

PUBLIC UTILITY DISTRICT NO. 1 OF FERRY COUNTY  
REGULAR MEETING OF COMMISSIONERS  
February 19, 2008

The regular meeting of the Board of Commissioners was called to order by President Chris Kroupa at 9:02 a.m. Present were Commissioners Chris Kroupa, Gregg Caudell, and Nathan Davis, Manager Roberta Weller, Succeeding Manager John Friederichs, Attorney Steve Graham, Interim Auditor Rory Miller, General Foreman Randy Sage and Secretary/Treasurer Jayne Jurgensen.

All stood for the Flag Salute which was led by Commissioner Caudell.

The minutes of the previous meeting were corrected and approved by a motion duly made, seconded and carried.

Public Comment Period: None at this time.

Visitors: Sonny and Kathy Rounds

The meeting was turned to Mr. and Mrs. Rounds for an update on their annexation effort. Mr. Rounds explained that they had received a letter from the Okanogan County Prosecuting Attorney explaining that it would be necessary to modify the proposed petition to identify all voters within the proposed annexation area. The Okanogan County Auditors office will be free to assist with the voter information in mid March after completion of the Primary Election process. The letter also advised that the proposal was to be presented to both the Okanogan and Ferry County Commissioners. Commissioner Caudell questioned whether Okanogan County was to be involved as his interpretation of the RCW's was that Mr. and Mrs. Rounds should be working with Ferry County. Attorney Graham advised that he has been in contact with the Okanogan County Prosecuting Attorney and they are both in agreement as to the process to be used. He will review the need to present the proposal to the County Commissioners however. Attorney Graham added that he felt that Okanogan County was being careful in the process and that they are not trying to prolong the issue. Commissioner Caudell stated that he would delegate Attorney Graham to continue with the process and get it accomplished or, if not accomplished, then a reason why by the March Board Meeting. Mr. Rounds stated that he would like to see the annexation on the August ballot. Mrs. Rounds added that the Okanogan County Auditor had indicated that her research would not take long once begun and obtaining the necessary signatures on the petition would not be difficult. Mr. Rounds requested a copy of the 1994 letter written by the Utility's Attorney, Rebecca Baker, to those interested in an annexation at that time. Attorney Graham will review his files. Commissioner Caudell directed Attorney Graham to contact the Okanogan County Auditors office to learn whether the required voter information could be completed after hours in order to move the process along. Mr. and Mrs. Rounds were thanked for their time and they exited the meeting at 9:45 a.m.

Reports:

The General Foreman's Report was presented by Randy Sage:

1. The crew continues to make progress on pole replacements identified in 2006. The work is District-wide and the areas are the same as will be included in the metal stubbing contract.
2. Provided clarification on the maximum kW and load factors. The maximum kW demand is actually what is used at the peak load during a specific period of time. The Load Factor is the ratio of average load to maximum demand.
3. Attended the February Buckhorn Advisory Board meeting. The final addendum has been completed for the Beal Pit. Issues resolved were hours of operation, lighting after dark, truck identification numbers and the use of engine brakes. The Fish Hatchery Road has again been restricted from mine related traffic.
4. Have also begun replacing regulators and reclosures in order to have them serviced. Specialty Engineering will be inspecting and rebuilding approximately eighteen reclosures.
5. The Kinross line is the first priority and the Utility is preparing for the underground portion.
6. Materials are being received for the Howard (Wauconda) Substation upgrade for the Columbia River Carbonates project which is to be completed by mid May 2008.
7. Spoke with the UTC regarding the cell site on Franson Peak and learned that the UTC is not able to help the Utility with this matter. Spoke with an Unicel Engineer and learned that they have budgeted to build cell towers in northern Ferry County. Verizon's purchase of Unicel does not include Ferry County as they have no interest in improving their system. That wireless system belonging to Unicel will become AT&T Wireless.
8. Have enjoyed working with Interim Auditor Rory. He has been a breath of fresh air.

Mr. Sage was thanked for his time and he exited the meeting at 10:00 a.m.

The Auditor's Report was presented by Rory Miller:

PowerPoint was used to make the presentations.

