

MINUTES OF PUBLIC HEARINGS
and
REGULAR MEETING OF COMMISSIONERS
OF PUBLIC UTILITY DISTRICT NO. 3
OF MASON COUNTY, WASHINGTON

President Farmer called the public hearing on the proposed electric rates increases to order at 10:00 a.m. The hearing was held in the PUD 3 auditorium (Skookum Room) at 2621 E. Johns Prairie Road in Shelton, Washington, on Tuesday, November 12, 2013.

District officers present were: Commissioners Thomas J. Farmer, Linda R. Gott, and Bruce E. Jorgenson; Manager Annette Creekpau; Finance Manager/Auditor Sherry Speaks; Treasurer Brian Taylor; and Attorney Robert Johnson.

The following PUD 3 personnel were present: Customer Service Manager Diane Archer; Director of Business Services John Bennett; Conservation Manager Justin Holzgrove; Public Information & Government Relations Manager Joel Myer; Director of Engineering Terry Peterson; Power Supply Manager Matt Samuelson; Risk Manager Bob Smith; Director of Business Operations Manager Michelle Wicks; and Executive Assistant / Records Program Supervisor Lynn Eaton (recorded minutes).

There were no members of the public in attendance.

PUBLIC HEARING – PROPOSED RATE INCREASE

Mr. Farmer stated that the public hearing is to receive comments on the proposed electric rate increases. The increases, if adopted, will take effect with meter readings on and after February 1, 2014. The continuing financial impacts of the Washington State Energy Independence Act coupled with increased rates in wholesale energy and transmission are the main reasons PUD 3 is considering increases.

At Mrs. Creekpau's request, Mr. Samuelson gave an overview of the Bonneville Power Administration's (BPA) rate increases. Mr. Samuelson reported that in October, BPA increased the price for wholesale electricity to Mason County PUD 3 by 9.66 percent in addition to raising the cost for electricity transmission services by 9.33%. Mr. Samuelson explained that since 2008, PUD 3's purchased power costs have gone up by 24.6% and approximately 21% is due to increased rates from the BPA. In that same time period, PUD 3 has only raised electricity rates by 9.4%. Since the increase went into effect on October 1, 2013, PUD 3 has been using some reserves and financial management efforts to hold off passing along the increase to customers until the proposed February 2014 billing month.

Mr. Samuelson also reported that the PUD will spend approximately \$1.1 million to purchase 3% of its electricity from qualifying renewable energy sources as required by the Washington State Energy Independence Act (EIA). He expects that number to continue to rise by at least another \$1 million as the 2016 deadline approaches requiring the purchase of 9% of PUD 3's electricity from qualifying renewable energy sources under the EIA. The EIA also requires extensive energy conservation efforts. The mandated targets have increased the costs of such programs, while decreasing revenues from the sale of electricity.

Mr. Farmer pointed out that BPA has not raised its transmission rate in six years. He noted that the transmission increase is needed to upgrade a 50-70 year old system and accommodate potential expansion.

Mr. Samuelson agreed and pointed out that the increase will likely cost the PUD about \$300,000 per year. He also expressed his concern that any expansion of the transmission system for variable resources (such as wind) should not be charged to the preference customers.

Commissioners were provided with copies of all rate schedules with the proposed changes and Mrs. Speaks went over the details of the proposed rate increase for the residential Schedule 12 with the commission. She explained that the residential electric rate would be increased from 6.51 cents per kilowatt-hour to 6.52 cents per kilowatt-hour and the daily system charge would be raised from 70 cents per day to 80 cents per day. She noted that the proposed rates do not include any state or local taxes. The proposed rate increases would be effective with meter readings on or after February 1, 2014 if approved.

Mrs. Speaks noted that two new rate schedules are also being proposed: Schedule 41a which is for Light Emitting Diode (LED) Overhead Luminaries and Schedule 50 which is for New or Expanding Large Load (NELL). If approved, both Schedule 41a and Schedule 50 will go into effect with all meter readings on or after November 26, 2013.

