

PUBLIC UTILITY DISTRICT NO. 1 OF FERRY COUNTY
REGULAR MEETING OF COMMISSIONERS
December 17, 2007

The regular meeting of the Board of Commissioners was called to order by President Chris Kroupa at 9:12 a.m. Present were Commissioners Chris Kroupa, Gregg Caudell and Nathan Davis, Manager Roberta Weller, Auditor Jennine Groth and Secretary/Treasurer Jayne Jurgensen. Conservation Director John Friederichs, General Foreman Randy Sage and Attorney Graham joined the meeting later during the day.

All stood for the Flag Salute which was lead by Commissioner Kroupa.

The minutes of the previous meeting were discussed at length, amended and approved by a motion duly made, seconded and carried.

Public Comment Period: None at this time.

Visitors: Deana Zakar, TEDD, Leslie Jones, TEDD, and Dennis Wuerth

Reports:

The Manager's Report was presented by Roberta Weller:

Correspondence:

1. People Power has a new website and it can be reached trough www.pplpwr.org.
2. A consumer has written expressing concern that the Utility is not utilizing the local Post Office in the mailing of bills. It was explained that the decision was made to use an outside entity for the mailings as they were recommended by PCS and are familiar with the process. An electronic file is emailed to the company and the bills are processed and in the mail the following day. The local business interested in the work does not have the capability to stuff the billings electronically and there is a privacy issue with outside individuals folding and stuffing the mailing. The Manager will contact all of the consumers who have shared their thoughts on the issue.
3. A response has been received from Federated Insurance regarding the damage claims submitted for the purported electronic damage resulting from a power surge. The insurance company has determined that the claims could not be paid as the situation was the result of a weather related outage and not any fault of the Utility.

Ms. Deana Zakar with TEDD joined the meeting at 9:40 a.m.

4. A letter has been received from a consumer who expressed their appreciation for the fast and efficient response to their personal power outage. A copy of the letter has been posted at the shop.
5. A letter has been received regarding the Washington Ag & Forestry Leadership program. The Utility was given the opportunity to participate in the program. The Utility will not participate.
6. A 2008 membership notification has been received from the Eaglecliff Grange. Manager Weller explained that she has personally been buying a membership for the Utility for the past several years and questioned the Board's wishes. A discussion followed with a motion made by Commissioner Davis to support the Grange by paying the 2008 dues. The motion was seconded by Commissioner Caudell and passed with Commissioner Kroupa abstaining from the vote as he is a member of this Grange.

Ms. Leslie Jones with TEDD joined the meeting at 9:47 a.m. The meeting was turned to Ms. Jones and Ms. Zakar. Ms. Jones introduced herself as the Executive Director of TEDD. She explained that she began working in June and has quite an extensive background with the programs offered. Ms. Zakar was introduced as the local TEDD Representative. They are interested in developing and improving the relationship between the Utility and TEDD.

Attorney Graham, Mr. Mike Fagley and Staking Engineer Steve VanSlyke joined the meeting at 10:05 a.m.

The Board continued to discuss the TEDD programs with Ms. Jones. Information on their loan program and their evaluation process will be provided. The Board was thanked for their time and the ladies exited the meeting at 10:14 a.m.

The meeting was turned to Mr. Fagley. Attorney Graham provided the background information pertinent to Mr. Fagley's visit. Because of the delays in the Kinross /Buckhorn project Alpine Construction was never given the authorization to begin their portion of the project. Mr. Fagley presented an adjustment to costs and expenses to the existing contract of 2% due to inflation and an amendment to the fuel costs of \$.62 per gallon. He also questioned whether additional compensation would be allowable if he were required by

Kinross to haul sand to the minesite at Chesaw via Tonasket and Oroville. He also stated that he has a concern regarding the unit prices if he were to encounter rock when doing the underground work. Attorney Graham questioned the Board whether these requests could be approved by the Board with a new agreement prepared for Kinross to approve or whether this would require the entire project to be re-bid. The Performance Bond amount and was also discussed. The Board was advised that under ~~CFR~~ RCW Title 39 an emergency situation could be declared which would allow the Board to make the changes. Mr. VanSlyke reported that he has spoken with Kinross representatives and they appear to be in favor of Alpine Construction continuing with the contract and the proposed fuel increase. After further discussion, the Board was in agreement that staff and Attorney Graham develop a plan, present the plan to Kinross and then to the Board later in the week. Attorney Graham will meet with Manager Weller and Staking Engineer VanSlyke at 4:00 p.m. on Tuesday December 18. Messrs. Fagley and VanSlyke exited the meeting at 10:30 a.m.

