

**MINUTES OF THE
ENERGY NORTHWEST
REGULAR BOARD OF DIRECTORS MEETING
RED LION COLUMBIA CENTER – CLEARWATER ROOM A/B/C
1101 N. COLUMBIA CENTER BLVD.
KENNEWICK, WASHINGTON
OCTOBER 23 - 24, 2013 – Immediately following the Special Joint
Board of Director and Executive Board Meeting but no earlier than 1:00 p.m.**

The regular meeting of the Executive Board of Energy Northwest was called to order by Chair Sid W. Morrison at 2:25 p.m. There was a quorum present. An environmental analysis of the October 23, 2013, special Executive Board meeting agenda had been prepared which reflected that all items on the agenda were exempt from further procedural compliance with the State Environmental Policy Act.

ROLL CALL

Sid W. Morrison, Chairman
Marc Daudon (Wednesday only)
Dan Gunkel
Jack Janda
Skip Orser
Will Purser
Lori Sanders (Wednesday only)
Tim Sheldon
Kathy Vaughn

Others Present:

Wednesday only: Bonneville Power Administration representatives K. Black and P. Smith.

Thursday only: Board of Directors members M.L. Norton, City of Centralia; and E. Healy (alternate), Wahkiakum County PUD; and J. Malinowski, Clark Public Utilities.

Both days: Board of Directors members J. Ridge, Asotin County PUD; A. Congdon, Chelan County PUD; B. Gordon, Franklin County PUD; T. Brewer, Grant County PUD; B. Burke, Jefferson County PUD; R. Sparks, Kittitas County PUD; C. TenPas, Lewis County PUD; L. Gott, Mason County PUD No. 3; Steve Houston Okanogan PUD; D. Thompson, Pacific County PUD; C. Knapp, Pend Orielle County PUD; Participants Review Board members K. Denison, Mason County PUD No. 1; and S. Nelson, Franklin County PUD; Bonneville Power Administration representative A. Rapacz; S. Reese, Legislative Liaison; and B. Johnson, PSAV Audio Services.

Staff Present: M. Reddemann, D. Atkinson, D. Briggs, R. Dutton, G. Hettel, P. Lilly, M. Meilleur, M. Paoli, B. Ridge, B. Sawatzke, L. Scheele, A. Walz; L. Willey and S. Barwick.

COMMENTS FROM MEMBERS OF THE PUBLIC

Hearing no comments from members of the public, the next item on the agenda was addressed.

APPROVAL OF MINUTES

The minutes of the following meetings were presented for consideration:

- Special Strategic Planning Workshop Meeting – September 25, 2013
- Special Executive Board Dinner Meeting – September 25, 2013
- Special Executive Board/Compensation Subcommittee Meeting – September 26, 2013
- Special Executive Board Meeting – September 26, 2013

Ms. Vaughn moved that the regular minutes be approved as presented. Mr. Janda seconded the joint motion. MOTION CARRIED.

Chair Morrison turned the meeting over to Nuclear Safety and Oversight Committee Co-Chair Dan Gunkel.

Co-Chair Gunkel announced that all of the presentations from his committee were moved to the special joint Board of Directors and Executive Board meeting in order to avoid redundant presentations.

COMMITMENT REVIEW/CONSENSUS POLLING

No new commitments were added:

OTHER BUSINESS

Hearing no further business, Co-Chair Gunkel turned the meeting back over to the Chair Morrison.

AUDIT, LEGAL & FINANCE COMMITTEE REPORTS

INFORMATION AGENDA ITEMS

Chair Vaughn advised that information items have been posted to BoardDocs for board members' information.

FY 2013 PERFORMANCE REVIEW FOLLOW-UP

Mr. Janda provided a brief background regarding the reason for the FY 2013 performance review follow up, and introduced contractor K. Dennison, Star Financial Services Inc.

Ms. Dennison stated that she was asked to evaluate the progress made on the development and implementation of action plans to address items identified in the FY 2013 performance review, evaluate the adequacy and completeness of the design of actions taken or plans made and provide an overall conclusion as to whether the Information Systems (IS) department is on track and the implementation timeframes for actions appear reasonable.

Ms. Dennison reviewed the scope of the performance review, what was included and excluded, and provided a recap of the identified control deficiencies and process improvements. She reported on actions to address internal control deficiencies or identified process improvement opportunities that have been completed and summarized the timeline for remaining actions through June 2015.

Ms. Dennison provided the following summary of IS actions based on the procedures performed:

- IS department is on-track and implementation timeframes are reasonable
- Actions taken were adequate, complete and prioritized appropriately
- Remaining action plans are adequately designed or are in development

Ms. Dennison noted that operational effectiveness of implemented actions was not assessed. She recommended that Energy Northwest's Administrative Auditor follow up in one year to evaluate operational effectiveness of selected completed actions and adequacy and completeness of the design of further action plans developed.

