

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, June 1, 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.

PUD 3 employees in attendance were: Power Supply Analyst Diane Archer; IS Manager John Bennett; Administrative Services Assistant Lynn Harvey; Facilities Specialist Randy Howard; Public Information & Government Relations Manager Joel Myer; Acting Human Resources Manager Ilene Olson; Engineering Manager Terry Peterson; Assistant Power Supply Manager Matt Samuelson; Operations Manager Bob Smith; GIS Technician Brian Schneidmiller; and Assistant to the Manager Nancy Bolender (recorded minutes).

Members of the public in attendance were: Darren Bell of Piper Jaffray; Al Brotche of Shelton; Louis Cofoni of Shelton; Alan Dashen of A. Dashen & Associates; Terra Dittmer of Shelton (arrived at 10:32 a.m.); Brenda Hirschi of Shelton (arrived at 10:07 a.m.); Teresa Jacobson of Shelton; John Komen of Shelton; Nancy Neraas of Foster Pepper PLLC; Lillis Nogler of Shelton; and Roslynne Reed of Shelton (arrived at 10:03 a.m.).

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. Farmer moved, motion seconded by Mr. Jorgenson, to adopt the consent agenda. Following questions relating to the status of the payments on the substation construction project, the MOTION PASSED UNANIMOUSLY.

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

- A. Minutes of the May 25, 2010, regular commission meeting.
- B.* Voucher Nos. 107035 through 107100 — \$ 383,319.83
(Includes electronic funds transfer payment Nos. 338-339)
- C. Contract Action:
(1) Authorize Release of Payment No. 7 on Bid L1-2009, Mountain View Substation Construction Project

Recommendation was made to approve the seventh partial payment, in the amount of \$206,068.10 plus taxes, to Mountain Power for its work on the construction of the Mountain View substation. Previous payments have been made totaling \$878,531.90 plus taxes of the \$1,197,720 (plus taxes) total bid price.

The project involves the removal of all previously existing equipment at the substation, except the power transformer; and the construction of a new control building with solid state electronic protection and controls; four new 1200 amp 15 kW breakers, distribution bus and regulation. Also, an additional four 1200 amp SF6 115kV breakers will be installed in a ring bus fashion to provide reliable transmission protection to the Johns Prairie and Mason substations.

* 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. Komen emphasized his continued opposition to the Johns Prairie operations center and to the water line construction along Johns Prairie Road to serve the operations center. He also is opposed to the proposed biomass generation plant that ADAGE is planning which could connect to the water line.

Mr. Cofoni encouraged the commissioners to move forward with the operations center and the water line extension. He stated the water line will help bring business opportunities to the urban growth area on Johns Prairie. In addition, he cited higher costs and interest rates if the projects were delayed.

Mr. Brotche requested the commissioners give consideration to an advisory ballot to allow people the opportunity to voice their opinion on the Johns Prairie operations center. As a former county auditor, he offered his assistance in helping write such a ballot measure.

Ms. Jacobson stated her opposition to the proposed Johns Prairie operations center. She had various questions

regarding the source and amount of water that would serve the Johns Prairie area via the water line construction. Mr. Myer, as a former city of Shelton employee, was able to provide some information as to the location of the Mt. View reservoir and its source of water, but suggested she contact the city of Shelton public works department for depth of well, water volumes and pressure.

Mrs. Hirschi urged the commissioners to bring forward an advisory ballot on the Johns Prairie operations center and water line projects.

ACTION ITEMS

Recommendation was made for the board to authorize a call for bids, L2-2010 for the Johns Prairie operations center. After a year and a half of design development between staff and architects, the final designs for the office building, three warehouse buildings and fueling/wash station building have been completed. The estimated cost for this call for bids is \$28 to \$30 million.

Ms. Gott explained that the site preparation bid for Johns Prairie had been awarded recently to a local firm, and this was for the actual construction of the project.

Mr. Farmer moved, motion seconded by Ms. Gott to issue a call for bids, L2-2010 for the Johns Prairie operations center.

