

**PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY
327 N WENATCHEE AVENUE
WENATCHEE WA 98801**

REGULAR COMMISSION MEETING

FEBRUARY 7, 2022

Public participation will be by phone or by Microsoft Teams

For phone participation dial: 253-999-5697

Meeting ID: 418-840-905#

Please contact PUD staff at 509-661-4212 to let us know if you intend to participate by phone.

If you would like to participate via Teams, please email rebekah.neumann@chelanpud.org to request the meeting invite

****Please remember to mute your phone or device to reduce background noise****

STUDY SESSION

10:00 AM

1. Pledge of Allegiance and Safety/HPI Minute – Stace Knudtson
2. Approval of the Agenda
Any item on the Consent Agenda shall be subject to transfer to the Regular Agenda upon request of any Commission member
3. Confluence Parkway Update
4. Quarterly District Performance Plan Status Update
5. Legislative Update
6. Public Comment

BUSINESS SESSION

1:00 PM

Consent Agenda

7. Minutes of the January 24, 2022 Regular Meeting
8. Vouchers: Accounts Payable Summary Report dated February 2, 2022:

- a. Vouchers totaling \$11,854,609.71;
- b. Approval of Customer Deposit Returns and Conservation Incentive payments for the period January 19, 2022 through February 1, 2022 in the amount of \$35,683.64.
- c. Approval of the net Payroll, Warrant Nos. 237725 through 237739 and Advice Nos. 728521 through 729284 for the pay period ending January 16, 2022 in the amount of \$2,216,977.57.
- d. Approval of Warrant Nos. 28210 through 28248 totaling \$34,212.15 for claim payments from the workers' compensation self-insurance fund for the period ending January 31, 2022.
- e. Approval of debt service paid with reserve account interest earnings of \$241,887.57 for the period January 1, 2022 through January 31, 2022.
- f. Approval of debt service paid with reserve account interest earnings of \$1,386.18 for the period February 1, 2022 through February 28, 2022.

Regular Agenda

9. A RESOLUTION ACCEPTING THE PROPOSAL OF OLSSON INDUSTRIAL ELECTRIC, INC. OF SPRINGFIELD, OR TO PROVIDE DESIGN-BUILD SERVICES FOR THE ROCK ISLAND POWERHOUSE NO. 2 UNIT MOTOR CONTROL CENTERS (MCCS) REPLACEMENT PROJECT (RFP NO. 20-44) AND TO AUTHORIZE THE GENERAL MANAGER TO ENTER INTO A CONTRACT FOR SAID SERVICES
10. A RESOLUTION ADOPTING REGULATORY ACCOUNTING FOR ACTUARIAL CHANGES TO PENSION EXPENSE
11. A RESOLUTION AUTHORIZING THE GENERAL MANAGER OF THE DISTRICT TO EXECUTE SERVICE AGREEMENTS WITH MCMILLEN, LLC DBA MCMILLEN JACOBS ASSOCIATES OF BOISE, IDAHO (SA 21-11984) AND HATCH ASSOCIATES CONSULTANTS, INC. OF SEATTLE, WASHINGTON (SA 22-12099) FOR PROFESSIONAL ENGINEERING SERVICES FOR THE ROCK ISLAND SPILLWAY GATE HANDLING IMPROVEMENTS
12. A RESOLUTION APPROVING A SECOND ADDENDUM TO TEMPORARY WATER RIGHT MITIGATION AGREEMENT BETWEEN THE REGIONAL WATER SYSTEM MEMBERS AND CROWN COLUMBIA WATER RESOURCES, LLC
13. Manager Items

REGULAR COMMISSION MEETING AGENDA

February 7, 2022

Page 3

14. Commission Travel

15. Commission Items

a. Tri-Commission Meeting

Proposed motion: To set a special meeting on Tuesday, March 29, 2022 @ 1:00pm to be held virtually for the purpose of holding a Tri-Commission meeting. Virtual meeting information will be posted on the PUD website.

16. Follow-up on Delegation of Action Items from Previous Board Meeting

17. Delegation of Action Items

18. Additional Public Comment

Members of the public are encouraged to ask specific questions after each item presented.

This agenda item is for additional comments/questions related to matters not on the agenda.

