

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

September 22, 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 September 22, 2008, at the hour of 11:00 a.m., pursuant to proper notice thereof.

Commissioners present were Norm Gutzwiler, Dennis Bolz, Randy Smith and Werner Janssen. Commissioner Ann Congdon was excused. 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: Carnan Bergren, Bob Huber, Jean Ludwick and Christine Pratt (Wenatchee World).

Conservation Program Manager Mark Wisner 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 September 8, 2008 and special meeting (Tri-commission meeting) held on September 9, 2008 were presented for approval.

The Auditor's memorandum, dated September 16, 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 \$9,393,726.91;
2. Customer Deposit Returns payment dated September 16, 2008 in the amount of \$1,976.22; and
3. Net Payrolls, Warrant Nos. 220133 through 220462 and Advice Nos. 479261 through 481326 for the period ending August 31, 2008 in the amount of \$1,474,444.63 as certified by the Auditor's memorandum.

MINUTES OF REGULAR MEETING OF THE COMMISSION

September 22, 2008

Page 2

4. Charge-offs to Uncollectible Accounts in the amount of \$2,248.86 for August 2008.

Motion was made by Commissioner Smith, seconded by Commissioner Janssen and unanimously carried adopting the Consent Agenda consisting of the minutes of the September 8, 2008, and September 9, 2008 Commission meetings and the above listed vouchers and charge-offs, which are on file in the offices of the District

President Gutzwiler publicly announced that the Commission would convene an executive session commencing at 11:07 a.m. to consider the selection of a site or the acquisition of real estate by lease or purchase when public knowledge regarding such consideration would cause a likelihood of increased price, as authorized by RCW 42.30.110(1)(b) 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.

Motion was made by Commissioner Smith at 11:07 a.m., seconded by Commissioner Janssen and carried unanimously. 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 from executive session into regular session at 12:00 p.m., President Gutzwiler stated that no action was taken.

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

Reconvening at 1:00 p.m., the Commission next considered the matters listed in the Regular Agenda.

RESOLUTION NO. 08-13369 APPROVING AMENDMENT NO. 4 TO THE CASHMERE ELECTRIC UTILITY SYSTEM PURCHASE AND SALE AGREEMENT

Community and Intergovernmental Relations Manager Jeff Smith along with Staff Attorney Karen Wiggum, Electrical Engineering Department Manager Chad Rissman and Director of Shared Services Director Steve Currit provided an update to Commissioners on the pending Cashmere Electric Utility System Purchase and Sale Agreement. Extending the Closing Date to October 30, 2008 will allow the District and the City of Cashmere to resolve remaining closing issues. Current status of the agreement and pending issues include: 330 final title policies for parcels with easements attained with 69 still outstanding; 6 parcels without signed easements; requests from 8 parcels for reconstruction options; risk assessment pertaining to substation title policies and deeds for structure encroachment of 56 structures within the easement areas

MINUTES OF REGULAR MEETING OF THE COMMISSION

September 22, 2008

Page 3

estimated to cost approximately \$50,000; environmental issue of 2 transformers to be replaced or repaired; Burlington Northern Railroad (BNR) cost of permits for 12 crossing, transformer and longitudinal permits estimated to cost \$106,000; additional fee required for encroachment permits of ground mats on substation properties that extend out into the BNR right-of-way; street lighting contract with the City of Cashmere; and outstanding debt of \$52,000 for 12 energy conservation loans guaranteed by the City of Cashmere. Notification letters have been sent to Verizon and Charter to sign pole attachment agreements after closing. Attorney Wiggum stated that following closing, the transition period of 6 months after the closing date allows for a requirement for distribution of \$500,000 to the City of Cashmere would allow for final reconciliation of these fees. Staff plans to return to the Board on October 20, 2008 with Amendment No. 5 and the final Cashmere Utility System Purchase and Sale Agreement resolution.

RESOLUTION NO. 08-13370 AUTHORIZING THE GENERAL MANAGER TO ENTER INTO AN AGREEMENT TO PURCHASE A PORTION OF REAL PROPERTY OWNED BY THE ESTATE OF RANDOLPH N. CANNON LOCATED JUST NORTH OF CRUM CANYON FOR A SUBSTATION SITE LOCATION

RESOLUTION NO. 08-13371 AUTHORIZING THE GENERAL MANAGER TO ENTER INTO AN AGREEMENT TO PURCHASE REAL PROPERTY OWNED BY HAROLD J. JANASZAK AND DONNA J. JANASZAK LOCATED NORTH OF THE TOWN OF ENTIAT FOR A SWITCHYARD LOCATION

Motion was made by Commissioner Bolz and seconded by Commissioner Janssen to adopt Resolution Nos. 08-13369 through 08-13371. The motion unanimously carried to adopt Resolution Nos. 08-13369 through 08-13371 which are on file in the office of the District.

