

PUBLIC UTILITY DISTRICT NO. 1 OF FERRY COUNTY
REGULAR MEETING OF COMMISSIONERS
August 15, 2011

The regular meeting of the Board of Commissioners was called to order by President Doug Aubertin at 9:02 a.m. Present were Commissioners Aubertin, Chris Kroupa and Nathan Davis, and Manager John Friederichs, Auditor Sue Nush, Engineer/Superintendent Steve VanSlyke; Attorney Steve Graham and Secretary/Treasurer Jayne Jurgensen.

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

Visitors: Jim Oakley, Energy Northwest

The meeting was turned to Mr. Oakley who provided an overview of operations and events at Energy Northwest.

The minutes of the previous meeting were approved by a motion made by Commissioner Kroupa seconded by Commissioner Davis and unanimously carried.

A recess was called at 9:45 a.m. with the meeting reconvening at 9:52 a.m.

The Board went into Executive Session as per RCW 42.30.110 Subsection 1, paragraph I, at 9:53 a.m. for thirty minutes for the purpose of discussing potential litigation. Exiting the meeting were Secretary/Treasurer Jurgensen, Auditor Sue Nush, Engineer/Superintendent VanSlyke and Mr. Oakley. The Board returned to Regular Session at 10:23 a.m. with those individuals who had exited returning to the meeting.

A recess was called at 10:23 a.m. with the meeting reconvening at 10:28 a.m.

Reports:

The Engineer/Superintendent's Report was presented by Steve VanSlyke:

1. New construction and maintenance work is being completed even though the crew is short handed. A later summer break in the number of new line extension construction has helped.
2. Two fires have occurred in the past month. One started near the Pooler airport when a tree came through the 3-phase line. Fortunately Mt. Tolman personnel responded very promptly. The other was in Okanogan County near Hanging Rock which is near our system but was not related to the Utility.
3. Serviceman Tuttle has been released to return to work on Monday, August 22.
4. The service truck was again in for transmission repair work. The truck is now back into service.
5. Pole testing continues.
6. Brushing work continues in the Keller area.
7. Tree trimming work has begun. It is planned to have the Utility on a stable routine, five to seven year maintenance schedule. Most utilities are on a three to five year rotation. Our crew will work on the remaining dead and dying trees during the winter. It is planned to begin in the Bonaparte Lake area as this portion of the system is subject to outages during the winter.
8. The Board approved system upgrade for the City wells is progressing. The transformers have been set and completion of the project is dependent upon availability of the City's electrician.
9. The Department of Natural Resources may be more aggressive in collecting compensation for utility-caused fires. Manager Friederichs reported that the Utility has recently received the final report on the Fish Hatchery Fire. A brief discussion followed.
10. A discussion of the Engineer/Superintendent position, created by the Board in August of 2010, was held. Mr. VanSlyke presented a letter to each member of the Board detailing a proposal which he then presented. Manager Friederichs advised that Mr. VanSlyke had visited with him regarding the proposal which he felt was acceptable and would result in a salary increase. A lengthy discussion followed. Manager Friederichs presented salary comparisons for prior Engineering/Superintendent positions as well as prior Auditors. He recommended that Mr. VanSlyke's compensation be set at one-half step above the Union Crew Foreman and Mrs. Nush's compensation should be set commensurate with her education, abilities and experience. No decisions were made at this time.

Mr. VanSlyke thanked the Board for their time and exited the meeting at 11:00 a.m.

Commissioner Kroupa reported that a consumer had contacted him regarding a security deposit requested by Credit Manager Jurgensen. The consumer's pay history had been reviewed prior to requesting the deposit and has been reviewed with Commissioner Kroupa.

The Attorney's Report was presented by Attorney Graham:

1. A Settlement Agreement, as developed by Attorney Graham, for the Utility's overpayment of taxes to the State of Washington was presented for review. A motion was made by Commissioner Kroupa to approve the Settlement Agreement regarding privilege tax for the years 2007 through 2009 with the amendment as discussed. Commissioner Kroupa withdrew his motion. Attorney Graham is to develop an Agreement with the agreed upon changes later in the day.
2. Frontier Communications has yet to pay the Utility for the 2011 pole attachment billing. A letter received from Frontier has cited the recent court case won by Pacific County P.U.D. regarding the same issue. They do not consider this case final as it has not been heard by the Court of Appeals. The Board was in agreement that the Utility will pursue legal action as necessary and directed Attorney Graham to gather court records regarding the Pacific County suit. He is to send a letter to Frontier advising that, if the payment in full is not received by November 1, 2011, the Utility will pursue legal action.
3. A report has been received from the Utility's insurance company regarding the Fish Hatchery Fire which the Utility allegedly started. No communication has been received from the Department of

Natural Resources. Auditor Nush reported that the Utility has recently received several telephone calls from consumers who have heard from an undisclosed source that the Utility is reimbursing for damages associated with the fire. The Utility has paid one claim from the USDA-Forest Service which was handled directly by the insurance company in relation to investigation costs rather than property loss.