A brief recess was declared at 10:30 a.m. with Mr. Dennis Wuerth joining the meeting.

The Attorney's Report was presented by Attorney Graham:

1. Research has been done, as per the Board's request, regarding the Republic School District's request to use the Utility's radio frequency in the buses. A sample contract was presented to the Board for their consideration. It was explained that a simple contract or letter of agreement which may be signed by the Manager would be adequate. The Board was in concurrence that an agreement be put into place. A motion was then made by Commissioner Caudell approving a letter of agreement between the Republic School District and the Utility for their use of the Utility's radio frequency. The motion was seconded by Commissioner Davis and unanimously approved.
2. The planned trip to the Gonzaga Law Library for research into the draft petition for the possible annexation of Okanogan County residents has been accomplished. The draft petition will be provided to the Okanogan County Prosecuting Attorney later in the week.
3. Will be on vacation December 26 through January 1.
4. The repayment matter for Mr. and Mrs. Lust has been resolved. They did not respond to his letter but have begun making the required monthly payment which indicates, albeit implicitly, their agreement. They were granted the same amount of time to repay the debt as it took to incur it.

Commissioner Caudell questioned the claims for damages resulting from the November 12 power outages. Manager Weller explained that the first claim for a pumping station was forwarded to Wilson Construction. The other claims were denied by Federated Insurance because the outage was an act of nature and no fault of the Utility's. The letter stated that the outage "was not a result of anything the Utility could have corrected or done on their own and no action on the part of our insured could have prevented damages as a result of a weather related incident".

General Foreman Sage joined the meeting at 11:07 a.m.

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

1. A check has been received for the pole replacement and timber felling in the Reservation burn area.
2. Some maintenance work is being accomplished between work orders.
3. Has just converted all cell telephones in the trucks to Verizon Wireless. Has followed up on the possibility of Verizon expanding their service area in the northern portion of the County. At this time Verizon has no plans to expand their service area by adding additional towers. Verizon has purchased Unicel and will be adding their equipment to those towers already in place. The Verizon representative explained that their decisions were based on the economic aspect of the area. The current satellite telephone system installed in each service truck was also discussed. This system has not worked as well as hoped as some of the satellites are being dropped. Have been told that this is only a temporary situation. The possibility of upgrading to the cell phones to those with GPS tracking capabilities was discussed. These have already been researched and are cost prohibitive at \$1,600 per unit. The Board was asked to support better coverage in the northern portion of the County.

Attorney Graham explained that he is developing an agreement for the Department of Transportation to utilize the Franson Peak radio communications building and questioned the route the telephone line takes to reach the building. The possibility of meeting with all of the County, State and Federal entities that would benefit from expanded T-1 coverage was discussed. CTED may also be able to play a part in developing such a plan. Manager Weller was assigned the task of arranging the meeting to discuss providing T-1 service to Franson Peak.

Mr. Sage was thanked for his time and he exited the meeting at 11:54 a.m.

The Treasurer's Report was presented by Jayne Jurgensen:

1. Operating Funds available as of December 10, 2007 were \$1,212,633.95 with restricted funds of \$1,308,027.42. There were seven outages in the month of November for a year-to-date total of one-

hundred thirty-three compared to one-hundred fifty-one for the same period in 2006. The Revolving Loan/Grant Fund and the High Cost Grant repayment reports were reviewed.

The meeting recessed at 12:04 p.m. reconvening at 1:00 p.m. The meeting was opened at this time for the purpose of the public hearing for the Budget Review. Auditor Groth led the budget review.

Mr. Wuerth joined the meeting at 1:15 p.m.

Attorney Graham exited the meeting at 1:51 p.m. for the remainder of the day.

A brief recess was called at 1:56 p.m. with the meeting reconvening at 2:00 p.m. General Foreman Sage and Mr. Wuerth did not return to the meeting.

