



Public Utility District No. 1 of Klickitat County

79 Years of Service * 1938-2017

GENERAL MANAGER'S REPORT TO THE BOARD

For the August 08, 2017 Meeting

AGENDA ITEMS

A. PRE-QUALIFICATION OF CONTRACTORS- [Ron]

Apollo, Inc. Kennewick, WA- Small Works
Battery Power Systems, LLC Pacific, WA- Small Works

NON-AGENDA ITEMS

1. GM Meeting Attendance:
 - a. July 12 and 26th – Met with Robert Zornes in Wishram regarding Water and Wastewater easements
 - b. July 12 - Conference call with Fitch regarding bond rating
 - c. July 13 - Chamber Forum
 - d. July 18/19 - Mid C Seminar, Wenatchee
 - e. August 2/3 – Northwest Requirement Utility (NRU) / Public Power Council (PPC) Meetings, Portland

2. Public Comment Period – Martha Quigley, a customer who resides in Ponderosa Park talked with customer service staff and with Luann Mata and she asked to speak with the Board regarding the Low Income and Elderly Discount. Her question is whether that discount could be continued into the summer months as well. This program has been applied to the higher energy usage bills during cold winter months. Her comment is that during the winter she doesn't have any issue as she heats with wood, however with the warm summers we have been having, she has been utilizing her air conditioner and that is raising her electric bills substantially. She would like an opportunity to discuss this with the Board.

3. Bonneville Power Administration (BPA) BP-18 Final Record Of Decision on Electric Rates – BPA released its Final Record of Decision (ROD) in the BP-18 rate case to set power and transmission rates for fiscal years 2018 and 2019 starting this October 1st. The bottom line is that the transmission rate will be reduced slightly (-0.7%), while the average power rate is going up 5.4%.

The transmission rate reduction is primarily due to lower interest rates and lower capital spending with the cancelation of the I5 corridor project. The increase in power rate is a combination of many increases and cuts, but the largest driver is lower secondary revenue. An interesting problem facing BPA is that the rates need to be approved by FERC. However, FERC does not have a quorum, with only one out of the five commissioner positions filled. The attached PPC packet explains the implications, but Elliot has said that BPA won't "shut down" if the rate approval is held up and that he intends to apply these new rates October 1st and will fight about it after if he has to. I support his position as although the rates are increasing, if BPA does not implement the new higher revenue stream, the cash will likely eventually come from a CRAC and this rate proposal also includes controversial fixes to the southern intertie transmission rates, which I think are essential to BPA retaining value for its transmission infrastructure and secondary sales to California. This should also help the value of our 11 MWs of transmission to the

California Oregon Border (COB).

Our BPA Account Executives have already been working with Mike on our utility-specific impacts. Mike will report back to you once we work through the specifics, but he thinks we should be pretty close to the BPA published average.

I am attaching two PPC executive committee information packets from the August 3rd PPC executive committee meeting that cover the key items from the BP-18 rate as well as a summary on the Army Corps of Engineers and the Bureau of Reclamation issues that BPA faces. As you know, they operate and maintain the dams on the federal hydro system and BPA pays 100% of their costs related to generation. The perspective being shown here is that their collective costs have increased 60% over the past 10 years, while in comparison, fish and wild life costs have increased 32% and Energy Northwest's costs have increased only 12%. PPC has been working to elevate the focus on the need for the Corps and the Bureau to become more efficient on the work it does.

4. 101 Bar Ranches / Goodnoe Station Water Rights – The final water rights permit was issued to 101 Bar Ranches this week. The process is complete, including the appeal period. This is a very big accomplishment for the District and the County. Ecology staff Trevor Hutton, Mark Schuppe and Tom Tebb were very thorough and extremely helpful during the process. We will be talking further with Gene Callan on the infrastructure work that will need to be constructed. Engineering has already done significant planning, but the scope of the work is such that it will require engineering and contractor help to design and build the facilities.
5. Staffing – Accounting and purchasing have moved into the renovated parking garage area and the next moves will occur by the end of August when the operations and engineering support and management staff will be together in the same office area. I am really looking forward to this arrangement and believe communications will be much improved as there will be more day to day interaction.

April Greenlaw began work July 31st in a floating Support Assistant, filling in a vacancy created when Luann moved to the Executive Assistant position. We will be interviewing two candidates for the Operations Manager position this Friday and next Tuesday. Gwyn and I will update you at the meeting. We have also posted a full time temporary lineman position for a 6 months period to assist with work loads. This is a budgeted position.

6. Wishram Customer Meeting – As requested, we have arranged a meeting at the fire hall on August 7th at 6:00 p.m. to discuss the progress on the new well project.
7. Wishram Well Update – The well testing is completed. The preliminary analysis of the data suggests a recharge rate of 150 GPM at the 8' draw down seen during the pump tests. The tests also indicate the recharge rate increases as the draw down increases. For reference, our annual water rights volume equates to about 100 GPM 24/7. The pump testing completed included drawing 400 GPM and our Qi is 260 GPM. The static water level is 89' below the surface and the well is 460 feet deep.

The next construction phase starts August 7th, which will include the well house, booster pump, and water main connection. We should be able to supply water to the system mid to late September, depending on the water quality testing.

8. NRU BPA Cost Analysis – Roger Gray, the executive director of NRU presented his analysis on BPA rates versus market costs for energy to give a perspective for us as we evaluate BPA rates looking

forward to 2028. Everyone knows that market rates don't cover all the services that BPA provide and that market purchases provide only energy. This presentation is an attempt to quantify those additional services and their costs to get an apples to apples comparison between BPA rates and the current market rates. I am attaching his presentation and I will walk through what I think are the key areas for discussion.

9. Environmental Protection Agency (EPA) Hearing on 2018 Proposed Volume Standards for Biomass-based Diesel Volumes – Kevin was in Washington DC this week to testify at the hearings, along with the Renewable Natural Gas (RNG) Coalition. The hearing was for EPA to obtain information and input prior to them setting the annual required renewable fuel volumes for 2018. These are the targets for renewable fuel use in the transportation industry. Kevin will discuss his testimony and the hearing at the meeting on Tuesday.