

**MINUTES OF THE
ENERGY NORTHWEST
SPECIAL EXECUTIVE BOARD
MULTIPURPOSE FACILITY – GLENN C. WALKLEY ROOM
3000 GEORGE WASHINGTON WAY
RICHLAND, WASHINGTON
SEPTEMBER 26, 2013 – Immediately following the Compensation Subcommittee
Meeting but no earlier than 8:00 a.m.**

The special meeting of the Executive Board of Energy Northwest was called to order by Chair Sid W. Morrison at 8:50 a.m. There was a quorum present. An environmental analysis of the September 26 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
Dan Gunkel
Jack Janda
Skip Orser
Dave Remington
Lori Sanders
Tim Sheldon
Kathy Vaughn

Others Present:

A. Rapacz and L. Felton, Bonneville Power Administration; Board of Directors members L. Gott, Mason County PUD No. 3; and S. Houston, Okanogan County PUD; Legislative Liaison S. Reese; B. Johnson, PSAV Audio Services; and guest speaker R. Jacobs, external Corporate Nuclear Safety Review Board member.

Staff Present:

M. Reddemann, D. Atkinson, B. Dutton, G. Hettel, R. Hogue, A. Javorik, P. Lilly, S. Lorence, M. Meilluer, K. Morris, M. Paoli, B. Ridge, B. Sawatzke, L. Willey, and S. Barwick.

Mr. Javorik led the group in the Pledge of Allegiance.

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 Administrative, Energy and Member Services Committee Workshop Meeting – August 21 - 23, 2013

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

REPORT BY CHIEF EXECUTIVE OFFICER

M. Reddemann, Chief Executive Officer (CEO), stated that beginning today all presentations, including associated attachments, made during board meeting sessions open to the public will be posted to the public site in the BoardDocs library. This action will strengthen the transparency of Energy Northwest's business. It will apply to all presentations including those made by third parties such as Bonneville Power Administration (BPA) and Corporate Nuclear Safety Review Board (CNSRB) members.

Mr. Reddemann reported on member visits, a recent benchmarking trip with the Nebraska Public Power District, the legislative tour held on September 16, Energy Northwest's achievement of three years without a lost-time accident (more than 9.5 million work hours), and CEO recognition luncheons. He advised that the United Steel Workers Local 12-369 (nuclear security officers) ratified a new four-year collective bargaining agreement and an additional mediation session with IBEW Local 77 (nuclear bargaining unit) is being held in early October to explore all settlement options before submitting and certifying issues for interest arbitration.

Mr. Reddemann announced that the Member Forum will be held on October 24 and 25 at the Red Lion Columbia Center in Kennewick, WA. The theme this year is "Energy in Motion" and will feature guest speakers from BPA, NuScale and UAMPS, as well as educational breakout sessions on the Excellence Model, leadership assessments and talent recruitment/retention.

In conclusion, Mr. Reddemann provided high-level reviews of asset performance for Columbia Generating Station (Columbia), Packwood Lake Hydroelectric Project (Packwood), Nine Canyon Wind Project (Nine Canyon) and Energy/Business Services (E/BS).

Discussion ensued regarding the locations of new solar sites, the status of BPA investigation by the DOE Inspector General, the relationship between Energy Northwest and BPA, and risk management impacts of the BPA investigation.

A. Rapacz, added that BPA is doing business as usual. Acting Administrator Mainzer is focusing on three objectives: BPA core mission and values, taking care of the workforce, and addressing human performance areas.

Chair Morrison turned the meeting over to the Nuclear Oversight & Safety Committee Co-Chair Dan Gunkel. Co-Chair Gunkel announced that the second and third presentations will switch order.

NUCLEAR OVERSIGHT & SAFETY COMMITTEE REPORTS

CHIEF NUCLEAR OFFICER REPORT

B. Satawzke, Vice President, Nuclear Generation/Chief Nuclear Officer (CNO), reported that he and other CNOs visited Fukushima recently, spending two days at the site and two days of presentations in Tokyo. He advised that he will speak to his observations at the next all hands meetings and will meet with the reactor operators and senior reactor operators during one of their six week training cycle sessions.

Mr. Sawatzke stated that the plant is currently operating at 100 percent on the 93rd day of the current run; the next refueling outage is scheduled for May 2015. He reviewed plant concerns and station focus areas and provided updates on the recent component design basis inspection (CDBI) and problem identification and resolution (PI&R) inspection.