19. Matters of general business as may necessarily come before the Commission

20. Executive Session: To discuss with legal counsel agency enforcement actions, 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), to plan the strategy or position to be taken during the course of collective bargaining, as authorized by RCW 42.30.140(4)(b) and to evaluate the qualifications of an applicant for public employment as authorized by RCW 42.30.110(1)(g)

This agenda and resolutions (if any) may be revised by the Commission as appropriate.

RESOLUTION NO. _____

A RESOLUTION ACCEPTING THE PROPOSAL OF OLSSON INDUSTRIAL ELECTRIC, INC. OF SPRINGFIELD, OR TO PROVIDE DESIGN-BUILD SERVICES FOR THE ROCK ISLAND POWERHOUSE NO. 2 UNIT MOTOR CONTROL CENTERS (MCCS) REPLACEMENT PROJECT (RFP NO. 20-44) AND TO AUTHORIZE THE GENERAL MANAGER TO ENTER INTO A CONTRACT FOR SAID SERVICES

FACTUAL BACKGROUND AND REASONS FOR ACTION

On February 1, 2021, by Resolution No. 21-14528, the Commission of the District authorized the General Manager to invite sealed proposals to provide Design-Build services to the District in support of the replacement of all Motor Control Centers (MCCs) on all eight (8) units in Rock Island Dam Powerhouse No. 2. The project includes replacement of all MCCs with arc-flash resistant MCCs and may move the MCCs located on the 504' up to the 573' MCC lineup. This work will be scheduled to coincide with unit rehabilitation outages, will begin in 2022 and is planned to be complete in 2030

Resolution No. 17-14215 requires that the Commission, by resolution, award Request for Proposals (RFP) that exceed \$3,000,000.

On May 11, 2021, the District solicited Request for Qualifications from Design-Build firms. On June 10, 2021, the District received three (3) Statements of Qualifications (SOQ). The evaluation team reviewed and scored the SOQs provided by the firms and decided to invite all three (3) firms to submit proposals in response to the District's Request for Proposals (RFP). The RFP was used to evaluate project specific criteria, technical design and cost factors. On October 6, 2021, the District received three (3) proposals. The evaluation team reviewed the proposals and selected Olsson Industrial Electric, Inc. based on the combined scores for technical proposals, interviews and pricing.

District's staff has determined that Olsson Industrial Electric, Inc. is the best qualified firm to provide the anticipated work, and that the proposal provided by Olsson Industrial Electric, Inc. for said work is fair, reasonable and meets all statutory requirements.

District's staff recommends awarding RFP No. 20-44 to Olsson Industrial Electric, Inc. to assist the District with Preconstruction Services. When design is complete, Olsson Industrial Electric, Inc. and the District anticipates negotiating a Guaranteed Maximum Price (GMP) for each of the units in Powerhouse No. 2 and other work associated with the Rock Island Powerhouse No. 2 Unit Motor Control Centers

(MCCs) Replacement project. Throughout the duration of the project the awarded contract shall be amended only by Board resolution, including construction work to be completed for the guaranteed maximum price. The General Manager of the District concurs with District staff's recommendation.

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, as follows:

Section 1. Olsson Industrial Electric, Inc. of Springfield, OR has been identified as the most qualified proposer for Design-Build Services for the Rock Island Powerhouse No. 2 MCCs Replacement project based on their qualifications and final proposal. The General Manager of the District is hereby authorized to enter into a contract with Olsson Industrial Electric, Inc. The contract amount for the Preconstruction Services shall not exceed \$389,527.00 without prior Board approval. A copy of the contract will be on file in the offices of the District.

DATED this 7th day of February 2022.

President

ATTEST:

Vice President

Secretary

Commissioner

Commissioner

Seal

RESOLUTION NO. _____

A RESOLUTION ADOPTING REGULATORY
ACCOUNTING FOR ACTUARIAL CHANGES TO
PENSION EXPENSE**FACTUAL BACKGROUND AND REASONS FOR ACTION**

The Board of Commissioners (“Commission”) establishes rates for the District that are designed to recover the costs of providing services. The Commission has covenanted in bond resolutions that the District shall fix, establish, maintain and collect rates and charges to provide revenues sufficient to cover costs and maintain certain debt service coverage ratios. If projections reflect that future results will vary from established targets, recommended corrective action, including potential retail rate actions, will be presented for Commission consideration and action.

