



Public Utility District No. 1 of Klickitat County

79 Years of Service * 1938-2017

GENERAL MANAGER'S REPORT TO THE BOARD

For the February 14, 2017 Meeting

AGENDA ITEMS

- A. CALL FOR BID: Tree Trimming – Staff is requesting approval to advertise a call for bids for tree trimming and right of way clearing for 2017, with a bid opening date of March 16, 2017 at 2:00pm.
- B. CALL FOR BID: Pole Test & Treat – Staff is requesting approval to advertise a call for bid for pole inspection and treating for 2017, with a bid opening date of March 16, 2017 at 2:00pm.
- C. PRE-QUALIFICATION OF CONTRACTORS – Staff is asking the Board to approve the pre-qualifications of three new contractors and add them to our works rosters as follows, as they have met our qualification requirements:
- I.V. Riley Materials of White Salmon WA – Small Works Roster
 - Pacific Pole Inspection LLC of Kelso WA – Small Works Roster
 - Electrical Utility Services LLC of Davenport WA – Small & Large Works Rosters
- D. RESOLUTION No. 1733 – With the retirement of Anita Thompson, we are asking that the Board appoint a new Auditor and re-affirm our current Deputy Auditor.
- E. POLICY BULLETIN No. 45 – Mike is requesting approval of the revisions to the “Risk Management and Trading” policy as shown to clear up some conflicts we found in the wording. The changes reflect how we are currently trading. As we discussed, the Policy will undergo some changes this summer / fall to be aligned for the shift to load-following starting October 1 of this year.
- F. 3:30 pm - EXECUTIVE SESSION – I am asking that President Knowles call for an Executive Session for the purpose of discussing potential litigation with our legal counsel regarding the Old Hwy 8 Fire, and to discuss an update on draft fire procedure. Legal Counsel Athan Tramountanas will be present via teleconference as required by RCW 42.30.110(1)(i).
- G. 4:00pm – BOARD WORKSHOP FINANCIAL FORECASTS – Staff is planning to review revised financial models to compare landfill gas generation operational scenarios. The focus will be on reviewing our options on electric generation options to help set the baseline for future decisions. We are not planning on including RNG models in this discussion. The focus will be on the alternatives that are open to us today and on discussing our efforts during 2017. We also want to get your feedback on our suggested direction if there is no RNG path forward.

With respect to RNG, we continue to work with the off-taker on RNG contracts, but we are concerned as their pace continues to be at a very slowed pace. My thought at this time is following up this discussion with a further workshop on the RNG contract, status and alternative actions we should be taking with respect to RNG. However, the baseline we review next week should help ensure we have provided you with information on which to base your future decisions.

NON-AGENDA ITEMS

1. REMINDER that your Strategic Planning interviews are scheduled for Tuesday next week, prior to our regular Board meeting.
2. Also a reminder that the WPUDA “Day on The Hill” is scheduled for February 16th during the normal WPUDA meetings in Olympia. There is a Legislative BBQ at noon.
3. GM Meeting Attendance
Feb. 2 – Public Power Council. As we have discussed at previous meetings, while I retained my seat on the Executive Board for PPC, I stepped out of a vice-chair position and am only sitting as a member on the long-range planning committee.

Feb 6 – City of Goldendale. I gave the annual update. Parts of the discussion were taped and run on the local radio station, with an article on the front page of The Sentinel as well.

4. Staffing Update – We currently have job postings for an accounting clerk / accountant, lineman / hot apprentice and an apprentice to fill positions that are vacant. We are also issuing a posting for Kathy’s Executive Assistant / Clerk of the Board position as she is retiring the end of May and we will be posting soon for a system engineer which is an additional FTE as part of the approved 2017 budget.
5. Financial Audit – We have received our pre-audit communications from Moss-Adams, and they have indicated that the plan to start the Audit approximately April 3rd and issue their report on approximately April 30th.

