

**MINUTES OF THE
ENERGY NORTHWEST
SPECIAL EXECUTIVE BOARD MEETING
HILTON GARDEN INN – UNIVERSITY CLUB ROOM
2500 SW WESTERN BLVD.
CORVALLIS, OREGON
JANUARY 23, 2014 – Immediately following the
Special Joint Meeting of the Board of Directors and Executive Board,
but no earlier than 10:00 a.m.**

The Special Meeting of the Executive Board of Energy Northwest was called to order by Chair Sid Morrison at 10:25 a.m. in University Club Room of the Hilton Garden Inn, Corvallis, Oregon. There was a quorum present. An environmental analysis of the January 23, 2014, 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 (SEPA).

ROLL CALL

Sid W. Morrison, Chairman
Marc Daudon
Dan Gunkel
Jack Janda
Jim Moss
Skip Orser
Will Purser
Dave Remington
Lori Sanders
Tim Sheldon
Kathy Vaughn

Others Present: Bonneville Power Administration representative A. Rapacz; Participants Review Board members K. Denison, Mason County PUD No. 1; S. Nelson, Franklin County PUD; T. Simpson, Clallam County PUD; and S. Thraen, Missoula Electric Cooperative, Inc.; Board of Directors members N. Barnes, Clark Public Utilities; Alternate E. Bolz, Okanogan County PUD; T. Brewer, Grant County PUD; B. Burke, Jefferson County PUD; A. Congdon, Chelan County PUD; B. Gordon, Franklin County PUD; L. Gott, Mason County PUD No. 3; B. Hammond, City of Richland; M. Jones, Seattle City Light; B. Jungers, Wahkiakum County PUD; C. Knapp, Pend Orielle County PUD; P. Lusk, City of Port Angeles; M.L. Norton, City of Centralia; J. Ridge, Asotin County PUD; R. Sparks, Kittitas County PUD; C. TenPas, Lewis County PUD; and D. Thompson, Pacific County PUD; and member of the public C. Johnson, Physicians for Social Responsibility.

Staff Present: M. Reddemann, D. Atkinson, D. Briggs, R. Dutton, P. Lilly, M. Paoli, B. Ridge, B. Sawatzke, and S. Barwick.

COMMENTS FROM THE PUBLIC

Chair Morrison recognized member of the public Chuck Johnson, representative of Oregon Physicians for Social Responsibility (PSR).

Mr. Johnson acknowledged that the plant is running better at this time and credited the leadership team and Columbia Generating Station personnel for the improvements.

Mr. Johnson commented on the failed Fukushima units; vent replacement at Columbia; Hanford-area seismic activity; the McCullough Research report, and the Cambridge Energy Research Associates report. He advised that Physicians for Social Responsibility hired Mr. McCullough to provide factual information to public utilities on the safety and economics of operations at Columbia. He noted that Mr. McCullough has a strong reputation in the region, and stands behind his report. He requested an opportunity for Mr. McCullough to speak to the Executive Board in the event that a representative from CERA addresses the board.

Chair Morrison thanked Mr. Johnson for his comments and indicated that the board would take his request into consideration.

Chair Morrison turned the meeting over to Nuclear Operations & Safety (NOS) Committee Co-Chair Dan Gunkel.

NUCLEAR OPERATIONS & SAFETY COMMITTEE REPORTS

B. Sawatzke, Vice President, Nuclear Generation/CNO, presented Action Memorandum No. 1218 requesting Executive Board approval of a General Electric-Hitachi (GEH) Measurement Uncertainty Recapture (MUR) Project contract in the estimated amount not-to-exceed \$3 million over a period of three years.

Mr. Sawatzke reported that the MUR project consists of a reactor power increase of at least approximately 1.5 percent of the current licensed thermal power by taking advantage of the improvement in feedwater flow measurement technology. The MUR project is possible due to the installation of the leading-edge flowmeters in 2015 as part of a separate project.

Mr. Sawatzke advised of the following benefits to Columbia:

- Allows the plant to increase electrical generation by approximately 18 megawatts electric (MWe) and
- Takes advantage of combining this work with the purchase of GNF2 from GE to reduce project costs by \$950,000.

Mr. Sawatzke recommended Executive Board approval of the GEH MUR project contract in the estimated amount not-to-exceed \$3 million over three years.

Hearing no discussion, Co-Chair Gunkel presented Executive Board Resolution No. 1793 entitled "A RESOLUTION AUTHORIZING THE EXECUTION OF A CONTRACT WITH

GENERAL ELECTRIC-HITACHI – COLUMBIA GENERATING STATION” and moved for its adoption as presented. Ms. Vaughn seconded the motion.

Co-Chair Gunkel stated that this is one more step in reducing the overall cost of power at Columbia.

Chair Morrison called for the question. EXECUTIVE BOARD RESOLUTION NO. 1793 ADOPTED BY UNANIMOUS VOTE.

Hearing no further discussion, Chair Morrison turned the meeting over to Chair Kathy Vaughn for the Audit, Legal & Finance (ALF) Committee Reports.

AUDIT, LEGAL & FINANCE COMMITTEE REPORTS

Chair Vaughn advised that information items are posted on BoardDocs.