1. The voucher listing was reviewed with the Board and questions answered. Attorney Graham questioned the prohibition of making gifts of public resources, i.e., advertisements. This is buying good will in the community. Is this tangible enough that money can be exchanged for it? Mr. Miller explained that the Utility must be able to demonstrate to the State Auditor's Office that the advertisement is a benefit to most of the consumers. A letter from the organization requesting support must be obtained stating what was done to benefit the Utility and demonstrate the good will. Attorney Graham also questioned whether other governmental entities and PUDs do similar community advertising. Mr. Miller explained that this depends on the utility. Some offer more. The amount is determined by how the utility is viewed within the county and how the board views such requests. Commissioner Kroupa added that these same questions were asked

- of the State Auditors at the recent meeting. The State identified no issues in the Utility's support of community events. They did explain that documentation is needed to show what the Utility has done.
2. The D. Hittle & Assoc. report was not presented. Commissioner Caudell stated that he would consider dropping the Hittle report as a cost-saving step as long as the same information can be provided by the District. Mr. Miller explained that D. Hittle and another company have historically performed such reporting for a number of utilities. With the changes in computer technology many utilities have moved away from outside report.
  3. The Board was in agreement that they preferred the PowerPoint report presentation.
  4. The Financial and Statistical Report was presented.
  5. Met with the State Auditors for their final report. The District will need to develop clearer audit trails for future audits. Most comments dealt with presentation matters and were primarily cosmetic and easily corrected. The District does need to be in compliance with GASBY 34. The new audit process allows for two options for an audit item, those being incorrect or correct. There is no longer the ability to give credit if an item is partially correct.
  6. Has spent the past few weeks becoming familiar with the District's processes. The PCS computer system is doing what it is supposed to. Will be closing the month of October later in the week. Over the next few weeks the balance of 2007 will be closed. A procedural manual is being developed for all processes. At this time it is hoped to have a report through January 31 to present at the March Board meeting.
  7. Will be developing the Management Discrepancy Analysis to be issued as of December 2007. This report will be reviewed by the Utility's Attorney and the State Auditor's Office prior to publishing.
  8. Inventory and fixed assets have yet to be reviewed.
  9. The transformer records have yet to be transferred to the PCS system. The purpose of maintaining the transformer history is to make certain they have been tested for PCB's prior to disposal.
  10. The bad debts have yet to be transferred to the PCS system and this is also in progress.
  11. There are customers notes on the old computer system that also have to be migrated to PCS. This will be very time consuming and will be worked on as time permits.
  12. The staff has been very responsive. All have had a "can-do" attitude.

Commissioner Caudell questioned the inventory process and the use of the PCS system. Mr. Miller reported that users are already pretty proficient in the generation of reports. Commissioner Caudell further questioned what percentage of the staff is up to speed and whether the system is what it is supposed to be. Mr. Miller reported that the staff is in need of more training. Manager Weller added that two training sessions have been presented over the past two weeks for employees. The modules being used appear to be the ones needed and there are questions pertaining to the cash management portion.

Commissioner Caudell questioned whether it would be appropriate for Staking Engineer VanSlyke and General Foreman Sage to also develop procedural manuals to document their work processes. Manager Select Friederichs explained that both men are applying standard engineering practices to their work and are doing very well.

A brief recess was declared at 11:00 a.m. with the meeting reconvening at 11:05 a.m.

The Treasurer's Report was presented by Jayne Jurgensen:

1. Operating Funds available as of February 10, 2008 were \$1,300,311.05 with restricted funds of \$1,229,687.07. There were five outages in the month of January for a year-to-date total of five compared to three for the same period in 2007. The Revolving Loan/Grant Fund and the High Cost Grant repayment reports were reviewed.

Commissioner Caudell explained that there is the possibility that legislation will pass which will restrict a utility's ability to establish pole contact charges.

Commissioner Caudell questioned the process in place whereby payments made on high cost loans are returned to the grant fund for reuse. It was explained that until all of the RUS monies have been expended this is the process to be used. No interest can be charged on any loans until all of the original RUS monies have been exhausted. He further asked that staff develop at least three scenarios for the continuation of the program to be presented at the July Board meeting. The Board concurred. Commissioner Caudell then advised that all payments made, prior to the Board's review of the proposals, should not be used for any additional line extensions. Commissioner Kroupa stated that he did not feel this was appropriate and that if a few more line extensions could be put in place under the current program this would be acceptable. Commissioner Davis was in agreement with this statement. He also advised that the Utility is a public utility and its purpose is not to make a profit but to have sufficient money to cover expenses. Commissioner Caudell stated that the line extension policy is reviewed each year and the Board determines how much money will be given away as a political gratuity, for each line extension. In the past the line extension process was a "good ole boy" system whereby a number was picked out of the air and that was what the subsidy would be. He would like to see this changed so that the subsidy for line extensions are equitable for everyone.

