



Public Utility District No. 1 of Klickitat County

75 Years of Service

1938-2013

GENERAL MANAGER'S REPORT TO THE BOARD

For the July 14, 2015 Meeting

AGENDA ITEMS

- A. PRE-QUALIFICATION OF CONTRACTORS – Staff is requesting Board authorization to add the following contractors to our large and/or small works rosters as indicated, for the 2015 period:
- Omega Moran, Inc. of Hillsboro, OR – Large & Small Works Rosters
 - Ness & Campbell, Inc. of Portland, OR – Small Works Roster
 - Asplundh Tree Expert Co. of Kenmore, WA – Small Works Roster
- B. MISCELLANEOUS POLE BID EXTENSION AGREEMENT – Staff is asking for the Board's approval to extend the Miscellaneous Poles Bid Agreement with McFarland Cascade/Stella Jones Corporation for an additional year. The original agreement ends August 31, 2015. With the continued increase in the cost of oil/petroleum products, we feel it is in the best interest of the District to extend the contract for an additional year rather than re-bid at this time.
- C. BID AWARD: Tree Trimming – Bid opening was held Thursday, July 9, 2015. Ron Ihrig will be presenting staff recommendations for your consideration.
- D. 2006B BOND REEFUNDING AND RESTRUCTURING – I decided this week to delay the bond sale from July 29th to August 11th. It was apparent that the team needs more time to further define and analyze the refunding. As there is not a market driver that would make me push this date, I thought the delay was the most prudent course of action. This two week delay will give us the time to involve our new CFRO, work through the alternatives, including the repayment flexibility of a bank loan, and present the Board with these alternatives, the benefits, risk analysis and the most accurate metrics for the delegation resolution (No. 1695). At the meeting we will present you with alternatives for your consideration, in preparation for the delegation resolution that will be presented to you at the July 28th Board meeting.

NON-AGENDA ITEMS

1. Policy No. 9 "Financial Plan" – Although the board approved the revisions to Policy 9 at the previous meeting, I noticed afterward that the debt service coverage (DSC) ratio number was wrong as presented to you for signature last meeting. The DSC number should be 1.5 in the policy, instead of 1.6. The 1.5 number was used in our models for our public rate hearing process and all the related analysis. I just entered the wrong number on the policy. We will submit the corrected policy for your signature next week.

2. McNary Hydro Project – Don Jarrett and Bob Guidinger will be at our August 28 meeting at 2pm to give us a presentation regarding the turbine blade replacement project. They will be giving the same presentation to the N. Wasco PUD Board that same evening.
3. Renewable Natural Gas Project – I signed the Letter of Intent this week to begin due diligence work with two potential partners. We have a non-disclosure agreement in place that prevents us from printing their identities until we determine if we can reach commercial terms that are satisfactory for both parties. The due diligence period is anticipated to be 45 days.
4. Staffing Update – John Janney will be joining our management team as Chief Financial and Risk Officer starting July 27th. As such, he will be at the July 28th Board meeting to participate in the 2006B bond refunding discussions.
5. Bond Rating Agency Presentations – Anita Thompson, Commissioner Knowles and I met with Moody's Investor Services and Fitch Ratings Services July 7th in San Francisco. Our financial advisor Alan Dashen and our underwriters, Sean Keatts and Chris Robertson from Barclays, also attended. The presentations went very well with no real surprises. There is a possibility that Moody's may involve their New York office in their review, given our generation resources. They have not deemed them large enough to warrant this review in the past. We asked them for ratings July 16th, but given the change in our bond sale we are planning to ask for the ratings July 24th. This would still give us a rating prior to the Board meeting regarding the delegation resolution.
6. Pumped Storage Holding Financial Implications – Dan Gunkel asked about the financial impacts on the PUD of \$500,000 from the Infrastructure Fund if used to reimburse the PUD for pumped storage costs incurred to date, and of the project in general. The following is an indicative level of accuracy only.

If we requested and received \$500,000 from the Infrastructure Fund:

- Our 2015 year-end forecast debt service coverage (DSC) ratio of 1.45 would become 1.50. The budget is 1.49. (Fitch does not include this as revenue in their calculations.)
- Our 2015 year-end forecast of days cash on hand would become 188 based on a cash balance of \$17.3 million, versus 183 based on \$16.8 million. The budget was 140 based on a year ending cash balance of \$12.9 million.

When we close the Pumped Storage work order, we will have to expense the charges that have accumulated on that work order. Once we process the payments for work completed prior to placing the project on hold, these costs are in the order of \$2.0 million (\$1.3 million from the current licensing efforts, along with \$700,000 from the previous 10 years of efforts).

- If we expensed the entire amount, this would have the effect of decreasing our 2015 year-end forecast DSC from 1.45 to 1.25.

- If we did apply the \$500,000 and expensed the rest, the impacts on our year-end forecast DSC would be a decrease from 1.45 to 1.30.

If we took these funds from the Infrastructure Fund, it could impact a public water or wastewater system in need of \$500,000 for their system(s), and if that need were instead covered by a 20 year interest free loan, the impacts on a customer in a system of 200 customers would be:

- \$10 a month for twenty years.
- An average water bill for a typical PUD water system (if there is such a thing) is in the order of \$35 a month plus usage, or a 30% increase.

7. Bonneville Power Administration – BPA issues its draft Record of Decision on June 12th. It is anticipated that the final rate “average” will be between the 6.7% originally proposed and 7.5%. PPC submitted comments and I agreed with them. The key items to me are still encouraging BPA to use the value of surplus power sales including market sales to California as they do sell their surplus there in addition to the PNW. This covers the other key issue, and that is the non-firm transmission tariffs and the way it currently undermines the value of firm transmission to California. BPA included an additional \$25 million in surplus sales, but did not change its transmission tariffs. It does however, acknowledge they do need to address this issue and have stated they will be studying this and may implement changes prior to the next rate period. Attached is PPC’s summary from the last PPC meeting for your reference.
8. Fish and Wildlife – Attached is the 2015 Public Power Council “Fish Facts.” An item that PPC alerted us to is that we have long said ocean conditions play the largest part in salmon returns. We have had good ocean conditions and good returns the past several years. However, there are indications that the ocean conditions are changing and this could lead to reduced returns in the coming years. It would be natural to assume that any “decline” in returning salmon would be used as indications that the current fish expenditures are not sufficient.