As a result, the District qualifies for the application of Governmental Accounting Standards Board Statement No. 62 (GASB 62), which outlines the concept of Regulatory Accounting for entities or operations that are rate regulated. Accordingly, certain expenses and revenues, normally reflected in the Change in Net Position as incurred, may be recognized when included in rates and recovered from, or refunded to, customers.

Application of GASB 62 requires Commission approval for each type of expense or revenue deferred. Examples of items the board has previously approved the application of Regulatory Accounting for include: Resolution No. 10-13561-derivative fair value changes, Resolution No. 10-13572-significant contributions, Resolution No. 10-13573-conservation expenditures, Resolution No. 11-13648-swap termination payments, Resolution No. 13-13795-debt issuance costs, Resolution No. 13-13829-investment fair value changes and Resolution No. 20-14421-significant investment in non-District-owned assets. These deferrals are fully disclosed in the audited financial statements.

Expenses that may be deferred under GASB 62 also include pension expense as required under Governmental Accounting Standards Board Statement No. 68 (GASB 68). In accordance with GASB 68, “Accounting and Financial Reporting for Pensions,” the District records its proportionate share of the PERS Plans 1, 2 and 3 pension expense as actuarially determined by the Department of Retirement Systems (DRS) to the Statement of Revenues, Expenses and Changes in Net Position. The requirement of accounting for pension expense in accordance with GASB 68 can result in significant volatility to Change in Net Position in any individual year due to changes in assumptions, investment performance, etc. These changes in actuarial estimates have resulted in much larger adjustments to the District’s Statement of Revenues, Expenses and Change in Net Position than anticipated.

Without adopting Regulatory Accounting, the actuarially determined pension expense is recorded to the Statement of Revenues, Expenses and Changes in Net

Position, but not recognized in the ratemaking process which is based on actual contributions made to DRS each pay period. Consequently, without adopting Regulatory Accounting, there is a mismatch between how the expense is recognized in the financial statements and how the expense is currently reflected in rates.

In accordance with regulatory accounting under GASB 62, the District would defer the difference between the actual contributions made and the actuarially determined pension expense to the Statement of Net Position as a regulatory asset or deferred inflow of resources, eliminating any impact on operating results. This approach provides a more consistent and predictable impact to rates that aligns with the pension funding requirement, resulting in a matching of cash flows. Exclusion of these actuarial amounts from Change in Net Position is also consistent with the District's debt service coverage calculation. In addition, application of regulatory accounting provides financial results that more accurately reflect the District's operations and current financial condition.

ANALYSIS AND STAFF RECOMMENDATION

In addition to continuing the required accounting under GASB 68, the District may also adopt GASB 62 to eliminate the impact of differences between pension expense required by GASB 68 and actual contributions to the pension plans on the District's Statement of Revenues, Expenses and Changes in Net Position. GASB 62 allows an entity with cost-based rates to defer expenses or revenues as Regulatory Assets or Deferred Inflows of Resources, respectively, and recognize them when recovered from or refunded to customers. Since the Commission establishes cost-based rates, the District may adopt GASB 62 and defer the differences between the pension contributions and the pension expense required under GASB 68 as Regulatory Assets or Deferred Inflows of Resources and recognize them when recovered effectively through rates.

Recording pension expense in accordance with GASB 68 without also adopting GASB 62 could result in significant volatility in the District's financial results and would result in the District's financial statements being inconsistent with the practice used by the Commission in setting rates. The use of actual contributions is preferable over the actuarially-determined pension expense for setting rates, particularly when the actuarially determined pension expense has no impact on the District's cash flow or long-term financial condition.

Staff has presented the background, requirements and considerations for adopting Regulatory Accounting in general and for other matters at prior Board meetings. Staff presented the background, requirements and considerations for adopting Regulatory Accounting for pension expense adjustments at the January 25, 2022 audit committee meeting. District staff recommends that it is in the best interest of the District to also adopt Regulatory Accounting for pension expense adjustments.