The Manager's Report was presented by Roberta Weller:

Correspondence:

1. A letter has been received from B.P.A. regarding their conservation program. Information will be presented during the Conservation Director's report.
2. A letter has been received from Chelan County P.U.D. regarding their upcoming 9<sup>th</sup> annual lineman rodeo to be held in June. Have partnered with IBEW Local 77 for this event.
3. An email from a potential consumer, has been routed to the Utility through WPUA. The concern expressed is the quoted price of \$30,000 for a one-half mile line extension.

4. Information has been received from NW River Partners detailing their 2007 accomplishments.
5. A letter has been received from the Department of Energy explaining that the office building has been selected to participate in the 2007 commercial energy consumption survey.
6. A letter has been received from the USDA transmitting an RUS revenue bond which was paid in full on March 31, 2000. The bond was dated 1970, was for thirty-five years and was at 2% interest. The Bond was signed by now deceased Commissioners Thomas Kroupa and Oliver Pooler. Another 1978 bond has also been returned as it was paid in full in September 2007. The purpose of the Bonds was to provide concurrent financing for system installation.
7. A follow-up inquiry has been received from Mr. Thompson regarding his earlier request for public information. His letter indicated that the Utility had failed to respond within the time specified by law. The original request was located in the folder along with the requested Commissioner expense reports for the past five years. The total cost for this period of time was \$22,004.12. Attorney Graham reviewed the information prior to mailing.
8. The recorded Interlocal Agreement between the Utility and the Republic Schools, for their use of the Utility's radio frequency in their school busses, has been received from the County. The recorded agreement for the use of the Job Corps Substation has yet to be returned.
9. A letter has been received from Tricounty Economic Development explaining that they have recently received a technical funding grant for a revitalization project. Students will be contacting individuals to gather information. Interested individuals are invited to participate in the board.

The meeting recessed at 12:00 p.m. for lunch reconvening at 1:02 p.m.

Manager Weller continued her report:

10. A note has been received from the Curlew Lake Association again asking for support of the Net Pen Project. A motion was made by Commissioner Davis to again support the project with \$100 which will be for ten \$10 fish. The motion was seconded by Commissioner Caudell and unanimously carried.
11. The recorded Job Corps Substation Easement was just received from the County. Manager Weller and General Foreman Sage physically measured the area being used by this substation and included this area in the Easement. The size of the site was .32 acres and is now .66 acres. Manager Weller advised that the Department of Labor is aware that the Utility is interested in purchasing this property and this transaction should be finalized.
12. B.P.A.'s transmission billings resulted in under or overcharges for some utilities for the period June 2002 through January 2007. The Utility's portion of the undercharge is \$2,272 which has been assessed on the January transmission bill.
13. The State Auditors Exit Conference was held on February 14. Copies of the management letters were provided to the Board. Areas discussed were the open public meeting documentation in the minutes which must be stated as per the RCW, and gifting of public funds which must be documented to show what has been advertised or sponsored. The final report is being reviewed and will follow. No findings were identified. Commissioner Kroupa added that the District's finances are audited every year and the procedures are audited every two years.
14. The Construction Work Plan prepared by Power Engineers was delivered. Three copies will be forwarded to RUS and one copy will remain with the District. RUS monitors the District's compliance with the Plan.
15. An email was just received from WPUDA lobbyists regarding the pole contact issue. A compromise has been proposed and forty-five days have been set for a response. The proposal contact calculation is one-half of the rate will be based on the APPA formula and the other one-half based on RCW 80.54 which applies to investor-owned utilities. PUDs may use the FCC cable formula as it exists or it may be modified in the future. All other provisions in the bill were successfully removed.

Meetings:

1. Nothing reported.

General Business:

1. The request to approve an addendum which would allow Manager Weller's sick leave balance to transfer into her VEBA account at 100% was again presented to the Board for consideration. The Board discussed the proposal at length.

The meeting recessed briefly at 1:52 p.m. reconvening at 2:02 p.m.

The discussion of the proposal continued. A motion was made by Commissioner Caudell to support the proposal for the benefit of the Manager. The motion was seconded by Commissioner Kroupa. Discussion followed the second. Commissioner Kroupa proposed an offer of 50% based on the Utility's needed rate increase and proposed budgetary shortfall. Commissioner Caudell stated that \$20,000 has already been saved in the Manager's salary. The motion was then voted on with Commissioners Caudell and Kroupa voting in favor of the proposal and Commissioner Davis voting against.