A motion was made by Commissioner Caudell to include the Manager's message, as included in the Budget booklet, in the minutes of the December 17, 2007 Board Meeting. The motion was seconded by Commissioner Kroupa and unanimously carried. Manager Weller will make the requested changes to the document and email it to the Board for their approval prior to insertion into the Minutes.

Resolution 07-18 "A Resolution Authorizing Adoption of Budgets" was approved by a motion made by Commissioner Kroupa, seconded by Commissioner Davis and unanimously carried.

The Auditor's Report was presented by Jennine Groth:

1. The voucher listing was reviewed with the Board and questions answered. The Board approved Warrants Numbers 2310 through 2421, wire transfer numbers 21 and 22 and direct deposits number 31 through 48 in the total amount of \$417,606.10 by a motion made by Commissioner Davis, seconded by Commissioner Caudell and unanimously carried.
2. The Financial and Statistical Report was presented.
3. The D. Hittle & Assoc. report was presented and discussed. The alternative retail rate scenarios as developed by D. Hittle & Assoc. was reviewed and discussed. The need for a rate increase was considered and the requirement for a public rate hearing was discussed. Mr. Heberling will be contacted to confirm his availability.

A recess was called at 3:03 p.m. with the meeting reconvening at 3:09 p.m.

Commissioner Kroupa made a motion to adopt Option Number 2 "Alternative Retail Rate Scenario". The motion was then recalled by Commissioner Kroupa.

Manager Weller continued her report:

Correspondence - Continued

7. A thank-you has been received from the Washington Cattlemen's Association for the Utility's continued support.
8. NW Power and Conservation Council is seeking comments on the Interim Wholesale Power Forecast. Information is being forwarded to Mr. Tom Karier on B.P.A.'s dwindling conservation program and related financing.
9. Information has been received from Vicki VanZant, B.P.A. Senior Vice-President of Transmission explaining that the California/Oregon inter-tie is very important and should be completed.
10. An introductory letter has been received from new B.P.A. CEO Anita Decker.
11. An offer has been extended to the Utility to join PNUCC. Dues are \$600. The Utility is currently not a member and will not join.
12. January 31, 2008 is the deadline to submit nominations to NWPPA for the various 2008 awards.

Meetings:

1. The 68th Annual NWPPA Conference will be held in Anchorage, AK May 18 through 22.
2. Conservation Director John Friederichs will attend the January 17 CERB meeting at SeaTac regarding the funding for the Columbia River Carbonates line extension. Commissioner Kroupa will also attend.
3. Commissioner Caudell will not attend the January WPUA meeting.
4. The Harvesting Clean Energy Conference has been scheduled for January 27 through 29 in Portland, OR.

General Business:

1. Continuing to work with the Department of Labor on the special use permit or easement for the Job Corps Substation. At this time it appears that the Utility will be granted a perpetual easement. Senator Cantwell's office has been helpful in the process. Once the easement has been obtained the Utility will continue to work with the Department of Labor to purchase the property for a nominal fee.
2. A conference call was held on December 14 with RUS and Power Engineers. The draft construction work plan, which covers the next four years, was reviewed and discussed with changes made. The completed document is to arrive by the 18th for the Board's review later in the week.

3. A recap of the Managers Section Meeting, held during the Annual Meeting, was presented. The State Auditor's Office apologized for having to be more critical on their audits performed on utilities as they are working under new rules.
4. The Utility has again been offered the opportunity to participate in a NW Benefits Survey at the cost of \$695. The survey covers medical benefits, wellness, wages and benefits. The Utility will not participate.
5. The annual employee dinner scheduled for January 21 was tabled as the Carousel Building is not available on that date.

Commissioners:

Commissioner Kroupa:

1. All Commissioners attended the WPUA Annual Meeting and there is no new information to share. The main topic of discussion at the meeting was energy in the future, carbon caps and various legislation. It was also announced that Manager Bobbi Weller would be retiring and she received a standing ovation.

A recess was called at 3:42 p.m. with the meeting reconvening at 3:50 p.m.

The Board went into Executive Session for fifteen minutes at 3:55 p.m. for the purpose of discussing the hiring of a new Manager and associated questions for the interviews. The Board returned to regular session at 4:16 p.m.

Conservation Director John Friederichs joined the meeting at 4:16 p.m. for the purpose of presenting the Conservation Report.

