

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

Date: September 9, 2008
Time: 9:00 a.m.
Place: 2721 West 10th Avenue, Kennewick, Washington

Present:

Commissioners Hall, Sanders, and Bertsch
General Manager Sanders
Assistant General Manager/Director of Finance and Business Services Bartram
Legal Counsel Hultgrenn
Manager of Treasury and Risk Management Bickford
Director of Engineering Dunn
Director of Operations Hunter
Director of Power Management Gregg
Manager of Accounting White
Manager of Communications and Governmental Relations Miller
Manager of Human Resources Walsh
Manager of Key Accounts McAloon
Manager of Products and Services Johnson
Manager of Engineering Gottschalk
Supervisor of Broadband Nall
Supervisor of Customer Systems Meyer
Power Management Analyst Bender
Administrative Assistant - Power Management Baur
Administrative Assistant - Administration Preddie
Commission Relations Specialist Hurst

Guest: Pat Tucker

General Manager informed the Commission that changes in the agenda format for today's meeting were accomplished to allow his participation on certain agenda items prior to 10:30 a.m., at which time he will be taking personal leave for the remainder of the day.

Treasurer's Report

Treasurer reviewed the August 2008 Treasurer's Report. The Commission approved the August 2008 Treasurer's Report. The investment list and counterparty credit reports were briefed.

Quarterly Financial Forecast/Financial Policy Update

General Manager noted the Commission was provided a financial policy update in July of 2007, and the last quarterly financial forecast was provided in May of 2008. General Manager acknowledged correspondence previously received from Mr. Tucker related to financial planning, and stated the District's staff recommendations do a good job of balancing fiscal responsibilities, appropriate rate levels, funding of capital projects and maintaining appropriate reserve levels, while continually reviewing the uncertainties facing the utility with power supply.

Assistant General Manager reviewed key aspects relating to the District's financial policies, focusing on financial sustainability and competitive rates. A review was provided of the District's current reserve structure, liquidity measures and use of the rate stabilization account. It was noted the District has benchmarked with other Washington PUDs and American Public Power Association guidance on its minimum reserve levels, and a review of the benchmarks was provided. Financial Policies No. 2 and 3 provide for adequate debt service coverage to meet bond covenants and for achieving a prudent mix of debt and pay-as-you go financing. Financial performance and key principles relating to conservative planning and principles for establishing retail rates were reviewed. The financial policy update recommended no changes at this time, with staff continuing to evaluate minimum cash reserve levels and counterparty collateral requirements. A look back at financial performance and rates, and the District's power risk profile was provided.

At the request of Commissioner Lori Sanders, General Manager provided further information relating to the District's liquidity measures that generally provide for Operating Reserves between 100% and 125% of minimum levels, but that the plans may exceed 125% of minimum under certain defined criteria.

Manager of Risk Management and Treasury gave a presentation on the quarterly financial forecast noting changes due to uncertainties associated with power forecasts, BPA cost impacts different than expected, the potential White Creek wind purchase, better definition of the AMI project and the addition of one ethanol plant being included in the forecast. Forecast assumptions to meet financial policies include higher rate actions in the future, based in large part on higher estimated power costs, and a 2010 borrowing. Manager of Risk Management and Treasury reviewed net power costs, operating reserves and long range forecasts for debt coverage and the District's debt profile. Staff recommends no January 2009 rate action and a bond issue in the range of \$5M to \$10M if the Advanced Metering Infrastructure (AMI) project is approved.

Director of Power Management noted in FY09 BPA power rates are expected to decrease 1%. The BPA draft Record of Decision (ROD) on the WP07 supplemental rate case currently shows the District will receive \$1.6M as the true-up under the Standstill Agreements, down from the anticipated \$3.4M. Still uncertain is how BPA plans to return the monies owed the public utilities due to over-payments to the IOU's for 2002-2006. In addition to the 1% decrease, an additional several million dollar credit may be provided on the District's power bills for FY 2009. Staff continues to review the draft ROD and the final will be released on September 23, 2008 -- the 2009 net power cost budget numbers do not reflect these dollars. Additional information will be provided as it is known.

After discussion on the Standstill Agreement, General Manager confirmed that the District's obligations under the Standstill Agreement to refrain from suing BPA over residential exchange issues will expire after the ROD is final and published. A brief discussion was held on I-937 budget impacts in future years.

At 10:15 a.m., President Jeff Hall announced the Commission Meeting will recess for 10 minutes.

At 10:25 a.m., President Jeff Hall reconvened the Commission Meeting into regular open public session.

General Manager did not return for the remainder of the commission meeting.

Resolution No. 2005, Fourth Repayment Agreement Relating to a Line of Credit for the Northwest Open Access Network

Supervisor of Broadband recommended the Commission approve the fourth repayment agreement for the Northwest Open Access Network (NoaNet). The new line of credit will enable NoaNet to provide a line of service from Seattle to Yakima and a redundant path as a back-up system. Benefits to the District will be from the improved reliability of NoaNet's network which the District utilizes to provide services. The District's percentage of the guarantee is 14.17% of the \$1,500,000. It was noted the District continues payment on the NoaNet 2001 Third Repayment Agreement.