2. Applications have been received in response to the advertisements for the Auditor's position. Manager Weller requested an Executive Session to discuss a personnel issue. Commissioner Kroupa then initiated and Executive Session at 2:24 p.m. for thirty minutes for the purpose of reviewing qualifications of candidates for public employment. The meeting returned to regular session at 3:00 p.m. Manager Weller and Succeeding Manager Friederichs were instructed to continue to pursue the Auditor selection.

The Attorney's Report was presented by Attorney Graham:

1. An Executive Session was requested at 3:15 p.m. for fifteen minutes to discuss potential litigation. All remained in the Session with the exception of Secretary Jurgensen. The meeting returned to regular session at 3:30 p.m. with no action taken.

2. The Stanton claim for pump damage has been reviewed. The Wilson Contract indemnification clauses will allow Wilson to pay attorney fees if the Utility were sued over the matter. Manager Weller added that each consumer agrees to the Utility's requirements at the time they sign up for service and the Utility has a record that a bill is paid each month which means they have entered into a contract with the Utility to supply them with power. Attorney Graham added that, as a matter of contract law, the consumers are bound to the provisions of the Utility.
3. The information has been received from the Department of Transportation regarding the Franson Peak agreement. Have yet to review the documents and develop a counter offer. Information will be presented at the March Board meeting.
4. The resolution necessary to declare an emergency exception to the public bidding laws for the Kinross work as it pertains to Alpine Construction was questioned. Resolution 08-04 was then presented. A motion to adopt said resolution was made by Commissioner Caudell, seconded by Commissioner Kroupa and unanimously approved.
5. Had the opportunity to review the RCW discussed during the annexation discussion. Stands on his earlier opinion that the chronology is collection of signatures, filing of petition, prosecuting attorney certifies and approves, commissioners from districts resolve to approve the petition and then the matter goes on to election. The respective county commissioners are not involved in the process. The clarification point is RCW 54.13.35. RCW 35.13 states that a public utility is deemed to be the city or town and the P.U.D. commissioners are deemed to be the city or town legislative body. The ballot is drafted by Okanogan County Auditor and will be prepared and mailed to Okanogan County residents. At the time the petition is approved by the prosecuting attorney the P.U.D. districts have sixty days to hold a public meeting and either approve or reject the proposal. If the petition is approved it moves on to the election process. Okanogan County will be fully responsible for costs associated with the election. Commissioner Caudell questioned if such an annexation would not lead to redistricting. Attorney Graham advised that the Board would be required to determine which Commissioner would receive the new territory. Commissioner Caudell advised that the District went through the process of reviewing the Districts and found them to be out of balance, approved a resolution to realign the consumers and had to rescind the resolution based on the County's direction. Attorney Graham explained that the District had used voter information to determine the realignment and it should have used census information. District three has a disproportionate number of people and the annexation would not require redistricting as the increase of two hundred people will not change either District 1 or District 2 significantly. Commissioner Caudell stated that the RCW states that discrimination is not to occur during redistricting and communities and cultures are to be kept together as much as possible. The current district divisions cut off a large portion of the Colville Indian Reservation from his District. He asked that the Ferry County Elections office present to the Board why the originally adopted resolution was not sufficient. This is still a process that needs to take place.

The Conservation Report was presented by John Friederichs.

1. No changes have been made in the B.P.A. heat pump program although a new effort was made.
2. The Hospital PV system has been inspected twice and is working well.
3. There have been no changes in the wood waste-to-Methanol program.
4. There is sufficient money to pay for one final line extension under the High Cost Program. This will be accomplished in the spring.
5. The Google Renewable Energy Cheaper than Coal has been referred to the University of Washington.
6. The Columbia River Carbonates project CERB documents have been received and reviewed by Attorney Graham. General Foreman Sage had put together a plan to implement the upgrade without a major impact. Resolution 08-03 "A Resolution Authorizing Execution of a CERB Contract" was adopted by a motion made by Commissioner Caudell, seconded by Commissioner Davis and unanimously carried. The contract with Columbia River Carbonates will put into place a payment schedule which will begin upon completion of the project and will allow the Utility to make it's annual payments to CERB.

A recess was called at 4:35 p.m. with the meeting reconvening at 4:43 p.m.

The pole restoration bid issue was presented to the Board. It was explained that, upon a more in depth review of the bids, it was found that one bidder added a portion of the required work as a separate line item which was not included in the initial price evaluation. This matter was tabled until later in the meeting after contact with General Foreman Sage.

