

MINUTES OF MEETING OF COMMISSIONERS
OF PUBLIC UTILITY DISTRICT NO. 3
OF MASON COUNTY, WASHINGTON

The Commissioners of Public Utility District No. 3 of Mason County, Washington conducted a regular business meeting in the PUD 3 auditorium at 307 W. Cota Street in Shelton, Washington on Tuesday, April 27, 2010.

President Linda Gott called the meeting to order at 10:00 a.m. District officers present were Commissioners Thomas J. Farmer, Linda R. Gott and Bruce E. Jorgenson; Manager Wyla Wood; Finance Manager/Auditor Annette Creekpaum; Treasurer Sherry Speaks; and Attorney Robert Johnson (arrived at 10:03 a.m.).

PUD 3 employees in attendance were: Power Supply Analyst Diane Archer; IS Manager John Bennett; Distribution Engineer/Metering Supervisor Koral Buck; Administrative Services Assistant Lynn Harvey; Power Supply & Energy Services Manager Jay Himlie; Facilities Specialist Randy Howard; Customer Service Manager Michele Knauf; E & O Support Supervisor Mary McKay; Network Systems Supervisor Joel Moore; Public Information & Governmental Relations Manager Joel Myer; Acting Human Resources Manager Ilene Olson; Shelton Line Superintendent Scott Peterson; Engineering Manager Terry Peterson; Energy Services Coordinator Reneé Porter; Assistant Power Supply Manager Matt Samuelson; Operations Manager Bob Smith; Service Engineering Supervisor Brad Smotherman; and Assistant to the Manager Nancy Bolender (recorded minutes).

Members of the public in attendance were: Dedrick Allan of KMAS Radio Station; Nicole Brown of OAC Services (arrived at 11:16 a.m.); Richard Byrd of Shelton; Louis Cofoni of Shelton; Cheryl Farrell of Shelton (arrived at 10:05 a.m.); John Komen of Shelton; and Eric Valley of Shelton.

MODIFICATION AND/OR APPROVAL OF AGENDA

The agenda was approved as presented.

CONSENT AGENDA

Ms. Gott reviewed the items listed on the consent agenda. Mr. Jorgenson moved, motion seconded by Mr. Farmer, to adopt the consent agenda. MOTION PASSED UNANIMOUSLY.

By adopting the consent agenda, the following items were approved:

- A. Minutes of the April 20, 2010, regular commission meeting.
- B.* Voucher Nos. 106520 through 106618 — \$ 628,758.97
(Includes electronic funds transfer payment No. 331)
- C. Contract Action:
(1) Recommend Approval of Change Order No. 2, Bid L1-2009, Mt. View Substation Construction Project

Recommendation was made to approve this second change order for an extension of time for Mountain Power to complete the project. The initial extension of time was to April 29, 2010, and this request for extension is to May 17, 2010, to accommodate the schedule of the contractor who won't be able to complete the testing and commissioning until the week of May 10th.

- (2) Recommend Approval of Addendum No. 1, Bid M1-2010, Galvanized Steel Pole

Recommendation was also made to approve an addendum to Bid M1-2010 for a galvanized steel pole in order to alter the design to include a future position for transmission conductors on the north face of the pole, and to change the bid opening date by a week because of the design alteration. The bid opening date would be extended to May 12, 2010, from May 5, 2010. This pole will replace an existing wood transmission pole near the Johns Prairie substation.

* Vouchers audited and certified by the district 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 which has been made available to the board.

COMMENTS FROM THE PUBLIC

Ms. Gott welcomed those in attendance and stated that comments would be accepted throughout the meeting.

Mr. Cofoni encouraged the commissioners to move forward with the construction of the proposed Johns Prairie operations center.

ACTION ITEMS

A recommendation was given to the commissioners to approve the purchase of 3.22 megawatts of capacity from LL & P Wind Energy (a subsidiary of Lakeview Light and Power) from the White Creek wind farm in Klickitat County. As part of the recommendation, the commissioners were asked to adopt Resolution No. 1507, which is "A Resolution to Enter into an Energy and Environmental Attributes Power Purchase Agreement with LL&P Wind Energy, Inc. for 3.22 MW of Output from the White Creek Wind Project."

