

**PUBLIC UTILITY DISTRICT NO. 1
OF
BENTON COUNTY**

Date: August 8, 2006
Time: 9:00 a.m.
Place: Kennewick Main Office

Present:

Commissioner Bertsch, Hall and Sanders
General Manager Sanders
Assistant General Manager/Director of Operations Long
General Counsel Hultgrenn
Auditor/Director of Finance and Business Services Bartram
Director of Power Management Gregg
Director of Engineering Hunter
Manager of Risk Management & Treasury Bickford
Manager of Accounting White
Manager of Broadband McCollum
Manager of Communications and Governmental Relations Miller
Manager of Products and Services Johnson
Manager of Customer Service Ball
Manager of Key Accounts and Marketing McAloon
Senior Engineer II Gottschalk
Manager of Geographic Information Systems Folta
Power Management Analyst I Bender
Administrative Assistant - Executive Administration Scrimsher

Open Public Hearing – Discussion on Initiative 937, Energy Resources Use by Certain Electric Utilities

President Robert Bertsch opened the Public Hearing at 9:00 a.m. and stated that the Public Hearing was being called to allow for public input and comment on the District's consideration to oppose Initiative 937, concerning Energy Resource Use by Certain Electric Utilities.

Manager of Communications and Governmental Relations reviewed background information on the Initiative and discussed the various positions and groups in favor of, opposing, and those supporting neutrality of the Initiative.

Following Commission discussion on the uncertainties regarding the Initiative language and its possible impact on rates, President Robert Bertsch opened the Hearing for public comment. Customer Rex Gest voiced his opposition to Initiative 937.

Hearing no other public input, President Robert Bertsch announced the closing of the Public Hearing at 9:20 a.m., and announced the continuation of the regular agenda.

Resolution No. 1900, Opposing Initiative 937, Energy Resource Use by Certain Electric Utilities

Manager of Communications and Governmental Relations discussed the negative impact that Initiative 937 would have on the District and its customers, noting the uncertainty of the future costs

and unknown availability of adequate renewable power needed to replace the hydropower currently excluded from the initiative in order to meet initiative mandates.

Motion by Lori Sanders, seconded by Jeff Hall to adopt Resolution No. 1900, opposing Initiative 937, concerning energy resource use by certain electric utilities.

MOTION CARRIED.

Treasurer's Report

Treasurer reviewed the July 2006 Treasurer's Report. The Commission approved the July 2006 Treasurer's Report. The investment list and counterparty credit information was reviewed.

Report from Management

General Manager:

1. Bonneville Power Administration's (BPA) Long Term Regional Dialogue Policy Proposal was discussed. A letter sent by the Public Power Council (PPC) to BPA Administrator Steve Wright, was distributed. The General Manager will be participating on a team comprised of other public power representatives that will be involved in the commenting process on the Proposal.

Director of Power Management:

1. The mark to market report was distributed and discussed.
2. An update was given on the Columbia Grid. The first board of directors has been elected.
3. Registration with the Western Energy Coordinating Council (WECC) in the areas of distribution, load serving, and purchasing and selling was discussed.
4. The Energy Authority (TEA) will be filing an intervention in the Northwest Pipeline general rate case on the District's behalf. This will give the District standing as an interested party and will be monitored by TEA.

Manager of Customer Service:

1. As previously reported to the Commission, due to a billing error it was discovered that the District owed Benton REA approximately \$136,000 in back net billing charges. The issue has been resolved and payment to Benton REA has been sent, with the exception of approximately \$7,000 in interest charges which will be paid later this month.

Consent Agenda

Motion by Jeff Hall, seconded by Lori Sanders to approve the Consent Agenda as follows:

- a) Approving the minutes of the regular Commission Meeting of July 25, 2006.
- b) Approving the District Travel Report dated August 8, 2006.
- c) Vouchers audited and certified by the auditing officer as required by RCW 42.24.080, and those expense reimbursement claims certified as required by RCW 42.24.090, have been recorded on a listing made available to the Commission. As of this date, the Commission does approve the following for payment: Accounts Payable Warrants 24963-25135 in the total amount of \$1,261,777.13, Accounts Payable Electronic Fund Transfers 1324-1343 in the total amount of \$6,679,029.99, Payroll Direct Deposit Advice for July 27, 2006, 10662 through 10795 in the total amount of \$221,045.13, Payroll Warrants for July 27, 2006, 501881 through 501919 in the total amount of \$52,977.88 for a grand total of \$8,214,830.13. Customer refunds void/cancelled warrants for July 2006 in the total amount of \$1,141.69 were included in the report.
- d) Approving Write Off Report for July 2006 in the total amount of \$31,007.98.

MOTION CARRIED.

At 9:45 a.m., President Robert Bertsch announced that the Commission would go into Executive Session with the District's legal counsel for 15 minutes for the purpose of discussing litigation the District reasonably believes may be commenced against the agency.