Mr. Janda took the action to follow up with Protiviti on the recommended actions.

FY 2013 PERFORMANCE REVIEW FOLLOW-UP MANAGEMENT Q & A

E. Gilmour, Information Services Mgr/CIO, provided overviews on the following completed actions from the FY 2013 performance review:

- Improved and expanded documentation
- Updated and expanded security and access standards and controls
- Updated staff knowledge standards
- Updated system classifications
- Formalized business continuity framework
- Completed three self-assessments and one benchmarking assessment
- Completed a draft Information Technology Governance Policy

She reviewed the timeline for additional actions from November 2013 through June 2015 and asked if there were any questions. Discussion ensued with respect to the cost of cyber security measures and assistance from the industry on understanding the commitments required.

FY 2014 FIRST QUARTER COST REVIEWSEnergy/Business Services (E/BS)

J. Irvan, Treasury Services Manager, provided the following cost report for the first quarter of FY 2014 for E/BS:

Packwood Lake Hydroelectric Project

- O&M under budget \$43,000 due to mitigation costs being postponed until the new license becomes effective and an existing open position
- Capital costs over budget \$52,000 due to additional costs related to Penstock maintenance
- Generation exceeded budget by 4 percent – 24.78 gigawatts actual vs. 23.92 gigawatts budgeted
- Cost of power year-to-date: \$23.35/MWh actual vs. \$26.07 budgeted

Discussion ensued regarding potential impacts of additional costs related to Penstock maintenance. Mr. Irvan advised that there will be no impact at year-end.

Nine Canyon Wind Project

- O&M under budget \$58,000 due to labor support decreases
- Generation under budget by 3 percent – 45.15 gigawatts actual vs. 46.52 gigawatts budgeted
- Cost of power year-to-date: \$104.35/MWh actual vs. \$101.80/MWh budgeted

Business Development Fund

- Loss of \$30,000 versus budgeted loss of \$52,000
- Less work for Seattle City Light at the Boundary Dam and for Grant County PUD at Wanapum and Priest Rapids Dams
- Support at Kalama has been discontinued
- Calibrations Lab revenues better than expected by \$33,000
- Industrial Development Complex (IDC) revenue better than expected by \$21,000

Discussion ensued with respect to sale/lease activities for the Advanced Process Engineering Laboratory (APEL), Multipurpose Facility (MPF) and Capital Development Corporation (CDC) buildings.

Mr. Burke indicated that he did not see anything on the external website regarding the cost of power for each of Energy Northwest's projects. Mr. Reddemann stated that staff will take that as an action.

Columbia Generating Station

J. Hicks, Budget Supervisor, provided the following summary for the first quarter of FY 2014 for Columbia:

- \$5.3 million under budget for capital and O&M through September primarily due to the following:
 - O&M-\$1.3 million under due to under runs in labor and allocations
 - Capital-\$4 million under budget due to the timing under runs on Fukushima; circulation water motor pump removal or replacement; capital painting program; storm water run-off ponds and corporate allocations; the under run is being offset by an overrun in the radio obsolescence project
 - COP-FY to-date is \$32.81/MWh vs. budget of \$35.50/MWh
 - Cost is under budget and generation is exceeding budget
 - Current year-end forecast is \$38.49/MWh

Discussion ensued regarding budget under runs and year-end forecasts.

EXECUTIVE SESSION PER RCW 42.30.110(1)(i)(C)

The meeting was recessed at 3:08 p.m. for the purpose of holding a 15-minute Executive Session to discuss litigation matters in accordance with RCW 42.30.110(1)(i)(C). The meeting was reconvened at 3:21 p.m.

COMMITMENT REVIEW

The following new commitments were added:

- Add comparative cost of power for all projects to the external website – Mike Paoli - ASAP
- Follow up in one year with Protiviti on recommended actions from the FY 2013 Performance Review Follow-up – Jack Janda

OTHER BUSINESS

Mr. Paoli reported that the Public Affairs Report on BoardDocs will be posted quarterly in January, April, July and October. He asked board members to review the report that is posted on this month's Executive Board meeting in BoardDocs and provide feedback on the length and content of the report.

The meeting was recessed at 3:25 p.m. until dinner.

The Executive Board meeting convened at 6:00 p.m. for a social and dinner. Chair Sid Morrison called the meeting to order at 7:11 p.m. welcomed all in attendance and encouraged everyone to stay for the annual Member Forum beginning with lunch at 11:30 a.m. tomorrow.

