

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

June 16, 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 June 16, 2008, at the hour of 11:00 a.m., pursuant to proper notice thereof.

Commissioners present were Norm Gutzwiler, Dennis Bolz, Randy Smith, Werner Janssen and Ann Congdon (via telephone). In attendance were General Manager Richard Riazzi, General Counsel Carol Wardell and Clerk of the Board Sheila Salmon. Various staff members were also in attendance.

Others in attendance: Carnan Bergren, Jim Baxter, Darryl Wilcox, Marc Pereira, Jack Speer, Bob Huber, Max Laun, Jo Keyser, Jim O'Brien, Allison Williams, Don Barth and Christine Pratt (Wenatchee World).

Project and Construction Manager Gary Rice led the Pledge of Allegiance and provided a safety minute.

Commissioners held their quarterly update on meeting strategic objectives outlined in the Board's Balanced Scorecard. Each Commissioner gave a status update on their assigned strategy map objective(s).

Commissioner Bolz reported on the strategic objectives to "Maintain Strong and Financial Stewardship" and "Approve Strategy and Business Plan". Commissioner Bolz stated that staff is moving in the right direction by looking at the overall strength of the PUD in order to preserve financial integrity. Going forward, Commissioner Bolz would like the commission to revisit the vision statement and the Commissioners' Code of Conduct.

Commissioner Janssen reported on the strategic objective to "Sustain Our Public Partnership". The public meetings, discussions and recordings are all an important parts of creating an open public process stated Commissioner Janssen. Going forward, Commissioner Janssen would like to clarify if the purpose of this objective is to gather response from the public or is it for self evaluation.

Commissioner Gutzwiler reported on the strategic objectives to 'Ensure Effective Execution' and "Evaluate Governance Positions". Commissioner Gutzwiler's reported that three Commissioners attended a workshop specifically on parliamentary procedure. He encouraged Commissioners to continue to look ahead. Looking forward, Commissioner Gutzwiler would like to continue annual review of the Governance Policies as well as the quarterly strategy map reviews.

Commissioner Smith reported on strategic objective "Responsible Board Representation". Commissioner Smith stated the level of engagement by Commissioners as a whole has elevated

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with attendance at a variety of meetings and the number of customer contacts. Going forward, Commissioner Smith would like to review the Governance Policy No. 6 titled "Board Members' Code of Conduct". Commissioners Smith and Bolz will work on a code of conduct and bring options back to the full board for discussion.

Commissioner Congdon reported on the strategic objective to "Ensure Compliance". Commissioner Congdon as a member of the audit committee stated the district is up to date on and is in compliance with audit guidelines. Going forward, Commissioner Congdon would like to see Board updates made quarterly. Commissioners Janssen and Bolz noted it would be beneficial to schedule the external auditor attendance at a Board meeting during the audit process.

Commissioner Congdon also reported on the strategic objective "Continuously Improve Board Member Skills". Commissioner Congdon stated that Commissioners were given a new Commissioner briefing book and Commissioners Bolz and Smith have attended the new board member orientation given by Washington Public Utility District Association. Going forward, Commissioner Congdon suggests regular updates to the Commissioner briefing book, the development of an annual training plan for current board members and to continue to develop the procedures for review of board policies. It was agreed by all Commissioners that Commissioner Congdon ask staff to recap board activities for Board review and the development of the Board annual plan.

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 June 2, 2008 and regular meeting (study session) held on June 9, 2008 were presented for approval.

The Auditor's memorandum, dated June 10, 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 \$5,557,663.58;
2. Customer Deposit Returns payment June 10, 2008 in the amount of \$14,700.06; and

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3. Net Payrolls, Warrant Nos. 219239 through 219357 and Advice Nos. 474447 through 475130 for the period ending May 25, 2008 in the amount of \$1,509,322.80 as certified by the Auditor's memorandum.