At 10:00 a.m., President Robert Bertsch announced that the Commission Meeting would reconvene into regular open public session.

At 10:00 a.m., President Robert Bertsch announced the Commission Meeting would recess for 5 minutes.

At 10:05 a.m., President Robert Bertsch reconvened the Commission Meeting into regular open public session.

Power Transformer - Contract Award Recommendation

Senior Engineer summarized the bids received in response to Bid-Package #06-07 for a power transformer for the Energy Northwest Wind Farm expansion. After review for adherence to District specifications, it was staff's recommendation to declare bids received from Iljin Heavy Industries, Hughes Supply (Pauwels and GE Prolec), WEG Electric Motors, Fortune Electric and Kuhlman Electric non-responsive and award the contract for power transformer to Wakesha Electric Systems. Energy Northwest will reimburse the District for the purchase of this power transformer.

Motion by Jeff Hall, seconded by Lori Sanders to declare bids received from Iljin Heavy Industries, Hughes Supply (Pauwels and GE Prolec), WEG Electric Motors, Fortune Electric and Kuhlman Electric non-responsive and award the contract for a Power Transformer to Waukesha Electric Systems of Waukesha, WI, Bid Package #06-07, for a total amount of \$787,255.00.

MOTION CARRIED.

Powel MiniMax Contract Recommendation

Manager of Geographic Information Systems briefed the Commission on the status of the Geographic Information System implementation. The District has determined the terms of BPUD Contract #05-15-06 with Powell-MiniMax, Inc. cannot be met in accordance with the contract Statement of Work. Manager of Geographic Information Systems recommended the contract with Power MiniMax be terminated without cause

Motion by Lori Sanders, seconded by Jeff Hall canceling the revised Geographical Information Systems implementation Contract #05-15-06, with Powel-MiniMax, Inc. of St. Paul, Minnesota pursuant to Section 9 of said contract.

MOTION CARRIED.

Benton Franklin Community Action Committee, Contract Change Order

Manager of Products and Services recommended the Commission authorize the General Manager, on behalf of the District, to sign Change Order No. 1 of Contract #06-45-01 with Benton-Franklin Community Action Committee (CAC). Recent discussions with CAC indicate that CAC has been able to help more low-income customers than originally anticipated, therefore staff recommends increasing the Contract by an additional \$30,000.00. Products and Services is budgeted to meet the increase, and all expenditures under the contract are 100% reimbursable through BPA's Conservation Rate Credit Program.

Motion by Lori Sanders, seconded by Jeff Hall to authorize the General Manager on behalf of the District, to sign Change Order No. 1 of Contract #06-45-01 with Benton-Franklin Community Action Committee (CAC), for an additional \$30,000.00 for low-income conservation assistance for calendar year 2006, bringing the new not-to-exceed amount of the contract to \$70,000.00.

MOTION CARRIED.

Resolution No. 1901, Amending Retail Electric Rate Schedule 34 – Large Industrial

Manager of Products and Services recommended the Commission adopt Resolution No. 1901, amending Retail Electric Rate Schedule 34. Rate Schedule 34 applies to one customer who has a separate nine year power sales contract with the District which is due to expire August 31, 2006.

The revised rate schedule will serve the customer's load when their special power sales contract expires.

Motion by Jeff Hall, seconded by Lori Sanders to adopt Resolution No. 1901, amending Retail Electric Rate Schedule 34, Large Industrial.

MOTION CARRIED.

Resolution No. 1902, Open Public Comment Period to Consider Proposed Standard for Time Based Metering and Communications

Manager of Products and Services recommended the Commission adopt Resolution No. 1902. By law, electric utilities must begin considering a time-based metering and communications standard by August 8, 2006 and determine by August 8, 2007 whether it is appropriate to adopt the standard in whole, in part, or to not adopt the standard. This process may result in the need for professional services to provide assistance to the District, in the event a revision is needed to the current Cost of Service Analysis and rate setting. Staff and Commission are committed to complying with the requirements of the Energy Policy Act (EPAct), as stated in Resolution No. 1902.

Motion by Lori Sanders, seconded by Jeff Hall to adopt Resolution No. 1902 to open public comment period to consider a proposed standard for time-based metering and communication for consideration under the Public Utility Regulatory Policies Act (PURPA).

MOTION CARRIED.

Resolution No. 1903, Open Public Comment Period to Consider Proposed Standard for Interconnection and Net Metering

Director of Engineering recommended the Commission adopt Resolution No. 1903. By law, electric utilities must begin considering a net metering and interconnection standard by August 8, 2006, and determination of these two standards must be completed by August 8, 2007 on whether it is appropriate to adopt the standard in whole, in part, or to not adopt the standard. The interconnection standard will address customer generators up to 20 MW desiring to connect to the District's electric system. Staff and Commission are committed to complying with the requirements of the Energy Policy Act (EPAct), as stated in Resolution No. 1903.

