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

March 16, 2009

The regular meeting (study session) 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 March 16, 2009, at the hour of 11:00 a.m., pursuant to proper notice thereof.

Commissioners present were Ann Congdon, Dennis S. Bolz, Carnan Bergren, Randy Smith and Norm Gutzwiler. 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, Hugh Thesher, Jean Ludwick and Christine Pratt (Wenatchee World).

Beth O'Bryan and Pat O'Hara led the Pledge of Allegiance and provided a safety minute.

External Affairs Director Tracy Yount and Governmental Affairs Manager Suzanne Grassell updated the Board on specific legislation important to the District in the 2009 Legislative Session. Staff is monitoring about 100 bills out of 790 bills still pending after reaching the March 12, 2009 cut-off deadline. Staff highlighted the following bills and their activity in Olympia last week:

- Recreational use statute amendment (limit on whitewater boating liability) died as of the March 12, 2009 deadline. Legislative staff is considering other legislative vehicles for amendment.
- I-937 – Senator Marr's bill, SB 5840, removed small hydropower for eligible resources; reduced amount of qualifying excess conservation biomass; adjusted RPS target; and added a feed-in tariff study.
- Climate Change – HB 1819 died; SB 5735 passed but is no longer "cap and trade" legislation and has become a study with recommendations to the legislature by 2011.

Director Yount noted that his staff will continue to monitor I-937 and the Marr bill; gather more data on Climate Change and look for an attachment for the whitewater bill during the second half of the legislative session.

President Congdon publicly announced at 11:28 a.m. that the commission would convene an executive session 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). She stated that she anticipated the executive session would conclude at approximately 12:15 p.m. By motion made by Commissioner Smith, seconded by Commissioner Gutzwiler and unanimously carried, an executive session was convened. 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. Commissioner Bolz stated he would recuse himself from a portion of the executive session.

Reconvening the meeting into open session at 12:10 p.m., President Congdon stated that no decisions were made and no votes were taken during the executive session.

The meeting recessed at 12:12 p.m. for the purpose of lunch, to reconvene at 1:00 p.m. for the purpose of conducting the business of the District.

General Counsel Carol Wardell discussed the order issued by the Federal Energy Regulatory Commission for a new 43-year license to the District for Rocky Reach. Director of Natural Resources Gregg Carrington and License & Natural Resource Manager Michelle Smith have reviewed the new license and recommended the Board authorize the General Manager to accept the new license and approve the filing of a request for rehearing and clarification of the new license order. It is staff's recommendation to request the term of the license to be set at 50-years which coincides with settlement agreement signed by various stakeholder agencies. Staff would also request correction to the critical habitat for bull trout as it does not occur within the project area and two other clarifications.

> RESOLUTION NO. 09-13439 AUTHORIZING THE GENERAL MANAGER TO ACCEPT THE NEW LICENSE ORDER ISSUED BY THE FEDERAL ENERGY REGULATORY COMMISSION FOR THE ROCKY REACH HYDROELECTRIC PROJECT AND TO FILE A REQUEST FOR REHEARING AND CLARIFICATION OF THE NEW LICENSE ORDER

Motion was made by Commissioner Gutzwiler, seconded by Commissioner Smith to adopt Resolution No. 09-13439. The motion unanimously carried to adopt Resolution No. 09-13439, which is on file in the offices of the District.

Chief Finance Officer/Chief Risk Officer (CFO) John Janney presented the Board updated information on the District's contingency planning. CFO Janney stated that revenue forecasts have dropped further and as of March 16, 2009 are at $29.7M which is a $23M change to Utility Services net assets. He stated that even with the District's reduction of $26,091,000 to the 2009 Capital and O&M (operation and maintenance) budgets additional contingency plans may be necessary. He stated that staff will continue contingency planning efforts by looking for further reductions to O&M, delay of additional capital projects, pursue cost savings suggestions provided through the employee suggestion mailbox, examine the potential of the Stimulus package and as a last resort, implementation of a surcharge.

Commissioners reminded the public that General Manager Rich Riazzi is holding a public meeting at 5:30 p.m. at the Confluence Technology Center to explain the latest financial outlook and answer questions from customer-owners. The evening meeting is intended to keep the community informed about the District's changing financial outlook and the possibility of an electric bill surcharge. No decision on a surcharge has been made.

As a part of ongoing contingency planning, General Manager Rich Riazzi and Executive Manager Randy Stedman presented three programs to trim payroll costs:

1. A mandatory 5-day furlough: All regular and full- and part-time employees will be required to take a 5-day furlough as unpaid time off. District savings would be about $940,000.
2. A voluntary "Double Yes" program: Pending approval of the program by the Board, employees may formally propose elimination of their job and if accept by the District the employee receives a separation payment equal to one year of salary or wages based upon the employee's scheduled hours.
3. Call for volunteers to change to part-time status: Regular full-time employees may volunteer to change to part-time status on a permanent, temporary or trial basis.

It was noted that the collective bargaining agreement (CBA) does not specifically cover or contemplate furloughs or voluntary change in status. However, Section 3.1.2 of the CBA gives management the right to permanently or temporarily decrease the workforce and determine staffing levels. The furlough and voluntary change in status do not require approval by the Board.

Executive Manager Randy Stedman presented the following resolution for Board approval:

> RESOLUTION NO. 09-13440 AUTHORIZING THE DISTRICT TO IMPLEMENT A VOLUNTARY EMPLOYEE REDUCTION IN FORCE PROGRAM, INCLUDING THE PAYMENT OF SEPARATION BENEFITS

Motion was made by Commissioner Smith, seconded by Commissioner Bergren to adopt Resolution No. 09-13439. The motion unanimously carried to adopt Resolution No. 09-13439, which is on file in the offices of the District.

General Manager Rich Riazzi suggested the Board consider a motion to delay the implementation of changes to the electric conservation rates scheduled to go into effect on April 1, 2009. At this point as staff looks at financial information where the final snowpack numbers are staff may be returning to the Board with a recommendation of implanting an electric surcharge. Mr. Riazzi recommended they proceed with the changes to water and wastewater rates scheduled to go into effect on April 1, 2009.

Motion was made by Commissioner Bolz to delay for up to 60 days the implementation of changes to the retail electric rates adopted by Resolution No. 08-13395. The motion was seconded by Commissioner Smith and unanimously carried.

CFO John Janney discussed changes to the District's Investment and Banking Policy, Resolution 08-13358 to allow better diversification and to safeguard the District's investment principal while maximizing interest earnings. Major changes include increasing the certificate of deposit

total up to 20-25% in the Washington state sponsor program for municipal deposit; adding certain FDIC insured bonds as an authorized investment; and adding general obligation bonds of a state other that the state of Washington. A resolution will be presented at the March 23, 2009 board meeting.

General Counsel Carol Wardell mentioned that 3 or more Commissioners will be attending the Washington Public Utility District Association Meetings on March 19 and 20, 2009 in Olympia, Washington. According to RCW 42.030.070 and past discussions with the state auditor, it is not necessary to declare and notice the meeting as a public meeting as Commissioners will not be discussing District business or making any decisions.

Motion was made by Commissioner Smith to cancel the March 30, 2009 study session. The motion was seconded by Commissioner Gutzwiler and unanimously carried.

There being no other business, the meeting adjourned at 2:46 p.m.

President

Vice President

Secretary

Commissioner

Commissioner