

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

November 3, 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 November 3, 2008, at the hour of 9:00 a.m., pursuant to proper notice thereof.

Commissioners present were Norm Gutzwiler, Ann Congdon, Dennis Bolz, Randy Smith and Werner Janssen. In attendance were 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: Stefan Vogt, Bob Huber, Carnan Bergren, Scott Parsons and Christine Pratt (Wenatchee World).

Benefits Manager Bev Freeman led the Pledge of Allegiance and provided a safety minute.

Staff presented the third quarter operations and financial results. (See www.chelanpud.org for Third Quarter Finance Update presentation). Energy Planning & Trading Manager Janet Jaspers reported that a cooler spring which delayed mountain snow runoff and a drop in power prices have contributed to reduced wholesale power sales revenue so far in 2008. Through September, the District's wholesale revenue is about \$12,000,000 less than budgeted. Columbia River runoff has been 93 percent of average. The average wholesale power price has been \$59.30 a megawatt hour (MWh), while the budget was based on a forecast of \$62.11 per MWh. The forecasted wholesale revenue for this year is expected to be \$49,000,000 compared with the budgeted amount of \$62,000,000 for 2008. Director of Accounting Diane Cooper presented the financial and operational results for the third quarter 2008. Overall capital spending that was delayed due to cooler weather and relicensing delays is now catching up to budget. Director of Strategic Planning Kelly Boyd stated that at a 90-percent confidence level there is a 10-percent probability that expenses will be greater than revenues. The forecast for 2010 continues to be stressed and now, due to the decline in prices, forecasts for 2009 are stressed for some targets at a 90% confidence level. She emphasized the District is continues to be vulnerable to low wholesale revenues.

The meeting recessed at 10:00 a.m. for a five minute break and reconvened at 10:05 a.m. to continue the business of the District.

A public hearing was held on the Preliminary Budget for 2009 as advertised and scheduled. General Manager Rich Riazzi stated that earlier budget targets have been reviewed and the preliminary budget results have been set below projected capital requirements and operation expense requirements as necessitated by current economic factors. Those factors include the potential difficulty in selling long-term bonds to pay for big construction projects; volatility in wholesale power prices and a downward trend in power sales revenue; drier than normal 90-day weather forecast; and a higher probability of a larger surcharge on retail rates. He emphasized that much of the work deferred from the 2009 budget still must be done and that it is not

MINUTES OF REGULAR MEETING OF THE COMMISSION

November 3, 2008

Page 2

sustainable to operate at these levels long-term. (See www.chelanpud.org for 2009 Capital Projects and 2009 Items Not Included presentations which were handed out to the Commissioners.)

Budget Department Manager TJ Farrell presented the preliminary 2009 budget results. She stated that Hydro and Combined Utility Services operating revenue is budgeted \$236,911,000; and controllable operations and maintenance expenses are budgeted at \$135,708,000. Capital spending is budgeted at \$92,478,000 and wholesale power sales revenue is budgeted at \$50,500,000. (See www.chelanpud.org for 2009 Preliminary Budget Filing which was provided to the Commissioners.)

Director of Strategic Planning Kelly Boyd stated the 2009 budget is significantly reduced from what is sustainable for the District. The District is still vulnerable to low wholesale outcomes and reliant on wholesale sales to fill gaps. The District will continue to face increasing upward pressure on costs and the list of known unknowns will likely continue to grow. She concluded by saying, "When considering all these factors together, the District has a healthy financial base and that the staff and the Board should keep eyes on path to maintain that financial health now and into the future."

Commissioners will discuss the 2009 budget at the regular meeting (study session) on November 24, 2008 and will hold a public hearing at 1 p.m. on December 1, 2008 in the boardroom for the presentation of the final 2009 budget.

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 October 20, 2008 and October 27, 2008 (study session) were presented for approval.

The Auditor's memorandum, dated October 28, 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 \$9,050,724.25;

MINUTES OF REGULAR MEETING OF THE COMMISSION

November 3, 2008

Page 3

2. Customer Deposit Returns payment and Bank of America District Credit Card payment dated October 28, 2008 in the amount of \$2,246.49 and \$7,731.72 respectively; and
3. Net Payrolls, Warrant Nos. 220685 through 220793 and Advice Nos. 482689 through 483372 for the period ending October 12, 2008 in the amount of \$1,602,145.96 as certified by the Auditor's memorandum.