Motion by Jeff Hall, seconded by Lori Sanders to adopt Resolution No. 1903 to open public comment period to consider a proposed standard for Interconnection and Net Metering under the Public Utility Regulatory Policies Act (PURPA).

MOTION CARRIED.

Resolution No. 1904, BPA Flexible Priority Firm (PF) Rate Program and Supporting Bank of America Letter of Credit

Manager of Risk Management & Treasury recommended the Commission adopt Resolution No. 1904, approving the District's participation in the Flexible PF Rate Program offered by BPA and providing a Bank of America letter of credit in the amount of \$4.5 million to BPA to secure the District's obligations under the Flexible PF Rate Program. Participation in the Program will provide power cost savings to the District of approximately \$600,000.

Motion by Lori Sanders, seconded by Jeff Hall to adopt Resolution 1904, approving the District's participation in the Flexible PF Rate Program offered by the Bonneville Power Administration and accepting the proposal from Bank of America to provide a letter of credit that Bonneville Power Administration requires to secure the District's obligations under the Flexible PF Rate Program.

MOTION CARRIED.

Presentation on Principles and Guidelines for Establishing Retail Rates

Director of Power Management distributed the Principles and Guidelines for Establishing Retail Rates and gave a detailed presentation.

Commissioner Lori Sanders requested certain language from RCW 54.24.080 be incorporated into the beginning paragraph of the document. Staff will bring back to the Commission once revisions have been made.

Draft 2007 Power Supply Plan

Director of Power Management provided a brief review of the Draft 2007 Power Supply Plan. A final version will be submitted for Commission approval later in the year. The Power Supply Plan summarizes the assumptions and analyses that lead to development of budgeted values for power management expenses and revenues for 2007.

At 10:55 a.m., President Robert Bertsch announced the Commission Meeting would recess for 10 minutes.

At 11:05 a.m., President Robert Bertsch reconvened the Commission Meeting into regular open public session.

Financial Update-Rate Action Review

Staff provided a financial update presentation to the Commission on June 27, 2006, outlining possible rate action options. Due to the change of certain conditions since the June 27 presentation, staff has prepared an updated set of options for consideration by the Commission. The District's current financial position, credit rating, business risk/volatility, and utility bill comparison/rate history were discussed. Staff recommendation was: 1) implement a 4% rate reduction for major customer rate classes effective September 1, 2006, 2) designate \$8 million to be set aside for the purpose of defeasing the 1997 bonds in November 2007, and 3) implement a second revenue reduction in early 2007. The size of the second reduction is subject to further analysis, but may be as high as 5%. Rate reductions would be assigned to the various customer classes using a cost of service analysis.

Motion by Jeff Hall, seconded by Lori Sanders, directing the General Manager to take actions necessary to 1) implement a 4% rate reduction for major customer rate classes effective September 1, 2006 and 2) designate \$8 million to be set aside for the purpose of defeasing the 1997 bonds in

November 2007. Staff is directed to prepare resolutions for approval by the Commission at the August 22, 2006 Commission meeting.

MOTION CARRIED.

OTHER BUSINESS

Commissioner Lori Sanders presented for Commission consideration, Resolution No. 1905, supporting efforts made to determine the potential of the Fast Flux Test Facility to anchor the Global Nuclear Energy Partnership, (FFTF for GNEP) that may lead to an improved economy and job creation. Commissioners Robert Bertsch and Jeff Hall thanked Commission Lori Sanders for her involvement.

Motion by Lori Sanders, seconded Jeff Hall adopting Resolution No. 1905, supporting efforts made to determine the potential of the Fast Flux Test Facility to anchor the Global Nuclear Energy Partnership, (FFTF for GNEP) that may lead to an improved economy and job creation.

MOTION CARRIED.

At 12:10 p.m., President Robert Bertsch announced the Commission Meeting would recess for 5 minutes.

At 12:15 p.m., President Robert Bertsch reconvened the Commission Meeting into regular open public session.


At 12:15 p.m., President Robert Bertsch announced the Commission would go into Executive Session with the District's legal counsel for 20 minutes for the purpose of discussing litigation to which the District is a party, and potential litigation the District reasonably believes may be commenced against the agency.

At 12:35 p.m., President Robert Bertsch reconvened the Commission Meeting into regular open public session.

Motion by Lori Sanders, seconded by Jeff Hall to authorize the General Manager, on behalf of the District, to sign all documents relating to the settlement of the Slice litigation, in substantially the form presented at today's meeting.

MOTION CARRIED.

Hearing no objection, President Robert Bertsch adjourned the Commission Meeting at 12:40 a.m.



Robert E. Bertsch, President

ATTEST:



Lori Kays-Sanders, Secretary