

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

May 18, 2009

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 18, 2009, at the hour of 1:00 p.m., pursuant to proper notice thereof.

Commissioners present were Ann Congdon, Dennis Bolz, Randy Smith and Norm Gutzwiler. (Commissioner Carnan Bergren was excused to attend the NWPPA annual conference in Boise Idaho.) 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 for the morning session: Bob Huber and Christine Pratt (Wenatchee World).

Environmental Compliance Technician Mark Hoefner led the Pledge of Allegiance and provided a safety minute.

President Congdon presented the Consent Agenda items for adoption. She 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 Congdon presented the Consent Agenda items for adoption as follows:

The minutes of the regular session held on May 4, 2009, board retreat held on May 7, 2009 and study session held on May 11, 2009 were presented for approval.

The Auditor's memorandum, dated May 12, 2009, 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 \$7,361,992.72;
2. Customer Deposit Returns payment dated May 12, 2009 in the amount of \$8,797.82; and
3. Net Payrolls, Warrant Nos. 222113 through 222214 and Advice Nos. 491911 through 492603 for the period ending 4/26/2009 in the amount of \$1,497,016.74; and

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4. Charge-offs to Uncollectible Accounts in the Amount of \$1,130.90 for the period ending April 2009.

Resolutions:

RESOLUTION NO. 09-13459 RESOLUTION APPROVING FIELD WORK ORDER NOS. 1 THROUGH 4, AUTHORIZING FINAL ACCEPTANCE OF WORK PERFORMED UNDER BID NO. 06-31 WITH LAKESIDE EQUIPMENT CORP. OF BARTLETT, ILLINOIS AND AUTHORIZING PAYMENT OF RETAINAGE DUE FOR THE ROCK ISLAND POWERHOUSE 2 TRASH CLEANING SYSTEM

RESOLUTION NO. 09-13460 APPROVING FIELD WORK ORDER NOS. 1 AND 2 TO BID NO. 07-32 WITH CANYON FENCE COMPANY OF CASHMERE, WASHINGTON TO PROVIDE UNIT PRICE FENCE WORK AND AUTHORIZING AN EXTENSION OF THE CONTRACT THROUGH JUNE 1, 2010

Motion was made by Commissioner Smith, seconded by Commissioner Bolz and unanimously carried adopting the Consent Agenda consisting of the minutes of the regular session held on May 4, 2009, board retreat held on May 7, 2009 and study session held on May 11, 2009, the above listed vouchers and Resolution Nos. 09-13459 and 09-13460, which are on file in the offices of the District.

Director of Rocky Reach and Lake Chelan Hydro Divisions Dan Garrison and Rocky Reach Hydro Engineering Department Manager John Sagerser presented an update on the Chelan Hydro Modernization project schedule. Commissioners reviewed three options for the replacement of Unit A-2 turbine generator. The options reviewed were to: 1) defer the project schedule post 2012; 2) maintain the contract schedule for 2010; and 3) accelerate the project schedule to 2009. It was the recommendation of staff to accelerate the project schedule and install the second unit this year which would increase generating capacity sooner and reduce the risk of a mechanical breakdown. Staff will present contract changes and request additional bond funding of \$11,000,000 in the next few weeks.

Next, Commissioners reported on the various meetings each attended during the weeks of May 4, 2009 and May 11, 2009.

Motion was made by Commissioner Bolz, seconded by Commissioner Gutzwiler and unanimously carried to authorize Commissioner Smith's attendance of the May 26, 2009 and June 8, 2009 meetings via telephone.

General Manager Rich Riazzi informed the Board that Link Transit has asked for District support of their application for federal stimulus money to fund a pilot program for electric buses. General Manager Riazzi stated that he will be sending a letter of support.

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Commissioners heard a report from Director of External Affairs Tracy Yount on the Federal Stimulus Package funding opportunities of interest to the District. Areas of focus included: Energy Recover, Clean Diesel Grant Program, Broadband, Smart Grid, Finance and Water. There are two general areas of interest in Broadband deployment; National Telecommunications and Information Administration (NTIA) and Rural Utility Service (RUS). He said that staff will focus on the RUS funding as there appears to be more opportunity for the District. He noted that at least 75% of the area to be served by a project receiving RUS funds must be in a rural area without sufficient access to high speed broadband service to facilitate rural economic development. The next area of focus was the Energy Recovery Funds (ERF) totaling \$179,000,000. Director of Customer Service John Stoll broke out the ERF into three categories: 1) \$60,000,000 to be allocated for low income weatherization in Washington State; 2) \$60,900,000 for State Energy Program (SEP); and 3) \$58,600,000 for State and Local Energy Efficiency and Conservation Block Grants. Director Stoll said the District will partner with Chelan Douglas Community Action Council to support weatherization programs. Director Yount noted other areas of interest included \$15,000 for the Clean Diesel Program and Clean Renewable Energy Bonds. In conclusion, Director Yount told Commissioner that staff has submitted the letter of interest to BPA in response to BPA's request to create a partnership with utility partners to participate in a regional smart grid demonstration project.

