

**Minutes of the Regular Meeting of the Okanogan County
Public Utility District Board of Commissioners
Held in Okanogan October 22, 2002**

Present:

Board: Darrel Bunch, Donald Johnson, James Rowland

Staff: Harlan Warner, Richard Trimble, Joy Schultz, Rod Leavell, Derek Miller, Don Coppock, Dan Boettger, Jay VanderWeide, Jerry Day, Debra Peters, Julie Pyper

Other: Michael Howe, Legal Counsel;
Alan Dashen via conference call

Public: Dave & Esther Johnson, David Womack, Diana Yeckel, John Andrist, Ken Millner, Susie Ives, K.C. Mehaffey, Lorah Waters

President Bunch called the meeting to order at 8:30 a.m.

Summary Agenda

1. Approval of Minutes
2. Approval of Work Orders
3. Approval of Vouchers
4. Approval of Transfer of Accounts
5. Public Comment
6. Public Water Supply - Resolution No. 1245
7. PPC Executive Committee Election
8. 2003 Final Budget
9. Project Help Administration
10. Report on EPA Inspection
11. Lorah Waters - Renewable Energy Access Project
12. Public Comment
13. Meetings
14. Executive Session

1. Approval of Minutes:

Commissioner Johnson moved to approve the Minutes of the September 24, 2002 and October 1, 2002 regular meetings; Commissioner Rowland seconded. Commissioner Johnson requested the following additions to the budget discussion in the October 1, 2002 Minutes: A minimum rate increase of 10% was proposed; and there was discussion about selling the diesel generators. The motion passed.

2. Approval of Work Orders:

The following work orders were submitted for approval:

01-0734	Jeffrey & Stacy Gundersen, 11 Vintin Rd., Carlton (Rev. #1)	\$2,563
02-2&3	District/Huber, Talkire Lake Rd.	750
02-0044	Wayne Lawson, Penley Rd., Okanogan (Rev. #1)	4,239
02-0125	Rich Lockwood, Kirkpatrick Rd., Omak (Rev. #1)	2,287
02-0133	Monte Andrews, 249A Rodeo Trail, Okanogan	2,111
02-0138	Wal-Mart, Omak River Rd.	11,381

02-0142	District/Log Cabin Trailer Park, Omak	3,735
02-0151	District/Tunk Mountain, Fritz Rd., Tunk Valley	3,577
02-0155	District, 2nd St. & Hubbard Ave., Riverside	2,468
02-0156	Russ Arndt, Hosheit Rd.	5,817
02-0158	District, E. River Rd.	2,378
02-0159	District, Oroville Substation	6,226
02-0165	Karen Roberts, Figlenski Rd., Tunk Valley	1,200
02-0166	Shirman String, Anderson Rd. off Tunk Creek Rd.	2,477
02-0177	Tom Baker, 288-51 Hwy. 97, Okanogan	4,016
02-0402	Mike Hallett, Lot 142, Okanogan River Ranches	4,600
02-0403	Mike Henneman, Hwy. 97 at S. O'Neil Rd.	587
02-0404	District, Western Ave., Tonasket	2,100
02-0406	Pat Ennis, Swanson Mill Rd. near Fancher Dam	2,825
02-0408	District, West end Kernan St.	1,525
02-0409	Terry Donohue, Lot 1031, Okanogan River Ranches	2,400
02-0410	District, Hwy. 20 East of Tonasket	700
02-0667	Jay T. Hough, 454 Twisp-Carlton Rd. (Rev. #1)	6,545
02-0675	Kris Sims, 348 Twisp-Carlton Rd.	1,136
02-0679	Sandra & Tom Collins, 802 Indian Dan Canyon Rd., Brewster	920
02-0682	Walt Pearce, Taylor Rd.	8,650
02-0683	District/Methow Valley Ranger District, 502 Glover St., Twisp	521
	Total	\$87,734.00

Commissioner Rowland moved to approve the work orders; Commissioner Johnson seconded; motion passed.

The Commissioners requested that Larry Felton report on the Nine Canyon Wind Project at a future meeting.

3. Approval of Vouchers:

Vouchers No.'s 73431 through 73524 in the amount of \$472,441.41, No.'s 73525 through 73553 in the amount of \$163,741.83, No.'s 73554 through 73621 in the amount of \$125,051.80, No.'s 73622 through 73728 in the amount of \$229,208.23, No.'s 73729 through 73756 in the amount of \$166,149.00, and No.'s 73757 through 73852 in the amount of 648,180.82 were approved for payment from the revenue fund.

