

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

April 27, 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 April 27, 2009, at the hour of 11:00 a.m., pursuant to proper notice thereof.

Commissioners present were Ann Congdon, Carnan Bergren, Randy Smith and Norm Gutzwiler. (Commissioner Dennis Bolz joined the meeting at 1:00 p.m.) 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 and Christine Pratt (Wenatchee World) attended the morning session and about 60 customer owners joined the meeting for the afternoon session in the auditorium.

Dave Parkhill and Michelle Lahd of the Safety and Health Division led the Pledge of Allegiance and provided a safety minute.

Jeff Smith with Utility Services reported that the Cashmere Electrical System Closing final steps are scheduled to be completed on April 30, 2009. Karen Wiggum, Staff Attorney, recalled that the City of Cashmere (City) and the District closed the Electric Utility System Purchase and Sale Agreement (Agreement) on October 30, 2008. She said the Agreement called for a transition period of six months after the initial closing date, after which a post closing-closing would occur for District payment of the balance of the purchase price, subject to agreed upon adjustments. The \$500,000 purchase price balance will be reduced by the following amounts: \$25,000 for Burlington Northern Santa Fe (BNSF) Permit Fees and \$7,420 for removal and relocation by the District of City street lighting disconnect switches. The total adjusted purchase price balance due is \$467,580 will be paid by the District to the City at the post closing-closing by electronic wire transfer. Steve Currit, Director of Shared Services, noted that four of the twelve BNSF permits will require annual purchase going forward. All contingencies and conditions set forth in the Agreement have been met or satisfied prior to the post closing-closing. The post closing-closing date is scheduled for April 30, 2009 at 3 p.m. to be conducted at District headquarters. The Board previously delegated to the General Manager, or his designee, to sign the final documents and close the transaction.

Next, Commissioners considered the following resolutions relative to the Entiat Canal Irrigation System:

RESOLUTION NO. 09-13449 AUTHORIZING THE GENERAL MANAGER TO ENTER INTO AN INTERLOCAL AGREEMENT WITH CASCADIA CONSERVATION DISTRICT FOR THE MANAGEMENT AND IMPLEMENTATION OF CONVERTING THE ENTIAT CANAL IRRIGATION SYSTEM

RESOLUTION NO 09-13450 AUTHORIZING THE GENERAL MANAGER TO SIGN THE AGREEMENTS REGARDING THE TERMINATION OF THE ENTIAT CANAL

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RESOLUTION NO. 09-13451 DECLARING A PORTION OF THE ENTIAT CANAL SURPLUS AND AUTHORIZING THE GENERAL MANAGER TO TRANSFER A PORTION OF THE SURPLUS PROPERTY

General Counsel Carol Wardell noted that staff presented information to the Commissioners related to the Entiat Canal at the April 20, 2009 regular business meeting.

Motion was made by Commissioner Smith, seconded by Commissioner Bergren to adopt Resolution Nos. 09-13449 through 09-13451. The motion unanimously carried to adopt Resolution Nos. 09-13449 through 09-13451, which are on file in the offices of the District.

Commissioner Smith requested that the resolution amending the rules of procedure and governance polices for the commission be pulled from the agenda.

A RESOLUTION AMENDING AND RESTATING RULES OF PROCEDURE AND GOVERNANCE POLICIES FOR THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON AND AMENDING RESOLUTION NO. 04-12597

Commissioner Smith noted that the Board Governance Policy requires all five commissioners to be present to approve changes to the Governance Policies. Commissioner Gutzwiler commented he would like to schedule time to further discuss the policies before the next presentation for approval. Commissioners will discuss the policies at the board retreat scheduled to be held on May 7, 2009.

