



Public Utility District No. 1 of Klickitat County

75 Years of Service

1938-2013

GENERAL MANAGER'S REPORT TO THE BOARD

For the June 28, 2016 Meeting

AGENDA ITEMS

- A. 1:00pm-2:00pm – EXECUTIVE SESSION: Potential Litigation / Contract Negotiations
RE: (1) Mile Marker 28 Fire, (2) Cliffs Water Rights Contract Negotiations and (3) LFG Contract Negotiations
- B. BID AWARD: Collection & Recycling Services for Scrap Metal – Bids were opened on June 15th at 2:00pm as advertised. Staff is recommending that the bid be awarded to R.S. Davis Recycling.
- C. POLICY APPROVAL: Policy 7 “Credit Sales-Collections/Charges & Adjustments” – We are recommending revisions to Policy 7 to clarify our procedures whereby the PUD may manage its credit sales, collections, charges and adjustments in a manner that will assist in ensuring we are collecting funds owed to the PUD.
- D. LETTER OF CREDIT WAIVERS: Lewis PUD & Cowlitz PUD -- Per the transmission service agreements with Lewis PUD and Cowlitz PUD, these two utilities have requested waivers of the letter of credit requirement for the July 2016 to June 2017 period. Since both utilities have met the required debt service coverage ratio, staff is recommending that the requests for waivers be approved.
- E. CLIFFS WATER RIGHTS, Request for Proposals – Staff will be submitting the results and recommendations for the Cliffs Water Rights RFP at the meeting on Tuesday.

NON-AGENDA ITEMS

1. G.M. Meeting Attendance – I attended BPA's Integrated Program Review (IPR)/ Capital Investment Review (CIR) kick-off meeting in Portland on June 16th. At the meeting, I entered comments into the record. Following that meeting, I formally submitted the same comments to BPA in writing. Also since the last Board meeting, I attended the Public Generating Pool (PGP) meeting in Seattle on June 23rd. Major focuses for PGP right now are the Clean Air Rule, and California Independent System Operator (CAISO) market expansions.
2. Follow-Up to LFG Condensate Leak -- On May 31, 2016 in conjunction with a capital improvement project to upgrade the condensate drain line from a single-walled pipe to a double-wall pipe with leak detection, an existing leak was discovered and immediate remedial action was taken to contain the leak and collect soil that may be contaminated. An environmental engineering firm was hired to direct mitigation and investigation efforts.

The environmental firm, WHF Inc., has reported to staff that all lab samples including the soil removed from the leak area do not contain any constituents at a high enough concentration to necessitate further remediation. KPUD is awaiting the final report from WHF Inc.

Additionally, staff has obtained a legal opinion from Short, Cressman & Burgess regarding the liability of the contractor that installed the faulty pipeline. In short, KPUD released much of the liability to the contractor as part of a settlement agreement, however, if it is shown at some point that the environment or a third party has been injured as a result of their work, the contractor may be held responsible for the environmental damage. Considering the damage thus far has been limited to stopping the leak, removing suspected contaminated soil and an investigation, staff does not recommend taking action against the contractor.”

3. CGS Participants Review Board Elects Members, Officers – As reported in the May 27 issue of “Clearing Up” Columbia Generating Station stakeholders, representing 92 utilities in six states, elected members and officers to the nuclear power-plant’s Participants Review Board during their May 18 public meeting in Tulalip, Washington.

The Board reviews nuclear construction and CGS annual budgets, fuel-management plans, plans for refinancing and purchases above \$500,000.

The nine-member board is structured with three tiers of members who serve for one, two, and three-year terms, respectively.

Elected to three-year terms were Garry Rosman (Inland Power and Light), Paul Rogers (Kittitas County PUD), and Clay Smith (Northern Wasco County PUD).

Serving two-year terms will be **Ray Mosbrucker (Klickitat PUD)**, Karl Denison (Mason County PUD No. 1), and Susan Thraen (Missoula Electric Cooperative).