Roll Call:

Sid Morrison, Vice Chair
Marc Daudon
Dan Gunkel
Jack Janda
Skip Orser
Will Purser
Lori Sanders
Tim Sheldon

Others Present:

Board of Directors members J. Ridge, Asotin County PUD; A. Congdon, Chelan County PUD; B. Gordon, Franklin County PUD; T. Brewer, Grant County PUD; B. Burke, Jefferson County PUD; R. Sparks, Kittitas County PUD; C. TenPas, Lewis County PUD; L. Gott, Mason County PUD No. 3; Steve Houston Okanogan PUD; D. Thompson, Pacific County PUD; C. Knapp (and spouse), Pend Orielle County PUD; E. Healy (alternate), Wahkiakum County PUD; M.L. Norton, City of Centralia; Participants Review Board members K. Denison, Mason County PUD No. 1; S. Nelson, Franklin County PUD; and T. Simpson, Clallam County PUD; D. Nass, Clallam County PUD; D. Dahlin Lewis County PUD; R. Hatfield, Pacific County PUD; S. Reese, Legislative Liaison; K. Black, Bonneville Power Administration; and Bill Gordon, Franklin County PUD and L. Gordon (spouse); and S. Sanders spouse of L. Sanders.

Staff Present:

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

Chair Morrison introduced Senator Tim Sheldon and thanked him for sharing his presentation on the Bakken Oil Fields tour he participated in early in September. He provided a biographical sketch on Senator Sheldon's background.

Senator Sheldon provided a brief overview of the town of Bakken, job opportunities in trucking, piping and services, living conditions and food supply in the "man camps", work ethics of oil field employees, and the 2,600 rail cars of crude oil going to Wahkikum County every week.

Sand usage in the oil wells was discussed and S. Houston explained the role sand plays in the frakking process. He indicated that sand is manufactured (some imported from China) for the frakking process and that the right sand is critical in how the process works.

Senator Sheldon reported on the high cost of doing business in Bakken, the lack of resources and manpower, the brutal winters and natural gas as the main source of power.

Discussion ensued regarding the carbon footprints of natural gas and coal, lease challenges for natural gas and oil, and cost comparisons of natural gas and nuclear.

Hearing no further discussion, Chair Morrison thanked Senator Sheldon for his presentation and adjourned the dinner meeting at 7:54 p.m.

Respectfully submitted,

P. J. Lilly, Supervisor
Visual Communications

EXECUTIVE BOARD MEETING (cont'd)

The meeting was reconvened at 8:08 a.m. on Thursday, October 24, 2013, by Chair Morrison, who turned over to Administrative, Energy and Member Services Committee Chair Tim Sheldon.

ADMINISTRATIVE, ENERGY & MEMBER SERVICES COMMITTEE REPORTS

Committee Chair Sheldon announced that information agenda items are posted on BoardDocs for board member's information.

FLEX BENEFITS CONTRACTS

C. Way, Compensation and Benefits Administrator, presented Action Memorandum No. 1215 requesting Executive Board approval of a resolution authorizing implementation of employee benefits contracts including continued participation in the Washington State Health Care Authority Insurance Program.

Ms. Way reported that the value of the contracts will depend upon choices made by employees during open enrollment. She advised that the FY 2014 budget contains funding sufficient to cover the proposed flexible benefits plan through June 30, 2014 and the budget proposal for FY 2015 will reflect known rates for the first half of FY 2015 and an estimate for the second half of FY 2015.

Ms. Way reviewed calendar year (CY) 2014 cost benefit changes and benefits costs and stated that because one or more benefit contracts exceed the CEO's delegation of authority, staff recommends that the Executive Board adopt a resolution allowing him to approve the CY 2014 benefits contracts.

Chair Sheldon presented Executive Board Resolution No. 1788 entitled, "A RESOLUTION AUTHORIZING THE EXECUTION OF CONTRACTS TO IMPLEMENT THE EMPLOYEE FLEXIBLE BENEFITS PLAN FOR CALENDAR YEAR 2014 AND TO PARTICIPATE IN THE WASHINGTON STATE INSURANCE PLANS – ENERGY NORTHWEST" and moved for its adoption as presented.

Ms. Vaughn seconded the motion. Executive Board Chair Morrison called for the question. EXECUTIVE BOARD RESOLUTION NO. 1788 ADOPTED BY UNANIMOUS VOTE.

Ms. Way stated that Human Resources staff is actively monitoring changes to determine impacts of and ensure compliance with healthcare reform. She provided a brief overview of key implications for Energy Northwest due to healthcare reform.

