

**MINUTES OF THE
ENERGY NORTHWEST
SPECIAL ADMINISTRATIVE, ENERGY &
MEMBER SERVICES COMMITTEE WORKSHOP MEETING
ALDERBROOK – MT. WASHINGTON ROOMS B & C
10 N. ALDERBROOK ROAD
UNION, WASHINGTON
AUGUST 21 – 23, 2013 – COMMENCING AT 8:00 AM.**

Chair Tim Sheldon called the meeting to order at 8:31 a.m. and welcomed all in attendance.

Roll Call:

Sid Morrison, Chair
Marc Daudon
Dan Gunkel
Jack Janda
Skip Orser (via teleconference)
Will Purser
Dave Remington (via teleconference)
Lori Sanders
Tim Sheldon
Kathy Vaughn

Staff Present:

M. Reddemann, D. Atkinson, D. Briggs, R. Dutton, G. Hettel (Thursday and Friday), P. Lilly, M. Paoli, B. Ridge, B. Sawatzke and L. Willey.

Others Present:

Board of Directors' President and Vice President L. Gott, Mason County PUD No. 3, and T. Brewer, Grant County PUD, respectively; Participants Review Board Chair K. Denison, Mason County PUD No. 1; Consultant J. Tarbert, American Public Power Association (Wednesday and Thursday); and A. Winzelberg, Contractor – Workplace Chemistry.

Chair Sheldon shared some history about the area's beginnings and general information about Mason County. There was a round of introductions along with a biographical sketch of Jeff Tarbert, American Public Power Association (APPA), provided by M. Reddemann, Chief Executive Officer. Mr. Reddemann reviewed the previous year's workshop topics and the value of governance policies. Mr. Tarbert shared some of his experiences, reviewed his preparation of holding pre-workshop discussions with each of the board members, and advised of his plans to provide avenues for Energy Northwest to move forward in their policy structuring.

GOVERNANCE WORKSHOP SESSIONS 1 - 4

Session 1

Mr. Tarbert reviewed the following preferred outcomes and asked board members which ones were most important for them to cover during the board governance workshop:

1. Reach consensus on the value Energy Northwest is providing today and the potential value Energy Northwest could provide to the region in five years.
2. Reach consensus on the definition of governance, in the context of Energy Northwest's Executive Board, and the commensurate or related duties and responsibilities.
3. Discuss and develop a plan, if needed, to improve clarity of communication from the Executive Board to the Chief Executive Officer (CEO) on the Executive Board's vision, mission and priorities for Energy Northwest, and whether the Executive Board should establish its own priorities.
4. Reach consensus on the definition effective governance (or excellent in governance) for the Executive Board and ways that effectiveness (or excellence) could be measured.
5. Review current strategic plan (FY 2014 – 2016) to ensure it aligns with the needs of Energy Northwest members and the priorities of the Executive Board.
6. Reach consensus on the value of the Energy/Business Services (E/BS) department and provide resources and support necessary for its success.

Mr. Tarbert provided overviews with respect to the definition of governance, fiduciary responsibilities and the importance of governing boards' acting in the best interests of the organization. He discussed full ownership of the board, the custodial role of protecting the organization and the value of enhancing what the organization does for its members/owners.

Board members discussed the importance of the top four outcomes, as well as Energy Northwest's board members' isolation from other boards, senior management's needs for clear direction from the Executive Board, getting consensus of board members, and what areas need improvement.

The meeting was recessed at 10:06 a.m. for a short break; the meeting was reconvened at 10:22 a.m.

Session 2

Mr. Tarbert reported on how a successful board operates, how the board affects the CEO's performance and performance planning, ways in which the board can support the CEO in being more effective, and things management needs to be doing. Topics of conversation included:

- Fiduciary Responsibilities
- Duty of Reasonable Care
- Duty of Loyalty
- Disclosing Conflicts of Interest
- Examples of Compliance
- Assure Effective Executive
- Defining Roles
- CEO Performance Evaluation
- Why is Review Important?
- Strategic Direction
- Performance Monitoring
- How Performance is Measured
- KPAs and KPIs
- Governance: Evaluation
- Performance Obstacles
- Indicators of an Effective Board
- Does Your Board/Council Manage more than Govern?