Next, Treasurer Debbie Litchfield presented the following resolutions for Board approval:

RESOLUTION NO. 09-13452 AMENDING RESOLUTION NO. 08-13258 (THE FOURTH SUPPLEMENTAL RESOLUTION); AUTHORIZING THE REISSUANCE OF NOT TO EXCEED \$92,880,000 AGGREGATE PRINCIPAL AMOUNT OF CONSOLIDATED SYSTEM REVENUE BONDS, REFUNDING SERIES 2008B; APPROVING FORMS OF CERTAIN DOCUMENTS; AND PROVIDING FOR CERTAIN OTHER MATTERS RELATED THERETO

RESOLUTION NO. 09-13453 APPROVING, SOLELY FOR PURPOSES OF SECTION 103(K) OF THE INTERNAL REVENUE CODE OF 1954 AND SECTION 147(F) OF THE INTERNAL REVENUE CODE OF 1986, THE ISSUANCE OF UP TO \$183,375,000 OF CONSOLIDATED SYSTEM REVENUE BONDS, CONSOLIDATED SYSTEM REVENUE REFUNDING BONDS, OR OTHER REVENUE BONDS OR REFUNDING REVENUE BONDS

RESOLUTION NO. 09-13454 DECLARING OFFICIAL INTENT OF PUBLIC UTILITY
DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON TO PAY OR REIMBURSE
CERTAIN EXPENDITURES FROM PROCEEDS OF INDEBTEDNESS

Treasurer Litchfield noted that staff had planned to present information with respect to the 2009 AB refunding. She said currently there is uncertainty around the liquidity support for the 2009 AB refunding and the 2009 AB will be presented at a later date.

Motion was made by Commissioner Gutzwiler, seconded by Commissioner Smith to adopt Resolution Nos. 09-13452 through 09-13454. The motion unanimously carried to adopt Resolution Nos. 09-13452 through 09-13454, which are on file in the offices of the District.

President Congdon asked if there were any other matters of general business to be discussed at this time. Hearing none, she recessed the meeting at 11:40 a.m. for the purpose of lunch.

The meeting reconvened at 1:00 p.m. in the auditorium for the purpose of discussion regarding the management recommendation of a surcharge and contingency planning. President Congdon thanked the public for their attendance and set discussion agenda to include: 1) Comments and additional information to be provided by General Manager Rich Riazzi; 2) Comments and deliberation by Commissioners; and 3) Public comment.

General Manager Rich Riazzi also thanked the public for their attendance and opened by saying:

“We have taken a lot of steps to increase accountability and manage our expenses, and Chelan PUD customer-owners continue to have the second-lowest rates in the nation. However, we are very reliant on wholesale market sales. And now we’re experiencing the perfect storm: low snowpack, low market prices for our surplus power and low interest rates for our investments. Maintaining a strong, local utility is our top priority, and we are taking steps to ensure the PUD continues to benefit consumers and continues to remain fiscally healthy.

We have spent the past two years aggressively managing and reducing costs which has resulted in:

- Since 2007, we reduced FTEs by 23, saving \$2.3 million
- We reduced overtime, saving \$800,000 a year
- We have cut \$27 million from the 2009 Budget

We believe these efforts of cutting costs, while still offering high levels of service were responsible choices during these past months. We have merged job responsibilities, eliminated positions and cut costs. But it has not been enough.

The PUD is ultimately your PUD, and we are listening to you. Many of you have made your voices heard.

New solutions implemented today by the management team include:

1. The executive management team has decided, voluntarily, to give back our 2009 wage increase by taking enough days off without pay to equal the amount of the raises issued in February.
2. In addition, the executive management team's current salaries will be frozen until February 1, 2011. And, if the PUD faces similar economic conditions next year, we will consider additional actions in the future, including another hard look at management wages.
3. We will also freeze the remainder of non-union employees' salaries until August 1, 2010. Merit increases then will be awarded if financial conditions permit.
4. We will bargain in good faith with the union on wages in light of current economic conditions, budget constraints and the desire to maintain harmony in the workforce as a whole.
5. The District will continue restrictions in its hiring policy that every new or replacement position must be approved by the general manager.
6. The Board of Commissioners approves the annual salary budget for non-union employees. The Board will also annually review and approve any changes to the District's compensation program which includes the District's compensation policy and philosophies.
7. And we are pleased to report the union has joined with management in supporting a week without pay this year. We have had a very good working relationship with the bargaining unit, and their commitment to the PUD and this community remains strong.

