



# Public Utility District No. 1 of Klickitat County

75 Years of Service

1938-2013

## GENERAL MANAGER'S REPORT TO THE BOARD

For the June 14, 2016 Meeting

### AGENDA ITEMS

- A. Pre-Qualification of Contractors – Ron Ihrig is presenting the following contractors for the Board's approval to add them to KPUD's Small Works Roster:
- Mountain View Excavation of Goldendale, WA
  - Bill's Excavating and Debris Removal of Goldendale, WA
  - Grade Worx (formerly CRS Construction & Fencing) of Goldendale, WA
  - Clean Harbors Environmental Services Inc. of Pasco, WA
- B. Board Approval of Staff's Action in Declaring an Emergency Due to Condensate Spill at LFG – Staff is asking for the Board's approval of their actions in declaring that an emergency situation existed, at which time they elected to waive the competitive bidding requirements in order to award all necessary contracts on behalf of the District to address the emergency situation in a timely manner, as there was a condensate line leak/spill outside the low compression building at the LFG plant site that needed immediate remediation.
- C. 2:45pm - 2014 Wastewater Treatment Plant Awards – Andy O'Neill with the WA State Department of Ecology will be at the meeting on Tuesday to present the Wastewater Treatment Plant awards for 2014. Three of our plants are receiving the Outstanding Performance Awards – Wishram, Klickitat, and Lyle.
- D. Executive Session - H.W. Hill Power Purchase Agreement – Mike DeMott and I will provide an update on some key contractual issues that could have a bearing on the contract during regulatory changes.

### NON-AGENDA ITEMS

1. G.M. Meeting Attendance – I attended the PPC meetings June 1<sup>st</sup> & 2<sup>nd</sup> and I met with Mike DeMott and Direct Energy regarding potential power sales contracts. I also met with some of our retirees in White Salmon on the 8<sup>th</sup>, and in Goldendale on the 9<sup>th</sup>. I try to meet with our retirees at least a couple times a year in an effort to keep them up-to-date with the utility.

Scott Corwin asked me to travel to Washington D.C. for the PPC legislative trip this year and I turned him down. I want to focus closer to home for a bit and told him I'd do my part, but maybe next year.

2. Mile Marker 28 Fire – I am planning an Executive Session at the June 28 Board meeting. Given some of the participants being located on the east coast, I would like to hold the executive session from 1:00 until 2:00, prior to the regular Commission Meeting. I would like to confirm if that timeframe works for the three of you.
3. BPA: Financial Reserves Policy – BPA has separated this from its Focus 2028 rate initiatives and I am not sure why. Many are thinking that it may create an ability for BPA to point to something for justifying rate increases, but I don't see how that makes sense. Clearly, focusing on financial reserves is important, however, without a larger Financial Policy direction, there is no way to evaluate what reserves are necessary or what other tradeoffs there are to consider. PPC is planning on filing comments by July 8<sup>th</sup> on this and my high level feedback o PPC is:
  - a. Before BPA can establish a policy on reserves, they need an over-arching financial policy. Requirements to meet rating agency targets are only a part of the financial targets necessary for a \$3.5 billion a year organization.
  - b. BPA then needs to complete analysis showing rate trajectory, budgetary actions and the impacts of not increasing the financial reserves. You only do something like this is if it saves you money.
4. BPA: integrated Program Review (IPR) and Capital Investment Review (CIR) Rate process – The next BPA rate case for the period October 2018 to September 2020 (BP-18 IPR) kicks off June 16<sup>th</sup>. This process will be tightly linked to the Focus 2028 initiatives they are undertaking. Elliott continues to say reasonable things, but it remains to be seen if he will ensure his management team will live up to his words.
5. BPA: Regional Cooperation Debt – BPA will be asking the Energy Northwest executive board in June to approve in principle \$972 million in additional bond refinancing between 2017 and 2020. The intent is the same as in past years, where every dollar of the bond issue will replace current 7% interest Treasury debt and will marginally decrease the weighted average maturity of BPA debt. Their forecast is about 3.5% interest for the bond issue. BPA is saying that this will “reduce the rate increase” in the BP-18 rate period by 1.5%. The estimate is a savings of about \$53 million during the two year period and \$230 million by 2030. The same concern is that long term this increases BPA's ability to borrow more money.
6. BPA: Wind Related Ancillary Services – BPA is projecting that wind capacity in their Balancing Authority Area will decrease from 4834 MW to 2227 MW in December of 2017 as PGE, PSE and Avangrid (previously Iberdrola) leave the BPA balancing area. I am pretty sure I remember upward pressures on rates when wind was added to the BA. At that time, surplus electricity markets were higher and there were impacts from the additional reserve capacity required to support the integration. Now that market prices are lower, BPA is saying there will be upward pressures on the rates as the projects leave the BA and the wind integration revenues fall as the increased market sales will not make up the difference. PPC estimates that the annual revenue decrease, net of the sales of the additional capacity reserves it frees up, will be about \$20 million, or potentially 1% impact on rates.

7. Columbia River Biological Opinion (BiOp) – Attached is the PPC report on the recent announcement that Judge Simon rejected the 2008 BiOp. Also attached is some further information from BPA on Fish restoration activities and their Fish and Wildlife programs. There are no immediate impacts on river operations, as the BiOp needs to be redone before any changes are implemented.
8. KPUD Fair Booth – Would the Board like to see any particular messages and or information at our booth this year?
9. Recognition of Senator King & Representative Johnson – I would like to discuss how you would like to proceed in presenting the Resolutions that you adopted on April 12<sup>th</sup> to recognize Senator Curtis King and Representative Norm Johnson for their efforts that resulted in development and establishing of good public policy; supporting environmental stewardship while providing value to Klickitat County, the customers-owners of Klickitat PUD, other community served by PUDs, as well as the citizens of Washington State.