

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

July 14, 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 July 14, 2008, at the hour of 11:00 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: Carnan Bergren, Jo Keyser, Jim O'Brien, Paul Kingrey, Bob Huber, Stefan Vogt, John Thuestad, Marc Pereira, Max Laun, Kim Gregorio, Jack Speer, Jim Baxter, Buell Hawkins, Dennis Johnson, Keith Vradenberg, Barbara Tilly, Alan Walker, and Christine Pratt (Wenatchee World).

Utility Services Electrical Engineering Manager Chad Rissman led the Pledge of Allegiance and provided a safety minute.

Staff gave a status report to the Board on the damage to District facilities caused by the Badger Mountain Fire and the impact to the power supplies to Alcoa. Kirk Hudson, Director of Utility Service Operations, told the Board that the wooden structures that carry the 230-kilovolt transmission line through Douglas County from Rocky Reach Dam have been significantly damaged. Director Hudson estimated the repair of the line could take several months. Executive Manager of Energy Resources Randy Lowe stated this outage requires Alcoa to purchase transmission from Bonneville Power Administration using federal power lines. District staff is working with Alcoa and Bonneville Power Administration to strengthen connections and find backup routes. Carol Wardell advised the Board of the potential need for a declaration of emergency in order to begin the purchasing process to replace the structures.

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 30, 2008 were presented for approval.

The Auditor's memorandum, dated July 9, 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

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other considerations received by the District in the total amount of \$10,512,181.03;

2. Customer Deposit Returns payment dated July 8, 2008 in the amount of \$1,878.52; and
3. Net Payrolls, Warrant Nos. 219478 through 219592 and Advice Nos. 475824 through 476509 for the period ending June 27, 2008 in the amount of \$1,419,140.66 as certified by the Auditor's memorandum.

RESOLUTION NO. 08-13350 APPROVING FIELD WORK ORDER NOS. 1 AND 2, AUTHORIZING FINAL ACCEPTANCE OF WORK PERFORMED UNDER BID NO. 07-69 WITH PURCELL PAINTING & COATINGS OF TUKWILA, WASHINGTON AND AUTHORIZING PAYMENT OF RETAINAGE DUE FOR THE ROCKY REACH SPILLGATE NO. 7 REINFORCEMENT

Motion was made by Commissioner Congdon, seconded by Commissioner Bolz and unanimously carried adopting the Consent Agenda consisting of the minutes of the June 30, 2008 Commission meeting, the above listed vouchers and Resolution Nos. 08-13350, which are on file in the offices of the District.

The Commissioners reported on the various meetings each attended during the weeks of June 30, 2008 and July 7, 2008.

Commissioner Smith made a motion to excuse Commissioner Congdon from the September 2, 2008 board meeting. The motion was seconded by Commissioner Janssen and it was unanimously carried.

Commissioner Congdon made a motion to excuse Commissioner Gutzwiler from the August 28, 2008 board meeting. The motion was seconded by Commissioner Bolz and it was unanimously carried. Commissioner Congdon withdrew her excused absence and will be attending the August 28, 2008 board meeting.

Commissioner Congdon made a motion to allow Commissioner Smith to attend the August 4, 2008 board meeting via telephone. The motion was seconded by Commissioner Janssen and it was unanimously carried.

~~General Manager Rich Riazzi gave an update on the preparation for the 2009 budget process. Manager Riazzi stated staff will be looking at the current debt structure and capital programs and will be presenting to the Board additional modeling for consideration of potential rate increases.~~

General Counsel Carol Wardell stated it is not necessary to declare as special meetings the attendance by Commissioners during the week of July 14, 2008 at the internal Office 2007

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training and Washington Public Utility District Association meetings according to RCW 42.30.070 and discussions with the state auditor since no District business will be discussed or decisions made.