QUARTERLY COST REPORTS

Columbia Generating Station

B. Ridge, Vice President, Chief Financial and Risk Officer, provided the following summary for the second quarter of FY 2014 for Columbia:

- \$8.4 million under budget for operations and maintenance (O&M) and capital through December primarily due to the following:
 - O&M-\$2.2 million under due to under runs in labor and allocations, timing underruns in facilities, radiation protection, and the O&M project service water pond and system cleaning; the under run is being offset by an over run in maintenance; under runs are being challenged to ensure the funds are used where needed
 - Capital-\$6.2 million under budget due to the timing under runs on Fukushima; storm water run-off pond, process radiation monitor replacement and corporate allocations; the under run is being offset by a timing overrun in the radwaste mixed air cooling coil 53A1
 - Generating-\$32.86/MWh vs budget of \$35.58/MWh (includes – O&M + capital + fuel amortization/generation)
 - Production-\$24.65/MWh vs budget of \$25.84/MWh (includes – O&M + fuel amortization/generation)
 - Cost is under budget and generation is exceeding budget

Energy/Business Services

Mr. Ridge provided the following cost report for the second quarter of FY 2014 for E/BS:

Packwood Lake Hydroelectric Project

- O&M under budget \$25,000 due to mitigation costs and an existing open position
- Capital costs over budget \$99,000 due to additional costs related to Penstock maintenance
- Generation exceeded budget by 15 percent – 43.10 gigawatts actual vs. 37.54 gigawatts budgeted
- Cost of power year-to-date: \$28.80/MWh actual vs. \$33.86 budgeted

Nine Canyon Wind Project

- O&M under budget \$9,000
- Generation under budget by 6 percent – 99.58 gigawatts actual vs. 106.40 gigawatts budgeted
- Cost of power year-to-date: \$92.91/MWh actual vs. \$86.67/MWh budgeted

Business Development Fund

- Positive margin of \$129,000 versus budgeted loss of \$194,000
- Less work for Seattle City Light at the Boundary Dam; support for Grant County PUD has been discontinued
- Support at Kalama has been discontinued
- Calibrations Lab revenues better than expected by \$91,000
- Industrial Development Complex (IDC) revenue better than expected by \$44,000

Discussion ensued regarding the difference between Energy Northwest fiscal-year accounting and BPA's fiscal-year.

Appointment of Statutory Auditor

Mr. Ridge presented Executive Board Resolution No. 1792 requesting appointment of a statutory auditor. He provided a brief background of the statutory auditor position and recommended Executive Board approval of the resolution.

Chair Vaughn presented Executive Board Resolution No. 1792 entitled "A RESOLUTION APPOINTING A STATUTORY AUDITOR OF ENERGY NORTHWEST" and moved for its adoption as presented. Ms. Sanders seconded the motion. Chair Morrison called for the question. EXECUTIVE BOARD RESOLUTION NO. 1792 ADOPTED BY UNANIMOUS VOTE.

Chair Vaughn announced that in order to keep to the schedule for the Administrative Auditor Update via teleconference, the remainder of the ALF agenda would be addressed and the meeting would be recessed for lunch.

Commitment Review/Provide Majority-based Direction

No new commitments were added.

OTHER BUSINESS

Chair Vaughn distributed and presented a copy of a resolution that the American Public Power Association (APPA) policy-makers are presenting at their upcoming meeting in support of small modular reactors (SMRs) and asked board members for their support. She indicated the objective is to promote the vision of activities related to SMRs. Discussion ensued regarding classification of SMRs.

Chair Morrison expressed his appreciation to Chair Vaughn for her efforts in helping to educate the public and legislature on this technology.

Chair Vaughn advised that revisions will be made to the resolution and APPA members will be receive the proposed resolution in package for the APPA Legislative Rally.

The meeting was recessed 11:15 a.m. for lunch; the meeting was reconvened at 12:25 p.m.

STATE AUDITOR'S OFFICE EXIT CONFERENCE VIA TELECONFERENCE

Mr. Ridge introduced L. Noland, State Auditor's Office (SAO) Audit Lead to provide an overview of the 2014 audit report.

Ms. Noland reported that the audit report summarizes the results of the SAO's risk-based accountability audit related to Energy Northwest's compliance with state laws and regulations and its own policies and procedures. She advised that it was a very clean audit with no findings. She reviewed the areas examined and stated that Energy Northwest's internal controls were adequate to safeguard public assets. In addition, Energy Northwest complied with state laws and regulations and its own policies and procedures in the areas that were examined. She noted that this is the 15th consecutive year with no findings reported.

Ms. Noland advised that due to the timing of the exit conference for the FY 2012 audit, the risk compensation program was not reviewed so there was an unresolved prior management letter item. She stated that Energy Northwest has already resolved the issues reported on and should consider that issue resolved. She noted that at-risk compensation will be reviewed during the next audit.

Ms. Noland reported that the audit report is published on the SAO website and distributed electronically to Energy Northwest. She provided a brief overview of audit costs and announced that the next audit will be conducted in 2015 and will cover accountability for public resources for the fiscal year ending 2014.

