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

November 21, 2016

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 21, 2016, at the hour of 10:00 a.m., pursuant to proper notice thereof.

Commissioners present were Randy Smith, Dennis Bolz, Ann Congdon and Garry Arseneault. Commissioner Bergren was excused. In attendance were General Manager Steve Wright, Staff Attorney Charles von Reis and Acting Clerk of the Board Lisa Sanders.

Others in attendance: Cliff and Mary Bates, Bob Bugert, Curt Soper and David Visser (Chelan-Douglas Land Trust), Senator Linda Evans Parlette, Craig Larsen (Port of Chelan County), Steve King (City of Wenatchee), Dave Bierschbach and Frank Sblendorio (WSDOT), Mayor Keith Vradenburg (Entiat), Randy Cook (TCF Architecture), Pat McGrath, Kris Pomianek, Steve McKenna, and Christine Pratt (Wenatchee World).

Ron Gibbs led the Pledge of Allegiance and provided a safety minute.

President Smith presented the Agenda for approval. Items 13, 14, 16 and 17 were moved to the Consent agenda. The agenda was approved as modified.

B5-B8 Update – Director of Engineering and Project Management Brett Bickford presented the update. (See www.chelanpud.org for the presentation) Bickford provided the annual update on B5-B8 and requested changes in the contract to rehabilitate units B5 and B8 in the first powerhouse at Rock Island Dam to reduce the risk of cost increases while focus shifts to modernizing units B1-B4.

Fees & Charges/Proposed Service Regulations – Customer Service Program Analyst Cathy Melton presented the update. (See www.chelanpud.org for the presentation.)

Early Action Credit Proposal – Director of External Affairs Division Tracy Yount and Government Affairs Program Manager Suzanne Grassell presented the update. Currently the Federal Energy Regulatory Committee licensing process does not take into account dollars spent by license applicants in advance of receiving their new license and applicants don't get credit toward the term of their license (30-50 years). The term of the license is based in large part by the amount of investment being made by the utility. This discourages license applicants from making new investments in advance of a license. Staff has been promoting change via legislation and engaging FERC directly at policy level. This Credit for Early Action provision is in the energy legislation and we should know if it is successful by the end of the year. FERC issued a Notice of Inquiry on establishing the length of hydropower license terms on November 17, 2016. There is a 60 day comment period with five proposed options.

Public Power Benefit Project Updates – Managing Director of District Services Jeff Smith and staff provided updates. (See www.chelanpud.org for the presentations) Updates were provided on several Public Power Benefit development projects – Rocky Reach Visitor Center

improvements to increase visitor counts and splash pad feasibility studies, an economic analysis tool and a report on the results of the day-use pass pilot study. Commissioners agreed with a staff recommendation that the splash pad and Visitor Center be placed on hold until possible federal legislation and/or regulatory action is taken to address spending in project boundaries and license terms.

Fiber Build Update – Managing directors Mike Coleman, Fiber and Telecom, and John Stoll, Customer Utilities, recapped the collaboration that resulted in coordinating electric system safety and reliability improvements with fiber expansion. (See www.chelanpud.org for the presentation) The fiber network follows the path of power lines. Investing time in engineering and planning meant construction started a little later than expected. By year end, fiber crews expect to complete network access to 750 locations, less than the target of 1,038 due to the need to address safety conditions. Coleman also identified 2017 fiber in-fill and expansion locations to reach 928 more homes and businesses in Cashmere, Chelan, Leavenworth, Manson and Sunnyslope.

The meeting recessed and reconvened at 1:00 p.m. with a public hearing for review of the 2017 Preliminary Budget:

> General Counsel Erik Wahlquist opened the 2017 Preliminary Budget Hearing 2. Mark O'Bryan, Strategic Financial Planning Director, presented the 2017 Preliminary Budget. The second hearing on the proposed 2017 budget to gather feedback from customer-owners and review updates since the November 7, 2016 hearing was held. Changes included a slight improvement in the bottom line to an expected $86 million due to an improved operating revenue forecast. Forecast spending on major projects was revised down as cost estimates and scheduling were fine-tuned. A resolution will be brought for approval at the December 5, 2016 meeting.

President Smith presented the consent agenda which consisted of the minutes of the November 2 and 7, 2016 meetings for approval.

The Auditor's memorandum dated November 15, 2016 supporting documentation and 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 describes as follows were presented for approval:

Accounts Payable Summary Report dated November 15, 2016:

1. Vouchers totaling $11,449,125.40;

2. Approval of Customer Deposit Returns and Conservation Incentive payments dated November 15, 2016 in the amount of $16,903.46;

3. Approval of the net Payrolls, Warrant Nos. 234790 through 234819 and Advice Nos.

623532 through 624259 for the pay period ending 10/30/2016 in the amount of $1,746,622.93; and

4. Approval of Warrant Nos. 22956 through 22990 totaling $27,619.65 for claim payments from the workers' compensation self-insurance fund for the period ending November 14, 2016.

