NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT
REGULAR SESSION
MAY 7, 2019

PRESENT: Connie Karp, President
Roger Howe, Vice President
Howard Gonser, Treasurer
Dan Williams, Director

ABSENT: Clay Smith, Secretary

President Karp called the Regular Session to order at 6:00 p.m.

Director Smith will not be in attendance tonight.

The following individuals were present during the Regular Session:

Counsel: James Foster

NWCPUD Staff: Assistant General Manager/Director of Power Resources Kurt Conger; Principal Engineer/Chief Innovation Officer Paul Titus; Executive Assistant Kathy McBride; CFO/Director of Finance & Enterprise Risk Harvey Hall; Key Accounts Manager Justin Brock; Senior Financial Analyst Lana Egbert; Senior Financial Analyst/Contracts, Risk and Supply Chain Sue Powers; Asset/Program Manager Steve Horzynek; Joint Use and Regulatory Compliance Program Manager Tom McGowan; Hydro Operator Nick Atchley; Hydro Operator Nate Brunoe; and Energy Specialist Lance Kublick.

Visitors: Scott Taylor; Michael Egbert and Janny Hall

PUBLIC COMMENT

There was no one present wishing to provide public comment.

Assistant General Manager/Director of Power Resources Kurt Conger introduced Nate Brunoe and Nick Atchley new Hydro Plant Operators working at The Dalles Hydro Electric Fishway Plant. Conger noted that Brunoe has a mechanical background, while Atchley has an electrical background.

CONSENT AGENDA

Items contained in the consent portion of the Agenda includes the following:
• Regular Session Minutes of April 2, 2019
• Special Session Minutes of April 17, 2019
• March Outage Report
• Energy Management/Marketing Report
• Checks/Vouchers
• March Financial Report
• March Write Offs

The Board considered the approval of the May 7, 2019 Consent Agenda.

{{{{Director Williams moved to approve the May 7, 2019 Consent Agenda as presented. Director Gonser second the motion; it was then passed unanimously.}}}}

**2018 AUDIT REPORT BY MOSS ADAMS**

Chief Financial Officer/Director of Finance & Enterprise Risk Harvey Hall introduced Keith Simovic from Moss Adams, District Financial Auditor.

Hall noted that Simovic participated in the first meeting of the District’s Audit Risk Committee where the draft Audit findings were presented. President Connie Karp, Vice President Roger Howe and General Counsel James Foster, along with three staff members, are members of the Audit Risk Committee.

Keith Simovic, Moss Adams Representative, stated that he is here to present the findings of the District Audit and to communicate with those charged with governance. The Board has been provided with copies of the Audit Report and their Communications with those charged with Governance document.

At this time, Simovic presented a PowerPoint Presentation. A copy of said PowerPoint Presentation is hereto attached and marked as Exhibit 1.

Areas covered in Simovic’s presentation are as follows:

• What does an audit of the District entail?
• Are the financial statements a fair representation of transactions and ending balances for the year?
• Did the Board comply with applicable state laws and regulations?
• What procedures were performed to identity fraud?
• Internal control recommendations
• What were some of the significant changes impacting the financial results?
Some highlights of Simovic’s presentation are as follows:

- Representatives from Moss Adams came onsite for a week on two different occasions to verify transactions and balances, evaluate the effectiveness of internal controls, testing compliance with state requirements, and the technical review of financial statements. Moss Adams Representatives spent the bulk of their time looking at detailed transactions and documentation on the public contracting process.
- Simovic noted that areas of focus change over time.
- The District’s financial statements are presented fairly in accordance with US Generally Accepted Accounting Principles (GAAP).
- The District received an unmodified (clean) opinion. Simovic felt the clean opinion spoke to the hard work of management and staff.
- There were no audit adjustments.
- No instances were noted of non-compliance with applicable state laws and regulations.
- No indication of fraud was identified. Controls were found to be effective.
- Overall, management is able to design and implement controls that are appropriate and to help protect District resources.
- No material weaknesses were found.
- Moss Adams provided the District with several best practices dealing with timely review of adjustments to customer accounts and formal review by IT of user access.
- The following are some significant changes impacting the District:
  - $2.7 million increase in accounts receivable.
  - $1.6 million decrease in scheduled payments from BPA on 2012 bonds.
  - $1.4 million decrease in customer deposits – large deposit replaced with letter of guarantee.
  - $0.6 million increase in OPEB liability – implementation of GASB 75.
  - $7.9 million increase in operating revenues.
  - $4.8 million increase in cost of purchased power – increased consumption in Primary Rate Class.

Some discussion occurred during and after the conclusion of the Audit presentation.

{{{Director Gonser moved to accept the 2018 Audit for Northern Wasco County People’s Utility District. Director Williams seconded the motion; it was then passed unanimously.}}}

**RISK APPETITE AND TOLERANCE**

Chief Financial Officer/Director of Finance & Enterprise Risk Harvey Hall presented a PowerPoint Presentation entitled “*Risk Culture-Appetite-Tolerance Board’s View*, a
copy of which is hereto attached and marked as Exhibit 2. Hall is interested in getting the Board’s view of risk by having them respond to a sensitivity survey.

Some highlights of Hall’s PowerPoint Presentation are as follows:

- Risk is the uncertainty of reaching the objective.
- Risk can be good or bad.
- Expect that the Board’s view of risk tolerance to change over time due to changing circumstances.
- The following are areas that are included in the sensitivity survey that Hall would like the Board’s responses to:
  - Safety
  - System reliability
  - Financial risk
  - Legal regulatory compliance
  - Human resource
  - Reputation
  - Security-physical and cyber

Some discussion occurred.

Director Howe stated that it is not as easy as you think to identify your risk tolerance. Director Howe has dealt with risk for years; his risk tolerance starts at 0 or 1. Director Howe does not feel the numbers are going to be as important to him. He feels it is more important to understand the nature of this business by itself since it is so unique.

General Counsel James Foster stated that the Board needs to keep in mind that there is institutional risk; the risk the body is willing to take on. Then there are the fiduciary responsibilities. These two risks need to come together at some point. Foster feels that it is important for the Board to go through this exercise to establish what the risk appetite is for the District.

Further discussion occurred after a question was raised by Director Howe regarding how this relates to the District’s Audit Risk Committee.

Hall noted that the Audit Risk Committee will be going over the District’s top five identified risks. Hall does not need the Board’s comments right now. The Audit Risk Committee will not be reconvened until this fall.

Director Williams suggested that Hall allow the Board to respond individually on the areas that he is seeking the Board’s input on.

An email will be sent out to the Board by Hall seeking input on their risk tolerance on areas listed in the sensitivity survey.
At 7:03 p.m. the Board recessed from the Regular Session to convene as the Contract Review Board.

**CONVENE AS CONTRACT REVIEW BOARD**

Joint Use and Regulatory Compliance Program Manager Tom McGowan presented staff’s recommendation to award the Pole Attachment Audit Contract to Osmose Utilities Services, as shown in McGowan’s PowerPoint Presentation entitled “2019 Pole Attachment Audit” and in Operations & Engineering Manager Pat Morehart’s memorandum. Copies of the PowerPoint Presentation and memorandum are hereto attached and marked as Exhibits 3 and 4.

Some highlights from McGowan’s presentation are as follows:

- A total of 6,800 distribution poles will be audited.
- The project is anticipated to begin on June 3, 2019, with a completion date of October 18, 2019.
- An audit of the District’s power poles has not been conducted for over 12 years.
- All foreign attachments on the District owned poles will be recorded during the audit.
- Data points to be gathered include:
  - Pole structure and location
  - Attachment owner
  - Verification of pole owner
  - Attachment type and height
  - Imminent danger situations
  - Double wood
  - Calibrated pictures
- Detailed foreign attachment information will support pole occupant rental billing, which will provide an opportunity to increase annual recurring pole rental revenue.
- Total cost of audit is $228,000, which includes a base audit Tier 1 price of $99,000, and a Tier 2 price of $129,000 for calibrated pole images.
- Tier 1 audit costs can be prorated and billed directly to licensees based on the number of licensee attachments.
- Tier 2 costs will be charged to accounts used to calculate 2020 pole rental rates.
- The Pole Attachment Audit Project costs are not included in the Engineering and Operations 2019 budget.
- The District will be positioned to utilize pole loading software to provide pole loading analysis for attachment application processing and proactive facility reliability assessments.
Staff is recommending that the Pole Attachment Audit Contract be awarded to Osmose Utilities Services.
- The cost per pole, under the contract, is $33.45, (Tier 1, $14.50), (Tier 2, $18.95).
- Staff is expecting to find in the audit an average of 1.5 attachments per pole.
- Staff proposes to develop and issue a Request for Proposals for Pole Load Analysis using the calibrated images from the Pole Audit.

Some discussion occurred during and at the conclusion of McGowan’s presentation after questions were raised by Board members.

McGowan stated that he would like to see the District conduct similar audits every three to five years.

Principal Engineer/Chief Innovation Officer Paul Titus, responding to Director Williams' question, stated that there are a few attachments on some of the District’s transmission poles.

{{Director Williams moved to award the Pole Attachment Audit Contract to Osmose Utilities Services for the total cost of $227,500. Director Gonser seconded the motion.}}

Director Williams amended his motion to include “subject to General Counsel’s review”. The amended motion was seconded by Director Gonser; the amended motion passed unanimously.}}

At 7:37 p.m. the Board adjourned as the Contract Review Board and reconvened into Regular Session.

2019 QUARTER 1 REPORT

Assistant General Manager/Director of Power Resources Kurt Conger stated that General Manager Roger Kline’s memorandum regarding the District’s organizational performance update and Quarter 1 results has been provided in the Board Packet. A copy of Kline’s memorandum and Quarter 1 Performance Dashboards are hereto attached and marked as Exhibit 5.

Conger stated that nothing seems to be unusual in the report or performance dashboards; Quarter 1 started off very well.

Conger went over the Performance Dashboards for both The Dalles and McNary Hydro Electric Fishway Plants.
Some discussion occurred regarding the information provided in the Hydro Performance Dashboards.