CY 2014 BOARD MEETING SCHEDULE

M. Paoli, Acting Public Affairs Manager/PIO, reported that the CY 2014 board meeting schedule was distributed for discussion during the September board meeting and staff was tasked with providing alternate dates for the March budget review and Executive Board meetings due to a conflict with the American Public Power Association CEO Roundtable on March 23 – 26, 2014 in Phoenix, Arizona and alternate dates for either a board meeting or conference call in November 2014 due to a conflict with the Institute of Nuclear Power Operations CEO Conference on November 18 – 19, 2014, in Atlanta, Georgia.

Mr. Paoli referred to the proposed CY 2014 board meeting schedule that was distributed with today's agenda and asked board members for feedback on the proposed dates for the March and November 2014 meetings.

Discussion ensued regarding the conflict with the March Washington PUD Association's monthly meeting. Messrs. Janda and Sheldon prioritized the board meeting over the WPUDA meeting.

Hearing no further discussion, Chair Sheldon presented the following motion (Motion 2013-26):

"IT IS MOVED THAT THE EXECUTIVE BOARD MEETING SCHEDULE FOR
CALENDAR YEAR 2014, DATED OCTOBER 24, 2013, BE ADOPTED."

Ms. Vaughn seconded the motion. Chair Morrison called for the question. MOTION UNANIMOUSLY APPROVED.

ANNUAL REPORT UPDATE

A. Walz, Public Affairs Specialist II, displayed slides of the 2013 Energy Northwest Annual Report and provided an overview of the past to present annual report themes. She walked board members through the draft annual report pointing out highlights. She advised that an electronic version of the annual report will be available on the Energy Northwest external website and a hard copy will be available from Public Affairs in January 2014.

Discussion ensued regarding recognition of BPA for keeping rates down in Messrs. Reddemann and Morrison's letters

Board members expressed their appreciation of the good job done by Public Affairs staff on the 2013 annual report.

STRATEGIC PLANNING UPDATE

B. Ridge, Vice President/Chief Financial and Risk Officer, reported on the first quarter FY 2014 Strategic Plan dashboard.

Mr. Ridge reviewed changes made to the vision statements, single agency mission, updates strategic focus areas and updated pictures of excellence. Following some discussion, board members agreed upon the following:

Revised vision for Columbia – Sustained nuclear excellence reflected by performance in the top quartile.

Revised vision for E/BS – A leader in developing innovative, competitive energy solutions for the Northwest.

Mr. Ridge reviewed the new layout of excellence strategic areas of focus and how the focus areas and pictures of excellence provide strategic direction and define outcomes. He provided a more in-depth explanation of revised agency excellence strategic focus areas recommended for FY 2015, including the pictures of excellence that will help drive excellence.

Discussion ensued with respect to tying measures of excellence to specific metrics for E/BS and creating multiple performance indicators for each focus area. Mr. Ridge indicated that since Mr. Purser was unable to attend the Strategic Planning Workshop, he would provide him the information.

Additional discussion ensued regarding the order of the descriptors on the recommended agency excellence strategic focus areas for FY 2015. Board members came to consensus on Safety first (top left corner) with the last three in the top row and bottom row flipped.

Mr. Ridge advised that staff will take today's input and provide a draft for review and comments by the December board meeting.

The meeting was recessed at 9:45 a.m. for a short break; the meeting was reconvened at 10:20 a.m.

COMMITMENT REVIEW/FORWARD PLANNING

The following new commitments were added:

- Provide overview of Strategic Planning Workshop to Will Purser – Brent Ridge
- Provide draft of Strategic Plan mission, vision, etc. to board members for review and comments prior to December meeting – Brent Ridge/staff

OTHER BUSINESS

Hearing no other business, the meeting was turned back over to Executive Board Chair Morrison.

Mr. Janda introduced Jim Malinowski, Clark Public Utilities Commissioner.

MEETINGS

Executive Board Chair Morrison advised that there are no scheduled board meetings in the month of November. He announced that the next board meetings will be held in the Glenn C. Walkley Room at the Multipurpose Facility in Richland, Washington, on the following dates:

- Participants Review Board meeting – December 11, 2013, from 10 to 11:30 a.m.
- Executive Board meeting – December 11 – 12, 2013

OTHER

A brief discussion ensued regarding the IG report issued by the Department of Energy with respect to the investigation into BPA's personnel practices.

Executive Board Chair Morrison reminded board members to please fill out and turn in their expense reports.

Hearing no further discussion, Executive Board Chair Morrison thanked everyone for attending and adjourned the meeting at 10:45 a.m.

Respectfully submitted by,

Susan L. Barwick
Board Relations Specialist