Mr. Samuelson explained that Schedule 50 for the New or Expanding Large Load is intended to cover costs associated with a new facility, or expansion of an existing facility which will result in an increase in power capacity to PUD 3 of two average mega-watts (aMW) or more over any consecutive 12-month period, or four mega-watts (MW) of demand or more over any consecutive 12-month period. The new schedule was necessary to protect the entire rate base from potentially excessive financial impacts due to the necessity of acquiring more expensive Tier II resources to serve a New or Expanding Large Load. Customers who meet the criteria under Schedule 50 will be required to sign a contract and commit to the estimated resources since PUD 3 would be required to commit to the same resources either from BPA under Tier 2 of the current power sales contract or from

non-federal resources. Schedule 50 also allows for the rate to be determined at the time of application since the cost and availability of the resources are unknown at this time.

Mr. Samuelson reported that a rate increase for Schedule 61 which is the Large Industrial Lighting and Power Service Bus Bar Rate (Contract Rate) is also reflected in the proposed rate schedules. Currently the contract rate under schedule 61 is in effect until July 1, 2014. As of October 1, 2013 the rate was increased by 9.67%. Effective with meter readings on or after February 1, 2014 the billings will reflect the state taxes de-coupled from the energy rate. Effective with meter readings on or after July 1, 2014 a separate rate increase will go into effect and the rate Schedule 61 will be reviewed on an annual basis. The Schedule 61 rates were studied by EES Consulting and the costs of service under this schedule were fully analyzed and are reflected in the increases. Mr. Samuelson explained that the new schedule allows the flexibility to address cost fluctuations.

Mrs. Creekpau pointed out that various charts were provided to commissioners and attendees of the hearing that compare PUD 3 proposed rates to neighboring utilities as well as utilities throughout the state. A discussion followed about rate design and how some utilities view daily system charges. Mrs. Creekpau explained that each utility has its own philosophy about rate design and it changes over time.

At Mrs. Creekpau's request Ms. Archer shared information about the Low Income Senior and Low Income Disabled discount programs. She reported that, if qualified, customers who receive the discount will have the daily system charge removed from their bill. She explained that PUD 3 promotes these programs in various ways including: through the application for service process; during billing questions or collection efforts; through advertising in the billing message, bill inserts, newspaper, website and monitors at payment locations. Ms. Archer also reported that customers interested in receiving the Low Income Senior discount can fill out an application at any PUD 3 location while customers seeking the Low Income Disabled discount are referred to the Community Action Council for qualification.

Mr. Jorgenson asked how customer information is verified through the application process for the Low Income discount. Ms. Archer explained that the customer service reps have several means for verifying information and that accounts receiving the discount are audited on an annual basis.

Ms. Archer spoke to commissioners about the Project Share program which was established thirty years ago. She explained that customers qualify through the Community Action Council and can receive a one-time assistance of \$175 per year. Customers can donate to the program and there is no overhead to administer the funds. The fund is promoted through billing inserts/messages, customer service representatives, and partner agencies in the community.

Mr. Farmer asked Ms. Archer for clarification about the reconnection fee when customers are cut for non-payment. He asked if customers are referred to third parties for help. Ms. Archer explained that while there is a fee for disconnection and a fee for reconnection of \$25 each, and potentially an additional deposit, customers have the option of having those fees billed in four increments. She pointed out that the fees are to recover actual costs to the district and the deposit is to protect the district from default. She reported that customer service representatives work very closely with many agencies in Mason County and that customers are often referred to these agencies for help. PUD 3 works hard to communicate the availability of these resources in the community prior to customers being disconnected for non-payment through various sources.

Mrs. Creekpau shared a copy of the new billing design. The sample bill demonstrated what the new bill will look like with the taxes decoupled. The new bills will go out for meter readings on or after February 1, 2014.

Mr. Farmer commended staff for striving for transparency with the new design of the bill and itemizing the taxes so ratepayers can clearly see how their bill is calculated.

With no public comments forthcoming, Mr. Farmer explained that public comments will be accepted at any time and commissioners will consider adoption of the proposed rates at the next regular business meeting on November 26, 2013. The public rate hearing was adjourned at 10:35 a.m., at which time the public hearing for the 2014 proposed budget was called to order by Mr. Farmer.

PUBLIC HEARING – PROPOSED 2014 BUDGET

Mr. Farmer stated that the public hearing is to receive comments on the proposed 2014 operating budget, and asked Mrs. Speaks to give an overview of the budget.