Director of Accounting Diane Cooper informed the Board that the District received a clean opinion on its 2008 financial statements from independent auditors PricewaterhouseCoopers. Long term power sales contracts and bond resolutions require that the District's financial statement be audited by independent certified public accountants experienced in electric utility accounting and of nation reputation. Significant transactions reviewed were the Alcoa Long Term Power Sales contract, CS 2008AB Refunding Bonds and RR 2008A/RI 2008A refunding Bonds. The audit report is included in District's 2008 Annual Report "Power". (Refer to www.chelanpud.org for the annual report.)

Chief Financial/Risk Officer John Janney reported that Standard and Poor's (S&P) and Moody's have affirmed the District's double-A bond rating in preparation for an upcoming bond sale. The District is considering selling \$124,000,000 in bonds to refinance debt at lower interest rates and purchasing an additional \$68,000,000 to pay for hydro capital projects. S&P also affirmed a stable outlook. Moody's changed its outlook to negative based on lower than originally expected wholesale revenues over the next several years, the limited rate increase taken by the District to offset lower merchant cash flows, and negligible hedges for 2010 and onward to minimize the volatility of wholesale revenues. The negative outlook also considers the likely decline in Chelan PUD's credit metrics and significant reserves over the next several years.

General Manager Rich Riazzi stressed concern has developed from the rating agencies around the surcharge mechanism used as a primary mitigation tool. Management will be looking at the 2012 portfolio and working on the process to get the most out of that portfolio. Next steps include weighing the use of a surcharge versus alternative techniques for retail and wholesale

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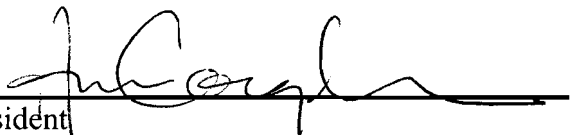
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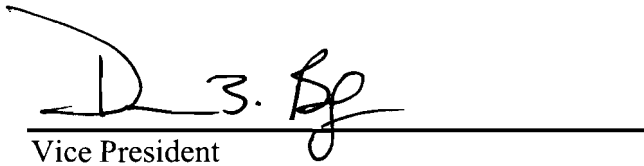
rate stabilization. Management will return for Board consideration of suggested approaches to stabilize rates and wholesale revenues.

Treasurer Debbie Litchfield explained that staff is evaluating options for the financing of the Lake Chelan hydro project. Approximately \$23,000,000 is required to fund 2009 Lake Chelan capital projects (including Unit A-1 modernization) plus an additional \$11,000,000 for Unit A-2. Options for the issuance of bonds for Lake Chelan may include tax-exempt bonds or potential Build America Bonds available as part of the Federal Stimulus Package funding. Build America Bonds are taxable but with a rebate or subsidy that results in a rate comparable to the tax-exempt rate. Additional analysis and evaluation on these options will be considered prior to making a recommendation on which method of funding would best fit the District's needs. It is expected that the final maturity on the bonds would be 30 years.

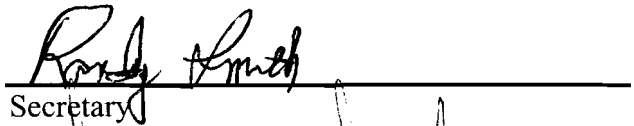
The meeting adjourned at 2:36 p.m.



President



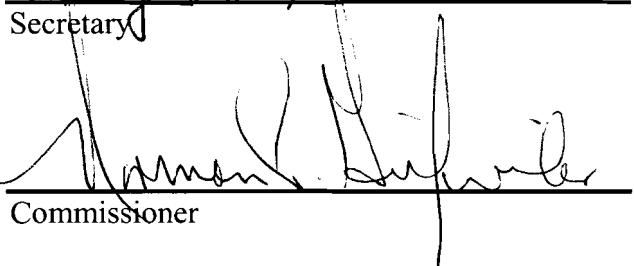
Vice President



Secretary



Commissioner



Commissioner