Discussion ensued regarding public perception, the public's lack of knowledge about nuclear power, and the need for Energy Northwest to educate the general public on the benefits of nuclear power; definitions of governance; consensus of board members to provide staff with a clear sense of board members' direction; and responsibilities of the CEO.

Mr. Tarbert reviewed the 57 question survey and survey results. In addition to sharing the 10 areas that ranked highest, he reported on the areas in which the board is performing the best, as well as the areas with the lowest scores.

Discussion ensued with respect to board members' reactions to the survey results, which included defining policy and direction to staff, the need to self-evaluate board performance, lessons learned from Fukushima, benchmarking with other boards on time management, and improving the region's perception of Energy Northwest and the nuclear energy industry.

The meeting was recessed at 12:02 p.m. for lunch; the meeting was reconvened at 12:47 p.m.

Session 3

During Session 3, Mr. Tarbert talked about board meetings, efficiencies, agendas, and open public meeting laws and requested opinions from board members in those areas.

Discussion ensued regarding the use of too many acronyms, not enough focus on business development issues, frequency and length of meetings, duplication of presentations at quarterly meetings, regulatory and industry responsibilities, how much time goes into preparing for and attending board meetings on a monthly basis, and the need for key performance indicators, milestone measurements, and benchmarking with other nuclear industry boards.

The meeting was recessed at 1:56 p.m. for a short break; the meeting was reconvened at 2:13 p.m.

Session 4

Measuring Board Performance

In Session 4, Mr. Tarbert and the board members discussed measurements of board performance, metrics and standards for board activities, and criteria for clear communications between the board and management staff.

Mr. Tarbert advised that to ensure the effectiveness of the CEO, a board can take the following steps:

- Give the CEO very clear, specific direction (how much data, communication at board meetings, etc.)
- Give feedback on how the CEO is performing
- Ensure that the finances/resources to accomplish goals is available
- Provide incentives/compensation to retain good staff
- Provide incentives for the CEO
- Ensure that the board is spending CEO and staff time efficiently
- Stay informed
- Accountability by the board and holding the CEO accountable for performing at the highest level

Effective Governance

Mr. Tarbert stated that the board can monitor its governance effectiveness in monitoring the organization's performance/compliance using the following oversight tools:

- Performance audits
- Meeting with regulators
- Dashboard measurements
- Communicating the performance of the organization to the stakeholders (PPC, PUDs)

- Surveying stakeholders/and industry leaders to learn their perspective of Energy Northwest

END OF DAY WRAP-UP

Hearing no further discussion, Chair Sheldon ended the general session portion of the meeting. The meeting was recessed at 3:21 p.m. for a short break; the meeting was reconvened at 3:32 p.m.

COMPENSATION SUBCOMMITTEE MEETING

D. Atkinson, Vice President, Employee Development/Corporate Services, provided the results of the FY 2013 at-risk compensation program for Columbia Generating Station, E/BS, and corporate employees and management.

Discussion ensued regarding E/BS project success points. Mr. Reddemann explained the point system and indicated that he would like further discussion on the success points at a future meeting.

B. Dutton, General Counsel, presented the revised Executive Employee Agreement and walked the subcommittee through the following changes:

- Language changed to be gender neutral
- Removal of the guaranteed 3 percent increase each year of agreement term (Section 3) and addition of a variable provision subject to CEO recommendation and Executive Board approval
- Added paragraph (d) (Reduction in compensation) to Section 3 which provides a limited opt-out clause for Vice Presidents (VP) based on a reduction in compensation
- Added paragraph (e) (Reassignment) to Section 3 to permit a reassignment of a VP away from a VP position
- Clarified sections 8 (a) and (b)
- Changed extended absence period to six months for termination purposes (Section 8) to align with the short term disability policy period
- Other miscellaneous grammatical and reference changes to align with added text

Subcommittee Chair Remington recommended that the four motions related to the ARC results and Executive Employment Agreements be presented to board members during the special Executive Board meeting on Friday and indicated that Messrs. Morrison and Purser will be presenting those motions.

The meeting was recessed at 4:10 p.m. for the purpose of holding a 75-minute Executive Session in accordance with RCW 42.30.110(1)(g).

The Executive Session ended at 5:30 p.m. and the meeting was immediately recessed until dinner.

