

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

Date: May 23, 2017

Time: 9:00 a.m.

Place: 2721 West 10th Avenue, Kennewick, Washington

Attendees:

Commissioners Bush, Hall and Sanders

General Manager Bartram

Assistant General Manager Hunter

Legal Counsel Hultgrenn

Senior Director of Engineering and Power Management Dunn

Director of Finance Meyer

Director of Customer Programs and Services Ball

Manager of Communications and Governmental Relations Miller

Manager of Risk Management & Treasury White

Manager of Human Resources Wenner

Manager of Power Resources Johnson

Manager of Accounting Zirker

Manager of Information Technology Folta

Power and Energy Programs Analyst Mapes

Power and Rates Analyst Dykes

Supervisor of Executive Administration Cole

Executive Assistant to the Assistant General Manager Schlekewey

Guest Speakers: Scott Corwin, Public Power Council; Randy Gregg, The Energy Authority; Tony Georgis, NewGen Strategies & Solutions.

Additional Attendees (after strategic planning):

Manager of Key Accounts McAloon, Manager of Contracts & Purchasing Ochweri, Manager of Applications & Integration Holbrook

Public Comment: Tyson Fellman, customer; Ken Mey, customer

The Pledge of Allegiance was given.

President Barry Bush asked for public comment prior to beginning the strategic planning discussion. After no comment was received, President Barry Bush stated public comments relating to strategic planning would be accepted at interim periods throughout today's presentations.

Strategic Planning Discussion (Power Supply, Financial Forecast, Rate Structure)

General Manager introduced Mr. Scott Corwin of the Public Power Council, Tony Georgis of NewGen Strategies, and Mr. Randy Gregg of The Energy Authority. General Manager gave a Strategic Planning Overview presentation that included upcoming strategic planning dates of June 13, 2017 for the topics of customer engagement, emerging technologies and capital planning, a strategic planning recap meeting to be discussed on July 11th, and customer meetings called "Plug Into Your Future" in late summer or early fall. An article entitled, "California regulators wrestle with dramatic changes, consumer choice" from Public Power Daily was distributed and briefly discussed.

Power Supply

Senior Director of Engineering and Power Management gave a presentation, reviewing net power costs, uncertainty themes and the District's current portfolio for power supply, including generation resources/costs and load/resource balance.

Mr. Corwin continued the presentation, discussing uncertainty topics as BPA costs, including the Snake River Spring/Summer Chinook life cycle and regulatory impacts, and other uncertainties as identified in the BPA Strategic Outline. He reviewed energy imbalance market participation, and potential uncertainty with the new Administration/Congress in the areas of opportunities/risks for BPA and public power, the energy policy – Columbia River Treaty, budget policy, and environmental policies.

Commissioner Lori Sanders asked if there was an opportunity for public power to purchase the BPA transmission system if the new Administration determines it should be sold, and a brief discussion was held.

At 10:30 a.m., President Barry Bush stated the commission meeting would recess for 10 minutes.

At 10:40 a.m., President Barry Bush reconvened the commission meeting into regular open public session.

Senior Director of Engineering and Power Management continued the presentation, discussing secondary market sales, buying from the market, market power availability and new large load power supply considerations.

Mr. Tyson Fellman asked about energy storage as an option, and Senior Director briefly discussed when and if it would be economically viable.

Financial Forecast and Rate Structure

Director of Finance gave a presentation on the District's financial forecast and rate structure, including future considerations. Director stated BPA is projecting an October 1, 2017 increase in power rates that would increase the District's BPA rates by about 4%, or \$2.4 million annually. The District is currently forecasting an overall increase of 2.1% to retail rates effective

October 1, 2017, which is entirely attributable to the projected increase in BPA rates. The District is forecasting to go approximately 19 months to May 2019 before its next projected retail rate increase. BPA is currently analyzing effects of court ordered mandated spill, which could cause the final BPA rate increase to be even higher and could result in a higher retail rate increase in 2017 in order to cover these additional costs. He stated additional information will be brought to the Commission in the June/July 2017 timeframe, and noted that customer rate meetings may be planned for August.

Director introduced Mr. Tony Georgis who assisted in the presentation on the base charge strategy that included fixed costs versus fixed revenues. At the conclusion of the presentation, Director recommended a gradual increase of the base charge over time which should keep the District near the median of benchmarked utilities, and an October 2017 increase entirely to the base charge for residential, projecting an increase from \$16.50 to \$18.90, to gradually fix a historical misalignment of fixed costs versus fixed revenues.

Commissioner Lori Sanders asked if the low income policies were adequate, and Director stated there would be an impact to the low income senior and disabled customers, depending on if their discount was applied to a percentage of their usage or the base charge, whichever was greater. Commissioner Barry Bush stated he would consider a quicker approach to increasing the base charge and stated those using the system should be paying their share. Commissioner Lori Sanders asked if it was staff's intent to obtain total cost recovery, and how long it would take to get there. General Manager recommended continuing with the principle of gradualism which would keep the District around the median of benchmarked utilities.