Mrs. Speaks explained that the PUD uses a zero-based budgeting approach, meaning staff starts at zero and builds the budgetary amounts on needs of the utility.

Mr. Samuelson provided commissioners with a graph that charts historical annual kWh retail sales, showing that growth in PUD 3's service territory peaked in 2008. Since that time growth has been stagnant, temperatures

moderate, and conservation efforts increased, which all drive down revenues. Mr. Samuelson reiterated that the Bonneville Power Administration (BPA) has increased the utility's wholesale power rates effective October 1, 2013 by 9.66% for wholesale energy purchases and 9.3% for transmission services.

Mrs. Speaks explained that due to the reduction in revenues continuously increasing costs, the 2014 budget assumes a rate increase to offset the increase in power costs. She reported that the utility will be using approximately \$750,000 from reserves to reduce the impact of the rate increase to its customers.

In the proposed budget, payroll constitutes approximately 22 percent of the total, with purchased power accounting for an additional 45 percent. There are two apprenticeship positions budgeted in 2014 to prepare for two employees retiring in 2015.

With no public comments forthcoming, Mr. Farmer explained that commissioners will consider adoption of the proposed budget at the next regular business meeting on November 26, 2013. The public hearing was adjourned at 10:40 a.m., at which time the regular meeting was called to order by Mr. Farmer.

MODIFICATION AND/OR APPROVAL OF AGENDA

The agenda was approved as presented. Mrs. Creekpauum requested an executive session to discuss potential litigation. The estimated length of the executive session is 10 minutes, with no action to follow.

CONSENT AGENDA

Mr. Farmer reviewed the items listed on the consent agenda. Mr. Jorgenson moved, motion seconded by Ms. Gott, to adopt the consent agenda. MOTION PASSED UNANIMOUSLY. By adopting the consent agenda, the following items were approved:

A. Minutes of the October 22, 2013, regular commission meeting.

B. *Voucher numbers: (dated October 29, 2013)	124478 through 124583	\$ 730,557.06
(Includes electronic funds transfer payment Nos. 1082-1084.)		
*Voucher numbers: (dated November 5, 2013)	124584 through 124658	\$ 790,307.46
(Includes electronic funds transfer payment Nos. 1085-1089.)		
*Voucher numbers: (dated November 12, 2013)	124659 through 124779	<u>\$ 887,879.93</u>
(Includes electronic funds transfer payment Nos. 1090-1104.)		
	TOTAL	\$ 2,408,744.45

C. Void accounts payable checks for the week ending November 5, 2013, in the total amount of \$361.97.

D. Write-off of closed, uncollectible, deceased no assets accounts in the amount of \$4,207.31, and discharged bankruptcy accounts in the amount of \$4,773.17, for a total write-off amount of \$8,980.48.

* Vouchers audited and certified by the district auditing officer as required by RCW 42.24.080, and those expense reimbursement claims certified as required by RCW 42.24.090, have been recorded on a listing which has been made available to the board.

COMMENTS FROM THE PUBLIC

While no members of the public were in attendance, Mr. Farmer stated comments would be accepted throughout the meeting.

STAFF REPORTS

Mrs. Speaks reported to the commissioners on the status of the budget as of October 31, 2013. October expenditures for the year were 80 percent and revenues year to date were 81 percent of what was anticipated in the adopted 2013 budget. Year-to-date expenditures totaled \$47.2 million while year to date revenues were at \$47.6 million.

Mrs. Speaks reported that in November, commissioners will see a Build America Bond (BAB's) subsidy in the amount of \$525,000 and a payment from NoaNet for the build out to a cellular carrier site which will both help with year-end receipting.

Mr. Taylor reviewed the October treasurer's report with the commissioners. He pointed out that the total of all funds at the end of October was \$38,082,460. Mr. Taylor noted the \$163,509 reduction in operating reserves was due to the payout releasing the final retainage from Washington State to Rushforth Construction's (now Adolfson & Peterson Construction) subcontractors for the completion of the Johns Prairie operations center. Mr. Taylor reported that October's treasurer's report reflects the first payment received on the engineering building from

Northwest Resources. On October 24, 2013, Mr. Taylor pointed out that \$1.98 million was re-invested due to a bond reaching maturity. The new security was purchased at a discount with .75% interest rate. It will reach maturity on May 15, 2017.

