

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

June 9, 2008

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 June 9, 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 Acting General Manager Joe Jarvis, General Counsel Carol Wardell and Clerk of the Board Sheila Salmon. Various staff members were also in attendance.

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

Communications/A-V Specialist Christy Shearer led the Pledge of Allegiance and provided a safety minute.

Following up on the June 2, 2008 special meeting on the cost of service analysis (COSA) and possible rate design options, Director of Strategic Financial Planning Kelly Boyd and Senior Strategic Financial Planning Analyst Mark O'Bryan asked the Board for guidance in the rate-setting process. The cost of service analysis (COSA) is based on the costs of operating the electric, water and wastewater systems; the three systems in which rates are based on the cost of service. The fiber system is not included in the COSA because its rates are market based, not cost of service based. In follow-up to a customer question from last week on costs, cost control is factored into the COSA. Forecasted cost increases in the COSA were limited to inflation plus estimated customer growth. The risk adjusted wholesale allocation is divided between the three systems based on the gross operating margin/deficit calculated in the COSA. Staff described the method as "based on need while still closing the gaps".

Commissioners asked financial staff to return at the end of the afternoon session to continue discussion on the rate setting process.

The meeting recessed at 12:00 p.m. for the purpose of lunch and reconvened at 12:30 p.m. for the purpose of conducting the business of the District.

Reconvening at 12:30 p.m., President Gutzwiler publicly announced that the Commission would immediately 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). He stated that he anticipated the executive session would conclude at approximately 1:00 p.m.

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By motion made by Commissioner Smith, seconded by Commissioner Bolz and carried unanimously, 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.

Reconvening into regular session at 12:58 p.m., President Gutzwiler reported that no action was taken.

Power Resource Analyst Becky King and Energy Planning and Trading Manager Janet Jaspers updated the Board on the Integrate Resource Plan (IRP) required by recent Washington State legislation under RCW 19.280. Results show that given the stated assumptions, District resources meet loads for all scenarios and District eligible renewable resources are enough to cover the Renewable Portfolio Standard (RPS) requirement through 2018. Conservation will have to be increased over the current level to meet the RPS requirements and will become the base foundation to meet the requirements of Initiative 937. The final plan due by September 1, 2008 is to describe the mix of generating resources and conservation and efficiency resources to meet current and projected needs at the lowest reasonable cost and risk to the utility and its ratepayers. The next draft update is scheduled for August 4, 2008 and the final hearing for approval is scheduled for August 11, 2008. The Commissioners agreed upon the August 11, 2008 date so that publication can be completed.

Utility Services Director of Engineering and Technology updated the Board on the Automated Metering System (AMS). As part of developing the RFP, it has been recommended by consultant Walter Levisque and other utilities to accelerate the build out of AMS. Advantages of the accelerated schedule would be cost savings on the bulk purchase of equipment and the elimination of the risk of technology changes. Labor costs would be lower for shorter build out period. Interest earnings lost on the investment would be offset by the labor saved. Business Advisor David Nelson stated the financial impact to the district would be to bring the capital cost forward which improves the IRR from 10.7 to 12.0. Revenue improvements as a result of the system efficiencies would be realized earlier. Acceleration would require a larger capital investment in 2009 of \$6 million, and \$3 million in 2011 and 2012.

Utility Services John Smith and Andy Wendell apprized the Board on the possibility of proposed changes in the customer service line extension and customer modification policies. Recommended changes include establishing "unit price" per foot estimating and billing on estimates, eliminating the rock clause, establishing an engineering fee and collecting customer payment upfront before work is scheduled. The benefits of these changes would be work flow processes streamlining, improved billing and reduction of detailed cost estimating. The new line extension policy will be presented to the Board at a future meeting.

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Commissioners briefly discussed an issue of communication of a Commissioner to the public and a request that Commissioners inform each other of communications. It was suggested by Commissioner Congdon that a discussion on Board member communication be planned for a later date.

Chris Church and Bret Bickford briefed the Board on a future resolution which would request the Board to approve the purchase of two turbine components for the Rock Island rehab project. Purchase now would reduce the District's risk of price increase and schedule delays.

