

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

June 2, 2008

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 June 2, 2008, at the hour of 11:00 a.m., pursuant to proper notice thereof.

Commissioners present were Norm Gutzwiler, Ann Congdon, Dennis Bolz, Randy Smith and Werner Janssen. In attendance were General Manager Richard Riazzi, General Counsel Carol Wardell and Clerk of the Board Sheila Salmon. Various staff members were also in attendance.

Others in attendance: Carnan Bergren, Jim Baxter, Christine Pratt (Wenatchee World).

Real Estate Specialist Lisa Graves led the Pledge of Allegiance and provided a safety minute.

President Gutzwiler presented the Consent Agenda items for adoption. He asked if any item on the Consent Agenda should be transferred to the Regular Agenda for further review. No items were requested to be transferred to the Regular Agenda. President Gutzwiler presented the Consent Agenda items for adoption as follows:

The minutes of the regular meeting held on May 19, 2008 and regular meeting (study session) held on May 27, 2008 were presented for approval.

The Auditor's memorandum, dated May 27, 2008, supporting documentation and the District's Computer Report, which certify, pursuant to RCW 42.24.080, that the District received certain goods, services and other considerations specified therein and described as follows were presented for approval:

1. Claims certified by the Auditor for payment and authorization for the Auditor to issue warrants payable by the Treasurer for services, goods and other considerations received by the District in the total amount of \$9,849,378.05;
2. Customer Deposit Returns payment and Bank of America District Credit Card payment dated May 27, 2008 in the amount of \$2,616.84 and \$3,525.70 respectively; and
3. Payroll for the period ending May 11, 2008 in the amount of \$1,455,534.32 as certified by the Auditor's memorandum.

Motion was made by Commissioner Smith, seconded by Commissioner Bolz and unanimously carried adopting the Consent Agenda consisting of the minutes of the May 19, 2008, and May 27, 2008 Commission meetings and the above listed vouchers.

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General Manager Rich Riazzi apprised the board of the application for a grant with the Department of Ecology (DOE) for a Wenatchee Wastewater Regionalization study. The study will determine the feasibility of regionalizing wastewater service from Leavenworth to Cashmere and will look for the most cost efficient way for wastewater treatment facilities at Leavenworth, Peshastin Dryden and Cashmere to meet expected state requirement to reduce phosphorous in the water. The DOE will provide \$50,975 plus and an additional \$5,000 will be provided by the District, Chelan County and cities of Leavenworth and Cashmere for a total project not to exceed \$55,975.

General Counsel Carol Wardell reported on the Godfrey vs. Chelan PUD lawsuit regarding alleged overtime payments to operators and dispatchers. The Judge continued the reasonableness hearing to July 17, 2008.

Chief Financial Officer Joe Jarvis provided the Board in-depth background reference information to support the strategic planning presentation on the cost of service analysis and rate design options schedule for 5:30 p.m. this evening.

The Commissioners reported on the various meetings each attended during the weeks of May 19, 2008 and May 26, 2008. Commissioners Janssen, Gutzwiler, Smith and Congdon attended the May 29 meeting of the Medical Customer Partnership Group. Topics of discussion included the District's 2008 financial position, automated metering system, private docks on PUD property and the fiber network build-out.

Commissioner Congdon made a motion to excuse Commissioner Smith from the June 23, 2008 board meeting. The motion was seconded by Commissioner Bolz and it was unanimously carried.

Commissioner Smith made a motion to excuse Commissioner Bolz from the July 28, 2008 board meeting. The motion was seconded by Commissioner Janssen and it was unanimously carried.

Commissioner Smith made a motion to excuse Commissioner Congdon from the July 28, 2008 board meeting. The motion was seconded by Commissioner Janssen and it was unanimously carried.

President Gutzwiler publicly announced at 11:40 a.m. that the Commission would convene an executive session after a three minute recess to consider the minimum price at which real estate will be offered for sale or lease when public knowledge regarding such consideration would cause the likelihood of decreased price, as authorized by RCW 42.30.110(1)(c) and to discuss with legal counsel litigation, potential litigation to which the District or its board is, or is likely to become, a party, and/or legal risks, as authorized by RCW 42.30.110(1)(i). He stated that he anticipated the executive session would conclude at approximately 12:00 p.m.

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The notice of such executive session, including the purpose of the session and the estimated time the session would conclude was properly posted by the Clerk of the Board.

Reconvening into regular session at 12:00 p.m., President Gutzwiler reported no action was taken.

The meeting recessed at 12:01 p.m. for the purpose of lunch and reconvened at 1:00 p.m. for the purpose of conducting the business of the District.