The Executive Board meeting reconvened at 6:30 p.m. for a social and dinner. The Commissioners from Mason County PUDs Nos. 1 and 3 joined the Executive Board and management staff for a networking opportunity and dinner.

Roll Call:

Sid Morrison, Chair
Marc Daudon
Dan Gunkel
Jack Janda
Will Purser
Lori Sanders
Tim Sheldon
Kathy Vaughn

Staff Present:

M. Reddemann, D. Atkinson, R. Dutton, P. Lilly, M. Paoli, B. Ridge, B. Sawatzke, and L. Willey.

Others Present:

Board of Directors' President and Vice President L. Gott, Mason County PUD No. 3, and T. Brewer, Grant County PUD, respectively; Participants Review Board Chair K. Denison, Mason County PUD No. 1, and his spouse M. Denison; Consultant J. Tarbert, American Public Power Association; A. Winzelberg, Contractor – Workplace Chemistry; and his spouse K. Winzelberg; D. Dutton, spouse of B. Dutton; M. Reddemann, spouse of M. Reddemann; L. Ridge, spouse of B. Ridge; K. Sawatzke, spouse of B. Sawatzke; J. Willey, spouse of L. Willey; S. Sanders, spouse of L. Sanders; Mason County PUD No. 1 Commissioner R. Gold; Mason County PUD No. 3 Commissioner T. Farmer and his spouse J. Farmer; Mason County PUD No. 3 Manager A. Creekpaum, and her spouse T. Creekpaum; Legislative Liaisons S. Reese and J. Rowland; and K. Janda, spouse of J. Janda.

The dinner meeting recessed at 8:30 p.m.

THURSDAY, AUGUST 22, 2013

The workshop meeting was reconvened at 8 a.m. for breakfast with the same attendees as yesterday. Chair Sheldon called the workshop meeting to order at 8:32 a.m.

GOVERNANCE WORKSHOP SESSIONS 5 - 7

Session 5

Mr. Tarbert opened the meeting by talking about the usefulness of meetings and reiterating the preferred outcomes of the workshop discussed during Session 1. He requested that each board member provide one takeaway item from the workshop that they would like to work on resolving. The following things were identified:

- Visiting and interacting with well-run utility boards
- Ensuring that staff and board members are on the same page (clear direction)
- Verify consensus on actions at the end of each committee meeting to ensure that clear direction has been communicated
- Becoming a better educated visionary board through benchmarking efforts with top performing plant's boards and attendance of other industry meetings
- Improving meeting content; spend time on where the plant should be in the future
- Taking a greater role in strategic planning process; having more time for give and take, policy level discussions, getting less detail on the plant and spending more time on the future generation needs
- Providing clarity to the CEO and sustaining performance (how do we get there?)
- Maintaining close attention to Columbia's performance

ACTION ITEMS:

- Develop an action goal on the clarity issue (common sense of how to move forward)
- Develop a charter on the board's commitment to excellence (a picture of where the board wants to be)
- Develop a governance policy (efficiency of meetings; clarity of board's direction; accountability)
- Develop an actual strategic plan
- Create a list of board priorities and develop a time line on achieving those priorities (include what the picture of excellence is and how it is portrayed to stakeholders)
- Develop a more focused self-evaluation process for board members

Mr. Tarbert requested a list of things that might be tracked to evaluate the boards' performance. Suggestions included:

- Developing a checklist and linking things such as motions back to the strategic plan
- Keeping it simple
- Attending educational courses/conferences/seminars for board members such as the INPO Goizueta conference
- Refocusing on what the board was established to do and what the standards are to be captured in the board policies

Mr. Tarbert shared another public power governance model with board members and suggested involving all members to determine the direction in which to how, how to get there and how to get the most value in the future. In addition, he reviewed “The Unique Purpose of Public Power Foundation.”

The meeting was recessed at 10:00 a.m. for a short break; the meeting was reconvened at 10:23 a.m.