The Project Portfolio Dashboard was briefly reviewed and discussed after Director Gonser asked for some information on projects listed in the Portfolio. Various projects were noted by Conger, Principal Engineer/Chief Innovation Office Paul Titus and Key Accounts Manager Justin Brock.

Conger noted that Bonneville Power Administration (BPA) has completed Quenett Creek Substation. The dedication event has been scheduled for June 13th. Officials from Wasco County, City of The Dalles, Port of The Dalles, Northern Wasco County People’s Utility District and BPA executives will be attending said dedication.

Some highlights from the discussion on projects listed on the Project Portfolio Dashboard are as follows:

- HMI historian are computers that have been installed at The Dalles and McNary Fishway Plants. The installation will allow staff to collect data from both plants.
- A total of five Automated Metering Infrastructure (AMI) Meters have been installed locally. Titus is hoping to get an updated schedule when the AMI meters will be delivered.
- The Dalles Marina Rebuild Contractor, Hage Electric, is currently wrecking out the old electrical system at The Dalles Marina. There are some issues which are affecting a few of the Marina customers.

**NEW BUSINESS**

Consideration of master power purchase and sale agreements and Approval of Edison Electric Institute Master Power Purchase and Sale Agreement Cover Sheet template for Northern Wasco County People’s Utility District:

Assistant General Manager/Director of Power Resources Kurt Conger provided to the Board his memorandum regarding consideration of Master Power Purchase and Sale Agreement; authorization to execute Master Agreement Cover Sheets; and Enel X Auction on May 16, 2019. A copy of Conger’s memorandum is hereto attached and marked as Exhibit 6.

Conger stated that he has been busy preparing to make power purchases, mainly to feed new customer load. Conger noted that the volumes of power purchases over the next couple of years will be substantial.

Conger stated that one thing he has found is that the enabling agreement with counterparties is extremely important. The District has two standard master power
purchase agreements based on the Edison Electric Institute (EEI) and Western Systems Power Pool (WSPP) master agreements. The Master Power Purchase Agreement Cover Sheet is used with the counterparty, which lists amendments that they make to the standard agreement. The District is very close in getting through the process with Shell Energy.

Conger stated that he is seeking Board’s authorization for the General Manager and/or his designees to execute the EEI and WSPP Master Power Purchase and Sale Agreement Cover Sheets subject to working with legal counsel to come up with acceptable legal terms. Conger noted that it is important for the District to go through this process now as we seek to get more sellers involved in the upcoming power purchase auction.

Some discussion occurred.

Conger noted that more information will be provided during this evening’s Executive Session.

{{Director Gonser moved to authorize General Manager Roger Kline, and/or his designees, to execute the Edison Institute (EEI) and Western Systems Power Pool (WSPP) Master Power Purchase and Sale Agreement Cover documents as may be modified for each specific counterparty after legal counsel review. Director Howe seconded the motion.

Some brief discussion occurred after a question was raised by Director Williams regarding whether the agreement with the Western Systems Power Pool needed to be amended.

The vote was called for. The motion passed unanimously.}}

Consideration and approval of eliminating the Post-Retirement Health Plan Policy and grandfathering and Post-Retirement Health benefit for participants:

Director Williams stated that he will be glad if the Board approves the elimination of the Post-Retirement Health Plan Policy due to the change in accounting requirements for these post-retirement benefits.

Chief Financial Officer/Director of Finance & Enterprise Risk Harvey Hall stated that $1.1 million in liability for the District’s Post-Retirement Health Plan will have to be expensed over 20 years. The program needs to be looked at every two years, instead of three years under the General Accounting Standards Board (GASB) regulations.
Hall noted that the District currently has eight (8) retirees, one (1) retiree who will become eligible later in the year, and four (4) active employees who are all covered under the Post-Retirement Health Plan. Some discussion occurred.

{Director Howe moved to approve staff’s recommendation to terminate the Post-Retirement Health Allowance benefit for Northern Wasco County People’s Utility District employees; and that existing employees and/or retirees currently enrolled are hereby grandfathered under the plan. Director Williams seconded the motion; it was then passed unanimously.}}

Executive Assistant Kathy McBride noted that Director of Corporate Services Cyndi Gentry is also seeking the Board’s support for staff to research buy out options for employees/retirees with this benefit.

General Counsel James Foster stated that is a management decision. The Board of Directors do not need to take any action on that matter.

Consideration and approval to amend the Personal Leave Policy:

{Director Gonser moved to approve staff’s recommendation to amend the Personal Leave Policy for non-union employees as follows:

“In May and November of each year, the employee may sell back to the District their accrued time, in excess of forty (40) hours, payable at one-hundred percent (100%) of the employees then current wage rate.”

Director Howe seconded the motion; it was then passed unanimously.}}

Consideration and approval to amend the Workers Compensation Policy:

{Director Williams moved to amend the Workers Compensation Policy for non-union employees as follows:

On-the-job injuries or illnesses are subject to the Workers’ Compensation laws of this State and Workers’ Compensation coverage is maintained by the district. Hydro employees are subject to State of Washington Workers’ Compensation.

In the event of an injury, you MUST immediately inform your supervisor. If your supervisor is not available, contact the safety office. The District will not pay for injuries or illnesses that occur because of participation in an off-duty recreational, social, or athletic activity we sponsor.
When an employee loses time because of a job-related accident or illness, the time-loss must be reported under Workers’ Compensation. Workers’ Compensation time-loss payments will normally be 66.7% of the employee’s gross straight wage, but not over the maximum dollar amount permitted by law. An employee may utilize any remaining accumulated personal leave to make up the difference between the amount paid to the employee by the Workers’ Compensation Insurance Carrier and what the employee would have received if the employee had been paid regular straight-time wages.

When an employee has a medical appointment for a job-related injury or illness, the appointment should be made to minimize the time absent from work and not exceed the actual time required. For appointments that can be scheduled, prior arrangements should be made with the supervisor. Time taken for such appointments shall be reported to the Workers’ Compensation Insurance Carrier.

Director Howe seconded the motion; it was then passed unanimously.

Change to Energy Management’s use of BPA Credits:

Energy Specialist Lance Kublick stated that he is here to answer any questions that the Board of Directors may have regarding his memorandum on energy management program funding. A copy of Kublick’s memorandum is hereto attached and is marked as Exhibit 7.

Kublick noted that staff is trying to hold off on using all of the available Bonneville Power Administration (BPA) credits to keep the District’s energy efficiency programs rolling. There are no additional credits available at this time.

Consideration and approval to amend the Pole Contact Rates:

Chief Financial Officer/Director of Finance & Enterprise Risk Harvey Hall informed the Board that staff is recommending that the new Pole Contact Rates be adopted; said rates are based on 2018 actuals and are calculated using the Public Utility Commission (PUC) regulations.

Some discussion occurred regarding the proposed pole contact rates and the difference between the compliant and non-compliant rates.
Director Williams moved to adopt the following Pole Contact Rates, effective July 1, 2019:

Compliant - $16.47 per contact
Non-Compliant - $19.84 per contact

Director Gonser seconded the motion; it was then passed unanimously.

Draft Financial Policy:

Chief Financial Officer/Director of Finance & Enterprise Risk Harvey Hall presented to the Board a draft Financial Policy for their review and consideration. Also presented was a memorandum explaining what the policy is meant to address. The Financial Policy will cover areas not currently covered in other policies, as well as areas currently included in other policies related to finance. A copy of Hall’s memorandum and the Draft Financial Policy are hereto attached and marked as Exhibits 8 and 9.

Hall noted that the objective is to create one policy that shepherds four existing separate policies, along with augmenting areas not currently covered under a policy.

Hall stated that this proposed Financial Policy will supersede the following existing policies: Investment Policy and Portfolio Guidelines; Reserve/Rate Stabilization; Per Diem; and Purchasing Card Policy.

Hall noted that the following areas will now be covered under a policy: rate sufficiency; retirement benefits funding; cost management; budget; debt; billing and collections; accounting practices; financial controls; and capitalization.

Some discussion occurred.

CONVENE AS BOARD OF TRUSTEES

At 8:22 p.m. the Board of Directors convened as the Board of Trustees for Retirement Planning Services.

Chief Financial Officer/Director of Finance & Enterprise Risk Harvey Hall stated that the Board approved in April 2019, a change to the District’s contribution to the retirement plan for non-union employees, which was identical to the change made for union employees. Amendment Number One to Northern Wasco County People’s Utility District 401(k) Plan will incorporate that change.
Consideration of the Requests for Proposals received for Retirement Planning Services.

Trustee Paul Titus stated that the District went out for Request for Proposals to look at other providers of retirement services. For the Board of Trustees consideration, Special Counsel Iris Tilley has provided a synopsis, rather than a recommendation. Titus feels it is good information, which can assist the Board in making a decision.

Director/Trustee Dan Williams felt Tilley’s summary was excellent.

Some discussion occurred amongst the Board of Trustees.

Director/Trustee Dan Williams stated that the information in the Board Packet and staff’s responses are pretty much in line with supporting a change in retirement services from Nationwide to the NRECA.

Titus asked if the Board needs to make two separate motions since there are two separate plans.

General Counsel James Foster stated that two separate motions should be made.

{{Trustee Paul Titus moved that Northern Wasco County People’s Utility District switch retirement services from Nationwide to the National Rural Energy Cooperative Association (NRECA) 401(K) Plan. Trustee Kathy McBride seconded the motion; it was then passed unanimously.}}}

{{Trustee Paul Titus moved that Northern Wasco County People’s Utility District switch retirement services from Nationwide to the National Rural Energy Cooperative Association (NRECA) 457(b) Plan. Director/Trustee Roger Howe seconded the motion; it was then passed unanimously.}}}

Trustee Paul Titus stated that staff will work closely with Special Counsel Iris Tilley and the Finance Department during the upcoming retirement plan conversion process. Nationwide will be notified of the Board of Trustees decision.
Director Williams expressed his appreciation for the assistance provided to the District by Special Counsel Iris Tilley.