Commissioner Rowland moved to approve the vouchers; Commissioner Johnson seconded; motion passed.

4. Transfer of Accounts:

There were no accounts submitted for write-off/collection.

5. Public Comment:

Manager Warner introduced the employees attending the Commission meeting: Rod Leavell, Area Manager in the Oroville office; and Joy Schultz, Customer Service Supervisor.

6. Public Water Supply - Resolution No. 1245:

Manager Warner presented Resolution No. 1245 encouraging Washington State Legislators to develop legislation to reform state water laws. Various court decisions, changes in policy and legal interpretation have hampered the ability of public water systems to meet the needs of the communities they serve. The Washington PUD Association has proposed reforms of Washington's water law that would create a more functional and efficient system for water rights that would also result in environment benefit.

Commissioner Johnson moved to adopt Resolution No. 1245; Commissioner Rowland seconded; motion passed.

7. PPC Executive Committee Election:

The Board discussed the District's ballot for the Public Power Council Executive Committee election. The ballot is a numerical vote for all nominees in order of preference for a two-year term on the Council commencing January 2003. Manager Warner tentatively completed the ballot for the Board's review, indicating how Okanogan PUD might vote. Commissioner Johnson said it was his preference for elected officials to serve on the Public Power Council.

Following discussion, the Board agreed that the official vote of the utility would include Tom Casey of Grays Harbor PUD as first choice, followed by Gregg Caudell of Ferry County PUD.

8. 2003 Final Budget:

To assist in finalizing the 2003 budget, Financial Advisor Alan Dashen reviewed financing options available related to the District's outstanding \$10 million bank loan for the diesel generators. The District is required by its bond covenants to maintain a minimum debt service coverage ratio of 1.25 times, and the District has a policy to maintain a cash position of at least \$8 million. The first option presented is to not refinance the debt, but instead raise rates necessary to meet debt service coverage. The second option is to refinance the bank loan, either with another bank loan or with a bond issue, depending on which is less expensive for the District. The District's current bank loan has a "marked to market" provision that if repaid early, there is a prepayment fee to make the bank whole for changes in interest rate levels from when the loan was made.

If the bank loan is not refinanced, the District will need a rate increase sufficient to make debt service coverage of at least 1.25 times in 2003. If the District takes no action, the forecast shows that debt service coverage drops to 1.10 in 2003 and 1.13 in 2004, and the cash position deteriorates to a balance of about \$3.2 million in 2004 and a deficit in 2006. Mr. Dashen noted that if the District does not refinance the debt and does not raise the rates by 10% in 2003, its commitments would not be met.

Mr. Dashen feels that Bank of America would be agreeable to refinancing the debt over a longer term, assuming that the District maintains reasonable debt service coverage and reserves. The District would be required to pay the "marked to market" fee estimated to be about \$425,000, but the bank could allow the District to pay for this over the term of the extended loan. The "marked to market" fee would be none or reduced if the interest rate increased. The bank estimates that a 10-year loan would have an interest rate of about 4.22% and a 15-year loan about 4.63%. For a 10-year refinancing, this results in annual payments of about \$1,246,500 compared to the current \$2,731,326. A 15-year loan would lower the annual payments to about \$940,000 annually. It was agreed that the PUD would pursue 15-year financing. That will result in no rate increase in 2003 and 3% increases in subsequent years or less if the diesel generators are sold, the economy improves and/or the sale of surplus power increases.

When asked if this refinancing would result in debt overload, Mr. Dashen advised that it would not. Diesel generation, Methow transmission line, telecommunications and normal utility growth are appropriate uses for the District's borrowing capability. When asked about the proceeds of a surplus sale of diesel generators, Mr. Dashen indicated that it would be most appropriate to apply that against the borrowing for the generators, although there might be some way to apply it elsewhere such as the Methow transmission line. This decision would need to be made at the time we go out for bonds. In refinancing the bank loan, Mr. Dashen emphasized that Bank of America (or the bond market) would want to see the District's "rate plan" for assurance of future cash flow.

The staff presented a \$202,000 revision to the budget, eliminating a facilities and mapping expense of \$100,000 and other miscellaneous building/property and equipment items. In addition, the Board decided to discontinue membership in Northwest Irrigation Utilities (\$10,000).

The Board elected to pursue no rate increase in 2003 combined with a 15-year refinancing of the \$10 million diesel debt. The Board also requested additional information regarding the telecommunications and conservation budgets and electric revenues.

Attorney Howe noted that in conformity with statutory requirements, the Minutes should reflect that the Board has agreed to continue the hearing and final adoption of the budget from October 22, 2002 to the next meeting.