Mr. Mey asked why one utility on the chart comparing monthly base charges was higher than the rest. Staff answered it was based on their service territory characteristics which included many vacation homes.

Mr. Fellman stated he was opposed to increasing the base charge and stated it was basic economics to use what you pay for, and that in high density areas, such as apartments, the base charge analysis does not work. He also stated the Washington UTC has determined that the methodology for calculating a higher base charge was flawed. Mr. Georgis disagreed and briefly explained the base charge analysis, noting it was cost-based. He also stated that the UTC's determination was not a disagreement with the methodology of calculating fixed costs and base charges, but rather a policy decision. Commissioners Sanders and Bush acknowledged Mr. Fellman's concerns in the area of density.

At 12:25 p.m., President Barry Bush announced that the commission meeting would recess for 30 minutes, and would then reconvene at 1:05 p.m. and go into executive session for 30 minutes with legal counsel to discuss potential litigation.

At 1:05 p.m., President Barry Bush reconvened the commission meeting into regular open session and announced that the executive session with legal counsel to discussion potential litigation would now begin for 30 minutes.

At 1:35 p.m., President Barry Bush reconvened the commission meeting into regular open public session.

Answering a question asked prior to the break, Manager of Risk Management and Treasury indicated that if projected revenue increases were made entirely to the base charge the District could reach the current COSA level of \$28 for the base charge by 2021.

Director of Finance continued the financial presentation, providing information on a longer term option of residential demand charges, and reviewed advantages and disadvantages.

Director of Finance stated that this portion of the presentation on residential demand charges was for educational purposes only, and staff will continue to monitor trends in this area.

Cost of Service Analysis (COSA)

Tony Georgis reviewed key rate strategy principles used during the rate-making process as financial stability, low income assistance, equity and fairness and gradualism. Mr. Georgis also reviewed some key assumptions made in the COSA.

Director of Finance noted that increasing net power costs have outpaced increases in retail revenues. He discussed how a COSA is a quantitative tool to guide setting rates for each class, which can vary year to year, but that policy goals/decisions can also have an influence on how rates are set. Mr. Georgis added his perspective and agreement with the Director's discussion on COSA and rate setting. Director reviewed the COSA results which show a need for an overall increase in revenues for 2017 and 2018. The 2018 COSA results show the need for a 6.6% increase in retail revenues as compared to current retail revenues. As mentioned previously, the District is forecasting to limit an October 2017 retail rate increase to 2.1% which is entirely attributable to the increase in BPA rates. The District is also forecasting to go 19 months before recommending another increase to retail rates in May 2019. Director noted the forecasted retail rate increase is less than the COSA results, and the difference will be funded through the use of reserves. Final effects of court ordered spill could cause an increase in BPA rates potentially leading to a higher retail rate increase in 2017.

The principle of gradualism was reviewed, noting it has been consistently applied to the District's rate-making recommendations over time. Director concluded with a recommendation to consider a longer term plan to establish COSA boundaries to maintain or bring each customer class within a certain percentage of COSA results. For example, the District could set a policy that each class's rates are within +/- 15% of COSA results (or a different percentage) with a long term plan to move classes that fall outside of boundary conditions to be within boundary conditions. Director noted rate information meetings may be scheduled in August 2017 and the concept of COSA boundaries could be covered to solicit customer feedback.

Commissioner Lori Sanders stated she would prefer no immediate significant changes occur to the large irrigation class since that schedule was most recently amended.

General Manager concluded the strategic discussions stating additional follow-up information and a wrap-up session will be scheduled.

Treasurer's Report

Manager of Risk Management & Treasury reviewed the April 2017 Treasurer's Report. The Commission accepted the April 2017 Treasurer's Report. The cash investment summary and counterparty credit and sector reports were distributed and briefly reviewed.