At 8:32 p.m. the Board adjourned as the Board of Trustees and returned to the Board of Director’s Regular Session.

### BOARD REPORTS / ITEMS FROM BOARD MEMBERS

**Oregon People’s Utility Districts Association (OPUDA):**

No report was provided on the OPUDA Board Meeting held on April 19, 2019.

General Counsel James Foster stated that given the circumstances that have occurred recently, he feels it is important that the District gets our Board Governance Policies developed and finalized.

Foster stated that he needs input on what kind of authority the Board wants to grant to the chair in terms of the Board and the Chair’s responsibilities beyond running the meetings and setting the agendas. There are two methodologies that are followed: one is to put a lot of authority on the Board Chair to interact with management; the other is the method that is currently used, the Directors cannot act on behalf of the Board individually, however all Directors have the ability to meet with the General Manager individually.

Foster noted that historically the Board has done something between those two methods. He would like some feedback from the Board in order to limit the number of options.

Director Williams commented on last week’s American Public Power Association (APPA) Governance Webinar, which specifically touched on this point.

Chief Financial Officer/Director of Finance & Enterprise Risk Harvey Hall stated that he will try to schedule the Board to view that APPA Governance Webinar on June 4th prior to the Regular Session Meeting. Two additional webinars are scheduled on May 17th and May 31st.
APPROVAL OF FUTURE MEETINGS/TRAVEL/OR RELATED MATTERS

May 1, NRU Board Meeting – Connie Karp, Roger Howe, Howard Gonser and Dan Williams

May 1, PPC Forum – Connie Karp, Roger Howe, Howard Gonser and Dan Williams

May 2, PPC Executive Committee – Connie Karp, Roger Howe, Howard Gonser and Dan Williams

May 19-22, NWPPA Annual Conference – Connie Karp and Roger Howe

May 22, NRU Annual Breakfast Meeting – Connie Karp and Roger Howe

May 24, OPUDA Board Meeting – Roger Howe, Howard Gonser and Dan Williams

June 5, PPC Special Meeting – Connie Karp, Roger Howe, Howard Gonser and Dan Williams

June 5, PPC Forum – Connie Karp, Roger Howe, Howard Gonser and Dan Williams

June 6, PPC Executive Committee – Connie Karp, Roger Howe, Howard Gonser and Dan Williams

June 7, APPA Annual Conference – Howard Gonser

June 9-10, NRECA Financial Decision Making – Connie Karp and Roger Howe

June 21, OPUDA Board Meeting – Roger Howe, Howard Gonser and Dan Williams

EXECUTIVE SESSION

At 8:47 p.m. President Karp recessed the Regular Session to convene into Executive Session as authorized by ORS 192.660(2) (g) to consider preliminary negotiations involving matters of trade or commerce in which the governing body is in competition with governing bodies in other states or nations and ORS 192.660 (2)(d) to conduct deliberations with persons designated by the governing body to carry on labor negotiations.

Those present for the Executive Sessions included the Board of Directors; General Counsel James Foster; Assistant General Manager/Director of Power Resources Kurt Conger; Principal Engineer/Chief Innovation Officer Paul Titus, Key Accounts Manager Justin Brock; CFO/Director of Finance & Enterprise Risk Harvey Hall; and Executive Assistant Kathy McBride.

At 9:11 p.m. the Board adjourned from Executive Session to return to Regular Session.
There being no further business the meeting adjourned at 9:12 p.m.

ATTEST:

[Signature]
Secretary

[Signature]
President
<table>
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<tr>
<th>What does an audit of the District entail?</th>
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<tr>
<td>Are the financial statements a fair representation of transactions and ending balances for the year?</td>
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<tr>
<td>Did the Board comply with applicable State laws and regulations?</td>
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<tr>
<td>What procedures were performed to identify fraud?</td>
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<tr>
<td>Internal Control Recommendations</td>
</tr>
<tr>
<td>What were some of the significant changes impacting the financial results?</td>
</tr>
</tbody>
</table>
What does an audit of the District entail?

- Inspection of source documents
- Verification with third parties
- Analytical review and inquiry procedures
- Perform substantive test procedures
- Independent verification of transactions and balances
- Review key controls in all significant account cycles
- Testing for operational effectiveness
- Reporting of control weaknesses
- Evaluation of the effectiveness of internal controls
- State requires tests of certain compliance matters
- Incorporated into audit programs and planned audit approach
- Testing compliance with State requirements
What does an audit of the District entail?

Technical review of the financial statements:
- Balances and transactions verified against audited amounts and documentation
- Financial statements meet all applicable GAAP, and State requirements
- Supplementary information presented accurately

Reporting of audit results:
- Reporting to Board of Directors
Are the financial statements a fair representation of transactions and ending balances for the year?

Moss Adams Audit Procedures
- Perform risk assessment to identify significant risk areas
- Perform substantive test procedures
- Perform technical review of financial statements

Results
- Unmodified (clean) opinion provided to the District for its financial statements.
- Financial statements are presented fairly in accordance with US GAAP.

Additional Audit Comments
- Issued our communication to those charged with governance to discuss required items and any audit adjustments noted during the process
## Audit Adjustments

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<thead>
<tr>
<th>Audit Adjustments</th>
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<table>
<thead>
<tr>
<th>Passed Adjustments</th>
<th>Amounts</th>
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<tbody>
<tr>
<td>None noted</td>
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Did the District comply with applicable State laws and regulations?

<table>
<thead>
<tr>
<th>Moss Adams Audit Procedures</th>
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<tbody>
<tr>
<td>• Perform risk assessment to identify significant compliance risk areas</td>
</tr>
<tr>
<td>• Perform compliance testing over several areas including public contracting</td>
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<table>
<thead>
<tr>
<th>Results</th>
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<tbody>
<tr>
<td>• No instances of non-compliance noted</td>
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<table>
<thead>
<tr>
<th>Additional Audit Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Management is aware of the State compliance requirements that are subject to our audit procedures and monitor compliance throughout the year.</td>
</tr>
</tbody>
</table>
What procedures were performed to identify fraud?

Moss Adams Audit Procedures
- Evaluation of key controls for all significant balances and transaction cycles
- Brainstorm session to identify fraud risk areas
- Interview individuals throughout the District
- Perform ‘surprise’ procedures

Results
- Controls found to be effective
- No indications of fraud were identified throughout the audit

Additional Audit Comments
- Overall, management is able to design and implement controls that are appropriate and help protect the District’s resources.
### Internal Control Recommendations

<table>
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<tr>
<th>Internal control findings</th>
<th>Category</th>
</tr>
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<tbody>
<tr>
<td>No material weaknesses – we have discussed a few best practice items with management and the audit committee prior to finalizing the audit</td>
<td>Other Matters</td>
</tr>
</tbody>
</table>
What were some of the significant changes impacting financial results?

- **Statements of Net Position - Assets**
  - $2.7 million increase in accounts receivable – *Includes two months from major customer*
  - $1.6 million decrease in Due from BPA - *Scheduled payments on 2012 bonds*

- **Statements of Net Position – Liabilities and Net Position**
  - $1.4 million decrease in customer deposits – *Large deposit replaced with letter of guarantee*
  - $0.6 million increase in OPEB liability – *Implementation of GASB 75*

- **Statements of Revenues, Expenses and Changes in Net Position**
  - $7.9 million increase in operating revenues and $4.8 million increase in cost of purchased power – *Increased consumption in Primary rate class*
Acknowledgements

Thanks to the Board, Roger Kline, Harvey Hall, Lana Egbert and other staff for the excellent facilitation of the audit process

• All personnel across all departments were courteous, responsive and fulfilled all of our requests in a timely manner.

• ‘Tone at the Top’ and attitude from management was one of helpfulness, candor, and openness in response to audit requests and discussion points.
Risk Culture-Appetite-Tolerance

Board’s View

Northern Wasco County PUD Discussion – May 7, 2019
What we are considering tonight in the Districts Risk Management Process.
Risk – Defining Terms

**Risk Culture** – the manner in which an organization talks and acts about assuming and managing risks.

Which drives ...

**Risk Appetite** – the amount of risk an organization wants to assume.

Which drives ...

**Risk Tolerance** – the level beyond which the organization does not want to assume any more risk, which is driven by its risk culture, risk appetite and the end goals.
Considerations: Risk Tolerance

- Risk is “the effect of uncertainty on objectives”. How much deviation from objectives can you tolerate?

- Any business activity entails risk.

- Risk (deviations from expected) can be good or bad.

- Too much or too little tolerance of risk has consequences:
  - Too much – in danger of not meeting critical objectives.
  - Too little – will hinder utility from meeting objectives and close off positive and important opportunities.

- Expect your view of risk tolerance to change over time and to circumstances.
Risk – Asking the Questions

How much deviation from expectations can you accept?

Please rate on a scale of 1 to 10: 1 Very Low Tolerance, 10 Very High Tolerance

- Safety – people go home intact at end of day
- System Reliability – energy/services delivered
- Financial Risk – deviation from expected performance
- Legal-Regulatory Compliance – abiding by …
- Human Resource – succession, attract/retain
- Reputation – how the District is viewed by others
- Security – Physical and Cyber – keeping people, assets and information safe
Questions
2019 Pole Attachment Audit

Northern Wasco County PUD Board of Directors
May, 2019
2019 Pole Attachment Audit

Scope:

• Audit 6,800 Wood Distribution Poles in The Dalles and Tygh Valley
• Start Date – June 3rd
• Completion Date – October 18th
• Goal - Record all Foreign Owned Attachments on District Owned Poles
• Data Points to be gathered for each pole includes:
  ➢ Pole Structure and Location
  ➢ Attachment Owner
  ➢ Verification of Pole Owner
  ➢ Attachment Type and Height
  ➢ Imminent Danger situations
  ➢ Double Wood
  ➢ Calibrated Pictures
Audit Information for each pole
Funding Request

- Total Cost $228k
  - Tier 1 - $99k Base Audit
  - Tier 2 - $129k Calibrated images

- Cost per pole $33.45
  - Tier 1 – $14.50
  - Tier 2 - $18.95

- Vendor Osmose Utilities Services

- Pole Audit Cost is not in Engineering & Operations 2019 Expense Budget
Benefits

• Comprehensive per pole foreign owned attachment information to support Licensee pole rental billing

• Well positioned to utilize pole loading software to provide Pole Loading analyses for Attachment application processing and proactive facility reliability assessments

• $98k for Tier 1 Audit costs can be prorated and billed directly to Licensees based on the number of Licensee attachments. The $128k Tier 2 costs will be charged to accounts used to calculate 2020 pole rental rates.