Discussion ensued regarding Energy Northwest's run of 15 years with no findings.

Ms. Noland thanked Energy Northwest staff for their help and cooperation during the audit.

Chair Vaughn asked if all board members questions were answered during the ALF committee reports. Hearing no further discussion, she turned the meeting back over to Chair

Morrison, who turned the meeting over to Chair Tim Sheldon for the Administrative, Energy & Member Services (AEM) Committee reports.

ADMINISTRATIVE, ENERGY & MEMBER SERVICES COMMITTEE REPORTS

Chair Sheldon stated that information items are posted to BoardDocs.

DISCUSSION ON BOARD POLICIES

Mr. Ridge reported that at the October governance workshop, staff obtained Executive Board direction on the Excellence Governance Model, established guiding principles and agreed on the three high-level tiers, attributes and policy development priorities. Following an update at the December meeting, staff incorporated changes and drafted the first set of policies on board obligations to excellence. In January, staff drafted the second set of policies on board member actions for excellence.

Mr. Ridge referred to the Excellence in Governance Model and reviewed the guiding principles of strategic, intrusive and accountable leadership and went through the attributes of board obligations, board actions and board enablers one by one to ensure that there was consensus on the language and definition of each. He advised that next steps are to adopt the excellence model and definitions and focus on the first and second sets of policies at the next governance workshop scheduled for February 19 and 20 in Seattle.

Discussion ensued regarding priority on public health and safety and which obligation they should fall under, and the importance of board members' excellence in performance to the region's stakeholders.

STRATEGIC PLAN QUARTERLY UPDATE

Mr. Ridge reported on the second quarter FY 2014 Strategic Plan dashboard and advised that the different colors (green, yellow and red) depict status of each area; the yellow and red indicators are reported on at each meeting by the owner. He noted that this quarter does not have any yellow or red indicators.

Mr. Ridge advised that the FY 2015 Strategic Plan is on track to be presented to the Executive Board for their approval in April. He provided a brief overview of completed activities to date and reviewed open actions to be completed by April.

Mr. Ridge stated that the baseline has been established for the Executive Board to own the strategic planning process which will be reassessed annual during the August workshop meeting. Discussion ensued regarding whether the strategic plan will be a three-year or five-year plan and potential plans for holding strategic planning sessions with the Board of Directors and Participants Review Board.

PUBLIC AFFAIRS QUARTERLY REPORT

M. Paoli, Public Affairs Manager, referred to the Public Affairs Quarterly Report on BoardDocs and reviewed Public Affairs department activity highlights from the second quarter of FY 2014. In addition, he announced that mileage reimbursement for calendar year 2014 has decreased to 56¢ per mile.

OTHER BUSINESS

Chair Sheldon stated that the Compensation Subcommittee met yesterday morning and asked Subcommittee Chair Dave Remington to provide a status update.

Chair Remington advised that subcommittee members reviewed the calendar year 2014 compensation subcommittee calendar for potential revision of activities for each month. The calendar was accepted with one change – moving the January activities to the October timeframe to ensure there is ample time to carry out the review of both short-term and long-term compensation for the upcoming fiscal year.

Chair Remington reported that subcommittee members reviewed and fine-tuned subcommittee charter descriptors and made a revision to the definition of subcommittee members to change the two ex officio positions to alternate subcommittee members.

Chair Remington advised that the compensation subcommittee documents now have more connection and harmony among the pieces; benchmarking with peers will be performed.

Discussion ensued with respect to incentivizing the right goals, and Chair Remington said the subcommittee is working to perfect goals and incentives in the future. He thanked management, staff and subcommittee members for their efforts in getting to this point and indicated that compensation subcommittee documents are living documents and are subject to revision going forward.

Chair Remington advised that the revised charter will be brought to the February meeting for approval of the Executive Board.

EXECUTIVE BOARD MEETING (cont'd)MEETINGS

Executive Board Chair Morrison announced the following upcoming meetings:

- Executive Board Governance Workshop – February 19 and 20, 2014 – W Hotel, Seattle, WA
- Regular Board of Directors Meeting – February 26 – 27, 2014 – Doubletree by Hilton, Olympia, WA
- Executive Board and Participants Review Board Budget Review – March 18, 2014 – Holiday Inn Express, Pasco, WA
- Participants Review Board Meeting – March 19, 2014 – Holiday Inn Express, Pasco, WA

- Executive Board Meeting – March 19 – 20, 2014 – Holiday Inn Express, Pasco, WA
- Board of Directors and Executive Board Meetings – April 23 – 24, 2014 – Holiday Inn Express, Pasco, WA

OTHER

Chair Morrison announced that the Debt Management Workshop will convene with breakfast in the meeting room at 7:30 a.m. He encouraged all board members to attend.

Hearing no further discussion, Chair Morrison recessed the meeting at 2:05 p.m. until the social and dinner at 6:00 p.m.

The Executive Board meeting reconvened at 6:00 p.m. for a social, dinner and networking opportunities of the Board of Directors and Executive Board.

The meeting was recessed at 8:00 p.m.

Respectfully submitted by,

Susan L. Barwick
Board Relations Specialist