Consent Agenda

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

- a) Approving Commission Meeting Minutes of April 25, 2017.
- b) Approving Commission Meeting Minutes of May 2, 2017.
- c) Approving Periodic Travel Report dated May 23, 2017.
- d) 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 (DD) payments 62526-62784 in the total amount of \$1,176,887.14, Checks and Customer Refund payments (CHK) 70903-71037 in the total amount of \$605,193.93, Electronic Fund Transfer (WIRE) payments 4139-4162 in the total amount of \$8,195,994.89; Residential Conservation Rebates: Credits on Customer Accounts in the total amount of \$190.00; Payroll: Direct Deposit 04/20/17 62568-62726 in the total amount of \$333,835.60, for a grand total of \$8,530,020.49. Voided checks in the total amount of \$4,035.63 were included on the report.
- e) Authorizing the General Manager, on behalf of the District, to sign Contract Change Order No. 2 of Contract No. 14-31-01 with SD Myers, LLC, to extend the term of the contract to May 25, 2020 and increase the not-to-exceed amount by \$68,268.00, as per the attached Amended Appendix B; bringing the new not-to-exceed amount to \$133,268.00.
- f) Declaring General Pacific/Federal Pacific non-responsive, and awarding the contract for Padmount Switchgear, Bid Package No. 17-03, to Anixter/S&C Electric Company of Portland, Oregon, for the total amount of \$87,280.00, plus Washington State sales tax in accordance with RCW 54.04.080.
- g) Authorizing the General Manager, on behalf of the District, to sign a one year contract with CompuNet, Inc., Contract No. 17-15-02, (State Contract No. T12-MST-642) for the annual Smart Net renewal for a not-to-exceed amount of \$90,678.81, plus Washington State sales tax, in accordance with RCW 54.04.080, with an expiration date of May 31, 2018.
- h) Approving a refund for overbilling on a security light for a period of six years, in the amount of \$680.83.

MOTION CARRIED UNANIMOUSLY.

Management Report

Senior Director of Engineering and Power Management:

1. An update was provided on the broadband promotion, noting the \$250,000 limit for the promotion may be reached in June. Additional information will be brought to an upcoming

commission meeting to discuss next steps and the possibility of continuing to offer the fiber line extension credit associated with the promotion.

Director of Finance:

1. The District's annual privilege tax will be paid on June 1, 2017. A press release showing this and other tax payments by the District will be released.

National Information Solutions Cooperative (NISC) Contract Purchase Order

Manager of Applications & Integration recommended the Commission approve a contract purchase order with National Information Solutions Cooperative; to provide an annual not-to-exceed amount for contracted services such as bill printing, postage, bill inserts, paper supplies and bank transaction fees.

Motion by Lori Sanders, seconded by Jeff Hall authorizing the General Manager, on behalf of the District, to issue a contract purchase order with National Information Solutions Cooperative (Contract No. 17-18-04) for a not-to-exceed amount of \$345,305, plus Washington State sales tax.

MOTION CARRIED UNANIMOUSLY.

Resolution No. 2409, City of Richland – Interlocal Cooperative Agreement, Sunset Road, etc.

Senior Director of Engineering and Power Management recommended the Commission approve an Interlocal Cooperative Agreement with the City of Richland for the coordinated design, construction and operation of the Sunset Road to Reata transmission line.

Motion by Jeff Hall, seconded by Lori Sanders adopting Resolution No. 2409, authorizing the General Manager, on behalf of the District, to approve an Interlocal Cooperative Agreement, Contract No. 17-21-08, in substantially the form presented, with the City of Richland, for coordinated design, construction and operation of the Sunset Road to Reata 115 kV transmission line.

MOTION CARRIED UNANIMOUSLY.

Resolution No. 2408, ISDA Agreement with TransAlta Energy Marketing, Inc.

Manager of Power Resources recommended the Commission adopt a resolution approving an ISDA Agreement with TransAlta Energy.

Motion by Jeff Hall, seconded by Lori Sanders to adopt Resolution No. 2408, approving an ISDA Agreement with TransAlta Energy Marketing (U.S.), Inc., Contract No. 17-51-02, for financial hedging of physical power and gas positions.

MOTION CARRIED UNANIMOUSLY.

2016 Renewable Energy Credits (REC) Activity

Power and Energy Programs Analyst reviewed the District's total renewable energy credits (RECs) which are used to comply with the Washington State Energy Independence Act (EIA).

Energy Independence Act Report to State for 2017

Power and Energy Programs Analyst recommended the Commission approve Benton PUD’s Energy Independence Act report to the State for 2017, and to retire the associated renewable energy credits listed in the report. Conservation and renewable resource expenses during 2016 accounted for approximately \$5,000,000.

Motion by Lori Sanders, seconded by Jeff Hall approving Benton PUD’s Energy Independence Act (EIA) report to the State for 2017 and retiring the associated Renewable Energy Credits (RECs) listed in the report.

MOTION CARRIED UNANIMOUSLY.

Performance Measurement – 1st Quarter 2017 Report

Manager of Accounting and select staff reviewed the following performance measures: customer satisfaction, collections, hiring efficiency, average unit price – secondary market sales, broadband network reliability and electric reliability. Seventeen of the 24 performance measures were rated as having positive quarterly performance, one was yellow, one was red, and five were blue/under construction.

Future Planning

General Manager stated a wrap-up session on strategic planning discussions is needed and asked for Commission availability for the July 11, 2017 commission meeting. The commissioners agreed that all would be in attendance at the July 11, 2017 meeting.

Meeting Reports

Commissioner Lori Sanders reported on attendance at a Benton-Franklin Council of Governments meeting.

Hearing no objection, President Barry Bush adjourned the Commission Meeting at 2:35 p.m.


Barry A. Bush, President

ATTEST:


Lori Kays-Sanders, Secretary