• “Catch Up” PUD Licensee Pole Application processing backlog in NJUNS

• Provides foundation to develop Joint Use module in Futura (Asset Data Base) utilized by Engineering and other departments

• Joint Use and Audit information consolidated into one system

• Opportunity to increase annual recurring pole rental revenue
Request For Proposal (RFP) Process

• RFP issued March 29, 2019
• Answers to Responders questions provided on April 11, 2019
• Proposals were due no later than April 19, 2019 at 10:00am
• Three Proposals were submitted on time; two were not
• Weighted Average methodology used to evaluate Proposals and to make vendor selection
• If Approved; issue ‘Intent to Award' on May 8, 2019
• Projected Audit start date - June 3, 2019
• Projected Audit complete date – October 18, 2019
Proposed Next Steps

• Issue ‘Intent to Award’ Pole Audit to Osmose Utilities

• Develop and issue RFP for Pole Load Analysis using calibrated images from Pole Audit

• Develop Joint Use module in Futura Asset Management Data Base to be able to load pole Audit data and track ongoing Attachment transaction detail

• Share Audit information with Finance and coordinate/update Licensee 2020 Pole Attachment Billing
APPENDIX

• Example - Calibrated image for Pole Loading Analysis
• RFP Evaluation Results
• Current Joint Use Licensee Billing
• After Audit Licensee Billing (projected)
• Back office Preparations
Calibrated Image used in Pole Loading Analysis Software
## Evaluation Results

| Evaluation Component | Osmose | | Osmose | | Osmose | | Ques | | Ques | | Ques | | CSS Corp | | CSS Corp | | CSS Corp |
|----------------------|--------|-----------------|--------|-----------------|--------|-----------------|--------|-----------------|--------|-----------------|--------|-----------------|--------|-----------------|--------|-----------------|
| **Pricing**          | 45%    | **Price**       | **Rating** | **Weighted Avg** | **Price** | **Rating** | **Weighted Avg** | **Price** | **Rating** | **Weighted Avg** | **Price** | **Rating** | **Weighted Avg** |
| Tier 1               | 35.00% | 98,600.00       | 5        | 1.75             | 801,176.00 | 2        | 0.70             | 571,200.00 | 3        | 1.05             |
| Tier 2               | 2.00%  | 128,860.00      | 2        | 0.04             | 21,692.00  | 5        | 0.10             | 34,000.00  | 4        | 0.08             |
| Tier 3               | 8.00%  | 836,400.00      | 2        | 0.16             | 240,108.00 | 4        | 0.32             | 170,000.00 | 5        | 0.40             |
| **Total Price**      | 1,063,860.00 | **1.95** | | 1,062,976.00 | **1.12** | | 775,200.00 | **1.53** | |

<table>
<thead>
<tr>
<th>Qualifications / Experience</th>
<th>(40%)</th>
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<tr>
<td>Attachment Audit Experience</td>
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<td>Qualifications</td>
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<td>OPUC Pole Attachment Rules</td>
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<td>Workforce Qualification / Avail</td>
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<td><strong>Qualification Weighted Avg</strong></td>
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<table>
<thead>
<tr>
<th>Project &amp; Data Management</th>
<th>(15%)</th>
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<tr>
<td>Project Management Approach</td>
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<tr>
<td>Field Data Collection Process</td>
<td>7.50%</td>
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<tr>
<td>Data Transfer/Upload Process</td>
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<td><strong>Project Management Weighted Avg</strong></td>
<td><strong>0.63</strong></td>
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</table>

| Total Weighted Average | 100.00% | 4.04 | 3.12 | 2.91 |
Current Joint Use Licensee Billing

• Annual Joint Use billing approximates $93k for 6,900 poles
• Total District wood distribution poles ~ 6,800
• Attachments per pole ~ 1.01
• Regulated Annual Rental Rate $14.06 per foot of vertical pole space occupied
Projected After Audit Licensee Billing

- Attachments per pole expected to increase to an average of 1.5
- Rental rate $14.06 per foot of vertical pole space occupied
- Projected Billing - $143k (1.5*6800*$14.06)
- Annual Recurring Revenue increase - $50k ($143k-$93k)
Back-office Preparations

- Licensee notification and coordination
  - CenturyLink
  - Q-life
  - Charter Communications
  - LS Networks
  - Axxis/Gorge Net

- NJUNS PA ticket update and closing plan
  - Close/update open PA tickets related to audited attachments

- Finance coordination and timing for:
  - Updated 2020 Attachment Licensee billings
  - Billing to Licensees for prorated share of Audit costs
DATE: May 1, 2019

TO: PUD Board of Directors

FROM: Patrick Morehart, Operations & Engineering Manager

PRESENTED BY: Tom McGowan – Program Manager Joint Use and Regulatory Compliance

SUBJECT: Consideration to Award Pole Attachment Audit

Background

In establishing a proactive Joint Use Program, the District needs to know the type of Attachments and the owner of those attachments currently attached to District owned poles. A proactive program is one in which pole attachment detail activity is tracked to support pole occupant billing, pole transfer completion, and data used to help maintain system capacity and operating capabilities. As such, the District issued a Pole Attachment Audit - Request For Proposal that would audit approximately 6,800 District owned poles and would gather attachment data such as:

- Pole location
- Attachment Height
- Attachment Type
- Attachment Owner

Enterprise Risk Management Considerations

The District has not audited its poles for pole attachments in over 12 years. Audited pole information would assist in enhancing the Joint Use Program by providing:

- Detailed and comprehensive foreign owned attachment information to support pole Occupant rental billing.
- Position the District to utilize pole loading software to provide Pole Loading Analyses (PLA) to Attachment Application processing and proactive facility reliability assessments
- Consolidate Joint Use and Audit information into one system
- Provides an opportunity to increase annual recurring pole rental revenue
- Total cost of Audit is $228k and includes a base Audit (Tier 1) price of $99k and a (Tier 2) price of $129k for calibrated pole images. (Tier 1) costs will be prorated to Pole Occupants based on the number of their attachments and Tier 2 costs will be charged to accounts included in calculating pole rental rates.
- Pole Attachment Audit costs are not in the Engineering and Operations 2019 Expense Budget
Recommendation

After consideration and application of the evaluation criteria, staff recommends the Board award the Pole Attachment Audit contract to Osmose Utilities Services to provide pole attachment audit services (Tier 1) and calibrated pole pictures (Tier 2). Amount to be awarded is $227.5k.

Criteria used to determine the qualified contractor:

### Evaluation Results

<table>
<thead>
<tr>
<th>Component</th>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Total Price</th>
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<td>7.39%</td>
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<tr>
<td>Total Weighted Average</td>
<td>4.04</td>
<td>5.12</td>
<td>2.91</td>
<td>4.04</td>
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MEMORANDUM
OFFICE OF THE GENERAL MANAGER
NORTHERN WASCO COUNTY PEOPLE’S UTILITY DISTRICT

DATE: May 2, 2019
TO: Directors Gonser, Howe, Karp, Smith & Williams
FROM: Roger M. Kline, General Manager
SUBJECT: 2019 Organizational Performance Update & Q1 Results

Background

Early in 2016, The Board of Directors approved the organizational dashboard quarterly reporting methodology, comparing the stated values of the organization to the operational and strategic work the PUD was to accomplish throughout the year. In 2017 the Board and executive management team (EMT) agreed that a transition to the Key Performance Area (KPA) and their associated Key Performance Indicators (KPI) would be even more beneficial for the Board’s understanding and monitoring of the PUD’s functional areas. Please consider the following comments in conjunction with the provided organizational performance dashboard.

Key Performance Area – Workforce

There is no greater importance to employees, the community, or our customer-owners than to accomplish all our work safely. In recognition of its hard work in 2018, the District was awarded 3rd place in the safety category by the Northwest Public Power Association at its Engineering & Operations Conference during Q1.

Competitive compensation and a market-based pay structure continues to be updated as positions are recruited for and/or reviewed. A separate memorandum has been delivered to the Board outlining current compensation for our employees as compared to the market. Our overall position as related to market mid-points remains at 96%.

Key Performance Area – Finance

Budget execution was very successful during Q1. Work planning, Financial Policy work and continued growth and expanded utilization of Enterprise Risk continues to prove valuable to the District.

The field work by our external auditor Moss-Adams was completed during Q1 with an expectation for a clean audit to be delivered to the Board of Directors in May.

All Finance KPI’s are well within tolerances.
Key Performance Area – Customer

The Energy Conservation Department performed admirably, helping customers conserve 266 kWh of energy through residential and commercial projects, weatherization, rebates, and other excellent work during Q1. This is very similar to the Q1 completion of 2018. The Energy Efficiency Upgrade Program (EEUP) that the Board of Directors approved during 2018 is proving very successful and helpful to our community.

The Interactive Voice Response (IVR) pay by phone system has increased in utilization over the course of Q1. More detailed metrics will be provided to the Board in the near future.

Social media contacts, news, and other traditional media outreach continued through Q1 with positive results.

Key Performance Area – Power Supply

The Bonneville Power Administration achieved substantial completion at the Quenette Creek Substation for our large data customer in Q1. Further testing and energization will be completed in Q2.

Annual maintenance outages were completed at both McNary and The Dalles Fishway projects during Q1. Separate dashboards are included for both McNary and The Dalles Fishway Hydroelectric Projects.