Mr. Samuelson reported that the Federal Ninth Circuit Court of Appeals issued an opinion on the current Bonneville Power Administration (BPA) residential exchange settlement that was filed by the Association of Public Agency Customers (APAC). The Ninth Circuit rejected all arguments made by APAC regarding the legality of the settlement, so it will be part of the preference customers' rates until 2028. Mr. Samuelson further explained that some WPAG members, including PUD 3, chose to challenge the determination of the amount of the refund that was owed to preference customers by the I.O.U.'s under the prior, invalidated, settlements. The group estimates that the amount owed to preference customers is approximately \$500 million, which equates to approximately \$5 million to Mason PUD 3. The case was on hold pending the outcome of the settlement challenge by APAC and can now move forward.

Mrs. Creekpaum reported that Mason PUD 3 received an award of excellence in its class for the PUD's 2012 annual report from the American Public Power Association (APPA). The class includes utilities with gross revenues of less than \$75 million. The theme of the 2012 Annual report was "reliability" and Joel Myer was present to accept the award from APPA.

At Mrs. Creekpaum's request, Mr. Myer gave commissioners an update on the November 2nd outage. Mr. Myer reported that since the utility had good information from the weather service it was able to be proactive in its approach to the outages. With winds reaching 45 miles per hour, the impact was mostly due to trees on transmission lines. The largest outages happened when both the Dayton and Mason substations were down due to trees on the transmission lines feeding the substations. The crews were able to quickly repair the damage and get a large number of customers back in service. However several underground faults that were scattered throughout the territory took significantly more time to restore and restoration efforts lasted late into the night for those customers.

Mr. Myer shared that while the outage center fielded nearly 2,000 calls during the outage, social media efforts reached over 16,000 people. He reported that most comments received by customers were positive and supportive of crews working hard in the stormy conditions.

Mrs. Creekpaum reported that the Public Utility Risk Management Services (PURMS) group arranged for its pooled insurance carrier AEGIS to conduct training to PURMS members and PUD 3 employees at the Johns Prairie Operations Center on November 19th and 20th. The training was about accident investigation and safety.

At Mrs. Creekpaum's request, Mr. Holzgrove informed commissioners of the education committee's participation in the career expo that was located at Shelton High School last week. He reported that PUD 3 provided a booth that was staffed with two employees and Mr. Holzgrove participated in a panel discussion for students interested in engineering positions. Over 1,500 junior high and high school students attended the expo.

Mr. Holzgrove also reported to commissioners that he will be presenting the conservation potential assessment targets at the December 3, 2013 special commission meeting. He explained that EES consulting performed an independent assessment to more accurately identify PUD 3's conservation potential and assist PUD 3 in setting its conservation target.

COMMISSIONERS' REPORT

Ms. Gott reported her attendance at the Energy Northwest Board of Directors and Executive Board meetings in the tri-cities and the Public Power Council (PPC) member's forum meetings in Portland. Ms. Gott also mentioned that she met with Greg Settle of the Hyas Group in Seattle about the OPEB account. She reported that the investment earned over 9 percent last year. In addition, Ms. Gott shared that the Hyas group along with Vanguard was willing to provide training to PUD 3 employees about the VEBA investment options. Ms. Gott also reported her attendance to the Public Utilities Risk Management Services (PURMS) meeting.

Mr. Farmer reported his attendance at PPC last week and his plans to attend the WPAG meeting in Seattle on November 13, 2013.

GOOD OF THE ORDER

Following the calendar review and good of the order, the regular meeting recessed at 11:17 for five minutes. The meeting reconvened at 11:21 a.m. and the commissioners adjourned into a 10-minute executive session to discuss potential litigation.

The executive session adjourned at 11:31 a.m. and the regular meeting reconvened.

With no further business appearing, the commission meeting adjourned at 11:31 a.m.

Thomas J. Farmer, President

ATTEST:

Bruce E. Jorgenson, Vice President

Linda R. Gott, Secretary