Chief Financial Officer Joe Jarvis and Treasurer Debbie Litchfield discussed the District's investment portfolio. The District currently has approximately \$381 million invested in accordance with a Board approved investment policy. They described current concerns regarding the District's investments of \$260 million in federal housing agencies and specifically, the \$154 million invested in Fannie Mae and Freddie Mac. The two agencies have reported negative financial results caused by the increasing number of mortgage defaults and related credit tightness. The District's financial advisors Public Financial Management and its securities broker Seattle Northwest Securities have advised that the difficulties faced by the two federal agencies are affecting holders of equity in the two companies but not likely to affect debt holders, like the District, in the same manner. Additionally, the US Treasury has made credit available to the agencies to bolster investor confidence. Mr. Jarvis noted that District staff will be reviewing the current investment policy and making recommendations for improvements. No additional investments have been made in the federal agencies since June and the balances in those agencies will likely be reduced over time.

President Gutzwiler publicly announced that the Commission would convene an executive session commencing at 11:55 a.m. 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 12:10 p.m.

By motion made by Commissioner Smith at 11:55 a.m., seconded by Commissioner Congdon and carried unanimously, an executive session was convened. 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 12:10 p.m., the Commissioners reported that they to discussed 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). No action was taken.

The meeting recessed at 12:10 p.m. for the purpose of lunch and reconvened at 1:00 p.m. for the purpose of conducting the business of the District.

Reconvening at 1:00 p.m., General Manager Rich Riazzi introduced the Alcoa contract resolutions and thanked District staff and Alcoa staff for their efforts.

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RESOLUTION NO. 08-13351 AUTHORIZING AMENDMENT TWO TO POWER SALES CONTRACT BETWEEN PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, ALCOA INC. AND ALCOA POWER GENERATING INC.

RESOLUTION NO. 08-13352 AUTHORIZING THE GENERAL MANAGER TO ENTER INTO A POWER SALES AGREEMENT AND TRANSMISSION AGREEMENT WITH ALCOA INC. AND ALCOA POWER GENERATING INC.

General Counsel Carol Wardell reintroduced the three agreements which were proposed at the June 16, 2008 business meeting as part of the Resolution Nos. 08-13351 and 08-13352. Resolution No. 08-13351 authorizes an amendment to the current Industrial Power Sales Agreement which expires in 2001. Resolution No. 08-13352 authorizes a Power Sales Agreement provides for the sale of 26% of output of Rock Island and Rocky Reach projects with a term of 2011 through 2028 and a Transmission Agreement with the same term. Attorney Wardell, the District's lead negotiator, introduced and thanked the District team involved in developing the contracts. Team members included Joe Jarvis, Randy Lowe, John Janney, Debbie Litchfield, Kelly Boyd, Kurt Carlson and Janet Jaspers.

Commissioner Congdon spoke in favor of the decision to sell the power that will supply the third pot line to Alcoa at market rates and in keeping the excess capacity for ourselves. Commissioner Smith stated that this contract fits the District's mission statement to safely provide utility services that enhance the economy and quality of life in Chelan County. Commissioner Bolz views the contract as adding stability to the economy. Commissioner Janssen noted that this contract helps more than Chelan County residence and encourages Alcoa to continue operations at the plant for the length of the contract. President Gutzwiler thanked the District and Alcoa negotiation teams for their hard work and for the stability the contract will provide the valley.

Public comment from Chelan County Commissioner Buell Hawkins encouraged the Board to adopt the resolutions and to sign the contract.

Motion was made by Commissioner Smith, seconded by Commissioner Congdon, Bolz, Smith and Janssen and unanimously carried with a 5 to 0 vote with Commissioner Gutzwiler also voting yes to adopt Resolution Nos. 08-13351 and 08-13352, which are on file in the offices of the District.

The three agreements were publically signed by General Manager Rich Riazzi, President of Alcoa US Primary Products John Thuestad, and Vice-President of Energy Marc Pereira.

Alcoa Wenatchee Works Plant Manager Stefan Vogt stated he is proud to be part of this contract and sees it as a win for the community, the PUD and the Alcoa employees. Joe Keyser thanked the negotiation team on behalf of the five unions and its members. President of Alcoa US Primary Products John Thuestad said it is his goal to build for the future and sees great future for the plant and will support technically developing the plant. Vice-President of Energy Marc

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Pereira said he proud to have been part of the negotiation team the last four years and commends a process that was transparent.