1. B.P.A. rebates are again available for energy efficient clothes washing machines. Unfortunately the rebates are not as large as previously offered and range from \$25 to \$70. EnergyStar rebates for dishwashers and refrigerators remain at \$25 each.
2. Has researched irrigation incentives. Most of the programs available are based on retrofitting older systems.
3. The installation of the PV system on the Assisted Living facility has been completed and has been working well. Today the inverter is off-line.
4. The Puget Sound Business Journal will publish an article spotlighting the technology involved in the biomass-to-methanol proposal. An inquiry regarding possible funding for the project has been submitted, on the Utility's behalf, to Google's RE<C (Renewable Energy Cheaper than Coal) Initiative.
5. No work has been accomplished this winter on the remaining High Cost line extensions.
6. The CERB application has been submitted for the Columbia River Carbonates line extension. The January 17 meeting at SeaTac will determine whether the project is funded. A Columbia River Carbonate representative will also be in attendance.

Commissioner Kroupa questioned whether the Board could be of assistance in improving the B.P.A. rebate for heat pumps. Mr. Friederichs explained that two utilities are in favor of the requirements and B.P.A. is aware that the majority of the utilities are not in favor of the revised standards.

Mr. Friederichs was thanked for his report and he exited the meeting at 4:38 p.m.

The public rate adjustment hearing was again discussed. Commissioner Kroupa made a motion to implement a rate adjustment utilizing Option #2. The date of the public hearing will be established between December 17 and January 18 after consultation with Mr. John Heberling. The motion was seconded by Commissioner Davis and unanimously approved.

The meeting recessed at 4:47 p.m. until 2:00 p.m. on December 20, 2007.

Lobbying: None

Commissioner Chris Kroupa called the meeting to order at 2:05 p.m. on Thursday, December 20, 2007. Present were Commissioners Kroupa, Gregg Caudell and Nathan Davis, and Manager Roberta Weller. A discussion was held regarding a Public Hearing for a proposed Rate Increase. John Heberling from D. Hittle & Associates will be available on Tuesday, January 8, 2008. There will be more discussion on this issue later.

The Board went into Executive Session at 2:10 pm for the purpose of interviewing applicants for the position of General Manager for a period of one hour.

The Board came out of Executive Session at 3:10 pm and took a 5 minute recess.

At 3:15 the Board reconvened and discussed the proposed Rate Hearing. The Board was in concurrence to hold the Hearing on Tuesday, January 8, 2008 at 7:00 pm in the Multipurpose Room at the Republic Elementary School. Mr. Heberling will meet with the Board prior to 7:00 pm.

The meeting was recessed at 4:00 pm, to reconvene at 8:00 am on Friday, December 21, 2007.

Commissioner Chris Kroupa called the meeting to order at 8:05 am on December 21, 2007. Present were Commissioners Kroupa, Gregg Caudell and Nathan Davis, and Manager Roberta Weller.

The Board went into Executive Session at 8:10 am for the purpose of interviewing applicants for the position of General Manager for a period of one hour.

At 9:10 am the Board continued Executive Session for a period of one hour.

At 10:10 am the Board continued Executive Session for period of 15 minutes.

At 10:25 am the Board came out of Executive Session.

The Board held a phone conference with John Saven, NRU, to discuss the Rate Case. BPA cannot adjust rates except through a Rate Case. Discussion was held on the Standstill Contracts that will soon be offered Publics to sign in order to receive funds back that have been paid to BPA for the IOU payments. The Court had ruled these payments illegal and BPA is attempting to find legal avenues for repayments to the Publics. If the Publics sign the Contract, they are agreeing not to sue BPA for what the IOU's should get at the end of fiscal yr. 2008. All the Publics would be giving up is only the right to go to Court immediately to stop the interim payment. Mr. Saven stated that in 2009, we should see about a 2 mill reduction in rates from BPA. However, Congress may push for advance payments again, and if that happens, rates may stay the same.

The new LLC formed by Mr. Saven's group was discussed. The fee is based on 50% of the 2006 dues, which for Ferry County PUD would be \$3,043.00. This would be a front-end payment if the District chose to join. This LLC would search for power resources over the District's high-water mark, which will be established in 2010. The District is not experiencing any industrial growth at this time. The phone conference ended at 11:15 a.m.

The Board agreed it would meet again on Friday, December 28, 2007, at 9:00 a.m. to discuss the interviews.