Key Performance Area – Electric Service Delivery

In the area of Electric Service Delivery, the first quarter of 2019 was very successful with much infrastructure work accomplished.

Our Tree Trimming & Vegetation Management Contractor continues to perform exceptionally in support of our customers and community.

Large capital planning continues to improve and evolve as infrastructure needs are better understood. The electric service delivery system’s replacement, refurbishment, and reinvestment needs continue to grow and are being prioritized based on risk. Thank you to the Board for supporting these efforts as we ensure reliability, reduce risk and ensure safety for our community and customers.

Key Performance Area – Enterprise Operations

The Project Management Office (PMO) is addressed specifically on the included separate dashboard. All projects are progressing as per their approved scope, schedules and budgets with appropriate project controls in place.

Summary

Q1 has started off very well for the District and our customer-owners. The organization is performing very well in most areas. We will continue to improve business processes and work with the Board to refine, update, and develop governing policies to ensure all parties are satisfied with the performance of the organization.
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<th>Key Performance Area</th>
<th>Workforce</th>
<th>Target</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Year</th>
<th>Benchmark</th>
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<td>90%</td>
<td>APPA</td>
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<td>$4,033.96</td>
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<td>Clean Policy</td>
<td>2018 External Audit is Clean but to be Presented in May</td>
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<td>Debt Service Coverage (DSC)</td>
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<td>2.32</td>
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<td>Budget to Actuals</td>
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<td>Pilot/Cilt $</td>
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<td>1.2MW</td>
<td>Previous Year</td>
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<td>Meter Reading Accuracy</td>
<td>&lt; 0.30%</td>
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<td>Industry Directive For Q1 there were 34 errors in 30,360 reads.</td>
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<td>Availability</td>
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<td>NERC</td>
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<td>Planned Maintenance</td>
<td>&gt; 95%</td>
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<td>Policy</td>
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<td></td>
<td>Availability</td>
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<td>NERC</td>
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<td>95%</td>
<td>Policy</td>
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<td>Key Performance Indicator</td>
<td>SAIDI - Average outage duration for each customer</td>
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<td>202.449</td>
<td>Prev Year / APPA</td>
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<td>SAIFI - Average number of interruptions</td>
<td>&lt; 0.342</td>
<td>0.0338</td>
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<td>3.541</td>
<td>Prev Year / APPA</td>
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<td>CAIDI - Average Outage duration customer experiences</td>
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<td>147.6990</td>
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<td></td>
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<td>160.7475</td>
<td>Prev Year / APPA</td>
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<td>ASAI - Average Availability Index</td>
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<td>99.996%</td>
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<td>99.9915</td>
<td>Prev Year / APPA</td>
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<td>Diversified System Losses</td>
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<td>3.59%</td>
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<td>Diversified Load Factor - kWh / Peak Load / Hours</td>
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<td>65.76%</td>
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<td>52.07%</td>
<td>Prev Year / APPA</td>
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<td>Load Factor - kWh / Peak Load / Hours</td>
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<td>71.36%</td>
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<td>62.72%</td>
<td>Prev Year / APPA</td>
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<td>Key Performance Indicator</td>
<td>Work Order Completion</td>
<td>on sched</td>
<td>Y</td>
<td></td>
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<td></td>
<td>5% of sched</td>
<td>Directive</td>
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<tr>
<td></td>
<td>Service Order Completion</td>
<td>on sched</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
<td>5% of sched</td>
<td>Directive</td>
<td></td>
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<td></td>
<td>Tree Program Service Order</td>
<td>on sched</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
<td>5% of sched</td>
<td>Directive</td>
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<td>IT Service Desk Ticket</td>
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<td>Directive</td>
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<td>3% Milestone</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
<td>5% of sched</td>
<td>Directive</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fleet Vehicle Maintenance</td>
<td>on sched</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td>5% of sched</td>
<td>Directive</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Facilities Work Order Comp.</td>
<td>on sched</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td>5% of sched</td>
<td>Directive</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarter</td>
<td>Scheduled Outage Hours</td>
<td>Forced Outage Hours</td>
<td>Total Hours Offline</td>
<td>EAF%</td>
<td>% Online</td>
<td>Total PM's Generated To-Date</td>
<td>Completed PM's To-Date</td>
<td>Total MWh's Generated</td>
<td>aMWh's</td>
<td></td>
</tr>
<tr>
<td>---------</td>
<td>------------------------</td>
<td>---------------------</td>
<td>---------------------</td>
<td>------</td>
<td>----------</td>
<td>-----------------------------</td>
<td>----------------------</td>
<td>----------------------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>536:05:00</td>
<td>2:02:00</td>
<td>538:07:00</td>
<td>99.87%</td>
<td>75.08%</td>
<td>116</td>
<td>116</td>
<td>8,598</td>
<td>3.99</td>
<td></td>
</tr>
</tbody>
</table>

### Outage Durations (Hours)

<table>
<thead>
<tr>
<th>Cause</th>
<th>Outage</th>
<th>Qtr</th>
<th>Start Date</th>
<th>Duration</th>
<th>End Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual COE and PUD Outage</td>
<td>SCHEDULED</td>
<td>Q1</td>
<td>1/22/2019 7:00</td>
<td>536:05:00</td>
<td>2/13/2019 15:05</td>
</tr>
<tr>
<td>Plant trip, unknown reason</td>
<td>FORCED</td>
<td>Q1</td>
<td>2/28/2019 4:18</td>
<td>2:02:00</td>
<td>2/28/2019 6:20</td>
</tr>
</tbody>
</table>

### The Dalles Fishway Generation vs. Net Head

- **Output (KW)**
- **Net Head (Ft)**

### Scheduled Maintenance Completion

- Below 90%:
  - 536:05:00
  - 538:07:00
  - 2:02:00

- Above 90%:
  - 100.00%

### NET HEAD

- 1-Jan: 85
- 6-Jan: 80
- 11-Jan: 75
- 16-Jan: 70
- 21-Jan: 65
- 26-Jan: 60
- 31-Jan: 55
- 5-Feb: 50
- 10-Feb: 45
- 15-Feb: 40
- 20-Feb: 35
- 25-Feb: 30
- 1-Mar: 25
- 2-Mar: 20
- 7-Mar: 15
- 12-Mar: 10
- 17-Mar: 5
- 22-Mar: 0
- 27-Mar: -5

### Output

- 1-Jan: 6,000
- 6-Jan: 5,500
- 11-Jan: 5,000
- 16-Jan: 4,500
- 21-Jan: 4,000
- 26-Jan: 3,500
- 31-Jan: 3,000
- 5-Feb: 2,500
- 10-Feb: 2,000
- 15-Feb: 1,500
- 20-Feb: 1,000
- 25-Feb: 500
- 1-Mar: 0
- 2-Mar: -500
- 7-Mar: -1,000
- 12-Mar: -1,500
- 17-Mar: -2,000
- 22-Mar: -2,500
- 27-Mar: -3,000
### Available Hours

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Available Hours</th>
<th>Scheduled Outage Hours</th>
<th>Forced Outage Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>2159:00:00</td>
<td>556:57:00</td>
<td>5:14:00</td>
</tr>
</tbody>
</table>

### Total Hours Offline

<table>
<thead>
<tr>
<th>EAF %</th>
<th>Total PM's Generated</th>
<th>% Online</th>
<th>Total MWh's Generated</th>
<th>aMW's</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.67%</td>
<td>145</td>
<td>73.96%</td>
<td>15,921</td>
<td>7.38</td>
</tr>
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</table>

### Total Hours Offline

<table>
<thead>
<tr>
<th>Cause</th>
<th>Outage</th>
<th>Qtr</th>
<th>Start Date</th>
<th>Duration</th>
<th>End Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual ACOE Outage</td>
<td>SCHEDULED</td>
<td>Q1</td>
<td>1/2/2019 7:00</td>
<td>556:57:00</td>
<td>1/25/2019 11:57</td>
</tr>
<tr>
<td>BPA Line Outage (line 6)</td>
<td>SCHEDULED</td>
<td>Q1</td>
<td>1/31/2019 7:15</td>
<td>5:14:00</td>
<td>1/31/2019 12:29</td>
</tr>
</tbody>
</table>

### Outage Durations (Hours)

<table>
<thead>
<tr>
<th>Outage Duration</th>
<th>Total Hours Offline</th>
<th>Scheduled Outage Hours</th>
<th>Forced Outage Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>562:11:00</td>
<td>556:57:00</td>
<td>5:14:00</td>
<td></td>
</tr>
</tbody>
</table>

### McNary Fishway Generation vs. Net Head

![Graph of McNary Fishway Generation vs. Net Head](image)

- **Output (KW)**
- **Net Head (Ft)**

**Quarter**

- Q1
- Q2
- Q3
- Q4
## PROJECT PORTFOLIO DASHBOARD

### PROJECT NAME | TIMELINE | PROJECT ELEMENTS
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Begin</td>
<td>Finish</td>
<td>Phase</td>
<td>Estimated Budget</td>
</tr>
<tr>
<td>Field Pro Mobile Solution Suite</td>
<td>9/3/2018</td>
<td>6/30/2019</td>
<td>Executing</td>
<td>$75,260</td>
</tr>
<tr>
<td>HMI Historian</td>
<td>10/24/2018</td>
<td>3/31/2019</td>
<td>Controlling</td>
<td>$114,890</td>
</tr>
<tr>
<td>SOP Support Services</td>
<td>4/17/2018</td>
<td>3/31/2019</td>
<td>Monitoring</td>
<td>$75,000</td>
</tr>
<tr>
<td>Substation Data Acquisition</td>
<td>10/18/2018</td>
<td>3/1/2019</td>
<td>Closed</td>
<td>$47,100</td>
</tr>
<tr>
<td>230 kV TransLink</td>
<td>9/16/2018</td>
<td>6/1/2020</td>
<td>Executing</td>
<td>$985,000</td>
</tr>
<tr>
<td>Tygh Valley Sub Engineering Services</td>
<td>2/1/2019</td>
<td>6/1/2019</td>
<td>Planning</td>
<td>$140,000</td>
</tr>
<tr>
<td>Automated Metering Infrastructure</td>
<td>10/16/2017</td>
<td>5/31/2019</td>
<td>Executing</td>
<td>$2,250,000</td>
</tr>
<tr>
<td>The Dalles Marina</td>
<td>1/22/2018</td>
<td>4/30/2019</td>
<td>Executing</td>
<td>$1,019,624</td>
</tr>
<tr>
<td>TDF Hydro Fish Sampling Facility</td>
<td>8/8/2017</td>
<td>3/1/2020</td>
<td>Planning</td>
<td>$700,000</td>
</tr>
<tr>
<td>Business Solutions Group Projects - 5</td>
<td>4/1/2019</td>
<td>6/30/2019</td>
<td>Initiating</td>
<td>TBD</td>
</tr>
<tr>
<td>Oregon Record Management Services</td>
<td>6/1/2019</td>
<td>9/1/2019</td>
<td>Initiating</td>
<td>$4,464</td>
</tr>
</tbody>
</table>