RESOLUTION NO. 08-13337 APPROVING FIELD WORK ORDER NOS. 1 AND 2, AUTHORIZING FINAL ACCEPTANCE OF WORK PERFORMED UNDER BID NO. 07-39 WITH SYSTEMS INTERFACE, INC. OF BOTHELL, WASHINGTON AND AUTHORIZING PAYMENT OF RETAINAGE DUE FOR THE CHELAN HATCHERY WELLFIELD MOTOR CONTROL CENTER (MCC)

RESOLUTION NO. 08-13338 APPROVING FIELD WORK ORDER NOS. 1 AND 2, AUTHORIZING FINAL ACCEPTANCE OF WORK PERFORMED UNDER BID NO. 07-43 WITH IRRIGATION TECHNOLOGY & CONTROL, INC. OF EAST WENATCHEE, WASHINGTON AND AUTHORIZING PAYMENT OF RETAINAGE DUE FOR THE CHELAN HATCHERY WELLFIELD PUMPING EQUIPMENT

Motion was made by Commissioner Bolz, seconded by Commissioner Smith and unanimously carried adopting the Consent Agenda consisting of the minutes of the June 2, 2008, and June 9, 2008 Commission meetings, the above listed vouchers and Resolution Nos. 08-13337 and 08-13338, which are on file in the offices of the District.

The meeting recessed at 12:01 p.m. for the purpose of lunch and reconvened at 1:00 p.m. for the purpose of conducting the business of the District.

The Commission considered the matters listed in the Regular Agenda.

RESOLUTION NO. 08-13339 TO ENTER INTO A PURCHASE AND SALE AGREEMENT WITH DON BARTH FOR A 7.4 ACRE PARCEL OF LAND LOCATED NORTH OF THE INTERSECTION OF SAUNDERS AVENUE AND DELAWARE AVENUE IN ROCK ISLAND

RESOLUTION NO. 08-13340 APPROVING FIELD WORK ORDER NOS. 14 THROUGH 16 TO THE ROCK ISLAND POWERHOUSE 1 B5 – B10 UNIT REHABILITATION (04-01 B)

RESOLUTION NO. 08-13341 DECLARING THAT NO BIDS WERE RECEIVED FOR THE PURCHASE OF AN INSULATED, OVER-CENTERED, AERIAL MAN-LIFT (BID NO. 08-05) AND AUTHORIZING THE GENERAL MANAGER TO OBTAIN THAT WORK BY NEGOTIATION

RESOLUTION NO. 08-13342 AUTHORIZING THE GENERAL MANAGER TO ENTER INTO A MEMORANDUM OF UNDERSTANDING ("MOU")

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WITH THE CITY OF WENATCHEE TO GRANT PROPERTY RIGHTS FOR A TRAILHEAD AND FACILITIES ON DISTRICT PROPERTY AT THE END OF CASTLEROCK STREET

RESOLUTION NO. 08-13343 APPROVING AMENDMENT NO. 3 TO THE CASHMERE ELECTRIC UTILITY SYSTEM PURCHASE AND SALE AGREEMENT

Commissioner Congdon reconfirmed her recusal from the vote on the Cashmere purchase and sale agreement.

Motion was made by Commissioner Bolz and seconded by Commissioner Janssen to adopt Resolution Nos. 08-13339 through 08-13343. The question was called for and the motion carried 4 to 0 to adopt Resolution Nos. 08-13339 through 08-13343 with Commissioner Congdon recusal from the vote. Resolutions Nos. 08-13339 through 08-13343 are on file in the office of the District.

Fleet Service Manager Gary Lentsch reported the District sold at a joint auction with Grant County PUD 38 surplus vehicles and two dozen surplus lot items for a total of \$220,000.

General Counsel Carol Wardell distributed to the Commissioners for their review a proposed Power Sales Agreement Contract, Transmission Service Agreement, Amendment Two to The Industrial Power Sales Contract with Alcoa and a memorandum comparing the term sheet dated October 15, 2007 to the current proposal which are all available for public review at [www.chelanpud.org](http://www.chelanpud.org).

General Counsel Wardell highlighted the Major Points compared in the memorandum which included:

- The contract would provide for the sale of 26% of Output of Rocky Reach and Rock Island dams, the District retains capacity and pond associated with the 26% share of output and management of the 26% is within the District's control and will be managed along with the District's resources. The 26% of output, also referred to as "Synthetic Slice" may be sourced from multiple locations;
- Output is defined to be an amount of Energy determined in relation to the energy production of the Chelan Power System;
- The contract would be effective through October 2028;
- Alcoa would pay 26% of all costs related to the Output share regardless of the actual amount of energy delivered;
- Detail added to define Operational Control;
- Detail added to No Ownership with respect to definition of Output;
- Detail added to Cost-based Contract with respect to the definition of Output with regard to the cost of production and delivery of the Output;