We appreciate and recognize that all of our employees are stepping up and making sacrifices to help us try to weather a difficult time. All together, we are cutting \$2,500,000 in wage costs.

But these steps are still not enough to make up the projected \$19,000,000 loss at the end of this year. Again, the majority of this loss is because of lower prices for

energy we sell in the wholesale market, low snowpack and lower interest rates on our cash reserves.

This is a new financial situation for all of us, and we are listening to you, and trying to find the best solution.

We are a part of this community, and we understand the concerns. That's why we decided to give back the wage increase and freeze these current upper management salaries for a total of two years.

And now that we have addressed the wage issue, I hope we can have a productive discussion on the financial stability of the utility and the potential surcharge.”

Commissioner Congdon stated she appreciated the concessions that the General Manager and staff have made.

Commissioner Gutzwiler thanked the public for their comments. And also thanked the employees of Chelan County PUD for giving from your heart and soul. He said he has researched the numbers and has tried to find a balance with the needs of the future.

Commissioner Bergren said he thought he knew what was needed but was not quite ready to make a decision and would like to see that a decision is reached soon.

Commissioner Smith thanked the citizens of Chelan County and noted that citizen engagement with the PUD is an important part of public power. Input is of great value and people collectively have great wisdom. He has come into this meeting with an open mind and is truly undecided. He is impressed by the steps management has taken and thanked them for hearing the message from the public. He assured the public that he will focus more closely at the financial climate during the budget process.

Commissioner Bolz said he does not agree with assessing an 18% surcharge and that he understands the risk to future bond issuance should the surcharge fail. Ratepayers are faced with uncertain financial times and a surcharge would have a great impact on local residents and businesses. He commended management for the decisions they have made and noted that no other organization has taken cuts like this organization.

President Congdon stated it is the fiduciary responsibility of the Commission to look at the long term financial health of the PUD and has to strike a balance with what is going on with people today. Approaching 2012, the utility will become healthier and will be looking at a stronger financial picture. At that time, a larger risk can be taken. But until then, it would make sense to take a bigger step to reduce the shortfall and assess a bigger surcharge now. Her dilemma, she said, is that she personally would not be able to support that large of a surcharge.

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Commissioner Gutzwiler made a motion that as of May 1, 2009, Commissioners no longer travel out of state and that no per diem be taken. The motion died for the lack of a second.

In response to the motion, Commissioner Bolz stated he supported reducing the per diem to a level that matched or exceeded what has been asked of employees. He supported the portion of the motion eliminating out of state travel. Commissioner Bergren agreed with Commissioner Bolz' remarks.

President Congdon asked if Commissioner Gutzwiler would like to restate his motion. Commissioner Gutzwiler declined to restate the motion.

Commissioner Bolz made a motion to discontinue Commissioner travel out of state and that the per diem paid to Commissioners be curtailed to the same extent or greater as cuts taken by staff. The motion was seconded by Commissioner Smith.

For public clarification, Commissioner Bolz noted that there are two salary ranges for Commissioners based on when a commissioner was sworn into office: \$1,400 per month for those sworn in before January 1, 2009 and \$1,800 per month for those sworn in after January 1, 2009. The per diem rate is \$104 per day and is limited to 140 days per year.

Commissioner Bolz further indicated that he would suggest cutting the per diem 30 percent and to allow no more than 98 days per diem.

General Counsel Carol Wardell was asked to restate the motion on the floor. The motion on the floor stated that Commissioners would no longer travel out of state and that their per diem would be curtailed to meet or exceed the greatest cut taken by senior staff. Commissioner Gutzwiler moved to table the motion on the floor to the May 4, 2009 meeting. The motion was seconded by Commissioner Bergren and unanimously passed.

Commissioner Congdon clarified the value of the reserve fund as of March 31, 2009 to be \$244,000,000 and that the money in the fund came from onetime events that the District is not in the position to replenish. The reserve fund consists of one-time payments from the Puget capacity reservation charge; Alcoa capacity reservation charge; and money borrowed on short term notes. Commissioner Bolz estimated that a 3% return on the \$244,000,000 would \$7,320,000 which could be applied towards the short fall of \$19,000,000. General Manager Riazzi clarified that the \$19,000,000 projected short fall is inclusive of the interest earnings on the portfolio this year. The surcharge proposed by management closes half of that gap and still leaves a \$9,000,000 short fall.