Commissioner Rowland moved to continue the final adoption of the budget to the next meeting scheduled for November 5, 2002; Commissioner Johnson seconded; motion passed.

Jerry Day informed the Board of the availability of Avenir System's next generation "Joint Application Development" software, and noted several advantages that the new software would provide. Avenir currently provides the District's customer information system and financial software, which is 17 years' old using 20 year old technology. If the District commits now to a purchase of the new software, the installation, data conversion and training for a customized plan would be free of charge, with a money-back guarantee. Avenir would allow the District to spread out payment of the \$300,000 estimated cost. If the District elects to purchase the new software, \$85,000 budgeted for planned expenses under the current system would not be necessary and might be applied to the 2003 payment. Avenir has scheduled meetings on the new product for November 11-12, 2002.

The Board requested a presentation on the software system from Jerry Day at the next Board meeting.

9. Project Help Administration:

Joy Schultz worked with Glenn Schmekel of The Cove and Diana Yeckel of Community Action Council to develop the guidelines for the use of Project Help funds. The following guidelines will be based upon individual situational merit as determined by District staff in conjunction with the program administrator, Community Action Council. Project Help funds will be used to solve a problem, not prolong an existing situation. The funds are not intended to be available to a client/customer year after year. With respect to emergency relief, the recommended allowable payment shall be the amount subject to disconnect less 10%, which will be the payment amount required for the client/customer. Depending on circumstances, a maximum of four months' residential billings may be authorized. With respect to deposit relief, an amount up to the District's current standard residential deposit may be guaranteed. Project Help funds will not be available for disconnection /reconnection charges. The funds can only be remitted to the District and not to any other vendor or client/customer. Priority shall be given to any customer experiencing a sudden serious illness or death, major hospitalization, reduction of income or other short-term financial disruption. There will be an opportunity for customers experiencing difficulty traveling to Okanogan to access assistance by telephone and mail, and for Methow Valley residents to utilize assistance with the application process from The Cove in Twisp.

In checking with the State Auditor, it was determined that donated funds are considered public funds. The Project Help program will continue to be audited through Community Action Council's audit system.

In 2002, Project Help donations of \$4,344.42 have been received, and \$3,541.13 has been paid out. Ms. Schultz noted that an explanation could be included on final billing notices explaining the Project Help criteria, and also on the regular billings explaining that customers can voluntarily donate funds.

Commissioner Johnson moved to accept the Project Help program revisions as submitted in Exhibit "A"; Commissioner Rowland seconded; motion passed. A Resolution revising/amending the Project Help program will be available for signature at the next Board meeting.

10. Report on EPA Inspection:

Dan Boettger briefed the Board on the Environmental Protection Agency inspection of the District facility in July 2002. The inspection was conducted to determine compliance with federal PCB regulations. EPA issued a Notice of Non-Compliance, which was later rescinded based on conversations with Mark Pennell of Regulatory Compliance Services, Inc. and the response provided by the PUD. A Notice of Case Closure was subsequently issued on September 24, 2002. Mr. Boettger noted that the District tracks approximately 25,000 pieces of oil-filled equipment. The Board commended staff for their diligence in managing the program and responding to EPA.

11. Lorah Waters - Renewable Energy Access Project:

Lorah Waters updated the Board regarding the progress of the Renewable Energy Access Project. She has had discussions with representatives of the PUD, Bonneville Environmental Foundation (BEF) and Western Sun. BEF expressed continued interest in participating in a solar energy project, and agreed to consider a proposal in November if Okanogan PUD establishes a green power program. BEF encouraged other agencies, such as the Environmental Protection Agency and the Department of Energy, to share the costs of a green power program. BEF suggested the PUD establish a voluntary green energy rate that could subsidize this and future renewable projects. Ms. Waters also met with a representative of Chelan PUD to discuss the SNAP program.

12. Public Comment:

John Andrist encouraged and supported telecom and the budget review, as he said he relies on the system for essential services in his business.

13. Meetings:

Commissioner Johnson reviewed proceedings of interest from the Washington PUD Association meeting he attended in Long Beach, Washington October 15-18, 2002.

The next Okanogan PUD Board meeting is scheduled for November 5, 2002.

14. Executive Session:

The Board recessed into executive session at 11:35 a.m. to discuss personnel and litigation. The Board reconvened into regular session at 12:35 p.m. There being no further business to discuss, the meeting adjourned at 12:35 p.m.

Darrel E. Bunch, President

ATTEST:

Donald W. Johnson, Vice-President

James G. Rowland, Secretary