The Manager's Report was presented by John Friederichs:

Correspondence:

1. A thank-you has been received from the organizers of the Wauconda Sock Hop for the Utility's advertising support.

Meetings:

1. The Energy Northwest Member Forum will be attended by Commissioner Kroupa.
2. The CWPU meeting was held last week at the K-Diamond-K. The meeting was well attended and the setting was enjoyed by the visitors. A delicious barbeque luncheon was served.
3. A telephone meeting has been scheduled for Tuesday at 9:00 a.m. with SEDC to discuss the conversion and what will be involved. PCS is still not working very well - issues continue.

General Business:

1. Changes learned about the VEBA accounts have been shared with employees. Of primary importance is the use of an employee's account by a spouse who is enrolled in Medicare or Medicaid. All personal funds, including the VEBA account, will now be exhausted before either Medicare or Medicaid reimburses for expenses. The funds currently in the VEBA accounts cannot be moved but future allocations may be handled differently.
2. All CWPU Utilities have settled their Union Negotiations. This may be the first time a contract has been voted on the number of times as this year with utilities making no further changes.
3. The B.P.A. Conservation program is still not confirmed. Differing information as to the status of funds to be used. Currently, the Utility has no funding for programs.
4. The Utility must make a decision, by the end of September, how the Tier 2 will be calculated. Either load following or short-term. Account Representative, Ken Hustad has recommended the load following rate.
5. The rate workshop and public rate hearing were discussed. The Utility has been advising its consumers, in various news articles, that B.P.A. will be imposing a rate increase this fall. B.P.A.'s 9.2% increase with the possibilities of higher fluctuations depending on the Utility's actual usage will make the actual rate to pass along very difficult to calculate.

A Revolving Loan meeting has been scheduled for 5:00 p.m. with Eureka Thrift.

The meeting recessed at 12:02 p.m. for lunch reconvening at 1:13 p.m. Mr. Oakley did not return to the meeting.

Attorney Graham presented a corrected Settlement Agreement Number 11-02 for the Department of Revenue Case Number 01083.7 to the Board for final consideration. A motion was made by Commissioner Davis to accept Settlement Agreement Number 11-02. The motion was seconded by Commissioner Kroupa and unanimously carried. The document was then signed by Board President Aubertin.

Manager Friederichs presented salary information for both the Auditor and Engineer positions for Board consideration. Commissioner Kroupa questioned whether the proposed changes would cover the overtime exempt issues with the Auditor and Deputy Auditor positions. Manager Friederichs advised that the overtime exempt issue would be dealt with in the Policy Handbook and was an entirely separate matter. Attorney Graham advised that overtime is not to be allowed without prior Manager approval. Commissioner Aubertin stated that both Auditor Nush and Engineer/Superintendent VanSlyke were paid well under the level at which they should be receiving compensation. Steve VanSlyke joined the meeting at 1:44 p.m. with the discussion continuing. Commissioner Aubertin stated that the Board was in the process of discussing the management positions of Manager, Auditor and Engineer. Commissioner Davis stated that all salaries need to be kept in perspective. Commissioner Aubertin again stated that the Manager, Auditor and Engineer are all underpaid employees and that the matter should be resolved. A motion was made by Commissioner Aubertin to move forward with the proposal made by Manager Friederichs to correct the wage disparity for both the Auditor and Engineer. The motion was seconded by Commissioner Kroupa. With no further discussion the motion was unanimously carried.

Mr. VanSlyke exited the meeting at 1:53 p.m.

The Conservation Report was presented by Manager Friederichs:

1. Nothing further to report.

Commissioners:

Commissioner Kroupa:

1. Attended no outside meetings.

Commissioner Davis:

1. Attended no outside meetings.

Commissioner Aubertin:

1. Attended the Energy Northwest Meeting. Nothing further to add to Mr. Oakley's presentation made earlier in the meeting.

The Treasurer's Report was presented by Jayne Jurgensen:

1. Operating Funds available as of August 10, 2011 were \$1,233,136.95 with restricted funds of \$1,295,611.18. There were twenty-one outages in the month of July for a year-to-date total of Sixty-nine compared to one hundred twelve for the same period in 2010. The Revolving Loan/Grant Fund and the High Energy Cost Loan repayment reports were reviewed.
2. A sign-up sheet was presented for work in the P.U.D.'s booth during the Ferry County Fair.
3. The High Cost Loan customer discussed during the July meeting has brought their Grant payments current as a result of Attorney Graham's letter.
4. The annual WPUA meeting to be held in Pasco was briefly discussed. All Commissioners and Manager Friederichs will attend.

Attorney Graham exited the meeting at 2:00 p.m. returning at 2:17 p.m.

The Auditor's Report was presented by Sue Nush:

1. The rate workshop and public rate hearing were discussed. The Board was in agreement that the public rate hearing would occur on Monday, September 19 beginning at 6:00 p.m.

Commissioner Kroupa exited the meeting at 2:58 p.m. returning at 2:59 p.m.