Motion was made by Commissioner Bolz, seconded by Commissioner Smith and unanimously carried adopting the Consent Agenda consisting of the minutes of the October 20, 2008 and October 27, 2008 Commission meetings and the above listed vouchers, which are on file in the offices of the District.

Next, the Commission considered the matters listed in the Regular Agenda.

RESOLUTION NO. 08-13397 REJECTING THE BID OF TYNDALE, INC AND ACCEPTING THE BID OF PROGRAM MANAGEMENT INTERNATIONAL, INC. OF LAKE FOREST, CA (BID 08-49) FOR PROCUREMENT OF ARC FLASH CLOTHING

Motion was made by Commissioner Smith and seconded by Commissioner Janssen to adopt Resolution No. 08-13397. The motion unanimously carried to adopt Resolution No. 08-13397, which is on file in the offices of the District.

General Manager Rich Riazzi suggested Commissioners delay the annual budget adoption currently scheduled for December 8, 2008 to December 15, 2008 to give Commissioners time to review 2009 Budget information.

A motion was made Commissioner Bolz to cancel the November 10, 2008 study session. The motion was seconded by Commissioner Janssen and unanimously carried.

General Manager Rich Riazzi apprised Commissioners that the sale of the Cashmere system did occur on October 30, 2008.

The meeting recessed at 11:48 a.m. for the purpose of lunch, to reconvene at 1:00 p.m. for the purpose of conducting the business of the District.

General Counsel Carol Wardell convened a public hearing as part of the Public Utilities Regulatory Policies Act (PURPA) requirement to discuss Standard 16: Consideration of Smart Grid Investments and Standard 17: Smart Grid Information. She stated that she has received no public comment.

MINUTES OF REGULAR MEETING OF THE COMMISSION

November 3, 2008

Page 4

Andrew Wendell, Technology, Engineering and Project Management division, explained smart grid as a system with two-way communication which uses computer systems to share information across the electric system to “improve efficiency, reliability, safety and delivery.”

Director of Customer Service John Stoll summarized Standard 16 as follows: (A) IN GENERAL - Each State shall consider requiring that, prior to undertaking investments in non-advanced grid technologies, an electric utility of the State demonstrate to the State that the electric utility considered an investment in a qualified smart grid system based on appropriate factors, including: Total costs, Cost-effectiveness, Improved reliability, Security, System performance, and Societal benefit. (B) RATE RECOVERY – Each State shall consider authorizing each electric utility of the state to recover from ratepayers any capital, operating expenditure, or other costs of the electric utility relating to the deployment of a qualified smart grid system, including a reasonable rate of return on the capital expenditures of the electric utility for the deployment of the qualified smart grid system. (C) OBSOLETE EQUIPMENT – Each State shall consider authorizing any electric utility or other party of the State to deploy a qualified smart grid system to recover in a timely manner the remaining book-value costs of any equipment rendered obsolete by the deployment of the qualified smart grid system, based on the remaining depreciable life of the obsolete equipment.

Director Stoll summarized Standard 17 as follows: (A) STANDARD – All electricity purchasers shall be provided direct access, in written or electronic machine-readable form as appropriate, to information from their electricity provider as provided in subparagraph. (B) INFORMATION – Information provided under this section, to the extent practicable, shall include: Prices – time based, Usage in KWh, Intervals and projections – daily basis, hourly price & usage, and Sources – by type of generation, provided annually, including greenhouse gas emissions on a cost effective basis. (C) Access – Purchasers shall be able to access their own information at any time through the Internet and on other means of communication elected by that utility for Smart Grid applications. Other interested persons shall be able to access information not specific to any purchaser through the Internet. Information specific to any purchaser shall be provided solely to that purchaser.

Staff recommends that the Board not adopt Standard 16 and Standard 17 for the reasons stated by staff.

Motion was made by Commissioner Congdon and seconded by Commissioner Bolz to not adopt PURPA Standard 16 “Consideration of Smart Grid Investments” at this time and to direct staff to continue to evaluate potential smart grid investments while maintaining flexibility and local control. The motion was unanimously carried.