President Gutzwiler publically announced that the Commission would recess at 1:30 p.m. for a 10- minute break.

Reconvening into regular session at 1:43 p.m., the Commission next considered the matters listed in the Regular Agenda.

RESOLUTION NO. 08-13353 AUTHORIZNG PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY TO ENTER INTO AN INTERLOCAL AGREEMENT WITH THE WASHINGTON STATE PARKS AND RECREATION COMMISSION TO PROVIDE A FRAMEWORK FOR THE SHARING OF COSTS FOR REPAIRS AND IMPROVEMENTS TO WENATCHEE CONFUENCE, LINCOLN ROCK AND DAROGA STATE PARKS

RESOLUTION NO. 08-13354 REJECTING THE BID OF TRIAD MECHANICAL, INC. OF PORTLAND, OREGON AND ACCEPTING THE BID OF KNIGHT CONSTRUCTION & SUPPLY, INC. OF DEER PARK, WASHINGTON (BID 08-31) FOR ROCKY REACH SPILLWAY GATE REINFORCEMENT: GATES 3 & 9

Motion was made by Commissioner Janssen and seconded by Commissioner Congdon to adopt Resolution Nos. 08-13348 and 08-13349. The motion unanimously carried to adopt Resolution Nos. 08-13348 and 08-13349. Resolutions Nos. 08-13348 and 08-13349 are on file in the office of the District.

Tracy Yount, Natural Resources Director reported that people are straying off the Sage Hills Trail in west Wenatchee and onto District land. The federal license for Rock Island Dam requires the District land be preserved for wildlife habitat. To preserve the habitat, staff would like to install fencing to eliminate unauthorized access. Director Yount will arrange a meeting with Chelan-Douglas Land Trust head Bob Bugert to discuss the issue at a later date.

President Gutzwiler publicly announced that the Commission would convene an executive session commencing at 2:15 p.m. to review the performance of a public employee, as authorized by RCW 42.30.110(1)(g). He stated that he anticipated the executive session would conclude at approximately 3:15 p.m.

By motion made by Commissioner Bolz at 2:15 p.m., seconded by Commissioner Smith and carried unanimously, an executive session was convened. 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.

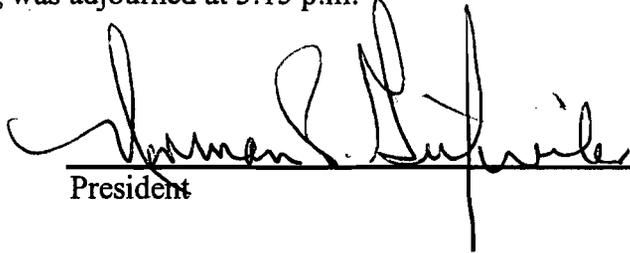
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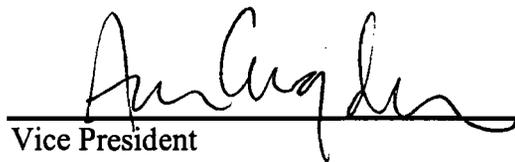
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Reconvening into regular session at 3:15 p.m., the Commissioners reported that they reviewed the performance of a public employee, as authorized by RCW 42.30.110(1)(g). No action was taken.

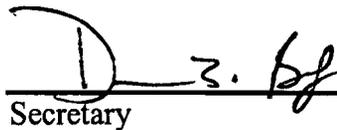
There being no further business, the meeting was adjourned at 3:15 p.m.



President



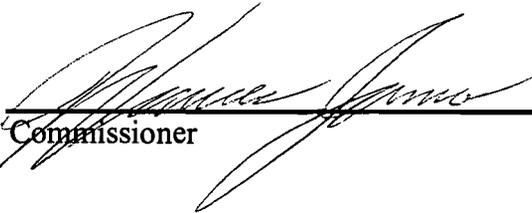
Vice President



Secretary



Commissioner



Commissioner