Sessions 6 and 7

Mr. Tarbert asked the board members to initialize the takeaways and action items captured on the flip charts during Sessions 1 - 5 to assist in prioritizing. Responses from board members were as followed:

- The majority responses were around idea of the picture of excellence and having a governance policy.
- The Executive Board is committed to excellence in governance by adopting the following values: efficiencies in operations, meetings and time, accountability, clear direction on the managements’ time and boards’ intent, strategic planning at a level important to the board and the boards’ self-evaluation.
- Definitions will need to be developed for efficiencies, accountability, clear direction, self-evaluation and the picture of excellence.
- Statement/description of excellence in governance starting with a preamble on what the organization is about and its vision, safety, reliability, excellence...the boards’ description could be excellence in governance and include a list of values.
- Articulating the boards values
- Integrating the concept of coming to a consensus during the committee reports possibly following commitments/forward planning agenda item – asking if there are any items that need clarification
- More in-depth discussion to get the sense of the boards’ desired direction

Discussion ensued with respect to having Energy Northwest staff modify and rework the Excellence in Public Power Governance model and bringing it back to the executive board for review. Mr. Reddemann recommended setting aside some time to work through the document.

Mr. Gunkel clarified direction as follows: use the governance model framework Mr. Tarbert crafted; board members add a preamble; and have staff take that framework and modify it to incorporate Energy Northwest’s top ranking items. Mr. Tarbert added the boards’ involvement in strategic planning, vision setting, and bench-marking should also be included.

Messrs. Morrison and Reddemann thanked Mr. Tarbert for sharing his expertise and facilitating the process.

The meeting was recessed at 11:50 a.m. for lunch with Representative Jeff Morris and Scott Richards, Committee Chief of Staff; the meeting was reconvened at 1:10 p.m.

ENERGY NORTHWEST STRATEGIC PLANNING

Overview, Initiatives and Timeline

B. Ridge, Vice President/Chief Financial and Risk Officer, provided the history of the strategic plan process discussed during the workshop meeting each year. Changes began in 2010 with looking over APPA standards, benchmarking with peers, and tying everything to the excellence model. He reviewed a number of strategic initiatives and strategic focus areas included in the 2010 – 2014 Strategic Plan (SP), changes in the plan made since 2012, and the linkage of documents to the SP. Discussion ensued regarding the ownership of the SP and the connection between the SP and the boards.

Mr. Ridge reviewed the current SP summary scorecard example, changes to the stakeholder trust & confidence initiative, and SP next steps. Mr. Reddemann requested feedback from board members on the SP.

Discussion ensued regarding the timeline for workshop meetings on strategic planning and the governance policy. Mr. Reddemann asked for a consensus on the timeline. Mr. Ridge advised that his team will develop a plan on what will be discussed in the September SP workshop and a parallel team will work on the governance policy to be discussed in October. Mr. Ridge was asked to facilitate these workshops.

Strategic Planning: High-Performing Staff

Mr. Atkinson provided an overview of actions/plans with respect to high performing, high potential staff. He reviewed results of a poll of staff to find out how individuals are interested in leadership positions and indicated that approximately 50 percent of staff is interested in leadership roles.

Mr. Atkinson reported on the attributes of high performing employees, how to identify high performers, criteria for selection of individuals, and development, implementation, measurement and final steps of the process.

Board members agreed that Mr. Atkinson should continue with this program.

The meeting was recessed at 2:35 p.m. for a short break; the meeting was reconvened at 2:50 p.m.

COLUMBIA UPDATE

Chief Nuclear Officer Report

B. Sawatzke, Vice President, Nuclear Generation/Chief Nuclear Officer, stated that Columbia has currently been on line for 58 days; the next refueling outage is scheduled for May 2015. He provided brief overviews on plant concerns with circulating water pump/motor 1A and condensate heat exchanger; station focus on safety-related room cooler issues; and regulatory updates on the problem identification and resolution inspection and the component design-bases inspection.

Mr. Sawatzke reviewed pending Columbia inspections; peer visits; an upcoming visit to the Diaichi projects in Japan; moving to a supervisor-led organization in Phase III of the Excellence Model, and key milestones on the Road to Excellence. He advised that G. Hettel, Vice President, Operations, led the effort in receiving training reaccreditation of Columbia's operations programs.

The meeting was recessed at 3:30 p.m. for a short break; the meeting was reconvened at 3:45 p.m.

EXECUTIVE SESSION PER RCW 42.30.110(1)(g)

The meeting was recessed at 4:00 p.m. for the purpose of holding a 90-minute Executive Session in accordance with RCW 42.30.110(1)(g).

The Executive Session ended at 5:30 p.m. and the meeting was immediately recessed until dinner.

The Executive Board meeting reconvened at 6:15 p.m. for a social and dinner.

