

**Minutes of the Regular Meeting of the Okanogan County
Public Utility District Board of Commissioners**

**Okanogan PUD Auditorium
November 16, 2004
8:30 a.m.**

Present:

Board: David Womack, Darrel Bunch, Donald Johnson

Staff: Chuck Berrie, Doug Adams, Don Coppock, Larry Felton, Derek Miller, Dan Boettger, Julie Pyper

Other: Michael Howe - Legal Counsel

Public: KC Mehaffey, Ernie Bolz, Ann McCreary, Roberta Donnor, Brian Kirchner, John Andrist, Roy Webster, Bill Swayze

President Womack called the meeting to order at 8:30 a.m. Manager Berrie deleted from the agenda the letter of support to FERC for the Wells Settlement. Added to the agenda was the Board discussion of the 2005 Budget.

Summary Agenda

1. Public Comment
2. 2005 Budget Hearing
3. Board Discussion of 2005 Budget
4. Manager's Report
5. Power Supply Report
6. Public Comment
7. Meetings
8. Approval of Minutes
9. Approval of Work Orders
10. Approval of Vouchers
11. Approval of Transfer of Accounts
12. Executive Session - Litigation

1. Public Comment:

There was no public comment.

2. 2005 Budget Hearing:

Ernie Bolz noted concern if the District is adequately funding ongoing operations of both the wireless and fiber systems in order to connect enough customers to generate the necessary revenue. (The Request for Proposal in

regards to the Telecommunications System closes November 19th, and District staff plans to discuss the matter at the November 30th meeting.)

Commissioner Johnson noted that a letter from John Andrist regarding the Methow fiber build stated, in part, that financial resources and workforces should be dedicated to the fiber transport backbone and services on that backbone. Economic results should be more closely monitored using market appropriate timelines, market forecasts and shorter depreciation rates. Wholesale and retail services should not be offered in any marketplaces that already have multiple competing providers in the private sector. (Johnson pointed out that the original plan was for the PUD to build the backbone fiber, with the hookup expense to be paid by the retailers.)

Bill Swayze of Community Net reported that his company has installed 200 wireless kits as of November 15th, and an additional 19 customers are connected to the Jack Ass Butte wireless tower. He sees his business continuing to grow and encouraged the PUD to also grow and place future towers in areas that will reach the most people.

3. Board Discussion of 2005 Budget:

Cash and investment reserves continue to increase, in part due to power prices being up and the delay of capital projects. On October 31st the balance of cash and investments stood at over \$24 million.

Director of Finance/Auditor Don Coppock submitted a comparison of the proposed and final 2005 budgets. The 2005 budget anticipates cash receipts of \$39.2 million. A zero variance is projected after a transfer from reserves of \$2.7 million to fund normal operation expenditures in 2005 of \$41.9 million.

The labor budget includes hiring an Information Systems Analyst, with the first year of the position to be funded from \$50,000 budgeted for reviewing and evaluating the billing and computer systems. Also to be hired is a Systems Engineer, a position that was previously planned but not in last year's budget, and an Environmental Technician to assist with the oversight of State and Federal regulations. Other labor positions new from last year include the Operations Manager, an additional Power Resource Engineer and a Temporary Fiber Splicer. The budget includes a proposed wage increase of 3% to be negotiated in conjunction with the Union contract that expires in April 2005.

The cash receipts and expenditures reflect a pass through of \$120,000 for the Oroville School District conservation project that is expected to take place in 2005.

Under contractual services, Manager Berrie proposed increasing the budget for Telecom network consulting and monitoring from \$75,000 to \$125,000. With the RFP still out, review funds will be needed in 2005. (Following discussion, the Board agreed with the budget increase as presented.)

In response to an increase in dues of the Public Power Council from \$21,000 to \$31,000, there was discussion regarding the function of various organizations that the District is a member of. (It was noted that PPC represents the entire Northwest public power in an effort to control BPA rates.) The Board had differing opinions regarding funding the North Central Education Services District electricity safety program for students (\$42,900) and dues of \$2,000 to the Foundation for Water and Energy.

Other changes under contractual services include a decrease in field testing transformers for PCBs from \$365,000 to \$250,000. The two-year project was originally based on contracting with an outside firm; however, it was felt that some of the work could be accomplished in house. Pole testing and treatment was reduced from \$250,000 to \$150,000 because it is anticipated that the cost could be melded under GIS data collection. The cost for Ophir diesel permitting and compliance testing was changed from \$150,000 to \$100,000 to more adequately reflect the expected cost. An evaluation of the headquarters storm water controls was reduced from \$50,000 to \$30,000 because it is undergoing review. The facilities study budgeted for \$30,000 was removed from the budget and will be held off another year to acquire information from the spill prevention, control and compliance reviews.

