audit that she expects the Commissioners to be accountable, the Minutes recorded accurately, and the Manager to accept responsibility for the PUD and the audit. She said business decisions need to be made in conjunction with the commissioners, and money the PUD has belongs to the ratepayers.

Carol Alexander noted the need for accurate Minutes.

Vicky Welch commented that the EIS will compare environmental impacts, and that it is very important that an in-depth cost comparison of those alternatives be looked at before identifying alternatives to be addressed in the EIS. She wants the utility to be sure which lines are most in need of repair so money is spent in the most efficient manner.

Esther Johnson commented that the PUD has a wonderful Commission, Manager and staff. She noted that the directors had a big task with the drought predicted in the previous year, and she offered her thanks.

Maeyowa thanked Larry Felton for his presentation in support of wind, which she thinks is a good diversification. She said there was caution expressed at the Brewster board meeting regarding the decision to invest in diesel. She noted in Tetra Tech FW's proposal, page 5 - *Develop and Evaluate Project Alternatives*, that it is not specified that #3 ("hot" rebuild of the existing Loup-Loup transmission line within the existing right-of-way) would include a distribution upgrade.

11. Meetings:

Commissioner Womack will be attending a Public Utility Risk Management Services semi-annual board meeting on June 12, 2003 at Pacific Underwriters in Seattle.

Commissioner Johnson distributed updated highlights of the NWPPA annual meeting. In response to the County Commissioners request to meet with the PUD Commissioners regarding the Nighthawk trail and other issues, Julie Pyper was instructed to extend the Board's invitation for the County to attend the PUD meeting on July 8th.

The next Okanogan PUD Board meeting is scheduled for 8:30 a.m., June 24, 2003 at the Okanogan PUD Auditorium.

12. Executive Session – Litigation:

The Board recessed into executive session at 12:30 p.m. to discuss litigation.

The Board reconvened into regular session at 1:00 p.m. There being no further business to discuss, the meeting adjourned at 1:00 p.m.

Donald W. Johnson, President

ATTEST:

David A. Womack, Vice-President

Darrel E. Bunch, Secretary