### PIPELINE TRACKING
- Projects In-Flight: 16
- Projects Closing: 0
- Projects On Hold: 1
- Projects Closed: 15
- Total Projects: 31

### MILESTONE STATUS TRACKING
- In Progress: 12%
- Overdue: 3%
- Not Started: 67%

### ISSUES TOTAL
- Closed: 23
- Pending: 23
- Open: 56
MEMORANDUM
NORTHERN WASCO COUNTY PEOPLE’S UTILITY DISTRICT

May 7, 2019

To: NWCPUD Board of Directors
From: Kurt Conger, Assistant General Manager
Subject: Consideration of Master Power Purchase and Sale Agreements
Authorization to Execute Master Agreement Cover Sheets
Enel X Auction – May 16 at 10:00 a.m.

In preparation for load growth, the District will need to procure an increasing volume of wholesale power in the coming years. Historically, the District has relied on BPA for long-term, Tier 1 power, and short-term power purchases from other sellers to meet the growing demand for power. The short-term purchases consisted of volumes and terms that did not necessitate more rigorous counterparty credit provisions. As purchase volumes and contract terms increase, a more robust credit framework must be established through bilateral master power purchase and sale agreements with cover sheets that spell out specific amendments and credit terms with each counterparty. These cover sheet amendments are typically needed for sales by private utility entities, and some publicly-owned utilities, to public utilities. A compilation of these edits into a template was developed by the District’s outside counsel and reviewed by General Counsel.

Action Request: Authorize General Manager Roger Kline, and/or his designees, to execute the Edison Electric Institute (EEI) and Western Systems Power Pool (WSPP) Master Power Purchase and Sale Agreement Cover documents as may be modified for each specific counterparty after legal counsel review.

Background:
The District load forecast indicates that power purchases are needed to cover load growth in 2020 and 2021. To ensure sufficiently competitive bidding for these power purchases, the District may need to enter into bilateral master power purchase and sale agreement cover sheets that enumerate specific terms that govern transactions with each entity. Some of the provisions that are contained in the cover sheet include:

- Information for notices, invoices, scheduling, payments, wire transfers, credit and collateral, and legal.

- Elections and amendments to specific master agreement provisions, that may include: certain transaction terms and conditions, remedies for failures to deliver, remedies for defaults, credit and collateral requirements, confidentiality provisions, and other changes that make the master agreement compatible with publicly-owned utilities.

- A credit and collateral annex that stipulates provisions for: calculating exposures and collateral amounts, procedures for managing of collateral, use of cash and letters of credit as collateral, and dispute resolution processes.
In 2014, the District entered into a WSPP master agreement with cover sheet elections with Chelan County PUD. District staff have effectively managed all aspects of that agreement over the past four years of physical power delivery. While the District and other counterparties have executed shorter term agreement, using the un-modified WSPP agreement, staff now seeks to access a larger pool of counterparties that require similar master agreement cover sheets.

By Oregon statute [ORS 261.335(2)], the District’s public contracting and purchasing requirements, adopted pursuant to ORS chapters 279A and 279B, do not apply to contracts entered into by districts for the acquisition, construction, improvement or equipping of a renewable energy facility or for the purchase or sale of electricity, electrical capacity or renewable energy certificates. Nevertheless, District staff have generally conducted competitive processes for new power purchases. For example, the District has now held two Enel X reverse auctions for energy. On May 16th the District is holding a third reverse auction based on an RFP for energy that has been canvassed with pre-qualified sellers.

References:

The EEI Master Agreement Cover Sheet template can be requested from District staff.

Edison Electric Institute Master Power Purchase and Sale Agreement is a long document that can be downloaded at: http://www.eei.org/resourcesandmedia/mastercontract/Pages/default.aspx.

Information about the Western Systems Power Pool agreement can be found at: https://www.wspp.org, however the agreement document is stored in a protected area of the website. A review copy of the agreement can be obtained from District staff.
DATE: May 7, 2019
TO: Board of Directors
FROM: Lance Kublick
SUBJECT: Energy Management Program Funding

Background:

With the success of the district’s energy efficiency programs, the energy management staff is anticipating a challenge to continuing the momentum of the programs. In line with the District’s conservation goals, the low-income program continues to be successful, and commercial lighting has increased activity. A rebate of over $46,000 was recently paid to Dufur School for their complete building LED upgrade. In addition, Mid-Columbia Fire and Rescue, Petersburg School, and Columbia Gorge Discovery Center also have plans for LED projects totaling over $50,000.

Currently, the District collects Energy Efficiency (EE) credits/dollars from the BPA EE budget in two ways. The first is by following BPA guidelines on approved measures and reporting these measures to BPA monthly. The second is in the form of performance payments, based on estimated kWh saved on the reported measures.

To maintain stability of our programs and benefit our customers, staff will not claim the performance payments for the remainder of this year. This will make $36,000 available for customer rebates. This change will not decrease the amount of credits we can claim in EE credits. Staff will not claim BPA performance payments and use those funds to extend the rebates paid to our customers.

Budget Impact:

Staff will be using additional District funds not to exceed $50,000. This money will not be used until BPA EE credits have been exhausted. If available, any additional BPA credits will be utilized before spending additional District funds. These funds will be made available to maintain current conservation programs for the remaining BPA rate period through September 2019.

This recommendation is consistent with the District’s strategic goals of providing excellent customer service and our commitment to supporting our community by increasing commercial program activity and continuing to help our low-income customers.
TO: Directors Williams, Howe, Karp, and Gonser
FROM: Harvey Hall, Chief Financial Officer – Director of Finance and ERM
DATE: June 4, 2019
SUBJECT: Proposed Financial Policy

**Issue:**
Currently, the District has a variety of policies that address financial matters but there are areas not covered by Policy. This policy proposal is meant to address areas not currently covered as well as include current policies related to finance into a more comprehensive financial policy.

The objective of the Financial Policy is to: promote the financial health and stability of the District and protect rate-payer assets through clear guidance, fiscal accountability, legal and regulatory compliance, reporting transparency, and consistent risk management.

The proposed Financial Policy will:

A. Supersede the following existing policies:
   - Investment Policy and Portfolio Guidelines
   - Reserve/Rate Stabilization Policy
   - Per Diem Policy
   - Purchasing Card Policy

B. Add the following:
   - Rate Sufficiency Policy
   - Retirement Benefits Funding Policy
   - Cost Management Policy
   - Budget Policy
   - Debt Policy
   - Billing and Collections Policy
   - Accounting Practices Policy
   - Financial Controls Policy
   - Capitalization Policy

**Board Action:**

We are asking for the Board to review and adopt the proposed Financial policy.
Northern Wasco County PUD

Financial Policy
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FINANCIAL POLICY OBJECTIVE: TO PROMOTE THE FINANCIAL HEALTH AND STABILITY OF THE DISTRICT AND PROTECT RATE-PAYER ASSETS THROUGH CLEAR GUIDANCE, FISCAL ACCOUNTABILITY, REPORTING TRANSPARENCY, AND CONSISTENT RISK MANAGEMENT.

1.0 RATES AND RESERVE POLICIES

1.1 Rate Sufficiency Policy
Rates and charges will be adequate to provide revenues sufficient to maintain a degree of financial soundness over and above requirements for compliance with existing bond covenants.

Northern Wasco County PUD (NWC PUD) bond resolutions contain a rate sufficiency covenant that is a standard provision in public utility bond contracts. The covenant requires that rates and charges be set at a level that is 1.25 the costs of operating and maintaining the utilities. This rate sufficiency policy is a higher standard than that required by the standard rate covenant contained in the bond resolutions. The policy is intended to supplement the weaker financial performance standards set out as minimum requirements in the bond resolutions. The financial standard implied by this policy is that rates and charges will be maintained at a level consistent with an average credit rating of A for the District. NWC PUD’s long-term target for debt service coverage ratio for the District is 1.75 times debt service. Performance standards are as follows.

<table>
<thead>
<tr>
<th>Performance Standard:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Days Cash</td>
<td>90 days</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>2.50</td>
</tr>
<tr>
<td>Debt Service Coverage</td>
<td>1.75</td>
</tr>
</tbody>
</table>

Days Cash balances are based on the amount of cash needed to pay for ongoing operational expenditures and to maintain an amount of working capital to support the Day’s Cash Ratio sufficient to maintain higher than average credit rating.

Current Ratio measures the ability of a company to cover its short-term liabilities with its current assets. The formula is: \( \text{Current Assets} / \text{Current Liabilities} \)

Debt Service Ratio measures unrestricted cash the District has, compared to annual debt payments. Shows how much unrestricted cash the District has per $1 of annual debt payments. The formula is: \( \frac{(\text{Operating Revenue} + \text{Interest Revenue}) - (\text{Operating Expenses} - \text{Depreciation})}{\text{Annual Debt Payment}} \)

1.2 Reserve/Rate Stabilization Policy
As the District establishes operational and financial plans, in the form of performance targets and budgets, there is the possibility of events occurring that will impact the District’s ability to achieve its objectives. This policy is designed to ensure the availability of adequate cash and
financial instruments to fund operations and manage the risk of sudden and significant rate impacts on customers when unanticipated events occur.