General Counsel Carol Wardell requested the Board set a hearing to declare property know as Miner's Ridge surplus and to enter into an exchange agreement with the United States Forest Service. The District acquired the Miners Ridge property in 1987. The District has worked towards exchange of that property for permanent right-of-use of the Lyman Lake Sno-Tel site for many years. The site has been used since 1928 to forecast Lake Chelan run-off. The Miners Ridge property is 371.8 acres and is appraised for \$107,000. The President of the United States signed a bill on May 8, 2008 know as the Consolidated Natural Resource Act of 2008 which authorizes the land exchange.

A motion was made by Commissioner Bolz, seconded by Commissioner Janssen and unanimously passed to set a hearing for June 30, 2008, at 1:00 p.m. declaring Miner's Ridge property to be surplus and approving exchange with the US Forest Service. The hearing will be held in the Boardroom and simultaneously by telephone in Snohomish County.

Discussion of the rate setting process and requested Board guidance continued. The Board agreed that the COS calculations and methodologies are reasonable and agreed to move forward.

The Board gave the following guidance on possible rate design philosophies:

- Small, single digit, rate increases over time to fill the gaps, starting Jan. 1
- Phase-in rate alignment between customer classes in small increments only, over time
- Streamline water and wastewater rates, regardless of which system provides the service, slowly, in small increments over time
- Modify residential tiered rates, promoting conservation, using a modest approach and considering a fourth tier
- Expand discounts for low-income customers through the modifications to the tiered rate structure
- Eliminate the minimum charge for residential customers
- Eliminate the demand "ratchet" for commercial and industrial customers
- Modify the irrigation season by removing off season billing and include off season use in the first month of the next season's bill

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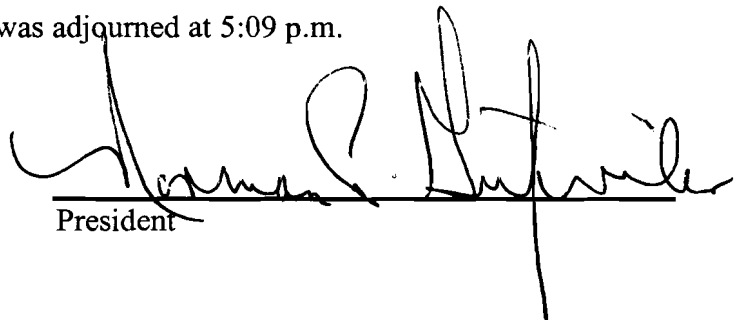
- Streamline interdepartmental rates the District charges itself for future consideration would be time of use rates and peak demand at market rates

Commissioners briefly discussed the June 16, 2008 agenda item to review each Commissioners Balanced Scorecard objectives and look forward. Discussion to be held after presentation of the consent agenda.

A motion was made by Commissioner Smith, seconded by Commissioner Bolz and unanimously passed to approve Commissioner Congdon's attendance at the June 16, 2008 session via telephone.

Commissioner Janssen made a motion to adjourn and continue meeting to 4:00 p.m. on June 11, 2008 for the purpose of attending a meeting about the Wenatchee Foothills property which may include a discussion of the District's Water System. No final actions will be taken at this meeting. Motion was seconded by Commissioner Smith and the motion was unanimously passed.

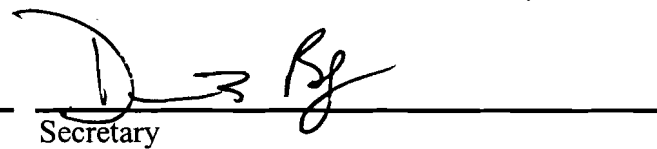
There being no further business, the meeting was adjourned at 5:09 p.m.



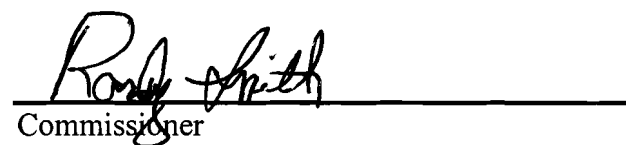
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Vice President



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Commissioner



Commissioner