In accordance with the regulatory accounting requirements of GASB 62, the difference between the actuarially determined expense of the PERS' plans and the District's cash contributions since inception of the pension plans will be deferred on the Statement of Net Position as a Regulatory Asset effective January 1, 2021. On a prospective basis, the calculated difference between the actuarially determined pension expense required by GASB 68 and the District's actual cash contributions for the year will be recorded as an adjustment to the deferred regulatory balance so as to result in no net impact on the District's Statement of Revenues, Expenses and Changes in Net Position. This will reduce volatility in the Statement of Revenues, Expense and Changes in Net Position caused by changes in actuarial estimates and better support the financial policies and rate setting process.

The General Manager and Chief Financial Officer have reviewed this recommendation and concur.

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON, as follows:

Section 1. Regulatory Accounting is hereby adopted for pension expense adjustments.

Section 2. This resolution is intended to clarify and support the appropriate accounting treatment of pension expense adjustments made by the District.

Dated the 7th day of February 2022.

President

ATTEST:

Vice President

Secretary

Commissioner

Commissioner

SEAL

RESOLUTION NO. _____

A RESOLUTION AUTHORIZING THE GENERAL MANAGER OF THE DISTRICT TO EXECUTE SERVICE AGREEMENTS WITH MCMILLEN, LLC DBA MCMILLEN JACOBS ASSOCIATES OF BOISE, IDAHO (SA 21-11984) AND HATCH ASSOCIATES CONSULTANTS, INC. OF SEATTLE, WASHINGTON (SA 22-12099) FOR PROFESSIONAL ENGINEERING SERVICES FOR THE ROCK ISLAND SPILLWAY GATE HANDLING IMPROVEMENTS

FACTUAL BACKGROUND AND REASONS FOR ACTION

The District is evaluating the operation of the spillway equipment at the Rock Island hydro-electric project. The evaluation includes identifying options to reduce the time it takes to achieve specific levels of spill and options to reduce hazards for employees handling the gates during routine operation and maintenance and in emergencies. The initial engineering work for the Rock Island Spillway Gate Handling Improvements will be conducted in two (2) phases: 1) Concept Development, which includes five (5) development options; and 2) Preliminary Engineering (up to 30% of final design), which will be initiated following the District's approval of concepts from phase 1.

The District's engineers have identified the need for professional engineering services for the Rock Island Spillway Gate Handling Improvements. District staff has prepared a written scope of work for these services.

In accordance with RCW 39.80.010, the District formed a Selection Committee that established evaluation criteria for determination of the most qualified firms to conduct the work. The Selection Committee reviewed and evaluated the qualifications and capabilities of certain firms registered on the District's Architectural/Engineering Roster possessing the availability, expertise, and experience required to conduct engineering services for the Rock Island Spillway Gate Handling Improvements.

The Selection Committee is of the opinion that it is in the District's best interest to contract with two (2) firms to perform up to 30% engineering design services for improvements to spillway gate handling at the Rock Island hydro-electric project. Engaging two (2) firms with extensive spillway refurbishment experience is expected to result in a greater number of concepts for consideration and will promote innovation and "out-of-the-box" thinking for these complex spillway issues. The Selection Committee determined that McMillan, LLC dba McMillen Jacobs Associates of Boise, Idaho and Hatch Associates Consultants, Inc. of Seattle, Washington are the most highly qualified firms for this work. It is anticipated that each Agreement will be issued for up to \$600,000. At the conclusion of Preliminary

Engineering, District staff anticipates selecting one (1) of the firms to proceed with final design.

Resolution No. 17-14215 requires that the Commission, by resolution, authorize Service Agreements that exceed \$500,000.

The District's General Manager has reviewed the recommendations of the Selection Committee and concurs with the same.

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON, as follows:

Section 1. The District's General Manager is hereby authorized to execute Service Agreements with McMillan, LLC dba McMillen Jacobs Associates of Boise, Idaho and Hatch Associates Consultants, Inc. of Seattle, Washington for professional engineering services for the Rock Island Gate Handling Improvements at a price and on terms that are fair and reasonable to the General Manager. The amount for each Service Agreement shall not exceed \$600,000 without further Board action. A copy of said Agreements shall be on file at the District.

DATED this 7th day of February 2022.