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- Detail added to Financial Control with respect to the definition of Output;
- Upfront Payment reflects 26% share in the amount of \$22,900,000;
- Alcoa will not prepay the collateralization amount and agrees to post collateral satisfactory to the District equivalent to (1) an estimated highest three months of Periodic Payments and (2) amount equal to the Shutdown Settlement Amount;
- Lump Sum payments will reflect 26% share of Output;
- Monthly Payments will reflect the 26% share of Output;
- Assignment of the contract to any other entity is within the District's control and subject only to the District's sole discretion; and
- In the Event of Default by Alcoa the District has the right to terminate the contract and sue for damages.

Additional provisions in the Power Sales Agreement not specified in the term sheet dated October 15, 2007 highlighted by General Counsel Wardell included:

- The Power Sales Agreement does not become effective unless Alcoa has met certain criteria;
- The District may use funds received as the District determines in its sole discretion for any purpose; and
- Billing will be monthly.

Alcoa's Energy Vice President Marc Pereira spoke in support of the proposed contract. Mr. Pereira stated that the contract would keep Alcoa competitive in the market and would take away the uncertainty of the elimination of the Wenatchee plant.

President of United Steel Workers union Joe Keyser commented the proposed contract is good for the members and their families.

A RESOLUTION AUTHORIZING THE GENERAL MANAGER TO ENTER INTO A POWER SALES AGREEMENT AND TRANSMISSION AGREEMENT WITH ALCOA INC. AND ALCOA POWER GENERATING INC. [To be tabled for at least ten days pursuant to RCW 54.16.040]

A RESOLUTION AUTHORIZING AMENDMENT TWO TO POWER SALES CONTRACT BETWEEN PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, ALCOA INC. AND ALCOA POWER GENERATING INC. [To be tabled to be considered concurrently with resolution No. 11]

A motion was made by Commissioner Smith to table the resolutions for the Power Sales Agreement Contract, Transmission Service Agreement and Amendment to The Industrial Power Sales Contract with Alcoa to July 14, 2008 pursuant to RCW 54.16.040 requirement to table for at least ten days for final consideration/approval. Motion was seconded by Commissioner

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Janssen and unanimously passed to table both resolutions to July 14, 2008 for final consideration/approval.

The Commissioners reported on the various meetings each attended during the weeks of June 2, 2008 and June 9, 2008.

General Counsel Wardell noted that it is not necessary to notice attendance by Commissioners on June 21, 2008 at the Andrew York Lineman Rodeo as a public meeting pursuant to RCW 42.30.070 which states it shall not be a violation of requirements for a majority of the members of a governing body to travel together or gather for purposes other than a regular meeting or a special meeting; provided that they take no action.

Commissioner Bolz made a motion to excuse Commissioner Smith from the July 7, 2008 and July 21, 2008 board meetings. The motion was seconded by Commissioner Janssen and it was unanimously carried.

General Counsel apprised the Board that Superior Court in King County struck some provisions of the 2003 Municipal Water Law as unconstitutional and expect that the decision will be appealed.

Commissioner Janssen excused himself from the remainder of the meeting at 3:55 p.m.

Commissioner Smith stated for public record the reason for his absences in the next month and a half stem from a prior commitment as the National Chair of the Council for Agriculture Research Extension and Teaching representing Washington State University and Land Grant University System.

Telephone connection with Commissioner Congdon was ended at 3:56 p.m. for the remainder of the meeting.

President Gutzwiler publicly announced at 3:56 p.m. that the Commission would convene an executive session after a five minute recess 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 4:30 p.m.

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 into regular session at 4:30 p.m., President Gutzwiler reported no action was taken.

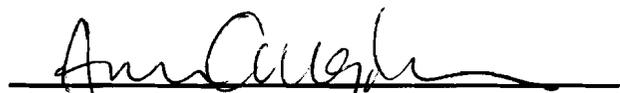
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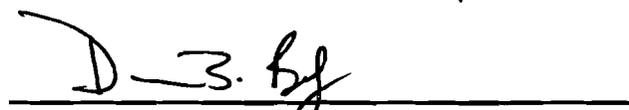
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There being no further business, the meeting was adjourned at 4:30 p.m.

  
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President

  
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Vice President

  
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Secretary

  
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Commissioner

  
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