2. The Commissioner's Workshop for the 2012 Budget was held. Another rate workshop will be held on Monday, August 29 beginning at 1:00 p.m.
3. The voucher listing was reviewed with the Board and questions answered. Warrants Numbers 7575 through 7663, direct payroll deposits numbers 9901299 through 9901330, Electronic Fund Transfer number 171 through 173 in the total amount of \$407,020.81 and voided warrant #4855 were approved by a motion made by Commissioner Kroupa, seconded by Commissioner Aubertin and unanimously carried.
4. Expenditures for the B.P.A./P.U.D. picnic totaled \$4,072.00. B.P.A.'s portion of the expenses \$1,038.00 has been billed and paid. Their portion contains no wages paid to any employee eligible for compensation for work on that day.

Lobbying: None

With no further business to come before the Board, the meeting was recessed at 4:15 p.m.

The meeting reconvened at 5:15 p.m. for the purpose of the Revolving Loan and Grant Fund Meeting.

Those present were Commissioners Aubertin, Kroupa and Davis, Board members Steve Graham and Dan Miller via telephone, P.U.D. Manager John Friederichs and Darlene Pearson with Eureka Thrift.

Mrs. Pearson provided documentation as requested at the July meeting and provided an update as to the purchase of the building. Mrs. Pearson and Attorney Graham will develop the documents to secure the \$43,000.00 loan.

With nothing further to come before the Board, the meeting was recessed at 5:40 p.m. to reconvene at 1:00 p.m. on Monday, August 29, 2011.

The meeting was reconvened by Board President Doug Aubertin at 1:10 p.m. on Monday, August 29, 2011 at 1:00 p.m. for the purpose of holding a rate and budget workshop.

Those present were Commissioners Aubertin, Kroupa and Davis, Manager Friederichs, Auditor Nush and Secretary/Treasurer Jurgensen.

Rate scenarios were presented by Auditor Nush with questions answered. Of primary concern is the change in B.P.A.'s billing practice which will make it impossible for the Utility to know exactly what its rates will be throughout the year. A lengthy discussion was held.

A recess was called at 3:02 p.m. with the meeting reconvening at 3:10 p.m.

The 2012 budget workshop was led by Auditor Nush. A discussion was held with questions answered. The need for another budget workshop was discussed with the Board in concurrence that another would be beneficial. The next budget workshop will be held on Wednesday, September 14 at 1:00 p.m.

With nothing further to come before the Board, the meeting recessed at 4:58 p.m. to reconvene at 1:00 p.m. on Wednesday, September 14, 2011.

The meeting reconvened at 2:56 p.m. on Wednesday, September 14, 2011 rather than 1:00 p.m. as originally scheduled. The meeting time was changed by a concurrence of the Board.

Those present were Commissioners Aubertin and Kroupa, Manager Friederichs, Auditor Nush and Treasurer Jurgensen.

The flag salute was lead by Commissioner Kroupa.

Auditor Nush lead the meeting by presenting various rate proposals.

Attorney Graham entered the meeting at 2:59 p.m. and exited at 3:01 p.m.

The Board discussed, at length, the rate proposals as presented. Auditor Nush advised that, based on B.P.A.'s billing change, it is not possible to predict at 100% accuracy what the Utility will be charged each and every month for purchased power and transmission costs. B.P.A. has created a billing process with any number of variables that may come into play at any given time based on usage. A primary factor may very well be our weather extremes which in the past have caused our power sales to increase. Now the same

increases in usage may very well cause the Utility to be required to purchase power on the open market at a non-regulated cost.

It was recommended, based on mathematical calculations using the Utility's actual power purchases and B.P.A.'s stated rate increase to Ferry County P.U.D., that a 6% rate increase be assessed on kilowatt hour usage and demand usage. The demand charge will apply to large power customers not residential consumers. A tiered billing demand charge may be implemented which will allow the Utility to assess a higher charge for those occasions when the large power customer actually exceeds their calculated maximum and causes the Utility to be assessed a higher demand charge. It is possible to calculate a maximum demand for each large power customer to allow for this billing calculation.

The 2012 Preliminary Budget was reviewed and discussed at length. It was stressed that the Budget has been developed based on anticipated costs for the coming year and is not firm but subject to Board review, modification and approval.

Auditor Nush requested Board direction for developing the rate increase and 2012 Budget. Commissioners Aubertin and Kroupa concurred that the rate increase would be at 6% and the 2012 Budget developed based on this figure.

The Public Rate Hearing will be held on Monday, September 19 beginning at 6:00 p.m. at the Republic Elementary School.

Auditor Nush advised that the rates charged for security lights had not be changed since 2001 and that it will now be necessary to adjust these rates. The Board concurred with the rates presented.

Manager Friederichs explained that the Regular Board Meeting would recess to be reconvened at the Rate Hearing. The Rate Hearing would then be recessed and the Board would reconvene at a date, to be set, to finalize the rate process. A brief discussion followed with the Board concurring that the meeting would reconvene on Tuesday, September 20, 2011 at 1:00 p.m.

With nothing further to come before the Board, the meeting adjourned at 4:35 p.m.

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

President

ATTEST:

Vice-President

Secretary

APPROVED:

Manager