Next, the Commissioners reported on the various meetings each attended during the weeks of September 8, 2008 and September 15, 2008.

Treasurer Debbie Litchfield reported on the impact to the District as a result of current challenges within the financial market. Lehman Brothers Holdings, Inc. (LBH) filed for bankruptcy protection under Chapter 11. Subsidiaries of LBH are counterparties to the District in three different transactions and are also the District's remarketing agent on variable bonds. The subsidiaries are not included in the bankruptcy filing as of this date. District staff is working with bond counsel and financial advisors to determine what steps are needed to ensure the District financial stability. General Manager Rich Riazzi and Ms. Litchfield updated the Board on transactions the District has with LBH subsidiaries:

1. Interest Rate Swaps. Lehman Brothers Special Financing (LBSF), a subsidiary of Lehman Brothers Holdings, is a counter party on the District's 2007A/2008B interest rate swap with a guarantee from Lehman Brothers Holding. The notional amount of the swap

MINUTES OF REGULAR MEETING OF THE COMMISSION

September 22, 2008

Page 4

with LBSF is \$27,864,000. The District has the option to terminate. As of September 15, 2008 if the District were to terminate the interest rate swap, the District would owe approximately \$1.1 Million. As of September 22, 2008 the current market to market value is at approximately \$800,000. If terminated, bids from other interest rate swap providers would be obtained at that time. The amount of the termination payment will be determined averaged and used as the basis for the termination amount with Lehman. The District would then have the option to accept one of the bids and put in a replacement swap or issue fixed rate debt to lock in savings.

2. Forward Purchase Investment Agreement. The agreement provides that LBSF will deliver securities to the District every six months at a guaranteed rate of return. The amount of the agreement is \$5,700,000 at a rate of 4.82% and extends to 2017. The District has the right to terminate this agreement. The District holds the securities associated with this agreement therefore there is no risk of loss of principal. The securities mature in December, 2008, at which time Lehman would be required to deliver new securities under the agreement. The exposure to the District primarily relates to the reinvestment environment at the time of maturity which may be less than the 4.82% currently guaranteed.
3. Variable Rate Bonds. The 2008B bonds, for which the 2007A/2008B swap is associated, are variable rate bonds that are remarketed every seven days. Lehman Brothers Inc. (LBI), another subsidiary of Lehman Brothers Holding, is the remarketing agent on these bonds. The bonds outstanding total \$92.88 million and are remarketed every Tuesday. The District's bonds have remarketed through Lehman at rates around 2%. On September 16, 2008 the District rate reset at 5.5%. LBI has sold assets to Barclays PLC and is working through assignment of the remarketing agent function to Barclays. Exposure to the District on the bonds is relative to the paying higher interest rates than in the past. Other alternatives are being examined.
4. Energy Trading. The District has three outstanding forward sales with Lehman Brothers Commodity Services, Inc (LBCS) guaranteed by the parent company, Lehman Brothers Holdings, Inc., that covers transactions. Currently, the District has \$442,000 of exposure. The amounts owing are scheduled as follows: \$184,800 will be due in December, 2008; \$70,200 in February 2009; \$64,800 in March 2009; \$70,200 in April 2009 and \$52,000 in August 2009. General Counsel Carol Wardell stated if not paid, this would constitute a loss of potential revenue. A letter was sent to LBCS requiring that it post collateral (letter of credit or cash prepayment) as required by our agreement with them. If collateral is not posted, we will be discussing all options, including declaring the subsidiary in default or maintaining our position as it now stands and continue to monitor the situation. If the subsidiary files bankruptcy, the obligation owed to the District will be an unsecured debt in the bankruptcy.

MINUTES OF REGULAR MEETING OF THE COMMISSION

September 22, 2008

Page 5

Staff will continue to work with financial advisors to evaluate District options and report to Commissioners.

Motion was made by Commissioner Smith to cancel the Entiat Customer Partnership Group meeting scheduled for September 25, 2008 and to change the start time of the September 29, 2008 to 1:00 p.m. to allow staff time to attend to District business. The motion was seconded by Commissioner Bolz and unanimously carried.