Commissioner Gutzwiler stated for public knowledge that last week power sales were sold at a negative dollar amount and that he requested staff to look at a 24% surcharge scenario. General Manager Riazzi clarified the process of selling negative power. He said one the challenges faced by the District is the environmental requirements to maintain a set level of total dissolved gas in

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the river. This requirement limits the amount of water that can be spilled and sometimes forces the District to go into the power market when the market is flush with power and pay to off load the power.

Commissioner Congdon asked Commissioners if they were prepared to offer any proposals at this time. Commissioner Smith requested to hear public input first.

Jeff Smith of Utility Services opened the floor to public comment after setting the ground rules limiting comment to three minutes per person.

Allen Moen, Entiat - No surcharge in a time of deep recession. Cut services, programs such as fiber and the budget.

Hank Drewiany, Leavenworth - No surcharge.

Chuck Slowe, Cashmere – Promoted contribution to the District’s helping hands fund by ratepayers when they pay their bill.

George Rainhoff, Leavnworth – No rate increase and he approved of the wage solutions implemented by the management team.

Kathleen Cullison, Cashmere – No surcharge.

Jim Canterbury, Sunnyslope - Why are you requiring furlough day off instead of taking back raises give?

Response from General Manager Riazzi – Reducing salaries would impact pension plans and the furlough is a balanced impact to all employees.

Ray Reed, Wenatchee – The PUD plan to stay solvent responds to up and downs. When the plan becomes more important than the people it serves, that is a problem. Use the cash reserves and then build it back up.

Jim Lloyd, Wenatchee – Cut back on executive travel and per diem.

Robert Tageant, Wenatchee – Ratepayers should not be asked to foot the bill.

Commissioner Bergren made a motion for a 10-minute recess. The motion was seconded by Commissioner Smith and unanimously passed.

Reconvening at 3:00 p.m., Commissioner Gutzwiler asked President Congdon allow time for Commissioners to ask questions of staff before taking any action on the surcharge.

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Commissioner Gutzwiler asked CFO Janney if the financial situation has changed in the last 10 days. CFO Janney told Commissioners that the current forecast stands as of a week ago. He continued on to say light loads are on a downward trend and gas prices continue to fall.

Commissioner Bergren asked CFO Janney what the impact would be on the District's bond rating if the 18% surcharge does not go through. CFO Janney, having recently returned from a review with bond rating agencies, replied that rating agencies look at financial trends over time and whether reserves are sufficient to back up variable rate debt and contingent payment obligations as well as the look for strong contractual agreements. They also look at the willingness of the Board to raise rates to sufficient enough levels to maintain the financial health of the organization.

Commissioner Smith noted that the proposed 18% surcharge only takes care of one-half of the operating deficit for 2009. If this shortfall continues into 2010 and beyond, he questioned how it would affect the District's bond rating. CFO Janney stated the District is facing two more tough years. A balanced approach is necessary to hold the current AA rating. Going from AA rating to a single A rating could mean a 1% rate difference and would immediately impact the District. The long term impact of a down grade takes a long time to get it back. A down grade could prevent access into certain markets.

Commissioner Gutzwiler confirmed that if the demand for power and prices improve this summer, the surcharge could be removed. General Manager Riazzi stated the temporary surcharge could be removed by the Board at any time and would be recommended when the financial health of the District has improved.

Commissioner Bergren questioned the importance of the bonding and capital requirements. General Manager Riazzi said the business plan is to develop a long term sustainable model by closing operation gaps. Selling below costs is not sustainable. Capital items have been cut this year and that labor force will be applied to operation and maintenance expenses rather than capital improvements. The goal is to make sure the District stays liquid. Rating agency will take all of these issues into consideration when establishing a rating.

