

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

October 15, 2007

The regular meeting (study session) 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 October 15, 2007, at the hour of 1:00 p.m., pursuant to proper notice thereof.

Commissioners present were Norm Gutzwiler, Ann Congdon, Werner Janssen, Randy Smith and Dennis S. Bolz. In attendance were General Manager Richard Riazzi, General Counsel Carol Wardell and Clerk of the Board Melisa McPherren. Various staff members were also in attendance.

Others in attendance: Jim Baxter, Bob Wilt, Stefan Vogt, Bob Huber, Jack Speer, Jo Kaiser, Paul Kingrey, Bill Stokes, Craig Larsen, Ray Reid, Steve Hair (KPQ) and Christine Pratt (Wenatchee World).

Civil Engineer Court Hill led the Pledge of Allegiance and provided a safety minute.

Staff briefed the Board on a proposed term sheet setting out a framework for long-term energy supply to the Alcoa Wenatchee Works that could keep three pot lines operating until 2028. Alcoa officials have endorsed the proposed plan. If Alcoa continues operating the Wenatchee Works for at least the 12 months prior to October 2011, then the new agreement would go into effect. The proposed term sheet is for the sale of a 25/26% share of the output from the Rocky Reach and Rock Island projects. The percentage could vary a few points depending on other agreements that may be reached for what's known as a capacity exchange. The proposed term sheet describes a contract that would run through October 31, 2028, a term of 17 years. Alcoa would pay the percentage of costs from Rocky Reach and Rock Island dams that matches the percentage of output allocated, regardless of how much power is actually produced at the hydroelectric projects. The District would have the right to interrupt service or curtail output for operational and reliability reasons. In addition, Alcoa would pay the District an up-front capacity reservation charge of between \$17.5 million and \$21 million, depending on the percentage of power allocated in the final terms. As outlined in the proposed term sheet, \$72 million is a deferred capacity reservation charge to be paid if the Wenatchee plant shuts down. The actual amount of the shutdown payment will depend upon the number of years the Wenatchee plant continues to operate and provide jobs to the community. If approved as presented, staff for both the District and Alcoa would work to develop terms of a final agreement.

Staff presented a notebook of material, including the proposed term sheet, various memoranda and additional background information. Bob Wilt of Alcoa also made comments in support of the proposed term sheet.

## MINUTES OF REGULAR MEETING (STUDY SESSION) OF THE COMMISSION

October 15, 2007

Page 2

Commissioners will review terms of the proposed term sheet and other information before deciding whether it meets the needs of the District. Public meetings will be scheduled to present full details of the proposal, to receive comment from the community and to answer questions. At least one meeting will be an evening session.

Commissioner Congdon made a motion to change the start time of the October 22, 2007 business meeting to 9:00 a.m. The motion was seconded by Commissioner Smith and unanimously carried. Commissioners will continue discussions on the proposed term sheet with Alcoa during the morning session and discuss regular District business in the afternoon.

Commissioner Smith made a motion to set a special meeting of the Commission for Tuesday, October 23, 2007 at 9:00 a.m. in the Boardroom to hear from representatives from Alcoa. The meeting will then recess and continue at 1:30 p.m. at the Confluence Technology Center for a meeting with Commissioners from Chelan County and the Port of Chelan County to discuss items of mutual interest. The motion to set a special meeting was seconded by Commissioner Bolz and unanimously carried.

The meeting recessed at 3:45 p.m. for a break and reconvened at 3:50 p.m. to continue conducting the business of the District.

Rocky Reach Hydro Engineering Department Manager John Sagerser and Engineering Services Division Director Chris Church discussed 2008-2011 Lake Chelan projects with the Board that include: modernization, entrance improvements, rearing pond, tailrace pump station, habitat construction and low level outlet. Total estimated cost for the projects is \$52 to \$60 million. Staff plans to present a resolution to the Board on October 22, 2007 for the award of the Lake Chelan Hydro Modernization contract to Alstom.

President Gutzwiler publicly announced that the Commission would convene an executive session commencing at 4:15 p.m. for the purpose of discussing 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.

By motion made by Commissioner Congdon, 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.

Reconvening into regular session at 4:30 p.m., the Board requested a continuance of the Executive Session for an additional 15 minutes and the Board went back into Executive Session.

MINUTES OF REGULAR MEETING (STUDY SESSION) OF THE COMMISSION

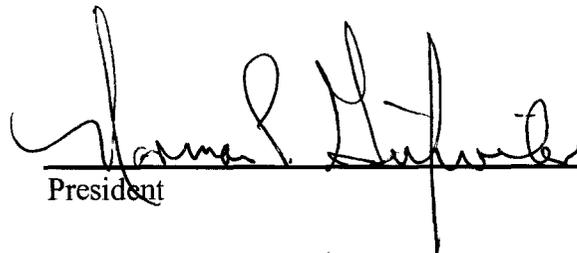
October 15, 2007

Page 3

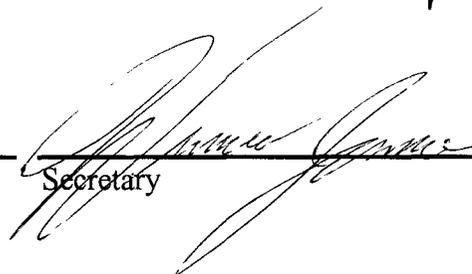
Reconvening into regular session at 4:45 p.m., Commissioners reported that they discussed with legal counsel litigation, potential litigation to which the District or its board is, or is likely to become, a party, and/or legal risks, as authorized by RCW 42.30.110(1)(i). No action was taken.

Commissioner Smith made a motion to recess and continue the meeting to 5:30 p.m. at the Highlander Golf Club in East Wenatchee to attend the Mid C Managers and Commissioners Dinner. The motion was seconded by Commissioner Bolz and passed unanimously. There being no further business, the meeting recessed at 4:47 p.m.

The meeting continued at 5:30 p.m. in East Wenatchee at the Highlander Golf Club for the purpose of attending the Mid C Dinner with Douglas and Grant PUD Managers and Commissioners. Commissioners present were Norm Gutzwiler, Randy Smith and Dennis Bolz. General Manager Richard Riazzi was also in attendance. The meeting adjourned at 8:15 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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