Board recessed at 11:25 am to reconvene again at 12:55 pm.

The Board reconvened at 12:55 pm and went into Executive Session for the purpose of interviewing applicants for the position of General Manager for a period of one hour.

At 1:55 pm the Board continued Executive Session for a period of one hour.

At 2:55 pm the Board continued Executive Session for a period of 50 minutes.

At 3:45 pm the Board came out of Executive Session.

The Board held a phone conference with John Heberling of D. Hittle & Associates regarding the proposed Rate Increase Hearing. The BPA Standstill Agreement option was discussed with Mr. Heberling. Options of whether or not to continue with the Rate Hearing were discussed. If the District signs the Contract when it is offered, funds will be transferred into the District's account immediately. If the District does not sign the Contract, funds will still be remitted, but it will be at the end of the fiscal year. Because of the large increase in the price of all materials, especially fuel and steel, the Board concurred to continue with the Rate Increase Hearing. Mr. Heberling will meet with the Board at 4:00 pm on January 8, 2008. The phone conference ended at 4:15 pm.

Commissioner Kroupa recessed the meeting at 4:16 pm to reconvene at 9:00 am on Friday, December 28, 2007.

Commissioner Kroupa called the meeting to order at 9:15 am on December 28, 2007. Present were Commissioners Kroupa, Gregg Caudell, and Nathan Davis, and Manager Roberta Weller.

The Board reviewed a handout of the Minutes of the 12/20-21/07 meetings. A letter from David Gardner was read.

The Board went into Executive Session at 9:16 am for one hour to discuss potential applicants for the General Manager position.

At 10:16 am the Board came out of Executive Session.

The Board announced that it had decided to offer the Gen. Mgr. position to Mr. Ron Ihrig and a phone conference call was placed to Mr. Ihrig. The Board and Mr. Ihrig discussed several issues involving the position of General Manager. Mr. Ihrig stated he would call Commissioner Kroupa at his home later this date to give him a final answer.

The meeting was recessed at 10:55 am to reconvene again at 9:00 am on Wednesday, January 2, 2008.

Commissioner Kroupa called the meeting to order at 9:00 am on Wednesday, January 2, 2008. Present were Commissioners Kroupa, Gregg Caudell, and Nathan Davis, and Manager Roberta Weller.

Commissioner Kroupa reported to the Board that Mr. Ron Ihrig called Mr. Kroupa at home later on December 28, 2007, and declined the offer of the General Manager's position due to his family concerns. He thanked the Board for the offer.

Commissioner Caudell stated that he wanted it in the Minutes that he, Commissioner Caudell, had called Manager Weller and asked her to contact the other Commissioners individually to discuss offering Mr. Ihrig more money, but that the other Commissioners chose not to do that. **Added for clarification at 01/21/08 meeting- Based on a telephone conversation with Mr. Ihrig,** Mr. Kroupa stated that he knew more money was not going to get Mr. Ihrig to change his mind. Discussion was then held on candidates Gardner and Friederichs.

The Board went into Executive Session at 9:30 a.m. for the purpose of discussing potential applicants for the General Manager's position for 15 minutes.

At 9:45 am the Board continued Executive Session for 15 minutes.

At 10:00 am the Board continued Executive Session for 15 minutes.

At 10:15 am the Board continued Executive Session for 15 minutes.

At 10:30 am the Board continued Executive Session for 30 minutes.

At 11:00 am the Board continued Executive Session for 15 minutes.

At 11:15 am the Board took a 5 minutes break and went back into Executive Session at 11:20 am. for 30 minutes.

At 11:50 am the Board continued Executive Session for 10 minutes.

At 12:00 Noon, the Board recessed for a 30 minute Lunch.

At 12:30 pm, Commissioner Kroupa reconvened the Meeting into regular session.

Commissioner Kroupa moved to offer John Friederichs the position of General Manager. Commissioner Davis seconded the motion. Motion carried with two yea votes and one nay vote.

Commissioner Kroupa directed Manager Weller to notify the other candidates and Commissioner Kroupa will contact Mr. Friederichs. It was pointed out that an official letter would be drafted to Mr. Friederichs stating that his official start date as General Manager would be March 4, 2008, and a copy of said letter would be placed in his personnel file for the record. A Resolution will be drafted for the Board's signature.

