

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

President Bruce Jorgenson called a regular meeting of the Mason County PUD No. 3 board of commissioners to order at 10:00 a.m. The meeting was held in the PUD 3 auditorium, at 2621 E Johns Prairie Road in Shelton, Washington, on Tuesday, March 28, 2017.

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: Director of Business Operations Michelle Burleson; Customer Service Manager Diane Hennessy; Engineering Services and Community Relations Manager Justin Holzgrove; Director of Engineering and Utility Services Dale Knutson; Engineering Project Manager – Metering Specialist Koral Miller; Network Systems Supervisor Joel Moore; Public Information & Government Relations Manager Joel Myer; Energy Resources Manager Michele Patterson; Records Coordinator Jennifer Renecker; Engineering Manager Hamid Rezaei; Safety Manager Bob Smith; and Administration & Communication Services Manager Lynn Eaton (recorded minutes).

Members of the public in attendance were: Joel Baxter of *Olympia Master Builders*; Steve Bloomfield of *Seattle Shellfish*; Marty Crow of *Habitat for Humanity of Mason County*; Jerry Eckenrode of *iFIBER ONE*; Pat Hennessy of Shelton; Randy Lewis of Shelton; Heidi McCutcheon of *Shelton Mason County Chamber of Commerce*; and Colleen Walls of Belfair.

MODIFICATION AND/OR APPROVAL OF AGENDA

The agenda was approved as presented.

CONSENT AGENDA

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

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| a. Minutes of the March 14, 2017, regular commission meeting. | | |
| b. Voucher Nos. (dated March 21, 2017) 141031 through 141093 | — \$ | 2,848,776.53 |
| (Includes electronic funds transfer payment Nos. 6472-6481.) | | |
| c. Voucher Nos. (dated March 28, 2017) 141094 through 141246 | — \$ | <u>1,589,189.17</u> |
| (Includes electronic funds transfer payment Nos. 6482-6652.) | | |
| | TOTAL | \$ 4,437,965.70 |
| d. Void accounts payable check for the week ending March 14, 2017, in the total amount of \$239,141.68. | | |

* 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

Colleen Walls addressed the commission in opposition to smart meters and the advanced meter opt-out fee. She questioned whether the daily system charge included the cost for meter readers and wondered why she should be charged an opt-out fee if it is covered in the daily system charge. She expressed that she is concerned that the meters pose a health risk and noted that she contacted a meter manufacturer who informed her that if utilities still wanted analog meters they would continue to make them. In addition, she prompted the commission to hold evening meetings. She also asked how many people have opted out so far. She noted that she asked Koral Miller if she could see the protective equipment the meter installers wear and recognized that Koral had brought it to the meeting for her to look at after the meeting.

Steve Bloomfield of Seattle Shellfish informed the commission that his company is in the process of building a hatchery on Harstine Island which will produce seed not only for Seattle Shellfish but also provide seed to other small shellfish growers. He noted that it will require three-phase power in the future. He expressed that while he understands extending the power will be a significant cost to the District, he doesn't think his company should be responsible for the full cost to bring the power to his location, but he would be willing to pay a percentage of the cost. He argued that the Harstine area would benefit from having the power extended. Mr. Bloomfield also invited commissioners and staff to visit the project. He noted that the project could double his company in size, possibly adding up to eighty jobs.

Joel Baxter of the Olympia Master Builders requested that action item 6a of the agenda, which is Resolution No. 1682 be postponed until the public has enough time to review. He expressed that he heard through a rumor that this item was being considered and that he requested a copy of what was being proposed. As a representative of Mason and Thurston county builders, he stated that he thinks there needs to be transparency in this process.

ACTION ITEMS

A recommendation was made to adopt Resolution No. 1682, "A Resolution Modifying the Electrical Service Rules and Regulations and Fee Schedule A," specifically the line extension policy to allow for the addition of system capacity fees.

At Mrs. Creekpau's request, Mr. Holzgrove explained how the system capacity fees represent the fairest method to recapture capital costs for substation construction and maintenance as well as supports economic development.

Mr. Holzgrove explained that the PUD approached this issue in the same way it approaches all of its rate design: recovering cost in a fair and equitable way. He expressed that the situation is that some of the District's substations are at or near maximum capacity. There is a need for at least four new substations to be constructed over the next 10 years. He pointed out that the District hasn't built a new substation in over 10 years, and Mason County has continued growing.

He noted that now that Mason County is experiencing a more rapid growth, both in new service applications for residential and commercial services, as well as in large commercial and industrial load, the District has several options:

1. The District turn away customers in the areas where our substations are at capacity. Mr. Holzgrove noted that this would negatively affect economic growth.
2. The District could charge customers in the areas where our substations are at capacity the full cost of a new \$3 million to \$5 million substation. He expressed that this would also greatly impede economic development.
3. The District could raise rates to all customers by over 2%. Mr. Holzgrove stated that this would unfairly burden existing customers, particularly full-time and low-income customers. He explained that residential customers would subsidize the costs of a private developer, commercial venture, or a new homebuilder.

Mr. Holzgrove explained that the System Capacity Fee is a hybrid approach, which is designed to share the costs evenly among all customers of the same class who are adding new load or expanding existing load. It also accounts for system benefit to increase reliability for all customers.

Mr. Holzgrove noted three main points to remember in regards to the System Capacity Fee:

1. The funds collected through the System Capacity Fee go into a separate account and are designated for the capital costs of the construction of substation facilities to serve a growing load. Planning ahead and spreading out these costs allows us to systematically continue system development to be able to meet the loads requested by Mason County's residents and business community.
2. With the System Capacity Fee, each new customer connection is paying a fair and equitable fee that represents their share of a substation, which is much cheaper than the cost of a full substation. Large developments, speculative

ventures, and customers that are bringing on a large load (maybe those that require a full or significant portion of a substation) may have to pay a share of their cost upfront so that the District does not have stranded assets in the field if they do not follow through with their plans.