In a related topic, the State Auditor Office (SAO) asked us to execute an MOU to allow us to utilize a third party for the financial audit. In this case, Moss Adams. This was a surprise as we have never done this before. After research, including checking with other Washington PUDs, we have determined that we do not need the State’s authorization to involve an accounting firm to assist with our financial audit. Other PUDs have seen this MOU and are taking the same stance. We informed the SAO, that while we are very supportive of our State audit team and while they have been very supportive to us, we do not intend to sign a document that gives us permission to do something we already have authority to do.

6. BPA Transmission Operator Implementation Plan – Ron Schultz is continuing to work with BPA to obtain a Transmission Operator Agreement (TOP) to meet the WECC standards. We have confirmed with WECC that they are supportive and will not be levying fines with regard to TOP and TP. KPUD will be one of the first to obtain a TOP agreement.

7. Columbia River System Biological Opinion (Bi-Op) Issues – Some months ago Judge Simon ruled that the existing Bi-Op was illegal and ordered a new Environmental Impact Scoping (EIS) process be completed and that a new Bi-Op be developed. He indicated at that time that until these actions are completed, which are estimated to take about 3 to 5 years, the current river operations would continue. However, he recently stated that he may implement the controversial larger spill levels that have been discussed in the region. This would increase the Total Dissolved Gas levels in the river above what have been previously determined as acceptable levels and could potentially have an additional \$100 - \$150 million impact on BPA power revenues. This could be a 5-6% rate impact. PPC and Northwest River Partners are following this development.
8. Storms in Washington State and Emergency Declarations – As a follow-up to the discussion at the last Board meeting regarding our ability to obtain FEMA funds due to the January storm, the current statewide costs related to the ice and snow storm is \$2.6 million. It would have to reach \$9.8 million to be eligible for FEMA grants. We will continue to submit our costs, so they can continue to accumulate the statewide numbers. Fortunately our costs are very small as our system held up amazingly well.
9. Klickitat County John Day Pumped Storage – Mid Columbia Economic Development District (MCEDD), the County and other Columbia Gorge Bi-State Renewable Energy Zone (CGBREZ) members are exploring continuing the funding of consultant David Van't Hof for another year, supporting the efforts to reopen the West Coast market to Gorge renewables and to promote the pumped storage project. I am planning to attend a meeting with the County Commissioners scheduled for 10:30 AM on February 28th to discuss renewable energy market issues, David Van't Hof's efforts to date and the proposed contract extension. David, Dana Peck, and perhaps others from CGBREZ will attend. This is the next Board meeting day if you are interested in attending. I have indicated that we may provide funding, depending on the scope of work and the involvement of other participants.
10. Changing Energy Landscape – Steve Huntoon is a regulatory attorney who wrote an article for RTO Insider in the January 24th edition. Basically, he compares the dent in retail electricity sales made by solar rooftop installations relative to modern-day LED lighting technology that anyone can get at Home Depot and Costco. He wrote:

“LED lighting already has reduced annual retail electric sales by 30 billion kWh. Rooftop solar has reduced annual retail electric sales by 14 billion kWh.” He further says, “The U.S. Energy Information Administration’s latest study forecasts LED lighting over the next 20 years to reduce annual retail electric sales by 300 billion kWh under a ‘current path’ and by 435 billion kWh under a more aggressive path. Rooftop solar over the next 20 years is expected to reach 100 billion kWh annually. Lighting represents 15% of retail electric sales. Over the next 20 years, half of those [utility] lighting sales will disappear, perhaps three quarters under a more aggressive path. Those electric vehicles better show up soon.”

What Steve is saying is that although we think a lot about distributed generation and its potential to shift costs and the impacts on our revenues. Even we are talking about rate restructuring as a result. The potential impacts on residential retail sales from LED lighting alone could have 3 to 4 times the impact of solar penetration. Given that we likely won't see the solar penetration that California is seeing, this impact could be relatively larger on us.

We haven't done the work to look at lighting impacts specifically on our system, but the implications are pretty clear. A key difference between them is that reductions in electric sales due to lighting would occur at peak times and would help our load shape, whereas solar could make it worse at times of the year. Food for thought.

11. Public Meeting – The public meeting season is upon us and I would like your input on the messaging that we convey at those meetings.