General Counsel Carol Wardell reported that FERC approved the Power Sales Agreement and Transmission Service Agreement between the District and ALCOA on September 18, 2008. Bob Huber of ALCOA thanked staff for their diligence in pursuing the contracts and for the approval by Commissioners. He reported that staff has been added and remodeling is underway at the Wenatchee plant.

General Counsel Carol Wardell addressed an issue of boat portage around the Rocky Reach and Rock Island projects. Requests have been received to assist in the removal of boats above the dam and to put the boats back in below the dam. As a licensee, the District is required to provide reasonable public take-out and put-in areas and is not required to physically assist in the process. Working with the District's FERC attorney, operations staff at Rocky Reach and Rock Island dams, the parks department and licensing compliance staff has developed an internal policy stating that the District will provide information to the public as to the appropriate areas to take-out and put-in boats.

General Counsel Carol Wardell noted that the statute passed in July 2008 increasing commissioners' salaries included a provision that the Office of Financial Management would adjust various amounts every 5 years starting in July, 2008. One adjustment noted would be the amount paid to commissioners for per diem compensation. A notice was published in July 2008, to increase the per diem amount from \$90 to \$104 per day and to increase the maximum amount from \$12,600 to \$14,560 per year. Ms. Wardell suggested, on a go forward basis, to increase the per diem to the new rate and to be effective as of the September payroll. She asked Commissioner Janssen if he would prefer to stay at the \$70 level, based upon this his past decisions. Commissioner Janssen stated he would get back to staff with his decision.

Director of Customer Services John Stoll and Public Information Officer Kimberlee Craig previewed the presentation to be given at the upcoming rate design public information meetings to be held on September 29, October 1 and 2, 2008. The public hearing to adopt the rate design is scheduled for October 20, 2008. General Manager Rich Riazzi clarified that the rate design is intended to encourage conservation and has the potential to increase revenue to the District. He stated that staff will return after the first of the year to discuss increasing rate schedules.

Budget Department Manager TJ Farrell gave a presentation previewing the 2009 budget. (See www.chelanpud.org for the presentation) The preliminary spending plan shows a 5.9-percent

MINUTES OF REGULAR MEETING OF THE COMMISSION

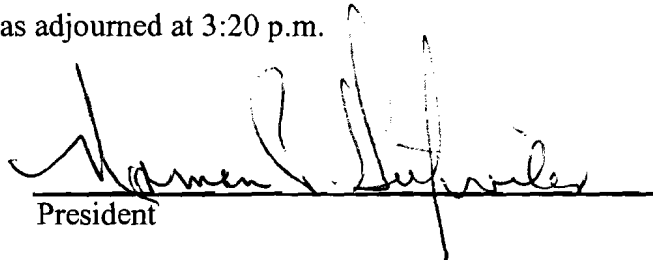
September 22, 2008

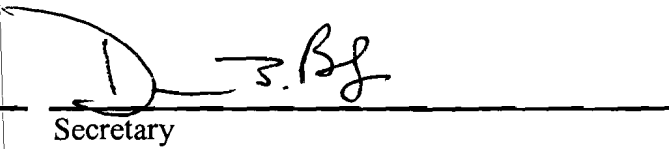
Page 6

increase in operations and maintenance spending and a \$103 million capital budget. The final proposed budget will be presented in December.

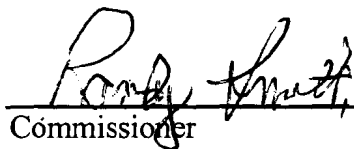
Motion was made by Commissioner Smith, seconded by Commissioner Janssen and unanimously carried to cancel the October 23, 2008 Wenatchee Customer Partnership Group meeting and to reschedule at a later date.

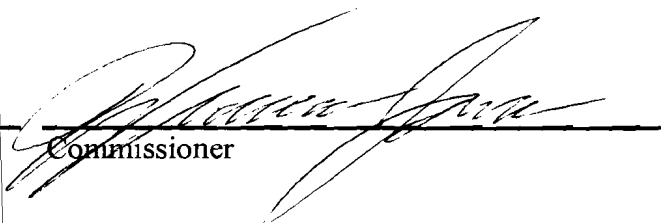
There being no further business, the meeting was adjourned at 3:20 p.m.


President


Secretary

Vice President


Commissioner


Commissioner