President

ATTEST:

Vice President

Secretary

Commissioner

Commissioner

Seal

RESOLUTION NO. _____

A RESOLUTION APPROVING A SECOND ADDENDUM
TO TEMPORARY WATER RIGHT MITIGATION
AGREEMENT BETWEEN THE REGIONAL WATER
SYSTEM MEMBERS AND CROWN COLUMBIA WATER
RESOURCES, LLC**FACTUAL BACKGROUND AND REASONS FOR ACTION**

The District entered into a Water Contract – Regional Water System (“Contract”) with the City of Wenatchee and the East Wenatchee Water District to collectively form the Regional Water System (“Regional”) effective January 1, 1999. The Contract was subsequently amended pursuant to a First Amendment to Water Contract – Regional Water System on June 23, 2008 and a Second Amendment to Water Contract – Regional Water System on August 17, 2020.

In 2012, Regional purchased additional water rights from the Pioneer Water Users Association (“Pioneer”). In total, 6,186.71 acre-feet (1,769.63 acre-feet consumptive use) were purchased to provide continuous municipal supply.

The Regional members agreed to place the water rights into a temporary Trust Water Right for ten years (dating from August 27, 2012) to benefit instream flows because Regional did not have a present need for the additional water rights purchased for municipal supply.

A private company, Crown Columbia Water Resources, LLC (“Crown”), approached the Regional members requesting to use its water rights acquired from Pioneer on a temporary basis as mitigation for the issuance of new, temporary water rights by the Department of Ecology (“Ecology”).

Pursuant to Crown’s request, the Regional members entered into a Temporary Water Right Mitigation Agreement (“Temporary Agreement”) on May 17, 2016, which is effective through August 26, 2022 unless extended by Regional. On January 14, 2021, the Parties modified the Temporary Agreement via an Addendum (“First Addendum”) executed pursuant to Resolution No. 20-14517 dated December 21, 2020. The First Addendum included the following provisions:

- Regional extended the term of the temporary Trust Water Right through December 31, 2032.
- Crown entered a Mitigation Loan Agreement with Granite Farms, LLC (“Granite Farms”) effective March 20, 2020. Crown was authorized to use the Trust Water Right to meet a portion of the water use demands under the Mitigation Loan Agreement.

- Crown entered a Trust Water Right Agreement with Ecology, dated April 18, 2016, which was also utilized to provide additional irrigation water to Granite Farms.
- Crown's request utilized the entire consumptive use portion of the Trust Water Right, as well as 312 acre-feet non-consumptive use (based on an 85% consumptive use anticipated by the agricultural uses undertaken by Granite Farms), totaling 2,082 acre-feet.
- If a Water Budget Neutral ("WBN") water right is not issued by Ecology to Crown and Granite Farms for up to 2,082 acre-feet by December 31, 2021, the First Addendum shall terminate unless extended in writing and signed by the Parties.
- Crown has the option to pursue a seasonal change application for the 2021 calendar year only by giving Regional written notice of this election on or before December 31, 2020.
- All other terms and conditions of the Temporary Agreement remain intact.

A WBN water right was not issued by Ecology to Crown and Granite Farms on or before December 31, 2021. Therefore, the Parties seek to extend the terms of the First Addendum to allow Granite Farms to use the Trust Water Right under the Temporary Agreement through December 31, 2022 by executing the proposed Second Addendum to Temporary Water Right Mitigation Agreement ("Second Addendum") attached hereto as Exhibit 1 and incorporated herein. Additionally, the Second Addendum would allow Crown to pursue a seasonal change application for both the 2021 and 2022 calendar years by giving Regional written notice of this election on or before December 31, 2020 for the 2021 calendar year, and on or before December 31, 2021 for the 2022 calendar year. All other terms and conditions of the Temporary Agreement remain intact.

The Regional members have been represented in these negotiations by Peter Fraley of the law firm Ogden Murphy Wallace, PLLC. District staff reviewed the Second Addendum and recommend that it is in the best interest of the District to approve the Second Addendum.

The General Manager has reviewed the District staff's recommendation and concurs with the same.

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON, as follows:

Section 1. The Commission hereby approves the Second Addendum to Temporary Water Right Mitigation Agreement and authorizes the General Manager to execute said Second Amendment on behalf of the District as a member of the Regional Water System.