3. The System Capacity Fee protects existing customers from the impacts of the large total cost to build the needed substations. Although, since all customers contributed to the system reaching capacity, the proposal also includes a 0.5% rate increase to be considered the next time a rate increase is necessary. It is not being recommended today.

Mr. Holzgrove concluded by saying that rate design for public power utilities is a very complex process. Public utilities are cost-based, not-for-profit entities. Each customer and customer-class covers its own costs. Mason PUD 3's strives to keep its rates low. PUDs do not get property taxes or any other financial benefit from outside government organizations. That is why all of the District's costs must be met through rates and fees.

Ms. Gott shared that this topic has been discussed formally and informally for quite some time and the District has done an extensive study on the subject and looked at what has been done in Washington state as well as with other utilities.

Mr. Farmer said he has spent a lot of time considering this issue. He noted that this method is fair since it proportionately charges customers for their use as well as assumes that 40% is for system benefit. He clarified that because the capacity is available, it allows the District to re-route from one substation to another for reliability.

Mr. Farmer asked if the District had a representative with the Olympia Master Builders and whether they were communicated with.

Mr. Holzgrove explained that it was in the District's plan to present the information to that group as well as others if the commission decided to move forward with the proposal.

Mr. Jorgenson asked if it were critical for a decision to be made at this meeting.

Mrs. Creekpaum expressed that there is a substation requiring construction now, which this decision could impact.

Mr. Johnson followed up by explaining it is important not to have a long lead time in these types of decisions.

Ms. Gott made a motion to Adopt Resolution No. 1682. She noted that there has been careful thought and consideration put into this proposal.

The motion died for lack of a second.

A recommendation was then made to approve relocating the Belfair customer service office to the downtown Belfair business district. Mrs. Creekpaum noted that it is important for the safety and security of the customer service representatives and PUD customers.

Mr. Farmer moved, motion seconded by Ms. Gott to authorize the manager to move forward with relocating the customer service office to the downtown business district.

A discussion followed. Mr. Farmer noted that the site location would benefit the greater North Mason customer base. He also pointed out that the location provides a good opportunity for the utility to provide information and engage with customers. He expressed the importance of employee safety as well.

Ms. Gott explained that this has been a topic of discussion for several months and made mention that the commission held off a year ago with a similar decision, however with a couple of incidents involving employee safety and other factors that make this a positive move, she has been swayed to supporting the move.

Mr. Jorgenson said that he is an avid supporter of this decision for several reason. He did note that he was concerned about moving too quickly.

Mr. Farmer modified his motion to approve relocating the Belfair customer service office to the downtown business district of Belfair and authorizing the manager to negotiate a lease with any entity. Ms. Gott seconded the modified motion. The MOTION PASSED UNANIMOUSLY.

Randy Lewis asked if he could address the commission. Mr. Jorgenson allowed it. Mr. Lewis said he was confused why Resolution 1682 would not have been proposed before the district started working on a substation.

STAFF REPORTS

Mrs. Speaks reviewed the status of the budget as of February 28, 2017, with the commissioners. Month-end receipts were approximately \$6.9 million, while expenditures were approximately \$6.6 million leaving the month with a positive budget balance of \$789,375.

Mr. Taylor gave the treasurer's report of funds through June 2016. The total of all funds at month-end were \$32.5 million. Mr. Taylor noted nothing substantial to report on the District's investments.

Mrs. Creekpauam noted for the minutes that a unilateral revision to the District's power sales contract with the Bonneville Power Administration has been received. It is Revision 6 of Exhibit C to the Power Sales Agreement No. 09PB-13068. The revision reflects the District's elections regarding service to its Above-RHWM Load for the purchase period of FY2020-FY2024 and updates the District's Tier 2 purchase amounts for the FY2018-FY2019 purchase period. The revision also includes the round-down language for the third purchase period.

Mrs. Creekpauam then reported on the engineering statistics. She noted that for 2017 year to date, the District has received 51 new applications for service. This is compared to 40 for the same period in 2016.

Mrs. Creekpauam gave an update on the grid modernization project. She noted that approximately 9,800 meters have been installed, 119 routers, and 10 collectors to date. She said the installation team is finishing up in the Timberlakes area and headed to Harstine Island next.

Mrs. Creekpauam informed the commission that its customer service department has been making a concentrated effort on collecting past-due accounts. The team has begun using a new feature of the NISC software to make automated calls reminding customers to call the office. The system is efficient and protects customer privacy.

At Mrs. Creekpauam's request, Mr. Myer gave a legislative update. He informed the commission of issues that could impact the utility or industry.

COMMISSIONERS' REPORT

Ms. Gott reported her speaking engagement with the Kiwanis at Spencer Lake during which an incident took place involving a customer shooting the owner of the establishment. She noted that she is happy the owner is recovering and recognized that the situation could have been worse.

She also reported her attendance at the Washington Public Utilities District Association's telecommunications committee meeting in Olympia on March 16 as well as her attendance at the Energy Northwest's meetings last week in Pasco, WA.

Mr. Farmer reported his attendance at the North Mason Chamber of Commerce meeting.

GOOD OF THE ORDER

After a calendar review and with no further business appearing, the commission meeting adjourned at 10:53.

Bruce E. Jorgenson, President

ATTEST:

Thomas J. Farmer, Vice President

Linda R. Gott, Secretary