Discussion ensued with respect to room cooler inspections, the lack of aggressive cleaning of coolers in the past, implementation of corrective actions to ensure the coolers are maintained properly, legacy issues identified during the CDBI, and gaps in the corrective action program (CAP).

Mr. Sawatzke reported on upcoming events and Phase III of the Phases of Excellence and reviewed the following supervisor-led performance indicators: corrective action backlog; coaching and observation quality; human performance paired observations; human performance licensee event reports; site clock resets; site material condition; total industrial safety accident rate; OSHA recordables; on-line radiation exposure; and station risk management.

Following discussions regarding human performance and management discretion site clock resets, board members requested that the department human performance indicator be put back into the report on performance indicators.

The meeting was recessed at 11:05 a.m. for a short break; the meeting was reconvened at 11:20 a.m.

REPORT FROM EXTERNAL CORPORATE NUCLEAR SAFETY REVIEW BOARD MEMBER

D. Atkinson, Vice President, Employment Development/Corporate Services, introduced external CNSRB member Rick Jacobs and provided a brief bio.

Mr. Jacobs reviewed background information on the CNSRB and major Columbia activities since the last CNSRB briefing. He reported on four major regulatory inspections, plus receipt of Columbia's license renewal last year. Highlights of his presentation included the following:

Current CNSRB perspective:

- Plant continues to be operated well:
 - No scrams or unplanned shutdown in nearly 3 years
 - Equipment reliability continues to be solid due to investment in the plant and improved maintenance
 - Personnel errors – both frequency and consequence – have decreased
- Organization is well aligned and focused but is still a top driven organization
- Operations performance significantly improved in the last year
- Columbia is a “recovered” power plant and is continuing to improve but areas of undesirable performance occasionally occur

Positives of Columbia performance:

- Strong leadership team with right picture of excellence
- Improving standards and behaviors
- Refueling outage executed without significant errors and much work was accomplished
- Continued investment in the plant
- Aggressively pursuing resolution of difficult legacy issues
 - Recent successes: RHR pump 2B margin, critical breakers replaced, hundreds of valves maintained during R21

CNSRB recommendations:

- Service water chemistry management and heat exchanger fouling
- Repeat issues within preventive maintenance

CNSRB focus areas/suggestions:

- Need more engagement from lower levels
- Improve execution of safety system outages
- Improve CAP implementation, particularly closure effectiveness
- Improve supervisor effectiveness
- Improve staff ability to better recognize and manage risk (positive trend)
- Use of operating experience to prevent events

Path forward:

- Continue relentless pursuit of excellence
- Develop future site leaders
- Foster more engagement/ownership from individual contributors and first-line supervisors
- Continue to improve implementation of basic processes, particularly work management, preventive maintenance and use of operating experience
- Implement outage lessons learned because R22 scope will be more challenging than R21
- Better manage large scope projects

Summary:

- We believe that Energy Northwest has improved significantly since the external members joined the CNSRB over three years ago
- The site is still on an improving trend but rate of progress is slowing (not unexpected)
 - More difficult to improve as well known performance issues are addressed
- Overall equipment performance has improved but much work remains to improve system, component and equipment program health
- Occasional lapses in performance occur with undesirable results (e.g., service water system and preventive maintenance)

Closing comments:

- It is a privilege and pleasure to serve on the CNSRB
- Our comments and constructive criticism are valued and the station take action on our input
- We continue to be impressed with the unprecedented level of EB involvement in the CNSRB

Mr. Jacobs left board members with the following final thoughts: excellence in nuclear power is about pursuing ever-rising standards of performance. No nuclear utility can rest on its laurels. The CNSRB serves Energy Northwest best in its quest for excellence by being highly critical of performance shortfalls while also recognizing where performance is excellent.

Discussion ensued regarding gaps in Energy Northwest's corrective action program (CAP), the definition of a recovering power plant, the importance of the CNSRB's oversight and benefits from the engaged participation of external members.

LESSONS LEARNED ON R21 OUTAGE

This presentation has been deferred to the next board meeting.