Motion by Lori Sanders, seconded by Robert Bertsch adopting Resolution No. 2005, authorizing the execution of a fourth repayment agreement relating to a line of credit for the Northwest Open Access Network.

MOTION CARRIED.

Automated Metering Infrastructure (AMI) Update

Director of Engineering gave a presentation updating the Commission on AMI/Smart Grid status. The update included a review of smart grid concepts and the Sensus FlexNet System. Director reviewed the benefits of the AMI project, as well as the risks and associated mitigating factors. A proposed installation schedule was reviewed, and Manager of Human Resources gave an update on meter reader staffing issues relating to the Collective Bargaining Agreement. Commissioner Lori Sanders asked if billing options for customers could result from this installation, and Assistant General Manager noted staff continues to review options in that area as well as others. A contract award recommendation is anticipated to be brought for consideration at the September 23, 2008 commission meeting.

White Creek Wind Purchase Update

Director of Power Management and Manager of Products and Services updated the Commission on negotiations with Klickitat PUD to prepurchase 3% (6.14 MW) of the White Creek Wind Project. A draft resolution was distributed for review. Staff reviewed portions of drafts of the Energy Purchase Agreement, Common Terms Agreement, and the Asset Purchase Option Agreement which are marked confidential due to a nondisclosure agreement with Klickitat PUD and were previously provided individually to each Commissioner for additional review. Staff reviewed the \$1,800,000/MW pre-purchase cost and showed how it compared favorably to other wind projects in the region. Staff also reviewed projected \$/MWh costs of power from the project and compared it to projected costs from the Nine Canyon Wind Project.

Staff stated the deal is structured so the District will sell the power and Environmental Attributes back to Klickitat PUD through 2011. A separate resolution authorizing this sale will be introduced at the September 23, 2008 meeting and approval will be sought at the October 14, 2008 commission meeting. Outside legal counsel is reviewing all the agreements that will be presented for Commission consideration at the September 23, 2008 commission meeting and will be present at the meeting to answer any questions.

Consent Agenda

Motion by Robert Bertsch, seconded by Lori Sanders to approve the Consent Agenda as follows:

- a) Approving the minutes of the regular Commission Meeting of August 26, 2008.
- b) Approving the District Travel Report dated September 9, 2008.
- c) Approving 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 Automated Clearing House (ACH) payments 1892-1936 in the total amount of \$709,093.40, Warrants (CHK) 36087-36209 in the total amount of \$322,217.98, Electronic Fund Transfer (EFT) Payments 1973-1980 in the total amount of \$7,401,029.20, and Customer Refund (ERM) Payments 36210-36279 in the total amount of \$7,392.39; Payroll Direct Deposit Advice 08/21/08 17990-18131 in the total amount of \$242,349.07 and Warrants 08/21/08 503914-503942 in the total amount of \$37,396.29, for a grand total of \$8,719,478.33. Voided ERM payments for August 2008 in the total amount of \$683.50 were included on the report. It was noted that payments issued on August 20 erroneously were dated August 14. To ensure that the Payment Detail report included the August 20 payments, it was run back to August 14. As a result, some payments previously approved on August 25 are included on the detailed report.

MOTION CARRIED.

Management Report

Director of Power Management:

1. The mark to market report was distributed and discussed.
2. The August Frederickson report was distributed and discussed.
3. A District letter to Steve Wright, BPA, regarding the 25% cap on the slice product was distributed, as well as BPA's response letter. A brief discussion was held on the future need for Exhibit N at the request of Commissioner Lori Sanders.

Public Comments

Mr. Tucker noted that the District should look for an opportunity to get out of its Frederickson obligations in the next couple of years, and stated it was his opinion that cap and trade is risky business. He further noted that broadband is not the District's core business and should be sold for its net present value if possible.

Mr. Robert Gretzinger expressed concern with big utilities buying out smaller utilities and expressed the value of a PUD like Benton to look out for the customers it serves.

Other Business

Assistant General Manager noted the November 11th commission meeting falls on a holiday and recommended the Commission move the meeting to the following day, November 12th.

Motion by Lori Sanders, seconded by Robert Bertsch adopting Resolution No. 2006, approving a one-time schedule change to a regularly scheduled meeting of the Benton PUD Commission.

MOTION CARRIED.

Commissioner Robert Bertsch stated he would need to be excused early from the September 23, 2008 Commission Meeting at 11:00 a.m., and asked if the agenda items for the White Creek Wind Project and the AMI recommendation could be considered before that time.

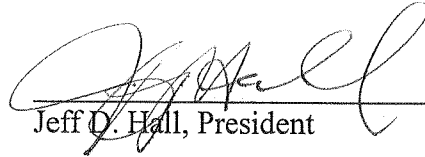
Future Planning

Assistant General Manager reviewed future planning dates associated with strategic planning and budget meetings.

Meeting Reports

A brief discussion was held on commissioner attendance at Whidbey Island meetings, and the Commission confirmed that PUD commissioners attending the Whidbey Island meetings are volunteering and the meetings are not a part of the District's business.

Hearing no objection, President Jeff Hall adjourned the Commission Meeting at 11:50 a.m.



Jeff D. Hall, President

ATTEST:



Robert E. Bertsch, Secretary