Mrs. Wood pointed out that planning for this project has been ongoing for a long time. The majority of the costs involved in the project are due to infrastructure, with the warehouse buildings being the primary focus of it. By issuing a call for bids, the commission is not tied to doing the project, but is provided an opportunity to get cost estimates to decide whether to move forward.

Ms. Gott noted that bids may come in considerably lower due to the economic situation. The low construction costs, coupled with low interest rates provide for a favorable bidding climate. She said that for the last one and one-half years staff has been working with the architect to develop something with a utilitarian look, which will last for years into the future. By having the majority of staff in one location, efficiency gains are made.

Mr. Farmer asked what level of interest was anticipated for bidding on the project. Mrs. Wood replied that based on the economic climate and the number of contractors that bid on the site preparation, she expected a large number of competitive bids.

Mr. Jorgenson moved to table the motion until an advisory vote is taken before the public. The motion died for lack of a second.

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

Resolution No. 1510, which is "A Resolution of the Board of Commissioners of Public Utility District No. 3 of Mason County, Washington, authorizing the issuance and sale of electric revenue and refunding bonds to finance the construction of a new operations center and other capital improvements, to refund certain outstanding electric revenue bonds of the District and to fund the reserve account; and providing the form, terms, and covenants of the bonds," was brought before the commissioners.

The commissioners heard from Alan Dashen, the PUD's financial advisor from A. Dashen & Associates, that a tentative July 20 bond sale would refinance \$11 million in pending PUD 3 bonds at lower interest rates; fund several capital projects, including a major upgrade to the nearly 60 year old Mason Substation in downtown Shelton, and \$36 million for the Johns Prairie Operations center. Mr. Dashen stated that although a scoping amount of \$71 million was suggested at this stage of the process, the actual sale could be much lower. The bond sale would take place after the operations center bid opening so that amount would be known.

Darren Bell of Piper Jaffray noted that refinancing of the 1997, 1998 and 2001 outstanding bonds would save the PUD an estimated \$520,000 in interest charges. He stated that through a stimulus funding vehicle called "Build America Bonds" the PUD 3 would be able to reduce borrowing costs for the overall bond sale.

Nancy Neraas, bond counsel from Foster Pepper PLLC, discussed the bond resolution itself. She explained that it authorizes and sets forth the purpose of the 30-year bonds, and the bond covenants. The important thing is to give the PUD flexibility both now and in the future. Another resolution will be required of the commissioners to finalize the sale.

A discussion took place on the level of fees associated with the bond sale, which are based on the actual final dollar amount of the sale.

Mr. Jorgenson asked about the effect this sale would have on future bond sales if needed for generation projects. Mr. Bell stated that with the operations of the district, it would be no problem to issue future bonds. Mrs. Neraas

talked about the possible conversion of the Clean Renewable Energy Bonds (CREB) already received for the proposed Radar Ridge wind project.

Mrs. Creekpaum explained that these bond funds must be used for capital projects, and can't be used for power costs. Costs for capital projects over the next few years are projected and included in this proposed sale. The district has been spending between \$4 and \$5 million per year on capital improvement projects, such as substation rebuilds.

Ms. Gott moved, motion seconded by Mr. Farmer, to adopt Resolution No. 1510, "A Resolution of the Board of Commissioners of Public Utility District No. 3 of Mason County, Washington, authorizing the issuance and sale of electric revenue and refunding bonds to finance the construction of a new operations center and other capital improvements, to refund certain outstanding electric revenue bonds of the District and to fund the reserve account; and providing the form, terms, and covenants of the bonds." MOTION PASSED with Mr. Jorgenson voting no.

The regular meeting recessed at 11:00 a.m. and reconvened at 11:08 a.m.

A recommendation was made to award bid M1-2010, for a galvanized steel pole to the lowest responsive bidder, Thomas and Betts Corporation for a price of \$21,813 plus taxes. While not the lowest bid received, all other bids were not in order and thrown out. This bid was below the engineer's estimate of \$35,000.

This self-supporting pole would replace a wood pole with guy-wires on the Johns Prairie transmission line near the Johns Prairie substation.