COMMITMENT REVIEW/CONSENSUS POLLING

The following commitments were added:

- Report on Fukushima visit – Brad Sawatzke – TBD
- Add human performance indicator on department clock resets back into CNO Report – Ron Hogue – going forward

OTHER BUSINESS

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

The meeting was recessed for lunch at 11:25 a.m.; the meeting was reconvened at 12:05 p.m.

ADMINISTRATIVE, ENERGY & MEMBER SERVICES COMMITTEE REPORTS

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

RESOLUTION IN SUPPORT OF PUBLIC POWER WEEK/APPROVE CALENDAR YEAR 2014 BOARD MEETING SCHEDULE

P. Lilly, Supervisor, Visual Communications, reported that October 6 – 12, 2013, is Public Power Week. It marks the 27th anniversary of public power week as a nationwide program to celebrate the importance of public power. Energy Northwest is among more than 2,000 other public entities that annually adopt a resolution supporting this event. She recommended Executive Board adoption of Resolution No. 1787.

Ms. Lilly stated that the proposed board meeting schedule for calendar year 2014 was distributed in July for board members' review. She noted that the schedule was drafted in coordination with other public power entities to avoid conflicts. She indicated that there are two sets of proposed dates for consideration in December (December 11 and 12 or December 18 and 19) due to potential conflicts with the Public Power Council Annual Meeting being held on December 12 and 13 and the 18th and 19th being too close to the holidays. She asked for feedback from board members on their preferred meeting dates in December 2014.

M. Paoli, Acting Manager of Public Affairs, reported that this year, board members agreed to cancel the November meeting due to a conflict with the annual INPO CEO Conference. He stated that staff is requesting clarification about not holding meetings in November going forward.

Discussion ensued regarding the need for holding November meetings in Portland for BPA reports, changing the 2014 November meeting date and/or holding the meeting via conference call. Board members indicated it was better for them to have the time set aside on the calendar and then cancel the meeting or hold it as a teleconference if necessary.

Mr. Paoli advised that there was also some uncertainty about scheduling a May meeting. Discussion ensued with respect to holding the May meeting via teleconference only during outage years.

Mr. Paoli indicated that staff will take that feedback forward for the May 2015 meeting schedule. In addition, staff will take the action to provide alternate date options for holding the November 2014 in person, as well as the option of meeting via teleconference.

Chair Sheldon asked for a decision on the December meeting dates. Following a brief discussion, board members indicated their preferred dates are December 18 and 19.

Chair Sheldon presented Executive Board Resolution No. 1787 entitled, "A RESOLUTION SUPPORTING PUBLIC POWER WEEK, OCTOBER – 12, 2013" and moved for its adoption as presented. Mr. Janda seconded the motion. Executive Board Chair Morrison called for the question. EXECUTIVE BOARD RESOLUTION NO. 1787 ADOPTED BY UNANIMOUS VOTE.

Mr. Janda stated that Mason PUD No. 1 is holding a celebration for public power week and invited anyone in the area of Mason County to come celebrate.

COMPENSATION SUBCOMMITTEE RECOMMENDATION

The meeting was recessed at 1:25 p.m. for the purpose of holding a 20-minute Executive Session to review the performance of a public employee in accordance with RCW 42.30.110.(1)(g).

The meeting was reconvened at 1:43 p.m.

A brief discussion ensued with respect to adopting the motion later in the meeting.

TEAM FEEDBACK ON EXCELLENCE MODEL

J. Dobken, Senior Public Affairs Analyst provided overviews of employee responses to the following questions:

- I know what specific behaviors I can demonstrate to support improvement in individual excellence (ACEMAN).
- Continuing to improve behaviors and demonstrate results will lead to achieving excellence.
- The Excellence Model can help in the following focus areas: managing operational risk; operator response to changing or unexpected conditions; and management oversight and leadership intrusiveness.
- Use of the Excellence Model in daily 15 or weekly 30 meetings is effective.
- Since Excellence in Performance and the Excellence Model was launched in July 2011, have the changes in the culture at Energy Northwest been: positive; neutral (no change) or negative.

Discussion ensued regarding the difference between "agree" and "strongly agree," management staff confidence in the survey numbers and suggestions for additional survey parameters going forward.

Mr. Paoli advised that the majority of feedback received on when to conduct the Governance Workshop – separate from or in conjunction with – the October board meetings and the Member Forum was to hold the Governance Workshop on October 30 and 31 in Seattle.

