

MINUTES OF REGULAR MEETING (STUDY SESSION) OF THE COMMISSION
OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON

May 24, 2010

The regular meeting of the Commission of Public Utility District No. 1 of Chelan County, Washington, was held in the office of the District, 327 North Wenatchee Avenue, Wenatchee, Washington, on May 24, 2010, at the hour of 1:00 p.m., pursuant to proper notice thereof.

Commissioners present were Dennis Bolz, Randy Smith, and Norm Gutzwiler. Commissioner Ann Congdon was excused to attend the Northwest Public Power Association conference. Commissioner Carnan Bergren was excused. In attendance were General Manager Rich Riazzi, General Counsel Carol Wardell and Clerk of the Board Sheila Salmon. Various staff members were also in attendance.

Others in attendance: Bob Huber, Steve Hair (Koho Radio) and Christine Pratt (Wenatchee World).

Materials Specialist Foreman Terry McFadden led the Pledge of Allegiance and provided a safety minute.

Insurance and Claims Department Manager Ron Gibbs told Commissioners that the District's insurance premiums for June 2010-2011 decreased by 3.3% from the 2009-2010 premiums for a total of \$1,739,812 which is 7.7% under the 2010 budgeted amount.

A motion was made by Commissioner Smith to authorize expenditures by the District not to exceed \$1,745,000 plus surplus lines taxes and fees, for the purchase of District insurance for June 1, 2010-2011 policies. The motion was seconded by Commissioner Gutzwiler and passed.

General Counsel/Executive Manager of Compliance Carol Wardell opened a public hearing pursuant to RCW 43.09.470 which requires that a public hearing be held on or before thirty dates after the issuance of the State Auditor's Office Performance Audit Report. The purpose of the hearing is to consider the findings and recommendations of the audit and to receive comments from the public. The audit was issued on May 19, 2010; copies were forwarded to the Commissioners. Proper notice was given of this hearing and Ms. Wardell advised that she had notified the State Auditor's office of the hearing today. Copies were made available at the hearing. (See www.chelanpud.org for the Performance Audit Report).

Next, Attorney Wardell highlighted additional requirements within RCW 43.09.470. The State Auditor's Office will present the report to the Joint Legislative Audit Review Committee made up of State Senators and Representatives on June 16, 2010 in Olympia. The statute requires the District to consider the state auditor's report in connection with future District spending practices and budgeting processes. An annual report will be submitted by the District by July 1st of each year detailing the status of the District's implementation of the state auditor's recommendations.

MINUTES OF REGULAR MEETING (STUDY SESSION) OF THE COMMISSION

May 24, 2010

Page 2

Justification must be provided for recommendations not implemented and details of other corrective action must be provided as well.

General Manager Rich Riazzi stated that the Washington State Auditor's Office looked at past operations (2006-2008) of the three Mid-C Public Utilities (Chelan County, Douglas County and Grant County) to determine if there were more efficient, less costly ways of operating the three utilities. He noted that the audit report is divided into chapters: one chapter for each utility and a chapter for cooperative shared services between the three utilities. The District's full response to the audit report is included in the appendix of the report. Next, Mr. Riazzi summarized the audit report. (See www.chelanpud.org for the Performance Audit Summary.) He stated that the District received commendations for its board governance policies, strategic planning and performance management procedures, organizational structure, asset management program and effective use of purchase cards. The auditors made recommendations for operations and labor management, construction management and procurement. Mr. Riazzi stated that overall the District has demonstrated its commitment to controlling costs while providing reliable utility services to Chelan County customers. He added that changes in operations, staffing levels and processes have been made during and after the audit. Some recommendations made by the auditors will need further consideration, including the cost to implement, practical implications and other factors not considered by the auditors.

Commissioners complimented staff on the commendations given by the auditors and their responses provided to the auditor.

No public comment was given. General Manager Riazzi stated that public comment would be welcomed at any time either in writing, by email, or by a telephone call. He also welcomed the public to attend future meetings and comment on the performance audit.

Next, Commissioners received an update on the District's wholesale fiber-optic network. (See www.chelanpud.org for presentation) Operations Group Business Advisor David Nelson provided the operations update. But first, Mr. Nelson introduced staff from Uptown Services, an outside consultant firm who is currently conducting a review the District's network program. He reminded the Board that the 2007 build-out plan to provide fiber access to 95% of the County's home and business customers (with emphasis on rural and remote areas) by 2012 was slowed by budget constraints to 2014. He clarified that the stimulus funding application submitted earlier this year was for completing build out into rural areas at an estimate of \$33,000,000 of which the District has applied for a 75% funding grant; 25% to be paid with District funding. In 2009, premises passed totaled 30,258 with 9,572 active connections. In May 2010, active connections reached 10,000 which is on track to reaching the goal of 10,592 connections by the end of the year. Director of Strategic Financial Planning Kelly Boyd stated that as of December 31, 2009 the total cash invested in the program was \$105,498,000. Staff is forecasting revenue of \$6,400,000 for 2010 with a \$7,524,000 negative change in net assets. She clarified that about 70% of revenue received comes from service providers and 30% from District use.

MINUTES OF REGULAR MEETING (STUDY SESSION) OF THE COMMISSION

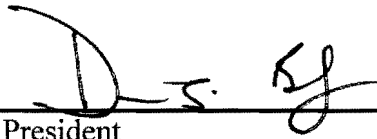
May 24, 2010

Page 3

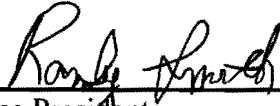
Alcoa's Northwest Energy Manager Robert Huber reported that Alcoa's procurement of the low side of the Valhalla Substation from Bonneville Power and the passing of the title to the District was completed on Friday, May 21, 2010.

After adjourning the meeting, President Bolz notified the Clerk of the Board that the June 1, 2010 regular meeting was canceled. Public notice of the cancellation was given in a news release dated May 24, 2010.


There being no further business, the meeting adjourned at 2:10 p.m.



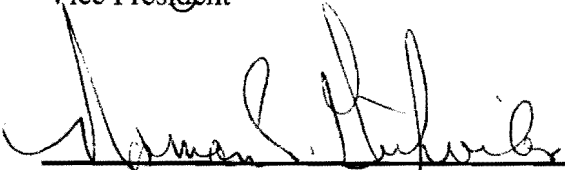
President



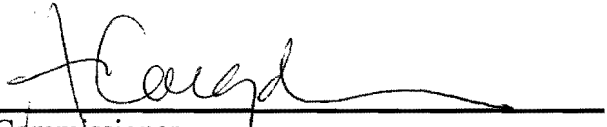
Vice President



Secretary



Commissioner



Commissioner