Commissioner Bolz asked what is the ultimate reserve level needed by the District. CFO Janney stated it is necessary to keep the reserve at a level adequate to cover contingent payment obligations such variable rate debt, interest rate swaps and wholesale energy contracts. There may be times that the \$130,000,000 minimum threshold will not be adequate to maintain financial stability. Commissioner Bolz suggested using the reserve funds to cover the projected shortfall for the next three years totaling \$51,000,000 would leave \$193,000,000 in reserves, enough to cover the \$130,000,000 minimum threshold. If the remainder of 2009 was funded from cash reserve to close the financial gap the net result on cash reserves as of December 31, 2011 projected would be a balance of \$173,000,000. The drawdown is not only from filling operating gap but also paying dept principal and paying for capital expenditures with existing reserves.)

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Commissioner Congdon said if we lower the surcharge percentage it might be easier for people to accept now but would mean we would be looking at a bigger number next year. CFO Janney concurred.

In response to questions by the Board about the low income discount program, Director of Customer Service John Stoll stated that the District services to two types of low income customers; seniors and the disabled. Low income customers are qualified through Community Action. The qualification guideline is 125% of poverty level for low income disabled and the income level for seniors is set by a RCW. There are currently about 1,100 customers enrolled in the program and receive service at a fixed discount of \$7.85. Another option available to low income customers is the Helping Hand Program; a voluntary program contributed to by ratepayers. Last year \$26,000 was used to assist low income customers for a one time need.

A motion was made by Commissioner Gutzwiler Norm to adopt the 18% surcharge proposed by management. The motion was seconded by Commissioner Smith. President Congdon asked if there was any discussion. Commissioner Gutzwiler acknowledged that this is a difficult situation. We have heard that there is opportunity for those that are truly in need to seek help. He also stated that we do not want to jeopardize the current bond rating by using the reserve funds.

General Counsel Carol Wardell asked to clarify the motion as Commissioner Gutzwiler referred to the management recommendation made on April 13, 2009 to adopt a 18% temporary surcharge for up to 12 months, effective 5/1/09; to delay implementation of new rate design for up to 12 months (2.5% rate increase); and to increase existing low income assistance program by 18%. General Counsel questioned if the motion included all three aspects of the recommendation. Commissioner Gutzwiler indicated yes it did.

Commissioners Bergren, Smith and Bolz spoke against the motion.

Commissioner Gutzwiler called for the question. The motion failed with a vote one to four, with Commissioner Gutzwiler voting yes.

A motion was made by Commissioner Smith to adopt a 9% temporary surcharge for up to 12 months, effective 5/1/09; to delay implementation of new rate design for up to 12 months (2.5% rate increase); and to increase existing low income assistance program by 9%. The motion was seconded by Commissioner Bolz and passed four to one with Commissioner Gutzwiler voting against the motion.

General Counsel Wardell suggested staff prepare the resolution to be presented to the Board at the next regular meeting confirming the motion which would allow the surcharge to be effective based upon the motion. She explained that this would require a change in the surcharge process

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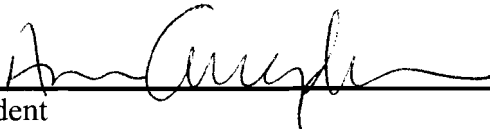
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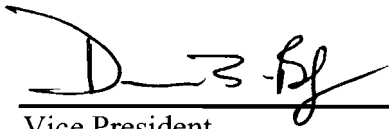
resolution, Resolution No. 07-13164, which requires a formal resolution be presented to adopt a surcharge.

A motion was made by Commissioner Bolz to revise Resolution No. 07-13164 to allow for a formal resolution ratifying and confirming the motion so that the adopted surcharge will be effective May 1, 2009. The motion was seconded by Commissioner Smith and unanimously passed.

There being no other business, the meeting adjourned at 4:15 p.m.



President



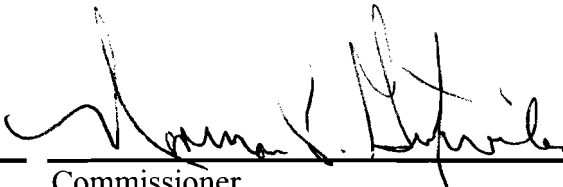
Vice President



Secretary



Commissioner



Commissioner