The Commission considered the matters listed in the Regular Agenda.

RESOLUTION NO. 08-13332 DECLARING A 7.4 ACRE PARCEL OF LAND LOCATED NEAR THE INTERSECTION OF SAUNDERS AVENUE AND IDAHO STREET IN ROCK ISLAND SURPLUS TO THE DISTRICT'S NEEDS

RESOLUTION NO. 08-13333 AUTHORIZING AMENDMENT NO. 1 TO PROFESSIONAL SERVICES AGREEMENT (PSA NO. 07-200) WITH SAPERE CONSULTING, INC TO PROVIDE ADDITIONAL CONSULTING SERVICES FOR THE DISTRICT'S WATER RESOURCES PLANNING EFFORTS

RESOLUTION NO. 08-13334 AUTHORIZING AMENDMENT NO. 1 TO PROFESSIONAL SERVICES AGREEMENT (PSA NO. 05-173) WITH CH2M HILL OF BELLEVUE, WASHINGTON TO PROVIDE PROFESSIONAL ENGINEERING SERVICES RELATED TO THE ROCK ISLAND POWERHOUSE 2 TRASH RACK CLEANING SYSTEM

RESOLUTION NO. 08-13335 AUTHORIZING AMENDMENT NO. 1 TO PROFESSIONAL SERVICES AGREEMENT (PSA NO. 05-172) WITH MWH AMERICAS, INC. TO PROVIDE PROFESSIONAL ENGINEERING SERVICES RELATED TO THE ROCK ISLAND AND ROCKY REACH HYDROELECTRIC MODERNIZATION PROJECTS AND OTHER DISTRICT WORK

RESOLUTION NO. 08-13336 AUTHORIZING FIELD WORK ORDER NO. 4 TO BID NO. 04-20 TO EXTEND THE CONTRACT WITH GCA SERVICES GROUP, INC. OF BELLEVUE, WASHINGTON FOR JANITORIAL SERVICES

Motion was made by Commissioner Janssen and seconded by Commissioner Congdon to adopt Resolution Nos. 08-13332 through 08-13336. The question was called for and the motion carried

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unanimously to adopt Resolution Nos. 08-13332 through 08-13336, which are on file in the office of the District.

Executive Manager of District Services Wayne Wright and staff presented to the Commissioners a draft of Sustainability principles supported by a list of current and future activities. The overall policy of sustainable activities is to build upon the District's foundation of clean, renewable hydropower by implementing practices that promote sustainability, including measures to increase efficiency, use renewable resources and decrease waste. Staff has identified the initial focus to be on a recycling program and on the energy efficiency of District headquarters. Staff members include Gregg Carrington, Steve Currit, Steve Lachowicz, Felicity Saberhagen, Irene Godfrey, John Stoll, Andrew Grassell, Beverly Freeman, Shaun Seaman and Suzanne Grassell. The Board supports the Sustainability effort.

A motion made by Commissioner Bolz, seconded by Commissioner Smith and unanimously passed to approve a special meeting to convene at 5 p.m. on Wednesday, June 4, 2008 at the Wenatchee Roaster Apple Room for the purpose of discussion with Dr. Patrick Moore.

The meeting recessed at 2:39 p.m. to be reconvened for a special meeting at 5:30 p.m. The purpose of the special meeting is the strategic planning presentation on the cost of service analysis and rate design options. Commissioners called for this special meeting to gather comments and provide a forum for community discussion of the analysis and options presented.

The regular (special) meeting reconvened at the Confluence Technology Center, 285 Technology Center Way, Wenatchee, Washington, at the hour of 5:30 p.m., pursuant to proper notice thereof.

Commissioners present were Norm Gutzwiler, Ann Congdon, Dennis Bolz, Randy Smith and Werner Janssen. In attendance were General Manager Richard Riazzi, General Counsel Carol Wardell, Clerk of the Board Sheila Salmon, Chief Financial Officer Joe Jarvis, Strategic Financial Planning Division Director Kelly Boyd and Senior Strategic Financial Planning Analyst Mark O'Bryan.

Others in attendance: more than 40 community members and District employees were in attendance.

Chief Financial Officer Joe Jarvis opened the presentation with a recap of the 2006/2007 strategic sessions. Commissioners, as a part of the 2007 strategic session, directed staff to perform a cost of service analysis for 2009 and to use that information to recommend 2009 rate design.

Strategic Financial Planning Division Director Kelly Boyd presented the cost of service analysis on electric, water and wastewater. Forecasts include the views, modeling and professional judgment and experiences of utility services, energy resources and finance. Initial results of

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electric, water, and wastewater revenue requirements shows that rates do not cover the cost of providing service.