NWC PUD shall periodically review the adequacy and distribution of the reserve accounts and funds. The individual funds and target level formulas are as follows:

a. **Working Cash/Operating Fund:**

   The District requires cash and short-term investments be available to cover ongoing operational expenses during the year. Maintaining a minimum cash and investment account balance ensures these funds will be accessible. This is an active account, not a reserve. It is a general fund for general operational use.

   **Used for:** A floating fund balance that varies through the year to cover operational expenses.

   **Target Minimum Calculation:** Sixteen percent of total annual budgeted operating expenses (not including purchased power).

   **Funding Plan:** This fund should be an ongoing balance funded by operational revenues. If the fund falls below the target minimum, rate action would be considered to replenish the fund to a sustainable level over the minimum within one year, unless otherwise determined by the Board.

b. **Rate Stabilization Fund:**

   Funds set aside specifically to cover general unanticipated events not covered by the Contingency Fund which could impact the District's ability to achieve its objectives and trigger sudden and significant rate changes. This fund is designed to manage those potential financial impacts.

   **Used for:** Mitigating the financial impact of unanticipated significant events to the District and its customers.

   **Target Minimum Calculation:** $3,000,000. This balance reflects what is stated in the 2016 Bond Official Statement - Security for the 2016 Bonds.

   **Funding Plan:** Funded by District net revenues. If the fund falls below the target minimum, rate action would be considered to replenish the fund to a sustainable level over the minimum within one year, unless otherwise determined by the Board.

c. **Contingency and Emergency Preparedness Fund**

   Funds set aside specifically to cover general unanticipated events outside the District's budget and may impact rate changes. This fund covers events less than $1,000,000. Event impacts exceeding $1,000,000 are covered by the Rate Stabilization Fund.

   **Used for:** Mitigating the financial impact of unanticipated events that would have a financial impact of less than $1,000,000 to the District and its customers.

   **Target Minimum Calculation:** $1,000,000.
**Funding Plan:** Funded by District net revenues. If the fund falls below the target minimum, rate action would be considered to replenish the fund to a sustainable level over the minimum within one year, unless otherwise determined by the Board.

d. **Hydro Fund:**

Covers fixed Operation and Maintenance (O&M) costs, including overhead, in the event of a hypothetical total loss of production from either plant, replacement power purchase to serve load, the costs of the subsequent investments and/or repairs.

**Used for:** Unanticipated events that would have a significant financial impact to the District and its customers such as O&M costs or loss of production.

**Target Minimum Calculation:** One year of budgeted O&M Costs at The Dalles and McNary projects.

**Funding Plan:** Funded by District net revenues. If the fund falls below the target minimum, rate action would be considered to replenish the fund to a sustainable level over the minimum within one year, unless otherwise determined by the Board.

e. **Capital Improvement and Major Capital Projects Fund:**

Covers the cost of large-scale plant investment plans and unplanned emergency capital work.

**Used for:** Covers the financial impact of capital outside of routine capital projects that would have a significant financial impact to the District and its customers.

**Target Minimum Calculation:** Set at 2% of Gross Electric Plant.

**Funding Plan:** Funded by District net revenues. If the fund falls below the target minimum, rate action would be considered to replenish the fund to a sustainable level over the minimum within one year, unless otherwise determined by the Board.

f. **Market Security and Collateral Fund:**

Provides coverage for wholesale power market exposures that may result in collateral demands by counterparties under adverse market conditions.

**Used for:** Covers a portion of the exposure associated with power purchase agreements, or other financial obligations to counterparties, that may result in collateral demands posted by the District in the form of letters of credit.

**Target Minimum Calculation:** $0.50 per dollar of the total amount of letters of credit issued for the account of the District, less on-hand customer deposits by Large Primary customers, up to $6,000,000.

**Funding Plan:** Funded by District net revenues. If the fund falls below the target minimum, rate action would be considered to replenish the fund to a sustainable level over the minimum within one year, unless otherwise determined by the Board.
1.3 **Retirement Benefits Funding Policy**

All long-term liabilities that must be either disclosed and/or accounted for in the financial statements will be funded according to a rational and consistent plan that targets full funding of the liabilities over a specified period of time.

**Other Post-Employment Benefits (OPEB)**

NWC PUD created a trust as a fund through which assets are accumulated and benefits are paid for Other Post-Employment Benefits (OPEB). Eligible retirees and beneficiaries of NWC PUD receive payments to offset medical insurance premiums. Financial reporting standards require transparency for unfunded retirement liabilities. For NWC PUD, unfunded retirement liabilities result from the District’s other OPEB program are treated as a liability in the Statement of Net Position. The primary financial process is to recognize the actuarially determined change in net OPEB liability in annual OPEB expense. This expense pays for the current costs and unfunded liabilities over a designated period of years. The accounting treatment and disclosure is per GASB 75.

The District also maintains an unrestricted OPEB Liability Reserve Fund.

2.0 **FINANCIAL MANAGEMENT POLICIES**

2.1 **Cost Management Policy**

NWC PUD will take cost management actions that provide for authorized budgets and include actions to maintain expenditures within authorized budget levels.

The annual budget is the primary tool for setting rates and controlling costs within a given year. For accounting and budgetary purposes, the budget is broken into operating and capital components. The operating budget further distinguishes between power and related costs, and non-power operating costs. The reason for this is that the cost of power and related items generally varies with changes in sales volume. Non-power items are composed of mostly labor, services, and materials which are less susceptible to variations in sales volumes and allow for more direct cost control.

The annual budget is the maximum level of expenditure authorized by the Board. Conditions may arise during a budget year that cause projected expenditures to be higher than those approved by the Board in the annual budget. If any of the specific conditions occur, the Executive Management Team (EMT) is required to propose a budget amendment.

A budget amendment proposal must state the causes of the non-budgeted expenditures, the offsetting actions taken to mitigate the increase, and the source of any additional funding requested. The Board will consider each proposed budget amendment and either approve or disapprove. In the event of disapproval, the General Manager will exercise established authorities in taking actions necessary to curtail spending within authorized levels.

To monitor the budget, cost management procedures include the monthly review of variances from the authorized budget by the EMT. Their review of power-related items is separate from
non-power items and capital expenditures. With the assistance of financial staff, the EMT determines if variances in one department can be offset by variances in another. In the event of a shortfall, the EMT will determine whether to bring a budget amendment forward or curtail other activities to remain within authorized spending levels.

2.2 Budget Policy
The authorized annual spending plan will be balanced such that resources meet or exceed requirements in each fiscal year. Long-term financial stability can be assured only if the annual spending plan is fully funded and results in a balanced budget. The budget is considered balanced when the following four conditions are met:

a. Expected annual operating revenues exceed anticipated operation and maintenance expenses;
b. Budgeted capital outlays are funded in full from a combination of net operating revenues, capital improvement reserves, and debt proceeds, or customer contributions;
c. Long Term Financial Plan presentation of annual operating results shows Debt Service Coverage Ratio at or above Board established performance standard.
d. Days Cash at or above the Board established performance standard.

2.3 Debt Policy
Funds to acquire major capital improvements will be provided in accordance with the estimated useful lives of such assets.

Prudent financial practice dictates the use of debt financing only in those cases where public policy, equity, and economic efficiency favor the use of debt over current financing. In NWC PUD’s case, debt is considered an appropriate funding option for long term major capital projects. (See the discussion under Capital Reserve Policy 1.3.) Debt service payments should coincide with the useful life of the asset and should be structured to mirror the stream of benefits from the facility or project being funded. Long-term debt financing will be considered for those major system improvements that meet two general criteria:

- The asset has a relatively long useful economic life (at least 10 years).
- The asset is a significant item included within the capital budget.

If debt levels are too high the utility could become over-leveraged relative to its asset base and revenue producing capability. In all cases, management will balance the benefit of long-term financing with the overall health of the organization as determined by appropriate measures of financial leverage.

Performance standards are as follows. Performance standards, where established, are based on review with our Financial Advisor and what they are observing in the financial markets and rating agency reviews of public utilities that own generating facilities.

**Performance Standard**

| Debt/Asset Ratio | 50% or less |
2.4 Billing and Collection Policy
Services will be billed in an accurate and timely manner and collected with fair and equitable consideration for all customers.

NWC PUD maintains a customer credit rating system to provide fair and equitable consideration in deposit and collection practices for all customers. Decisions to extend payment terms are based on the customer’s good faith, ability to pay, and payment history.

NWC PUD makes every reasonable and cost-effective attempt to secure payment of all accounts receivable. In accordance with bond covenants, products and services are not provided free of charge. Bills are issued based upon actual use of products and services, except when service meters are inaccessible, or other considerations necessitate issuing estimated billings.

NWC PUD employees make a concerted effort to inform customers about the options available regarding payment for and controlled use of NWC PUD products and services. NWC PUD’s strong partnerships with community social service organizations create preventive strategies for avoiding disconnection of services.

Performance Standard

| Write-offs as a % of Rate Revenue | .5% or less |

2.5 Investment Policy
NWC PUD’s investment portfolio will be managed to achieve safety of capital, market rates of return, and to provide sufficient liquidity to meet disbursement schedules.

NWC PUD’s investment policy calls for the investment of excess funds in a manner which will preserve capital and provide sufficient liquidity to meet cash flow demands while conforming with all State statutes governing investment of public funds and bond covenants. The policy includes provisions with respect to diversification and the credit quality of securities purchased. NWC PUD’s primary objectives are, in order of priority: safety of principal, liquidity and achieving a rate of return at least equal to the return on a comparably maturing U.S. Treasury bill. NWC PUD attempts to match its investments to anticipated cash flow requirements. Securities are intended to be held to maturity, unless the quality, yield or maturity characteristics of the portfolio can be improved by replacing one security with another.