Motion was made by Commissioner Smith and seconded by Commissioner Bolz to not adopt PURPA Standard 17 “Smart Grid Information” at this time and to direct staff to continue to evaluate potential smart grid investments while maintaining flexibility and local control. The motion was unanimously carried.

MINUTES OF REGULAR MEETING OF THE COMMISSION

November 3, 2008

Page 5

Treasury Analyst Brian Bjorklund presented the Third Quarter 2008 Investment Report. The average rate of return on District investments was 4.13 percent on an invested balance of \$358,300,000. The quarterly results compare with an average rate of return of 4.22 percent for the second quarter of 2008. Agencies will continue to be reduced through attrition.

Water Resource Manager Ron Slabaugh presented an update to Commissioners on state efficiency rules for small water systems including Ollala Canyon, Dryden, Chelan Ridge and Chelan Falls which are operated by the District. The District has reviewed steps being taken to reduce water loss through leaks to less than 20 percent and other conservation measures. A hearing on system goals required by the rules was set for November 24, 2008 at 1:00 p.m. in the boardroom.

Next, the Commissioners reported on the various meetings each attended during the weeks of October 20, 2008 and October 27, 2008.

Commissioner Bolz and Commissioner Smith Energy Northwest presented a power point on the Energy Northwest Annual Conference both attended on October 23 and October 24, 2008.

Motion was made by Commissioner Congdon to change the date for the final approval of the 2009 budget to December 15, 2008. This is a change to Resolution No. 07-13147 and is for the 2009 budget only. Commissioner Smith seconded the motion and it unanimously carried.

A motion was made to by Commissioner Smith to declare a special meeting on Tuesday, November 18, 2008 at 12:00 p.m. in the boardroom for the purpose of discussion with state legislators and to discuss other general business as necessary. The motion was seconded by Commissioner Bolz and unanimously carried.

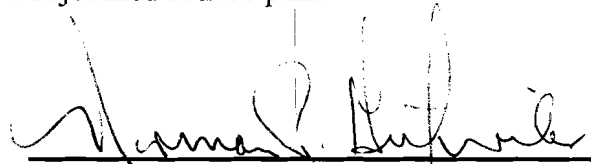
Motion was made by Commissioner Bolz to change the date of the Leavenworth Customer Partnership Group Meeting from December 10, 2008 to December 17, 2008, 12:00 p.m. at the Best Western Icicle Inn in Leavenworth. The motion was seconded by Commissioner Congdon and unanimously carried.

Motion was made to by Commissioner Bolz to declare a special meeting December 10, 2008, 12:00 p.m. to 1:30 p.m. at the Entiat Library Building for the purpose of the Entiat Customer Partnership Group meeting. The motion was seconded by Commissioner Smith and unanimously carried.

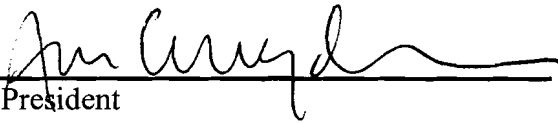
A motion was made by Commissioner Congdon, seconded by Commissioner Bolz and unanimously carried to excuse Commissioner Smith's attendance at the December 8, 2008 meeting.

MINUTES OF REGULAR MEETING OF THE COMMISSION
November 3, 2008
Page 6

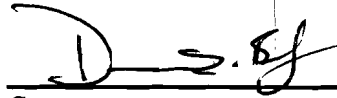
There being no further business, the meeting was adjourned at 2:00 p.m.



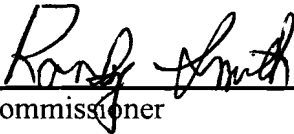
President



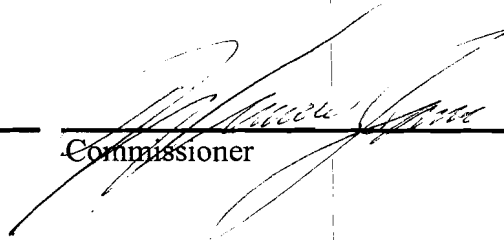
Vice President



Secretary



Commissioner



Commissioner