Director Boyd provided clarification of the presentation and answered questions from the Commissioners and the public on the cost of service analysis: The increase in generation and distribution costs shown is driven by future forecasted costs to do business and less wholesale margin available to offset rising costs. The net number offset from wholesale sales will be less due to growth in load (as load increases there is less to sale on the wholesale market), the Lake Chelan modernization 2009 and 2010 which will reduce generation, and the cost of license implementation of Rocky Reach.

Gary Saleba of EES Consulting, Inc. reviewed the June 2008 cost of service analysis and rate design options prepared by District staff. Mr. Saleba stated the cost of service analysis comports with industry practice and is in keeping with the generally accepted rate setting principles and techniques. The amount of surplus wholesale revenues and the allocation of these revenues are unique and there is no precedent set for allocation.

Discussion continued on the cost of service analysis. Financial staff provided clarification to the public regarding the view that current financial trends are not sustainable to make it to a healthy 2012. There are additional issues that will financially impact the District in 2012 and beyond. Some of those are climate change, implementation of I-937 conservation and renewables, environmental regulations and requirements future rehabilitation costs. Based on a question from a customer, it was explained that the Lake Wenatchee wastewater system is a pumped system and more expensive to operate than the City of Wenatchee gravity feed system. The District system also serves less number of people per mile of pipe than the city system. It was further discussed that the risk adjusted wholesale margin is the wholesale surplus less allocated costs to generate applied at the 90% confidence level. The budget is at a 50% level.

After a 10 minute recess the meeting reconvened at 7:10 p.m. to continue the presentation with the section on the rate design options.

Senior Strategic Financial Planning Analyst Mark O'Bryan presented rate design options to eliminate the minimum charge; eliminate the demand ratchet; modify irrigation season; streamline methodology for water and wastewater rates to postage stamp rates; streamline interdepartmental rates; and modify tiered rates to encourage more conservation.

Financial Analyst O'Bryan provided clarification of the presentation and answered questions from the Commissioners on possible rate design options: Tiered rate structure of Tier 1 could be raised from 0-1,000 to 0-2,000; Tier 2 at 2-3,000; and the top Tier excess of 3,000. The new design of rate structure should promote conservation as well. Postage stamp water rates would spread the cost of service out to all users and would reduce the administrative cost of processing.

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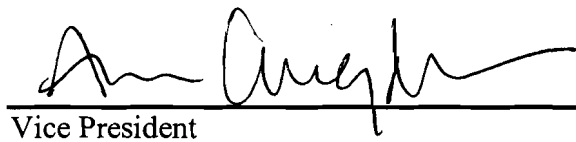
During public comment, Bob Brizee, representative of the Fair Housing Coalition, proposed in a letter sent to the Commissioners a reduced percentage in the rate for low income customers. Jackie Carmichael suggested that water be charge by the gallon used instead of at a fixed cost. Chuck Sloan agrees with using a sliding scale on the electric bill but suggested using a backward scale. Mr. Sloan also commented that the best way to increase generation capacity is by promoting conversation. George Wilson would like to see the Lake Wenatchee wastewater system pumped routinely by the District. Jack Brundage questioned would like to see the cost effectiveness of dispatching the Leavenworth crew out of Wenatchee.

Commissioners will discuss the community comments and continue study of the proposals on June 9, 2008 in the District's Boardroom at 11:00 a.m.

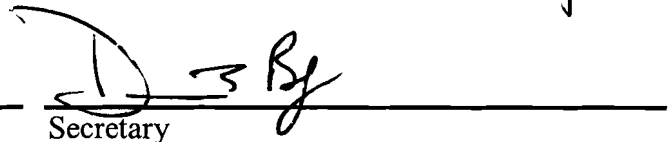
There being no further business, the meeting was adjourned at 8:20 p.m.



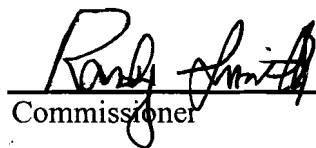
President



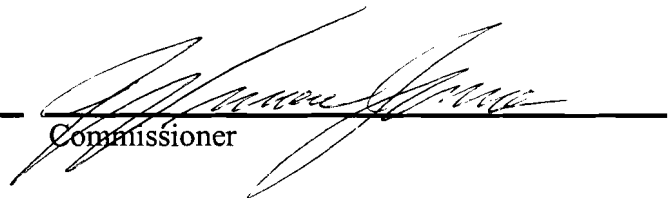
Vice President



Secretary



Commissioner



Commissioner