Commissioners:

Commissioner Kroupa:

1. Attended the Energy Northwest meeting. The primary topic was the safety restrictions imposed on B.P.A. by Energy NW. Due to pressure from B.P.A. to reduce costs, the safety ratings have fallen. A number of major repairs are now necessary at a cost of approximately 80 million dollars. Energy NW is now strongly enforcing access to the sites which is affecting B.P.A.'s ability to visit as they have in the past. The matter was also brought before the PPC meeting by a B.P.A. executive.
2. Attended the NRU and PPC meetings. The topic of discussion for the NRU meeting was the LLC. This group was formed to assist utilities in their purchase of Tier 2 power to supplement the new B.P.A. contracts. B.P.A. has also submitted a proposal that, instead of using 2010 actual usage for the high water mark, they will predict the high water mark through the course of 2008 and 2009. This proposal was unanimously rejected by the members of NRU as the information will not be accurate. Most of public power wants a ceiling of 200 to 250 million on residential exchange. The Utility can still join the LLC at the quoted cost of \$3,000. If the decision is made to join later will be charged the current rate plus back dues. All but a few utilities have signed up and most of those who have not are small or more isolated and have no possibility of their own generation or be an easy pool for transmission. There is no deadline for enrollment.

Commissioner Caudell:

1. Questioned whether B.P.A. was in ex parte negotiations regarding the rate studies. As yet, the Utility has received no response to the letter written to Steve Wright and the requested refund. Manager Weller reported that Mr. Hustad has told her that Mr. Wright is trying to pay some of the money back even in the face of threatened lawsuits. Commissioner Caudell asked the Board to direct the Manager to follow up with written letter and report at the March meeting. The Board was in concurrence.

Commissioner Davis:

1. Nothing to report.

Manager Weller was unable to contact General Foreman Sage regarding the pole restoration work. Therefore, a motion was made by Commissioner Caudell to retract the previous motion to accept Osmose Utility Service bid for the pole restoration work due to new information and review of bids. The motion was seconded by Commissioner Davis and unanimously carried. The Board will meet on Thursday, February 21 at 1:00 p.m. to discuss the matter.

Lobbying: None

With nothing further to come before the Board, the meeting was recessed at 5:20 p.m. to reconvene at 1:00 p.m. on Thursday, February 21, 2008.

The meeting was called to order by President Chris Kroupa at 1:00 p.m. on Thursday, February 21, 2008. Those present were Commissioners Kroupa and Davis, Commissioner Caudell via telephone, Manager Roberta Weller, Succeeding Manager John Friederichs, Interim Auditor Rory Miller, General Foreman Randy Sage and Secretary/Treasurer Jayne Jurgensen.

Mr. Sage related the issues surrounding the pole restoration bid evaluation. Neither of the bidders had been apprised of being the successful bidder. The bids were read more thoroughly and both bidders contacted to clarify terminology. The appropriate work was included in both bids and the cost figures provided at the January Board meeting are correct. Osmose has offered an add-on for MITC-FUME fumigant application at the rate of \$476.00 This process allows for the release of chemicals above the area treated through the restoration work and inhibits further deterioration. Labor has been included in all pole prices and the one pole size that was omitted from the Osmose bid was reviewed by Attorney Graham who advised that the company had provided pricing for the next larger pole which was not a bid item therefore they will provide a greater repair than required. Mr. Friederichs questioned the safety in the use of the MITC vials as this was an issue in the past for the crew. Mr. Sage explained that the material will be placed above the area for chainsaw cutting of the poles. The poles are now cut off at ground level and the butt left in place. At the time the butt is removed it becomes hazardous waste and must be appropriated disposed of. A motion was made by Commissioner Davis to accept the Osmose bid for pole stubbing. The motion was seconded by Commissioner Kroupa and unanimously carried.

Manager Weller reported that she has just received information regarding the Utility's B.P.A. Transmission Account Executive, Toni Timberman. Ms. Timberman will no longer be serving in this capacity and the new representative is Ken Johnston.

Manager Weller explained that she and Mr. Friederichs had met with Mr. Miller regarding the Auditor position and would like to go into Executive Session to discuss the proposal. Commissioner Kroupa called for an Executive Session at 1:22 p.m. for fifteen minutes for the purpose of discussing a personnel matter. The meeting returned to regular session at 1:37 p.m.

With no further business to come before the Board, the meeting was adjourned at 1:42 p.m.

BOARD OF COMMISSIONERS  
PUBLIC UTILITY DISTRICT NO. ONE  
FERRY COUNTY, WASHINGTON

\_\_\_\_\_  
President

ATTEST:

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Vice-President

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Secretary

APPROVED:

\_\_\_\_\_  
Manager