Section 2. The Commission hereby delegates to the General Manager, or his designee, the authority to execute any and all necessary and customary documents to take

any and all necessary actions to effectuate the Second Addendum to Temporary Water Right Mitigation Agreement.

Dated this 7th day of February, 2022.

President

ATTEST:

Vice President

Secretary

Commissioner

Commissioner

Seal

EXHIBIT 1

SECOND ADDENDUM TO TEMPORARY WATER RIGHT MITIGATION AGREEMENT

THIS SECOND ADDENDUM TO TEMPORARY WATER RIGHT MITIGATION AGREEMENT (“Second Addendum”) is entered into this date by and between the Regional Water System (formed by Interlocal Agreement among the Chelan County Public Utility District No. 1, the East Wenatchee Water District, and the City of Wenatchee), a municipal water purveyor (hereafter, “Regional”), and Crown Columbia Water Resources, LLC, a Delaware limited liability company (hereafter “Crown”), sometimes collectively referred to as the “Parties” or individually a “Party”.

RECITALS

- A. The Parties entered a Temporary Water Right Mitigation Agreement on May 17, 2016 (the “Temporary Agreement”).
- B. The Parties entered the Addendum to Temporary Water Right Mitigation Agreement on January 14, 2021 (the “First Addendum”).
- C. As set forth in the First Addendum, Crown has entered a Mitigation Loan Agreement with Granite Farms, LLC (“Granite Farms”), effective March 20, 2020, which is attached to the First Addendum (the “Mitigation Agreement”). Crown desires to use the trust water right under the Temporary Agreement (the “Trust Right”) to meet a portion of the water use demands under the Mitigation Agreement.
- D. Crow has also entered a Trust Water Right Agreement with Ecology, dated April 18, 2016 (“Trust Agreement”), which will also be utilized to provide additional irrigation water to Granite Farms.
- E. The request by Crown would utilize the entire consumptive use portion of the Trust Right.
- F. Parties desire to enter this Second Addendum to allow for the use of the Trust Right by Granite Farms during the calendar year 2022.

AGREEMENT

Now therefore, in light of the above Recitals, which are incorporated herein by this reference as part of the agreement of the Parties, and in consideration of the mutual covenants set out below, the Parties agree as follows:

1. **Definitions.** The definitions and defined terms in the Temporary Agreement are incorporated herein by this reference.

2. The Parties agree that Sections 4.1 and 4.2 of the First Addendum are hereby revised to read as follows:

4. Application(s) with Ecology.

4.1 WBN Application. Crown will immediately undertake the efforts and process the application necessary with the Department of Ecology to allow for the issuance of a WBN water right for Granite Farms in an amount no more than 2,082 acre feet, using the Trust Right as mitigation. The WBN shall be mitigated by the Trust Right to the same extent approved by Ecology, not to exceed 2,082 acre feet without the written approval of Regional. The WBN water right application shall make it clear that the mitigation is temporary, expiring on December 31, 2032, or sooner pursuant to the terms of the Temporary Agreement, or the First Addendum, and spell out all of the conditions associated with the use of the Trust Right set forth in the Temporary Agreement, and the First Addendum. Crown and Granite Farms shall be solely responsible for compliance with the terms and conditions of the WBN water right. In the event the WBN water right is not approved by December 31, 2022, then this First Addendum shall terminate unless extended in writing, signed by the Parties.

4.2 Seasonal Change Application. Crown may pursue a seasonal change application for the 2021 and 2022 calendar years only by giving Regional written notice of this election on or before December 31, 2020 for the 2021 calendar year, and on or before December 31, 2021 for the 2022 calendar year (the "Seasonal Change Notice"). In the event the Seasonal Change Notice is timely provided, the seasonal change application to be prepared by Crown shall (a) withdraw the Trust Right from trust with Ecology for use by Granite Ridge for the 2021 and 2022 calendar years only, and (b) redeposit the Trust Right into trust with Ecology effective no later than the end of the calendar year (December 31, 2021 for the 2021 seasonal change, and December 31, 2022 for the 2022 seasonal change), with a term through December 31, 2032, for purposes of the WBN water right application to be pursued by Crown pursuant to Section 4.1, above for the period through December 31, 2032. In the event the Seasonal Change Notice is provided, then Regional shall not be obligated to extend the term of the deposit into trust of the Trust Right as set forth in Section 3, above (the seasonal change application will address the extension of the deposit into trust through December 31, 2032).