COMMITMENT REVIEW/FORWARD PLANNING

The following new commitment was added:

- Provide potential alternate dates for November 2014 meeting – Mike Paoli/Pattie Lilly – October

OTHER BUSINESS

Hearing no other business, the meeting was recessed at 2:18 p.m. for a short break; the meeting was reconvened at 2:27 p.m.

AUDIT, LEGAL & FINANCE COMMITTEE REPORTS

INFORMATION AGENDA ITEMS

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

PRICEWATERHOUSECOOPERS AUDIT EXIT

J. Smith, Finance Manager, introduced R. Hemholz and M. Kessler, PricewaterhouseCoopers.

Mr. Hemholz reported that the 2013 audit is complete and was performed in accordance with generally accepted auditing standards. He stated that the objective of the audit was to obtain reasonable assurance about whether the financial statements are free from material misstatement. He advised that an unqualified report on the financial statements of the business units of Energy Northwest and its Internal Service Fund will be issued. The audit team plans to issue "No Default Letters" as of the opinion date related to compliance with the required resolutions as they relate to accounting matters. He indicated that six adjustments were identified during the course of the audit, detailed in Appendix A.

Mr. Hemholz reported on the following areas of audit focus:

- Management override of controls for all units (significant audit risk) - No instances of fraud were noted
- Revenue recognition – Business Development Fund (significant audit risk) – No material misstatements noted
- Significant nuclear fuel contracts that may not be appropriately accounted for – Columbia (significant audit risk) – No material misstatements were noted
- Refueling outage may cause improper cut-off of property plant and equipment additions – Columbia – No material misstatements identified
- Statement of cash flows may omit or misclassify the presentation and disclosure of cash transactions for all units – No material misstatements were identified

- Accounting for net billing may be accounted for improperly – Columbia, Projects 1 and 3 and Packwood Lake Hydroelectric Project – Arrangement with BPA was confirmed and no misstatements were identified

Chair Vaughn acknowledged the finance group for their efforts on the nuclear fuels transaction.

Mr. Kessler reviewed the required communications and PWC's responses:

- Management judgments and accounting estimates – No misstatements noted
- Audit adjustments – no significant uncorrected misstatements were identified
- Potential effect on the financial statements of any significant risks and exposures – No significant risks or exposures noted that were not appropriately disclosed
- Material uncertainties related to events and conditions that may cast doubt on the ability to continue as a going concern – No material uncertainties were noted
- Significant unusual transactions – No significant transaction outside the normal course of business were noted
- Other information in documents containing audited financial information – Auditors have reviewed FY 2013 bond offering documents; will review 2013 Annual Report and any future documents related to any 2014 bond offerings
- Disagreements with management – No disagreements with management
- Consultation with other accountants – Management advised they have not relied on consultations with other accounting firms
- Significant issues discussed, or subject to correspondence, with management prior to retention – No major issues concerning the application of accounting principles or auditing standards
- Other material written communications – Auditors will provide the final executed management representation letter upon its completion
- Deficiencies in internal control – No significant deficiencies or material weaknesses were identified; one process improvement identified; four control deficiencies related to audit adjustments identified; two control deficiencies in testing of Information Technology were identified
- Fraud and illegal acts – no irregularities or instances of fraud or illegal acts noted
- Difficulties encountered in performing audit – no difficulties encountered
- Independence – Not aware of any relationships that may reasonably be thought to bear on independence
- Obtaining other information relevant to the audit – Auditors are required to make inquiries of the committee regarding their knowledge of risks of material misstatement and fraud

Mr. Kessler summarized the audit adjustments in Appendix A. He stated that Energy Northwest is a valued part of PWC's energy and utility practice. He advised that no major issues were identified within management's accounting for significant fuel additions under the depleted uranium enrichment program and entries related to the current year bond offerings. He noted that the audit team appreciates the assistance and professionalism of the Energy Northwest financial management team.

Chair Vaughn thanked the audit team for their presentation.

APPROVE FY 2013 FINANCIAL STATEMENTS

Mr. Smith presented Action Memorandum No. 1214 requesting Executive Board approval of the publication of the audited Energy Northwest Financial Statements and Related Notes as of June 30, 2013, along with the required Management's Discussion and Analysis. He advised that the audit is completed and will be published in the hard copy Annual Report and on the Energy Northwest external website.