Roll Call:

Sid Morrison, Chair
Marc Daudon
Dan Gunkel
Jack Janda
Will Purser
Lori Sanders
Tim Sheldon
Kathy Vaughn

Staff Present:

M. Reddemann, D. Atkinson, R. Dutton, P. Lilly, M. Paoli, B. Ridge, B. Sawatzke, and L. Willey.

Others Present:

Board of Directors' President and Vice President L. Gott, Mason County PUD No. 3, and T. Brewer, Grant County PUD, respectively; Participants Review Board Chair K. Denison, Mason County PUD No. 1, and his spouse M. Denison; A. Winzelberg, Contractor – Workplace Chemistry; and his spouse K. Winzelberg; S. Atkinson, spouse of D. Atkinson; D. Dutton, spouse of B. Dutton; M. Reddemann, spouse of M. Reddemann; M. Danielson, guest of M. Reddemann; L. Ridge, spouse of B. Ridge; J. Willey, spouse of L. Willey; S. Sanders, spouse of L. Sanders; Mason County PUD No. 1 Commissioner R. Gold; Mason County PUD No. 3 Commissioner T. Farmer; Mason County PUD No. 3 Manager A. Creekpaum, Port Commissioner J. O’Laughlin and his spouse D. O’Laughlin; Legislative Liaison S. Reese; and K. Janda, spouse of J. Janda.

Senator Sheldon and Chair Morrison thanked all the guests for joining the Executive Board and senior management team for dinner. Chair Morrison recessed the dinner meeting at 8:45 p.m.

FRIDAY, AUGUST 23, 2013

The workshop meeting was reconvened at 8 a.m. for breakfast with the same attendees as yesterday, with the exception of Mr. Talbert. Chair Sheldon called the workshop meeting to order at 8:35 a.m.

EXECUTIVE SESSION PER RCW 42.30.110(1)(g)

The meeting was recessed at 8:40 a.m. for the purpose of holding a 80-minute Executive Session in accordance with RCW 42.30.110(1)(g).

Mr. Morrison came out of the meeting at 10:00 a.m. and announced a 15-minute extension of the Executive Session. Mr. Morrison came out of the meeting at 10:15 a.m. and announced a 15-minute extension of the Executive Session.

The Executive Session ended at 10:30 a.m. and the meeting was immediately recessed for a break to check out. The meeting was reconvened at 10:48 a.m. and was immediately recessed for the purpose of holding a Special Executive Board meeting.

SPECIAL EXECUTIVE BOARD MEETING

Chair Morrison convened the special Executive Board meeting at 10:48 a.m. and welcomed attendees.

COMMENTS FROM THE PUBLIC

Hearing no comments from the public, the next item on the agenda was presented.

REPORT OF THE CHIEF EXECUTIVE OFFICER

Mr. Reddemann congratulated Dave Remington on his reappointment to the Executive Board. He reported on the Columbia value study, the Member Forum in October, pending conference calls with legislative liaisons and legislative representatives, and the Demand Response Demonstration Pilot of 54 megawatts (moving into negotiation and implementation). In addition, he commented on improved travel changes for board members effective September 1st.

APPROVAL OF MINUTES

The minutes of the following Executive Board meetings were presented for adoption:

- Regular Executive Board Meeting – July 24 – 25, 2013

Mr. Sheldon moved for adoption of the minutes as presented. Ms. Vaughn seconded the motion. MOTION UNANIMOUSLY ADOPTED.

DISCUSSION AND/OR ACTION RE: COMPENSATION SUBCOMMITTEE RECOMMENDATIONS

Motion 2013-20 was presented as follows:

“IT IS MOVED THAT THE ENERGY NORTHWEST EXECUTIVE BOARD APPROVE THE FY 2013 EXECUTIVE OFFICERS’ AT-RISK PERFORMANCE PAY CRITERIA RESULTS AS DISCUSSED BY THE EXECUTIVE BOARD, A COPY OF WHICH IS ATTACHED.”

Mr. Purser moved to adopt the motion as presented. Mr. Janda seconded the motion. Chair Morrison called for the question. MOTION PASSED UNANIMOUSLY.