3. **Cost Recovery.** As a condition of this Second Addendum, Crown shall reimburse Regional for all fees and costs (including, but not limited to, attorney fees) incurred related to or arising out of this Second Addendum (including the negotiating and drafting of this Second Addendum) and the review and processing of any applications with Ecology. Crown shall be solely responsible

for all fees and costs incurred through Ecology and to process any document arising from or related to this Second Addendum and the Temporary Agreement. Any reimbursement owed by Crown shall be paid within ten (10) days of Crown's receipt of a written invoice from Regional as set forth in Section 3 of the Temporary Agreement. The reimbursement set forth herein is due whether or not the Trust Right is extended through 2032, a Seasonal Change Application is pursued or granted, or the WBN water right is granted.

4. Security Deposit. The Parties affirm that Crown has previously deposited a \$20,000 security deposit with Regional for the full and faithful performance of the Temporary Agreement and agree that the security deposit shall also apply to the full and faithful performance by Crown of the terms of this Second Addendum. In addition, any payment from Crown not paid when due shall be governed by the Temporary Agreement, including but not limited to Section 3(e) of the Temporary Agreement.

5. Indemnity; Insurance. As a condition of this Second Addendum, Crown shall provide a certificate of insurance confirming the obligations set forth in Section 10 of the Temporary Agreement. Crown hereby affirms that the indemnity set forth in Section 10 of the Temporary Agreement applies to any actions taken by Crown or others with regard to the Trust Right arising out of or related to this Second Addendum. Crown hereby indemnifies and holds Regional harmless from and against any and all losses, costs or damages incurred by Regional arising out of or associated with this Second Addendum, including, but not limited to, any claim asserted by Granite Farms, a determination by Ecology, now or in the future, that any action taken pursuant to this Second Addendum resulted in a diminution or alteration of the full quantities and municipal uses authorized under the Trust Right, failure to comply with the terms and conditions of the WBN water right, and the like.

6. Integration. Except as set forth in Paragraph 2, above (regarding Sections 4.1 and 4.2 of the First Addendum), the terms and conditions of the First Addendum shall remain in full force and effect and are not modified by this Second Addendum. The sole purpose of this Second Addendum is to extend the time frame for Crown to obtain the WBN water right and to allow for Crown to seek a seasonal change application for the 2022 calendar year for use by Granite Farms. The Parties agree that in the event the First Addendum is terminated pursuant to its terms, as modified by this Second Addendum, that this Second Addendum shall also terminate and be of no further force or effect. The Parties acknowledge that a seasonal change application was processed for the 2021 irrigation season and that payment was made to Regional consistent with the Temporary Agreement. By entering this Second Addendum the Parties acknowledge that Crown has elected to pursue a seasonal change application for the 2022 irrigation season.

7. Entire Agreement. Except as modified by this Second Addendum, the Parties hereby affirm and ratify all terms and conditions of the Temporary Agreement and the First Addendum. In the event of a conflict between the terms of the Temporary Agreement, the First Addendum, and this Second Addendum, the terms and conditions associated with this Second Addendum shall control. Nothing herein or in any prior addendum shall be construed or interpreted as

creating a right to further extend the term of the Temporary Agreement, and any such further extension shall be committed to Regional’s sole discretion. This is an agreement between Regional and Crown. It is expressly understood that nothing herein shall make Granite Farms a third party beneficiary arising under the Temporary Agreement, the First Addendum or this Second Addendum.

REGIONAL WATER SYSTEM:

CROWN:

CITY OF WENATCHEE

CROWN COLUMBIA WATER RESOURCES,
LLC

By: _____
Name: _____
Title: _____
Date: _____

By: _____
Name: _____
Title: _____
Date: _____

EAST WENATCHEE WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY

By: _____
Name: _____
Title: _____
Date: _____

Granite Farms hereby acknowledges and agrees that the Trust Right, as defined herein, is subject to the terms and conditions of the Temporary Agreement, the First Addendum, and this Second Addendum.

GRANITE FARMS, LLC

By: _____
Name: _____
Title: _____
Date: _____