The Power Sales and Purchase Plan originally budgeted for \$20,000 was removed from the budget because staff felt that the budgeted item could be a function of the new Power Resource employee.

The 2005 estimate of \$22,513,000 for purchased power includes a \$500,000 Colville Indian Precision and Pine flow-through for energy sales and energy purchases. The BPA TBL rate increase that is expected to go up 20% is also accounted for in the estimate.

Capital materials and supplies - generation includes a final payment to Cummins Northwest, Inc. of \$342,500 for retainage and interest pertaining to the diesel generators. Under capital materials and supplies - distribution, the Winthrop 115 kv tap-Twisp sub tie was eliminated (\$75,000 less).

Capital contractual services includes \$450,000 for Enloe Dam licensing to update the engineering cost estimate of the facilities, with the goal of completing the license application to FERC by the end of 2005.

Building/property was reduced from \$216,100 to \$34,600. New equipment was reduced from \$351,400 to \$234,400, and there was a reduction in vehicles from \$225,000 to \$130,000.

Capital improvements to telecom for both telecom and District purposes will be a part of the telecommunications system review. The following budgeted items are contingent upon that review: \$423,000 Sonet enhancements; \$237,600 Ethernet customer buildout; \$284,000 wireless Ethernet access points and premises equipment; \$19,000 co-location and general upgrades; and \$10,000 miscellaneous telecommunications.

The Board intends to approve at the November 30th meeting a Resolution adopting the final 2005 budget.

4. Manager's Report:

Manager Chuck Berrie and Chief Engineer Derek Miller reported that Cummins Northwest, Inc. is on site to demothball the diesel generators. The defective block heaters, which are not under warranty, are currently being replaced by CNI at a labor cost to the District of \$400/unit. The lights at the Ophir site have been energized to accommodate CNI working into the evening hours.

5. Power Supply Report:

Power Resource Engineer Larry Felton reported that actual power sales through October were \$6.65 million compared to the originally budgeted \$6.45 million.

Felton noted that a comparability of purchased power costs is being developed for the Board's consideration. Coppock provided to the Board information from the draft 2002 and 2003 Annual Reports.

6. Public Comment:

As a proponent of telecommunications, Roy Webster thanked the PUD for making telecom available as it has been of help to him in the agriculture business.

Bill Swayze expressed concern about the length of time it could take for the utility to review the telecom plan. He asked if there was money in place to provide additional kits to retailers if they are needed prior to January 1st.

7. Meetings:

Commissioners Womack and Bunch, along with Manager Berrie and Ernie Bolz, attended the annual joint meeting in Colville on November 8th of the Washington State Delegation with the Public Utility District Commissioners and Managers from Ferry, Okanogan, Pend Oreille and Stevens Counties.

The next Okanogan PUD Board meeting is scheduled for 8:30 a.m., November 30, 2004 at the Okanogan PUD Auditorium.

8. Approval of Minutes:

Commissioner Bunch moved and Commissioner Johnson seconded to approve the Minutes of the November 2, 2004 regular meeting.

Commissioner Johnson moved to amend the November 2, 2004 Minutes (Item 2 - 2005 Budget Hearing) by adding the following:

The only comment offered was Commissioner Johnson's questioning the need for a 2005 \$3.5 million budget deficit and projected 2.5% rate increases for 2007, 2008 and 2009.

There was no second to the motion.

Commissioner Johnson moved and Commissioner Womack seconded to amend the November 2, 2004 Minutes (Item 3 - Twisp Telecommunications) to add the following:

Without PUD fiber in the Methow Valley this expense is necessary, in addition to the \$8 million expense (borrowing from the electric system) for the PUD fiber project, to tie the Twisp office and substation to the rest of the system. This will provide for updated computer customer service and improve control of power with reduced outage times.

Upon the vote, Commissioner Bunch voted no. The motion carried two to one.

Commissioner Johnson moved and Commissioner Womack seconded for discussion purposes to amend the November 2, 2004 Minutes (Item 4 - Cummins Northwest, Inc. Services Agreement) to add the following:

"Demothballing" the diesel generators for testing and repair has the goal of obtaining performance at levels that were to be available in 2001 when the \$16 million project was initiated. The PUD currently foresees no economical use for the diesel project which is budgeted at about \$1 million for 2005.

Commissioner Womack stated that he did not recall discussions pertaining to the PUD foreseeing no economical use for the diesel project. (It was noted that an evaluation of the diesel generators is a work in progress and has not been completed.) Because of the complicated issue, Commissioner Johnson withdrew his motion.