Mr. Samuelson explained the term of the power purchase agreement is for just under 18 years at a locked-in bus-bar price of just over \$84 per megawatt hour. The purchase will help the PUD meet its mandated renewable energy purchases under the Washington State Energy Independence Act (Initiative 937).

A discussion took place about the proposed purchase, the amount of renewable energy in the Bonneville Power Administration's (BPA) tier 1, the Initiative 937 cost cap, and renewable energy credits from the proposed purchase.

Mr. Jorgenson moved, motion seconded by Mr. Farmer, to adopt Resolution No. 1507, "A Resolution to Enter into an Energy and Environmental Attributes Power Purchase Agreement with LL&P Wind Energy, Inc. for 3.22 MW of Output from the White Creek Wind Project." MOTION PASSED UNANIMOUSLY.

The commissioners were then presented Resolution No. 1508, which is "A Resolution to Enter into an Energy Marketing Agreement with LL&P Wind Energy, Inc. from the White Creek Wind Project." This resolution authorizes an energy marketing agreement with Lakeview L&P to allow for the sale of the PUD 3 share of the wind farm output until such time that the PUD elects to take the energy into its system.

Mr. Jorgenson moved, motion seconded by Mr. Farmer, to adopt Resolution No. 1508, "A Resolution to Enter into an Energy Marketing Agreement with LL&P Wind Energy, Inc. from the White Creek Wind Project." MOTION PASSED UNANIMOUSLY.

In follow-up to discussions held in previous meetings, the commissioners considered pursuing Leadership in Energy and Environment Design (LEED) certification for the proposed Johns Prairie operations center. The estimated cost to obtain the certification is \$48,000, which requires strict documentation of seven areas of sustainable building sites and development including: water efficiency; energy efficiency and atmosphere; materials and resources used in building; indoor environmental quality; innovation in design; and regional priorities.

Ms. Gott moved, motion seconded by Mr. Farmer, to authorize the PUD to pursue LEED certification for the proposed Johns Prairie operations center. A discussion on the motion followed.

Mr. Jorgenson expressed concern with paying the \$48,000 to achieve the certification since, as designed, the facility would qualify as a gold-level LEED building.

Mr. Farmer said he favored obtaining the certification as he believed that the PUD could easily recoup the cost of the qualification through energy savings and water conservation measures. He said he felt this was a commitment to ratepayers, the community and the environment to show leadership in conservation and sustainable design.

Mr. Himlie said that regardless of LEED certification, some measure of accountability in energy efficient construction will be necessary to obtain financial assistance from the BPA as part of the federal agency's regional conservation program.

Following the discussion, the MOTION PASSED with Mr. Jorgenson voting no.

STAFF REPORTS

At Mrs. Wood's request, Mrs. Creekpaum reported that in the recent session the Washington State Legislature clarified the manner in which public utility privilege taxes are calculated. The state Department of Revenue had been using a method which placed a levy on a PUD based on a customer's total bill. The new law (SB 6143) clarified that the privilege tax should be based on kilowatt-hours sold, excluding daily charges and other fees. Mrs. Creekpaum said that this could result in a refund of \$124,000 to Mason County PUD No. 3 for 2009 taxes paid. If directed, she will work with the PUD attorney to determine if overcharges from prior years (possibly three or more years) may also be recouped and filing the appropriate paperwork with the Department of Revenue.

Mr. Jorgenson moved, motion seconded by Mr. Farmer, to authorize the attorney to pursue a refund of the public utility privilege taxes paid. MOTION PASSED UNANIMOUSLY.