Motion 2013-23 was presented as follows:

“IT IS MOVED THAT THE EXECUTIVE BOARD RATIFY AND APPROVE THE FY 2013 SHORT-TERM AT-RISK PERFORMANCE PAY CRITERIA RESULTS FOR ENERGY NORTHWEST EMPLOYEES AT COLUMBIA GENERATING STATION AND ENERGY/BUSINESS SERVICES. A TRUE AND COMPLETE COPY IS ATTACHED HERETO.”

Mr. Purser moved to adopt the motion as presented. Mr. Sheldon seconded the motion. Chair Morrison called for the question. MOTION PASSED UNANIMOUSLY.

Motion 2013-22 was presented as follows:

“IT IS MOVED THAT THE EXECUTIVE BOARD AUTHORIZE THE CHIEF EXECUTIVE OFFICER TO REVISE AND EXECUTE THE STANDARD EMPLOYMENT AGREEMENT FOR THE DESIGNATED VICE PRESIDENTS OF ENERGY NORTHWEST AS DISCUSSED AND APPROVED BY THE EXECUTIVE BOARD.”

Mr. Purser moved to adopt the motion as presented. Ms. Sanders seconded the motion. Chair Morrison called for the question. MOTION PASSED UNANIMOUSLY.

Motion 2013-21 was presented as follows:

“IT IS MOVED THAT THE EXECUTIVE BOARD APPROVE THE REVISED ENERGY NORTHWEST CHIEF EXECUTIVE OFFICER EMPLOYMENT AGREEMENT AS DISCUSSED BY THE EXECUTIVE BOARD.”

Mr. Purser moved to adopt the motion as presented. Ms. Sanders seconded the motion. Chair Morrison called for the question. MOTION PASSED UNANIMOUSLY.

Motion 2013-24 was presented as follows:

“THE EXECUTIVE BOARD RECOGNIZES THE IMPORTANCE OF PLANNING AND EMERGENCY PREPARATION. ACCORDINGLY, THE EXECUTIVE BOARD HAS DEVELOPED AN EMERGENCY APPOINTMENT PLAN FOR THE APPOINTMENT OF AN ACTING CHIEF EXECUTIVE OFFICER IN THE EVENT THAT SUCH ACTION SHOULD BE NECESSARY. THE EXECUTIVE BOARD APPROVED THE EMERGENCY APPOINTMENT PLAN BY MOTION 2013-16 ON JUNE 26, 2013.

THE EXECUTIVE BOARD HAS CONSIDERED THE QUALIFICATIONS OF THE CANDIDATES FOR THE ACTING CHIEF EXECUTIVE OFFICER AS DESCRIBED IN THE EMERGENCY APPOINTMENT PLAN. IT IS MOVED THAT THE EXECUTIVE BOARD APPROVE THE CANDIDATES AS PROPOSED BY THE CHAIR OF THE EXECUTIVE BOARD IN CONSULTATION WITH THE CHIEF EXECUTIVE OFFICER.

IT IS FURTHER MOVED THAT THE CHAIR OF THE EXECUTIVE BOARD CAUSE THE LIST OF QUALIFIED CANDIDATES AS APPROVED BY THE EXECUTIVE BOARD TO BE DELIVERED TO THE GENERAL COUNSEL IN A SEALED ENVELOPE FOR SAFEKEEPING.”

Mr. Janda moved to adopt the motion as presented. Ms. Vaughn seconded the motion. Chair Morrison called for the question. MOTION PASSED UNANIMOUSLY.

DISCUSSION RE: MERITORIOUS SERVICE AWARD

Chair Morrison requested that the management team bring recommendations forward for nominees for the Meritorious Service Award at the next meeting for discussion.

Chair Morrison asked Board of Directors President L. Gott about the possibility of overlying the Executive Board and Board of Directors meetings in the future. Ms. Gott concurred with the suggestion.

MEETINGS

Chair Morrison announced that the next Executive Board meeting will be held in Richland, Washington, on September 25 – 26, 2013, at the Multipurpose Facility.

Hearing no further discussion, Chair Morrison adjourned the Special Executive Board meeting at 11:40 a.m. and turned the meeting back over to Chair Sheldon.

Chair Sheldon immediately reconvened the workshop meeting. Hearing no further discussion, Chair Sheldon thanked everyone for attending and adjourned the workshop meeting at 11:41 a.m.

Respectfully submitted,

P. Lilly, Supervisor
Visual Communications