Commissioner Kroupa adjourned the meeting at 12:45 pm.

PUBLIC UTILITY DISTRICT NO. 1 OF FERRY COUNTY
PUBLIC RATE HEARING
REPUBLIC ELEMENTARY SCHOOL
January 8, 2008

The Public Rate Hearing was called to order by Board President Chris Kroupa at 7:10 p.m. Utility personnel present included Commissioners Chris Kroupa, Gregg Caudell and Nathan Davis, Manager Roberta Weller, Auditor Jennine Groth, Secretary/Treasurer Jayne Jurgensen, Conservation Director John Friederichs, General Foreman Randy Sage and Staking Engineer Steve VanSlyke

Consumers present were Stephanie Connor, James Connor, Suzie Sage, Darlene Gliddon, James Gliddon, Sharon Koontz, Brenda Starkey, Dan MacIntyre, Valerie MacIntyre and Betty Buckley.

Utility employees were introduced as was Mr. John Heberling of D. Hittle & Associates.

All stood for the Flag Salute which was lead by Commissioner Kroupa.

The meeting was turned to Mr. Heberling who presented a summary of the Utility's financial status. Information on the 2008 budget was also presented. The anticipated 2008 shortfall ~~of is~~ \$150,000. ~~was presented and it was explained that~~ This is the result ~~after~~ of several reductions **had been** made by the Board.

Following Mr. Heberling's presentation the meeting was opened for public comment. Comments may be found in the Rate Hearing file. The Board was in agreement that they would not finalize the Resolution that evening and would give those present until the January 21st Board Meeting to generate additional public comment. The meeting was adjourned at 8:38 p.m.

PUBLIC UTILITY DISTRICT NO. 1 OF FERRY COUNTY
SPECIAL MEETING OF COMMISSIONERS
January 14, 2008

The meeting was called to order by President Chris Kroupa at 9:12 a.m. Present were Commissioners Kroupa, Gregg Caudell and Nathan Davis, and Manager Roberta Weller.

The Board went into Executive Session for a period of one-half hour for the purpose of discussing the Letter of Resignation received from the Auditor.

The Board came out of Executive Session at 9:45 a.m.

Commissioner Kroupa announced that a Letter of Resignation had been received from Auditor Jennine Groth. He felt it was important to discuss this issue with John Friederichs, the incoming General Manager. He stated Auditor Groth had asked for a letter of support from the whole Board. Commissioner Caudell commented that Auditor Groth had asked Mr. Friederichs questions regarding her position. The Board could write a letter telling her the position (Auditor/Office Manager) was hers as long as she is the Auditor. **01/21/08 Board Meeting, Comm. Caudell clarified with the explanation that he would like the Board to provide a letter to Auditor Groth assuring her that the Auditor's duties include Office Manager and also include the associated salary.** If Mr. Friederichs thought that he couldn't do the job without an Auditor, then he could reconsider and the Board could reconsider.

The Board asked to see the Job Description of the Auditor/Office Manager and a copy was supplied for review.

The Board discussed further how to proceed with the Auditor's position and felt it was only fair to discuss this issue first with John Friederichs. Mr. Friederichs is tied up in a Jury ~~Trial~~ **Duty** so this matter will be brought up at the regular Board meeting on Monday, January 21, 2008. After the Board holds its discussion with Mr. Friederichs, the Board will make a decision on the Letter of Resignation of Auditor Groth and for advertising for a new Auditor.

Meeting was adjourned at 10:15 a.m.

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

President

ATTEST:

Vice-President

Secretary

APPROVED:

Manager

GENERAL MANAGER'S MESSAGE

Another year has passed and the electrical industry continues to face many challenges, both old and new. The Bonneville Power Administration (BPA) struggles with allocating the system, is re-grouping after being handed a defeat in the 9th Circuit Court over payments made to the Investor Owned Utilities (IOU's), and continues to receive demands for more assistance for the fish. On the bright side, BPA has had a good financial year and has made its Treasury payment on time.