Rounding out the board with one-year terms are Mark Platt (Benton REA), Stu Nelson (Franklin PUD), and Steve Houston (Okanogan County PUD).

Elected as officers were **Ray Mosbrucker (chair)**, Garry Rosman (vice-chair), and Stu Nelson (secretary). Officers serve one-year terms.

Mosbrucker has previously served as board vice-chair and secretary, and has been a member since 2007. He is also currently president of the Klickitat PUD’s Board of Commissioners.

4. Washington State Clean Air Rule (CAR) Status – PGP and Washington Public Utility District Association (WPUDA) have been working with stakeholders, the Department of Ecology and the Governor’s office to provide input to try and help Ecology arrive at a balanced rule that includes all sectors, not just the electric utility sector, to achieve reasonable goals for carbon emissions effectively.

I shared the proposed CAR’s goals for the electric sector in previous meetings. The revised draft of the CAR just released does address a major issue put forward by PGP and WPUDA. There is now a stated intent that once the Federal Clean Power Plan (CPP) is released, the electric industry targets will fall under that plan. The intent there is that the CPP intends to have a regional marketplace. That means that our industry, our rate payers and the State may benefit from value created by our low carbon resources in the State of Washington. Attached is a summary of the revised CAR overview and key questions from the PGP Carbon Management Workgroup.

We are still working on reasonable treatment for the emissions from our HW Hill generation facility. Also attached is PGP's draft CAR recommended response to Ecology. You will note the recommendation that LFG be treated under EPA rules for biogenic emissions. This would mean that there are no carbon emissions from our generation facility. Therese Hampton, PGP Executive Director, spoke with Chris Davis regarding our facility and he said he knows about the good work we are doing, so we will be using that as the starting point to follow up with the Governor's office staff.

We are also working with Dave Warren on the legal implications from Ecology's determination that we are covered as an emitter. In the application of the EPA biogenic framework, there is an assumption that we are viewed as an emitter, but the biogenic framework means our calculated emissions are zero. The EPA idea is that carbon is carbon and rather than exempting specific entities, science is used to determine the real impacts on the environment. I know, this makes sense. Dave's position is that under State law, we should not be an emitter at all and may be eligible for emission reduction units. I am thinking there is a parallel path here with the PGP work, and we are developing the strategy to address this issue. If we produced RNG, their issues are mute for us specifically, as the emissions responsibility would transfer to the end user.

5. Distributed Generation news – I am attaching two interesting articles regarding Elon Musk, his business model and his Tesla Power Wall, which is a 3.5kW wall mounted, modular battery storage system. They make for thought provoking reading as we look forward to how our industry is changing and how we might position ourselves for what our business becomes in the coming years. The first is from Energy GPS and the second is from Gary Ackerman. I think Gary's whole article is very good reading, but the section regarding the power wall is on the bottom of page four and on into page five.

The implications we are watching is whether the "solar wall," Tesla's home storage battery system, takes off and offers an alternative to using our system as the storage device via our net metering programs. If in the future the storage device is the utility, then we are in a poles, wires and "power management" business for our customers. If the storage device is the customer via these types of technologies (distributed storage), then we might expect to see "some" of our customers leaving as they can do it all themselves and we are faced with large stranded cost implications. That would be a situation that would affect all utilities, but might affect us worse as we have an expensive service territory to maintain. This is what will drive whether a rate redesign is called for, by that I mean the infrastructure / power rate structure we have been discussing in some of our Board meetings, and when / if it may be an issue at all.

These articles would suggest that with current incentive programs, there are few distributed storage batteries being installed, and the utilities are providing the service. Solar City is also apparently not selling as many arrays as they planned to if they are downsizing and not doing so well. I think we all have thought about the impacts on distributed generation are going to be if incentives disappear.

6. RNG and HW Hill Power Purchase Agreement Discussions – I will update you at the Board meeting on Tuesday
7. BPA Integrated Process Review – Attached is my letter to Elliott Mainzer on my views of BPA's initial rate impacts for the rate period beginning in October 2017.