RESOLUTION NO. 16-14091 A RESOLUTION AUTHORIZING CONTINUATION OF SERVICES UNDER THE ENABLING AGREEMENT (06-073) WITH PEER TECHNICAL, INC. OF FOND DU LAC, WISCONSIN

RESOLUTION NO. 16-14092 A RESOLUTION DECLARING BAUER COMPRESSORS INC. OF NORFOLK, VA AS THE SOLE SOURCE SUPPLIER OF A REDUNDANT GOVERNOR AIR COMPRESSOR FOR ROCK ISLAND POWERHOUSE 2

RESOLUTION NO. 16-14094 A RESOLUTION REPLACING AND RESCINDING RESOLUTION NO. 15-13969 TO UPDATE THE DISTRICT'S INVESTMENT AND BANKING POLICY

RESOLUTION NO. 16-14095 A RESOLUTION AMENDING RESOLUTION NO. 11-13682 AUTHORIZING THE GENERAL MANAGER TO ENTER INTO A SERVICES AGREEMENT (SA NO. 11-157) WITH OKANAGAN NATION AQUATIC ENTERPRISES LTD. AND PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY FOR SOCKEYE HATCHERY COMPENSATION RELATED TO THE ROCKY REACH AND ROCK ISLAND HYDROELECTRIC PROJECTS AND RATIFYING OPERATIONS, MAINTENANCE, MONITORING AND EVALUATION EXPENDITURES TO DATE

A motion was made by Commissioner Bolz, seconded by Commissioner Congdon and passed adopting the revised Consent Agenda, consisting of the minutes of November 2 and 7, 2016, the above listed vouchers, Resolution Nos. 16-14091, 16-14092, 16-14094 and 16-14095 which are on file in the offices of the District.

Jeff Smith provided an update to Commissioners on the proposed purchase of the 26.45 acres of land for its fair market value of $458,000. As part of the agreement, the District will grant a conservation easement to Chelan Douglas Land Trust, which is donating $250,000 toward the purchase price in recognition of the recreation benefits.

The transaction includes a request to federal dam regulators to realign project boundaries on some adjacent property owned by WSDOT, said Jeff Smith, District Services managing director. The net effect is aligning the project boundary with the trail, both upstream and downstream of the Odabashian Bridge.

A conservation easement still needs to be approved by federal regulators. Depending on the terms of the approval, the District will make a one-time payment of $17,000 to $22,000 to the Land Trust's Stewardship Fund for perpetual compliance monitoring of the easement. Staff believes the purchase is consistent with its responsibilities under the federal license for operating Rock Island Dam.

Commissioners considered the following resolution:

> RESOLUTION NO. 16-14089 A RESOLUTION AUTHORIZING THE GENERAL MANAGER TO ENTER INTO AN AGREEMENT TO PURCHASE A 26.45 ACRE PARCEL OF LAND ALONG THE COLUMBIA RIVER IN DOUGLAS COUNTY FROM THE WASHINGTON STATE DEPARTMENT OF TRANSPORTATION

A motion was made by Commissioner Congdon, seconded by Commissioner Bolz and passed to adopt Resolution No. 16-14089 which is on file in the office of the District.

Commissioners, staff and guests celebrated the official closing of the contract to rebuild Entiat Park and construct the Entiatqua Trail. Staff and Entiat Mayor Keith Vradenburg noted the significant collaboration with the city and community that brought the project in below budget while exceeding stakeholder expectations. The District rebuilt the park under recreation responsibilities in the new license to operate Rocky Reach Dam. It is operated by the city of Entiat. After reviewing final changes, board members ratified the contract with Hurst Construction of Wenatchee for $6.2 million and approved remaining payment.

Commissioners considered the following resolution:

> RESOLUTION NO. 16-14090 A RESOLUTION RATIFYING FIELD WORK ORDER/CHANGE ORDER NOS. 1 THROUGH 9, AUTHORIZING FINAL ACCEPTANCE OF WORK PERFORMED UNDER BID NO. 13-01 WITH HURST CONSTRUCTION, LLC OF WENATCHEE, WA AND AUTHORIZING PAYMENT OF RETAINAGE

A motion was made by Commissioner Bolz, seconded by Commissioner Arsenault and passed to adopt Resolution No. 16-14090 which is on file in the office of the District.

Commissioners considered the following resolution:

> RESOLUTION NO. 16-14093 A RESOLUTION AUTHORIZING THE EXECUTION OF FIELD WORK ORDER/CHANGE ORDER NO. 5-01 AND 6-01 FOR PROCUREMENT OF ADDITIONAL TURBINE AND GENERATOR COMPONENTS FOR THE 5TH AND 6TH UNITS UNDER CONTRACT NO. 04-01 PART B FOR THE ROCK ISLAND B5-B10 REHABILITATION PROJECT WITH ANDRITZ HYDRO CORP

A motion was made by Commissioner Arseneault, seconded by Commissioner Congdon and passed to adopt Resolution No. 16-14093 which is on file in the office of the District.

Manager Items – Manager of Energy Structuring/Optimization Bryan Bradshaw and Energy Policy Advisor Robb Davis presented an update on the Energy Imbalance Market and Regional Market Expansion. (See www.chelanpud.org for the presentation)

Supply Chain & Fleet Manager Craig Weddle provided and update on renewable diesel fuel and the good news that the PUD supplier is an industry leader in using oil other than palm to protect rainforests in Southeast Asia. Details on the PUD's renewable diesel use to reduce carbon emissions are posted at chelanpud.org in the "Learning Center."

General Manager Wright followed up on actions items from November 7 and 21, 2016 meetings.

President Smith convened an executive session at 3:35 p.m. to review the performance of a public employee, as authorized by RCW 42.30.110(1)(g)the He said he anticipated reconvening into regular session at 4:10 p.m.

Reconvening the meeting into regular session at 4:13 p.m., President Smith stated no actions and no votes were taken.

There being no other business, the meeting adjourned at 4:13 p.m.

President

Vice President

Secretary

Commissioner

Commissioner