Locally, our District is struggling to maintain our system and our fleet in good working condition and stay within our budget, due to the rising costs of fuel and metals, and no new industrial accounts. Our industrial customer Kinross Gold has not been able to proceed as quickly as planned with the start-up of Buckhorn Mine. This is due to a delay in permitting. That load was projected to be on line in September 2007 and now it has been projected out to September 2008. Of course, without the Mine in operation, another one of our industrial accounts, the milling process plant, is also down. The District did manage to contract out an upgraded distribution line from Curlew to just past the Job Corps Substation this past summer, and when the road to Buckhorn is complete, that line will continue right to the mine. Hopefully that will be completed as early as possible this coming spring. The new assisted-living wing at the Hospital has been completed and solar panels are being erected on the roof. Construction for new homes continues to grow, especially around the Curlew Lake area. Through the third quarter of 2007, there have been 110 building permits issued for Ferry County, compared to 112 for the same time last year.

The District's high cost line extension program, which was financed through an \$888,000.00 USDA grant award, is just being completed, with the last of the funds assigned to extensions that will begin construction at the first sign of spring. This was a very successful program and one the Commissioners are studying to see if there is a possibility of making it an on-going program. Likewise, the expanded solar program is working well, with a total of 6 solar accounts now on the District's system.

With skyrocketing fuel and metal prices, the cost to operate the District has increased dramatically. This has certainly created an impact on our operating margins. Just keeping the District's power lines and fleet in good working order keeps us financially at bare-bones. Although BPA has announced it will not raise rates for 2008, it did make a change in the monthly charges allocated to us. It charges more per mWh in the winter and less per mWh in the summer. Since our District is winter-peaking, the final outcome results in the District paying out more dollars. Although we are in the sixth year of a 10-yr. contract with BPA on the power side, and a 30-yr. contract on the transmission side, BPA is busy getting new contracts ready for its customers. The District must study these new contracts carefully.

The District proudly obtained a new lineman this year when its apprentice lineman advanced through the final step. A new apprentice was chosen immediately to begin his journey through the apprenticeship program. Staffing remains at 17 full-time, 2 part-time and the 3 commissioner positions. At this time, labor negotiations are beginning as the District is operating in the third year of a three-year contract with the Labor Union.

The transmission plans for 2008 will include the installation of reclosers and regulators on the newly constructed 34.5 transmission line to the Buckhorn mining project. The plans for this project will also include the construction of the underground portion of this line in the Marias Creek Road and its energization. The tree trimming and dead tree removal will extend throughout our 34.5 transmission system to maintain its reliability.

This coming year the District plans to replace the poles tested in 2007. These poles are located west in the Wauconda and Lost Lake areas, and north between Curlew and Danville. The new customer line extension requests and completions have still been widely spread throughout our serving area. We will have a very active tree-trimming program, with a mechanized under line brush removal program in several areas throughout the District.

The District's new computer system was installed this past year and the new programming for customer collection assists the District in monitoring accounts closely. Our Bad debt write-off for 2007 was just over \$11,000.00, a decrease from 2006. The ability for our consumers to now pay with a credit card also keeps the bad debt down.

Membership dues in the many groups in which the District participates will increase, but it is important for the District to remain with these groups in order to receive up to date and factual information concerning the many serious issues now facing the electrical industry.

The District continues to receive the maximum benefit for the reduction in public utility tax for low-density electric distributors. Also, the District has 36 accounts under the regulation of Public Utility Tax exemption for services provided to Indian Tribes and Indian Persons living and/or doing business on reservation or trust land.

Continued steady progress in the repayment of the District's outstanding long-term debt is resulting in declining interest expenditures each year. RUS-required studies are just about complete in case the District begins to look to RUS for future financing.

The interest rate at the beginning of 2007 was 5.246% and it has dropped to a low for the year of 4.7335% in the month of November. Most of the District's cash reserves are invested in long term bonds. The District continues to meet its debt service requirements as they mature. The RUS debt shows an increasing percentage of the payments being applied to the principle as opposed to interest.

It is very important that the District commence pole replacements in 2008, which will be the biggest capital improvement project for the year, followed by the replacement of vehicles. A pick-up, backhoe and UTV are scheduled for replacement. Total fleet mileage for 2007 will be approximately 166,182 miles, which is higher than last year.

The capital budget is lower this year than in the past. It must remain low due to the fact that some months show expenses increasing over revenues. As our finances continue to dwindle, we must be very prudent with our expenditures and must face the reality that a rate increase may be necessary.

We are proud of the daily customer service we provide to our consumers and we are also very proud to live in one of the five "Public Power" States in the U.S.