COMMISSIONERS' REPORT

Mr. Farmer reported on his attendance at the Energy Northwest board of directors' and executive board

meetings in Richland on April 21-22. He also said he attended the April 26th meeting of the North Mason Voice at which he gave an update on the proposed Johns Prairie operations center and the Highway 3 road widening project in Belfair that would require the relocation of 48 poles.

Ms. Gott reported that she also attended the Energy Northwest meetings. She found the elections process for filing five executive board seats interesting. Three incumbents were re-elected with two new members elected from the board of directors. The attendees were also given an update on the Chief Executive Officer selection process.

DISCUSSION ITEMS

In follow-up to an April 7 joint commission workshop and other prior reports and discussions about the project, the commissioners gave direction to staff to continue PUD 3 participation in the effort by four western Washington PUDs to construct a wind power project near Naselle in Pacific County. Mason County PUD No. 3, Clallam County PUD, Grays Harbor County PUD, and Pacific County PUD are participants in the Radar Ridge wind project. PUD 3 has committed to a 15% share of the project.

The Radar Ridge project has seen an increase in development costs due to required studies on perceived impacts to the marbled murrelet; peer reviews requested by natural resource agencies; investigation of enhanced radar studies and bird diversion strategies; and uncertainty over the level of environmental assessments prior to permitting. PUD 3's share of the increased costs is estimated at \$350,000; however, if a utility pulls out of the project, the PUD's costs could increase by \$53,000.

Mr. Jorgenson said that if the project remains on schedule, it would become operational just before a second increase in qualified renewable energy is mandated to be included in the local power mix. He noted that there are risks associated with all projects, but with increased scrutiny being given to all renewable energy projects, there aren't many of these resources available from which to purchase the utility's mandated requirements.

Mr. Farmer added that every renewable energy project has an environmental consequence, regardless of its character and while he realizes that there are costs involved, the PUD is bound to meet the requirements of the Washington State Energy Independence Act. He pointed out that at an estimated cost of \$72 per megawatt, the expected price of energy from the Radar Ridge project is well below other sources.

The initial development budget for the project was estimated to be \$2.3 million. However, with delays, additional studies or wildlife protection measures, and necessary BPA upgrades it is possible the development budget could increase to over \$5 million.

The federal government has allocated nearly \$110 million in Clean Renewable Energy Bonds (CREB) to go towards the funding of the Radar Ridge wind project. The project could generate up to 82 megawatts of electricity; enough energy to power approximately 18,000 homes. It is expected to consist of up to 32 wind turbines.

Reneé Porter, energy services coordinator, reported on conservation programs that have been offered to schools in PUD 3's service area for the installation of energy efficient measures. She said that in the last ten years, over 1.3 million kilowatt-hours per year in energy savings have been reported to the BPA, and over \$300,000 in incentives have been issued to local schools.

Mrs. Porter said that this year the PUD will be focusing on providing additional funding to the North Mason and Shelton School Districts as they complete projects being funded by Washington State energy grants. The estimated savings from lighting and equipment upgrades from this work is well over 800,000 kilowatt-hours per year, with incentive amounts of \$180,000.

Mrs. Porter reported that PUD 3 recently provided assistance to the Mary M. Knight and Grapeview School Districts for lighting retrofits. She stated that savings of over 175,000 kilowatt-hours per year have been reported on these two projects alone.

The commissioners were presented with a draft business continuity plan. Mrs. Bolender explained that the proposal incorporates and updates the utility's disaster preparedness plan and a pandemic plan. It outlines individual department emergency plans in the event of natural disasters or pandemics, and how the PUD will maintain service to its customers.

A proposal for off-site data storage, the archiving of important computer files containing customer and operations information, was presented for commission consideration by Mr. Bennett. Additional budget information was requested by the commission.

The draft business continuity plan and proposal for off-site data storage will be considered at a future meeting in May.

GOOD OF THE ORDER

Following a calendar review and good of the order, and with no further business appearing, the regular meeting adjourned at 11:25 a.m.

Linda R. Gott, President

ATTEST:

Bruce E. Jorgenson, Vice President

Thomas J. Farmer, Secretary