Mr. Farmer moved, motion seconded by Ms. Gott, to award bid M1-2010, for a galvanized steel pole to Thomas and Betts Corporation for a price of \$21,813 plus taxes. MOTION PASSED with Mr. Jorgenson voting no.

Recommendation was made to adopt Resolution No. 1511, "A Resolution Declaring Material Surplus and Authorizing an Interagency Transfer." It declares 20 Cisco telephones surplus to the PUD's needs and authorizing them to be sold via interagency transfer to NoaNet for a price of \$800.

Mr. Jorgenson moved, motion seconded by Mr. Farmer, to adopt Resolution No. 1511, "A Resolution Declaring Material Surplus and Authorizing an Interagency Transfer." MOTION PASSED UNANIMOUSLY.

STAFF REPORTS

Mrs. Wood reported that the rebuilt Mountain View substation will be commissioned at 1:30 p.m. today at which time the commissioners will be given a tour of the substation.

Mrs. Wood requested permission to rent a job shack for placement at the Johns Prairie property. The site preparation contractor began work today and the PUD needs an office from which its staff will oversee the operations center project. The rental of the job shack is a base fee of \$205 per month.

Mr. Farmer moved, motion seconded by Ms. Gott, to approve the rental of a job shack at the Johns Prairie property for a base fee of \$205 per month. MOTION PASSED with Mr. Jorgenson voting no.

Approval was requested for retaining an attorney to help Mr. Johnson develop changes to the American Institute of Architects (AIA) bid document for the Johns Prairie operations center. The attorney specializes in this area and has the proprietary software needed for the work. He has also been working with Mason General Hospital on its bid documents. Mr. Johnson was told it would take no more than 10 hours of work.

Ms. Gott moved, motion seconded by Mr. Farmer, to approve an expenditure of no more than \$5,000 for Attorney Dick Prentke of Perkins Coie to assist in developing the AIA bid document for the Johns Prairie operations center. MOTION PASSED with Mr. Jorgenson voting no.

Mrs. Wood reported that Energy Northwest has requested participating utilities in the Radar Ridge wind farm provide additional funding for environmental studies through July as a part of the development phase of the Pacific County based project. PUD 3's share of the increased costs through July is estimated at \$38,000 and staff recommends signing the Radar Ridge Project Development Agreement Amendment No. 1 for this amount. A discussion ensued.

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.

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

Mason County PUD No. 3, Clallam County PUD, Grays Harbor County PUD, and Pacific County PUD are participants along with Energy Northwest in the project. PUD 3 has committed to an effective 11.25% share of the project.

While Grays Harbor County PUD has planned to drop out of the project, it agreed to consider funding these additional studies through July. A couple of other entities have expressed interest in picking up Grays Harbor's share of the project.

Mr. Jorgenson moved, motion seconded by Mr. Farmer, to authorize the manager to sign the Radar Ridge Project Development Agreement Amendment No. 1. MOTION PASSED UNANIMOUSLY.

COMMISSIONERS' REPORTS

Mr. Farmer reported on his attendance at the May 25th North Mason Chamber's governmental relations meeting. He also met with Alan Dashen on May 26th to discuss the proposed bond sale, and former PUD commission candidate Don Cady and retired PUD commissioner John Whalen on May 28th to discuss the proposed operations center. He noted both Messrs. Cady and Whalen were supportive of the project.

Ms. Gott gave a report on the Northwest Public Power Association's annual meeting held in Sacramento last week. The theme of the conference was "Smart Future" and presentations included industrial and multi-family conservation projects. In addition, Grant County PUD employee Andrew Munro, who is the current president of the National Hydropower Association, gave an interesting report on how much power output could be increased on existing dams. Ms. Gott said of the 80,000 dams in the United States, only three percent generate electricity. With minimal cost, it is estimated that the power output on those existing dams could go from 100 gigawatts up to 200 gigawatts.

GOOD OF THE ORDER

Mr. Komen requested the commission record its meetings. Ms. Gott indicated that the idea could be considered.

Following a calendar review and good of the order, and with no further business appearing, the regular meeting adjourned at 11:39 a.m.

Linda R. Gott, President

ATTEST:

Bruce E. Jorgenson, Vice President

Thomas J. Farmer, Secretary