

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

October 29, 2007

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 October 29, 2007, at the hour of 1:00 p.m., pursuant to proper notice thereof.

Commissioners present were Ann Congdon, Werner Janssen, Randy Smith and Dennis S. Bolz. President Gutzwiler was excused from the meeting. In attendance were General Manager Richard Riazzi, General Counsel Carol Wardell and Clerk of the Board Melisa McPherrren. Various staff members were also in attendance.

Others in attendance: Bill Stokes, Jim Baxter and Christine Pratt (Wenatchee World).

Energy Resources Executive Manager Randy Lowe led the Pledge of Allegiance and provided a safety minute.

A special meeting of the Commission was officially noticed for October 25, 2007 for the Wenatchee Customer Partnership Group meeting. Commissioners Bolz and Janssen attended the meeting but no quorum was present and thus no minutes required.

Acting President Congdon noted Resolution number two had been pulled from the agenda. Staff presented the following resolutions for Board discussion and approval:

RESOLUTION NO. 07-13182 AMENDING RESOLUTION NO. 07-13162 TO ALLOW
NEW RATES FOR THE DISTRICT'S SALE OF TELECOMMUNICATION SERVICES
TO BE EFFECTIVE OCTOBER 29, 2007

RESOLUTION NO. 07-13183 APPROVING AMENDMENT NO. 2 TO THE CASHMERE
ELECTRIC UTILITY SYSTEM PURCHASE AND SALE AGREEMENT

Acting President Congdon recused herself from the discussion on Resolution No. 07-13183 and abstained from voting on the resolution due to a conflict of interest. A motion was made by Commissioner Smith and seconded by Commissioner Bolz to adopt Resolution No 07-13183. The question was called for and the motion carried with Commissioners Bolz, Smith and Janssen voting to adopt Resolution No. 07-13183, which is on file in the office of the District.

The Commission then voted on Resolution 07-13182. A motion was made by Commissioner Bolz and seconded by Commissioner Janssen to adopt Resolution No 07-13182. The question was called for and the motion carried unanimously to adopt Resolution No. 07-13182, which is on file in the office of the District.

MINUTES OF REGULAR MEETING (STUDY SESSION) OF THE COMMISSION

October 29, 2007

Page 2

Chief Financial Officer Joe Jarvis discussed the strategic and business planning cycle with Commissioners. Mr. Jarvis provided the Board with an overview of enterprise performance management, reviewed the District's strategic planning cycle and discussed the Board's calendar. Mr. Jarvis noted that the benefits of a planning cycle are the repeatable process, processes that are aligned for optimized decisions, that it closes the gap between strategy and execution, and that it provides clear communications to all involved.

Commissioners discussed the special Commission meeting held October 23, 2007 between Chelan County PUD, Chelan County and the Port of Chelan County. Commissioner Smith made a motion to adopt the amended Memorandum of Understanding between Chelan County, Chelan County PUD and Port of Chelan County as well as the Values and Guiding Principles document between the three entities. The motion was seconded by Commissioner Bolz and unanimously passed.

Commissioner Janssen read a letter he had received from ratepayer Jerry Copp expressing his concern with the proposed Alcoa term sheet.

Commissioners discussed the District's environmental footprint and encouraged recycling, energy efficiency and an internal assessment of the District's facilities. General Manager Richard Riazzi noted that the District has a proud history of being environmentally responsible and that there would be further discussions and decisions to be made by the Board on these issues with the implementation of Initiative 937.

Commissioners expressed their concern about the recent sale of Puget Sound Energy (PSE) to a private entity. General Manager Riazzi advised that staff is reviewing the matter. General Counsel Wardell noted the post-2011 contract with PSE included an assignment provision. Staff will review the credit worthiness of the consortium that has purchased the stock of PSE and the assignment provision. Attorney Wardell also noted that the transaction must be approved by the Federal Energy Regulatory Commission and the Washington Utilities and Transportation Commission before it is final and that action is not expected to occur until sometime in 2008.

The 2008 preliminary budget hearing convened at 2:00 p.m. as advertised. Director of Strategic Financial Planning Kelly Boyd and Budget Manager TJ Farrell provided Commissioners with their first look at the 2008 preliminary budget. The spending plan holds next year's operation, maintenance and tax expense increases to 3.7 percent over 2007 projected results and reflects 5-percent electric and 9-percent water and sewer rate increases. Early water supply forecasts and market volatility require staff to plan for wholesale power sales revenues that could range from \$32 million to \$78 million in 2008. Capital spending is budgeted for \$105.7 million. Ms. Farrell noted challenges faced in planning for next year, including:

MINUTES OF REGULAR MEETING (STUDY SESSION) OF THE COMMISSION

October 29, 2007

Page 3

- Costs of putting the new Lake Chelan Hydro license into place, plus the new license for Rocky Reach expected to be approved in 2008
- Repairs needed for aging electric and water systems, hatcheries, parks and equipment at the dams
- Increases in health care and pension benefits; increases in the cost of fuel, steel and copper
- The impact of fewer contractors bidding on projects
- Wholesale revenue volatility

Ms. Boyd walked Commissioners through charts showing how District finances are forecast through 2012. "For 2008 we're on track," said Ms. Boyd, "...but we're still reliant on those wholesale sales to fill the gaps, and those are still volatile." The District is expected to end 2007 with about \$250 million in cash reserves, but the 2007 balance could change depending on results of debt and contingency planning. Cash reserves are expected to decrease over the next three years as they are used for capital expenses and overall utility operations. Total debt outstanding is expected to decrease about \$13 million next year. Commissioners will host a public budget hearing on November 26, 2007, and staff will ask for approval of the 2008 spending plan at the December 3, 2007 meeting.

Commissioner Janssen made a motion to set a special meeting of the Commission for Monday, November 5, 2007 at 5:30 p.m. at the Confluence Technology Center to discuss the Alcoa proposed term sheet. The motion was seconded by Commissioner Smith and unanimously approved.

Commissioner Janssen made a motion to change the start time of the November 19, 2007 board meeting to 9:00 a.m. The proposed term sheet with Alcoa will be discussed during the morning session with regular District business in the afternoon. The motion was seconded by Commissioner Bolz and unanimously approved.

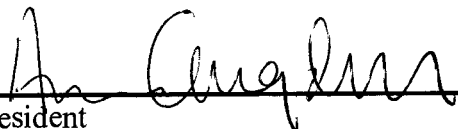
MINUTES OF REGULAR MEETING (STUDY SESSION) OF THE COMMISSION

October 29, 2007

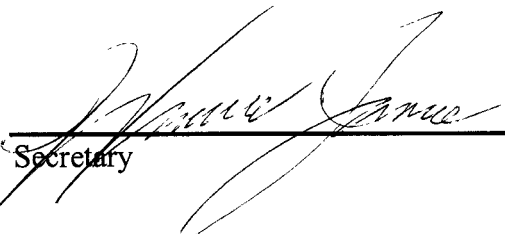
Page 4

There being no further business, the meeting was adjourned at 3:37 p.m.

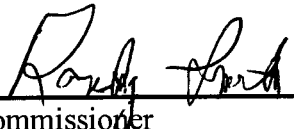
President



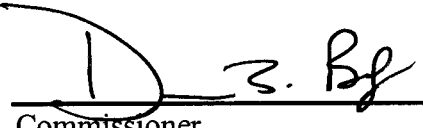
Vice President



Secretary



Commissioner



Commissioner