Commissioner Johnson moved and Commissioner Womack seconded to amend the November 2, 2004 Minutes (Item 7 - Power Supply Agreements) to add the following:

The sale of those green tags would generate about \$50-75,000 and lower the net cost of wind power by 10%. Costs of power by source (BPA, Wells, Nine Canyon wind, and Tribal biomass) will be presented prior to the November 16 meeting.

The motion unanimously carried.

Commissioner Johnson moved to amend the November 2, 2004 Minutes (Item 14 - Wells Contract Discussion/Bill Dobbins) to add the following:

The settlement was based on terms in the original license. The Tribal Council approved agreements October 14 and the Douglas County Board reviewed the agreement October 18 and approved it November 1, 2004. This agreement, which impacts Okanogan PUD ratepayers by increasing power costs by millions, was received by Commissioners last Friday, October 29 for their consideration at the November 2 meeting.

There was no second to the motion.

Commissioner Johnson moved to amend the November 2, 2004 Minutes (Item 14 - Wells Contract Discussion/Bill Dobbins) to add the following:

Okanogan PUD has agreements (1963, 1965) with Douglas County PUD that provide for the purchase of 8% of Wells Dam power output until 2018, and ownership of 8% after that; in addition, a Memorandum of Understanding (1991) provides that in 2018 Douglas will make available to Okanogan an additional 22% of the dam's output from its 92% share. The present Agreement negotiated between Douglas PUD and the Colville Tribe provides for the payment of \$13.5 million as compensation for rights previously provided; Okanogan PUD's share would be about \$824,000 (6.1%). Additional compensation would be 4.5% of Wells' output until 2018 and 5.5% after 2018. This is proposed to reduce the amount previously committed to Okanogan PUD by these percentages resulting in increasing Okanogan ratepayers' power costs by several hundred thousand dollars each year.

There was no second to the motion.

Upon the vote to approve the Minutes as amended, the motion unanimously carried.

9. Approval of Work Orders:

The following work orders were submitted for approval:

04-0371	Philip Lester, 11 Rone Rd., Tonasket	\$2,779.00
04-0373	Eve Rhodes, Kismet Dr.	2,520.00
04-0407	Steve Giblin, Rawhide Rd.	9,704.00
04-0476	John Peden, Coyote Canyon Rd.	6,529.00
04-0480	Charlene Elias, Lookout Point Rd.	3,794.00
04-0504	Jerald Tatom, 32513C Hwy. 97	1,185.00
04-0506	John Sackman, Mineral Hill, Conconully	5,455.00
04-0526	Ray Dispenza (Const.), Brown Rd. off O'Neil Rd.	732.00
04-0531	Dan Jones, 811 Hwy. 20, Tonasket	3,375.00
04-0533	Dan Mus, Burma Rd.	7,584.00
04-0534	William Colyar, 2222 Hwy. 153, Carlton	2,039.00
04-0536	District, Omak Eastside Park	17,277.00
04-0538	Joe Curry, 25 Haussler Rd.	4,220.00
04-0541	Brianne Gates, Old Riverside Hwy.	2,001.00
04-0544	Brewster Flat Irrigation Dist., Reservoir Hill Rd.	1,281.00
04-0545	Kevin Skirko, 900 Old Hwy. 97, Malott	578.00
04-0546	Brewster Flat Irrigation District, 94C Mt. View Dr., Brew.	1,192.00
04-0548	Jerry Brightbill, 18 Bridgeview Rd.	2,248.00
04-0552	District, Twisp 115	17,580.00
04-0557	William Rogers, 796 Hwy. 7	3,479.00
04-0558	Clarence Abrahamson, Brooks Tract, E. Omak	1,374.00
04-0559	City of Omak/District, Eastside Trailer Park Restroom	2,380.00
04-0563	District, feed to Chicken Creek	2,501.00
	Total	\$101,807.00

Commissioner Bunch moved and Commissioner Johnson seconded to approve the work orders. The motion unanimously carried.

10. Approval of Vouchers:

Vouchers No.'s 84270 through 84338 in the amount of \$70,981.31, No.'s 84339 through 84340 in the amount of \$85,086.22, No. 84341 in the amount of \$11,359.08, No.'s 84342 through 84368 in the amount of \$173,647.53, and

No.'s 84369 through 84450 in the amount of \$523,772.31 were approved for payment from the revenue fund.

Commissioner Johnson moved and Commissioner Bunch seconded to approve the vouchers. The motion unanimously carried.

11. Transfer of Accounts:

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

12. Executive Session - Litigation:

President Womack recessed the Commission into executive session at 11:30 a.m.

President Womack reconvened the Commission into regular session at 1:25 p.m.

There being no further business to discuss, the meeting adjourned at 1:25 p.m.

David A. Womack, President

ATTEST:

Darrel E. Bunch, Vice-President

Donald W. Johnson, Secretary