Mr. Smith advised that the audit contained no material weaknesses, no significant deficiencies with continued good performance from last year's audit, and four financial control deficiencies, the lowest level of audit recommendations. He provided brief overviews of the financial control deficiencies and the corrective actions identified.

Hearing no discussion, Mr. Smith recommended Executive Board adoption of Motion 2013-25.

Chair Vaughn presented the following motion (Motion 2013-25) and moved for its adoption as presented:

"IT IS MOVED THAT THE PRELIMINARY DRAFT OF ENERGY NORTHWEST'S FINANCIAL STATEMENTS AND RELATED NOTES AS OF JUNE 30, 2013, ALONG WITH THE REQUIRED MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA) AND THE RELATED REPORT OF PRICEWATERHOUSECOOPERS, LLP, SUBSTANTIALLY IN THE FORM AS ATTACHED TO ACTION MEMORANDUM NO. 1214, BE APPROVED FOR PUBLICATION."

Ms. Sanders seconded the motion. Chair Morrison called for the question. MOTION 2013-25 UNANIMOUSLY ADOPTED.

ADMINISTRATIVE AUDIT UPDATE

Mr. Janda reported that the Executive Board hired Protiviti as its Administrative Auditor in June. He advised that on July 11, he and Ms. Vaughn met in Seattle with Joel Hammer and Ignacio Martinez regarding the audit plan. He indicated that Joel and Karen DeMartini have joined the meeting via teleconference.

Mr. Ridge stated that he will facilitate the presentation, which is an update with no significant changes from the original audit plan. He provided a high level timeline review of the audit schedule and total estimated cost followed by brief overviews of the phases and project milestones of the project management audit, the project milestones of the compensation and benefits audit and the project milestones of the vendor agreements and contract audit.

A brief discussion ensued with respect to how that data that has already been developed will be used in the project management audit. Mr. Hammer advised that Protiviti will utilize prior feedback and data within the risk assessment to assist in identifying risk focus areas. Lessons learned will also be built into the audit.

Chair Vaughn advised that if board members have any questions on the audits they should contact her or Mr. Janda and they will follow up. Mr. Janda added that he will touch base with Protiviti bi-monthly.

Chair Vaughn thanked everyone involved for their efforts.

LITIGATION STATUS REPORT IN EXECUTIVE SESSION PER RCW 42.30.110(1)(i)(C)

The meeting was recessed at 3:18 p.m. for the purpose of holding a 60-minute Executive Session to discuss the litigation status report in accordance with RCW 42.30.110(1)(i). The Executive Session concluded at 4:19 p.m. No action was taken.

The meeting was reconvened at 4:20 p.m.

MEETINGS

Chair Morrison announced that the October board meetings and the Member Forum will be held on October 23 – 25, 2013, at the Red Lion Columbia Center in Kennewick, Washington.

COMPENSATION SUBCOMMITTEE RECOMMENDATION

The meeting was recessed at 4:25 p.m. for the purpose of holding a 10-minute Executive Session to review the performance of a public employee in accordance with RCW 42.30.110.(1)(g). No action was taken.

The meeting was reconvened at 4:35 p.m.

OTHER

Compensation Subcommittee Chair Remington recommended that Motion 2013-27 be modified to include the following “with a base salary for fiscal year 2014 of \$624,180” at the end of the motion.

Administrative, Energy and Member Services Committee Chair Sheldon moved for adoption of the following motion (Motion-2013-27) as amended:

“IT IS MOVED THAT THE EXECUTIVE BOARD ENTER INTO THE REVISED EMPLOYMENT AGREEMENT WITH THE CHIEF EXECUTIVE OFFICER MARK E. REDDEMANN, AS AMENDED AT THE SEPTEMBER 26, 2013, EXECUTIVE BOARD MEETING WITH A BASE SALARY FOR FISCAL YEAR 2014 OF \$624,180.”

Mr. Remington seconded the motion. Chair Morrison called for the question. MOTION 2013-27 UNANIMOUSLY ADOPTED.

Board members congratulated Mr. Reddemann for his successes.

Hearing no further discussion, Executive Board Chair Morrison thanked everyone for attending, wished attendees a safe journey home and adjourned the meeting at 4:50 p.m.

Respectfully submitted by,

Susan L. Barwick
Board Relations Specialist