AUTHORITY

The Chief Financial Officer is the portfolio manager. The portfolio manager has the responsibility to have cash available to meet day-to-day demands and invest all excess cash, including bond and note proceeds, while adhering to the rules set forth in ORS 294.035 through 294.047 and this investment policy.

The investment policy for the District applies to all funds accounted for in the annual budget. The District's investment portfolio operates on a policy of buying securities and holding them until their specified maturity date. However, in order to improve the quality, yield, or maturity
characteristics of the portfolio, the portfolio manager may sell securities prior to their maturity date and reinvest the proceeds. In the absence of, or at the request of the portfolio manager, the General Manager will manage investment of funds.

OBJECTIVES

Safety of capital and providing sufficient liquidity for cash disbursements are the primary objectives in managing the District’s excess funds. This is accomplished through diversification and the purchase of high-quality money market instruments.

Second to safety of capital and having sufficient liquidity, it is the objective of the portfolio to earn a rate of return at least equal to the return on a comparably maturing T-Bill, as stated in a 365-day yield.

INVESTMENT TYPES

The District will diversify across security type and institution. To the extent possible, the District will attempt to match investment maturities with anticipated cash flow requirements. Maturities exceeding 18 months must be approved by the Board of Directors and policy review by the Oregon Short Term Board. (ORS 294.135)

<table>
<thead>
<tr>
<th>Maturity Scheduling:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 30 days</td>
</tr>
<tr>
<td>Under 90 days</td>
</tr>
<tr>
<td>Under 365 days</td>
</tr>
<tr>
<td>Under 18 months</td>
</tr>
<tr>
<td>10% minimum</td>
</tr>
<tr>
<td>25% minimum</td>
</tr>
<tr>
<td>75% minimum</td>
</tr>
<tr>
<td>100% minimum unless otherwise approved by Board.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Security Selection:</th>
<th>Maximum Percentage of Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury Bills, Notes, Bonds, Strips</td>
<td>100%</td>
</tr>
<tr>
<td>U.S. Government Agency and Instrumentality Securities of Government Sponsored Corporations. No more than 20% of the total portfolio in any one security</td>
<td>50%</td>
</tr>
<tr>
<td>Local Government Investment Pool</td>
<td>100%</td>
</tr>
<tr>
<td>Time Certificates of Deposit (TCD)</td>
<td>50%</td>
</tr>
<tr>
<td>Bankers’ Acceptances (BA’s) No more than 10% of the total portfolio with any one financial institution</td>
<td>25%</td>
</tr>
<tr>
<td>Corporate Indebtedness/Commercial Paper. Holdings in any one issuer may not exceed 5% of portfolio</td>
<td>35%</td>
</tr>
<tr>
<td>Corporate Indebtedness – Temporary Liquidity Guaranteed Program</td>
<td>35%</td>
</tr>
</tbody>
</table>
Repurchase Agreements: No more than 10% of the total portfolio with any one financial institution

| 25% |

INVESTMENT QUALIFICATIONS

Time Certificates of Deposit:

Commercial banks and Savings & Loans will be limited to amounts insured by Federal Depository Insurance for all Certificates of Deposit.

See ORS 294.035 (3)(d)

Bankers Acceptances:

Bankers’ Acceptances will be guaranteed by and carried on the books of a qualified financial institution that is eligible for a discount by the Federal Reserve System. The issuer must be a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organizations.

See ORS 294.035(3)(d) and (3)(h)

Corporate Indebtedness/Commercial Paper:

Total corporate indebtedness may not exceed 35% of the total investment portfolio. Holdings in any single corporate entity and its affiliates or subsidiaries may not exceed 5% of the investment portfolio. Commercial paper will have a maximum maturity of 270 days.

See ORS 294.035(3)(i).

Repurchase Agreements:

Securities purchased must be U.S. Treasury or Federal Agency securities with a maturity date not longer than three years. The price paid for such securities may not exceed the amounts or percentages prescribed by written policy of the Oregon Investment Council or the Oregon Short Term Fund Board.

See ORS 294.035(3)(k)

REPORTING REQUIREMENTS

Monthly, a register of outstanding investments will be prepared for the Board of Directors. Any deviation from the preceding guidelines must be approved in advance by the Board of Directors.

INDEMNITY CLAUSE

The District shall indemnify staff and Board of Directors from personal liability for losses that might occur pursuant to administering this investment policy.
2.6 PER DIEM
Travel Meals Reimbursement

Employees in travel status (travel requiring an overnight stay), traveling more than 45 miles from their home office on NWCPUD business are eligible for per diem reimbursement.

Per Diem will not be provided for same-day travel. (The IRS considers meal allowances for same-day travel to be taxable to the employee.)

Employees will be reimbursed for meal expenses based on a daily Per Diem rate per day for breakfast, lunch and dinner. See US Governmental Services Administration website for daily rates and breakdown.


Receipts are not required (under any circumstances) for reimbursement of travel meals using per diem rates.

First & Last day of travel:

First and last days of travel will be reimbursed at 75% of the daily rate. Departure day – the day you leave your home or office.

Return day – the day you return to your home or office.

Meals – Conferences:

NWCPUD does not reimburse meals included with a conference unless there is a business or health reason for an alternate meal.

*Conference/Meeting Agendas may be required when requesting reimbursements for meals. All meals provided by the conference/meeting will not be reimbursed.

Upon return from trip, the request for per diem reimbursement must be submitted within 30 Days.

2.7 Purchasing Card Policy
District Purchasing Cards (PCards) are District-liability credit cards issued in the names of authorized individuals to purchase certain eligible goods and services in support of District business. The following conditions apply to PCard usage:

a. PCards are prohibited from being transferred to, assigned to, or used by anyone other than the designated employee.

b. Only eligible direct District business expenses may be charged to the PCard; personal purchases are strictly prohibited.

c. All PCard transactions must be supported by a detailed business purpose and by original proof of purchase documentation.
d. All transactions must be reviewed by a person other than the cardholder. This would be the person the cardholder reports to.
e. Improper use of the PCard, including use of the PCard for personal purchases, may result in disciplinary action up to and including termination of employment.
f. You are responsible for the security of your PCard. Always keep your card in a secure place.
g. The cardholder is responsible for all transactions, documentation and monthly reconciliation of the card.

Reason for Policy:
The PCard’s efficiency and ease of use reduce administrative burdens on the District but also expose the District to risk. Potential risks associated with the PCard program include inappropriate card use, internal and external fraud, inappropriate general-ledger-coding allocation, non-compliance with IRS rules, and reputational damage to the District. This policy ensures that sufficient controls are in place to mitigate these risks.

Who Must Comply:
a. All District PCard users must comply.
b. Cardholder Limits
c. Each individual Procurement Card has preset control limits built-in.

Card Restrictions:
The Procurement Card cannot be used as payment for the following items:
a. ALL items intended for personal use
b. Alcoholic beverages
c. Cash Advances
d. Entertainment related expenses

3.0 ACCOUNTING POLICIES
3.1 Accounting Practices
The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Additionally, although the District is not subject to the regulations of the Federal Energy Regulatory Commission (FERC), its accounting policies generally conform to the accounting requirements of the FERC.

The District uses the accrual basis of accounting for financial reporting purposes. Revenues are recognized when earned and expenses are recognized when incurred. Revenues related to the District’s principal operations are considered to be operating revenues. All other revenues are considered to be nonoperating.
Electric plant is recorded at cost. Cost includes materials, labor, payments to contractors, and indirect costs, such as transportation and construction equipment use, employee benefits, and an allowance for funds used during construction. An acquisition adjustment is recorded for any difference between the cost of plant to the original user and the purchase price to the District.

3.2 Financial Controls
The Finance Division maintains Internal Control Matrices to ensure proper control over financial transactions, recording and reporting of information. These controls are tested each year by an external financial auditor.

3.3 Capitalization Policy
Major utility expenditures for labor, materials and/or services that result in revenue or benefits in future reporting periods will be capitalized and allocated to match such future revenue or benefits through periodic amortization or depreciation.

   a. Utility Plant in Service

   The physical assets that make up the District’s production, transmission and distribution systems, including the acquisition of land or construction of a building are capitalized and included in plant in service.

   b. Preliminary Investigations and Regulatory Deferrals

   It is common utility practice to defer costs of investigations of projects the utility believes will be viable in the future. NWC PUD also defers revenues and costs to be charged to future periods to match the time periods when the revenue and expenses are included in the rates (regulatory deferrals).

See Exhibit 1 Capital Asset Accounting Definitions and Procedures

NOTE: Other polices such as Enterprise Risk Management and Public Contracting Rules and Policy are separate policies from the Finance Policy.
EXHIBIT 1

Capital Asset Accounting Definitions and Procedures

Capitalization Threshold:
- Value: $1,000
- Useful Life: More than one year

Depreciation Methodology: Straight-line

Capital Concepts:
- When an asset is capitalized:
  - It becomes a plant asset on the balance sheet of the financial statements.
  - The costs of the assets are recognized over a defined period called the useful life in the form of depreciation expense.
  - As assets are depreciated the value of the asset on the balance sheet is reduced until it reaches the end of its useful life.
- Capital work is funded by:
  - Retail revenue in the current year
  - Reserves from retail revenue set aside for capital work
  - Borrowing
- Capital Assets vary in size and cost:
  - Routine capital work with a small to medium size (pole replacements, meters and transformers) in cost and scope are typically funded by retail revenue and reserves.
  - Large strategic projects (new substation or generation project) are typically funded by borrowing.
- The Matching Principle:
  - To match the costs of a capital asset to the future benefits that customers get from the asset. For example, a substation is built to provide safe reliable energy to a community is expected to last 30 years and costs $5,000,000. The $5,000,000 is expensed (charged to customers in the form of depreciation expense) over the asset’s 30 year useful life so that the costs are charged to customers as they benefit from the asset.
  - Borrowing spreads the funding for large capital projects over a longer period of time and eases the cash outlay burden to the utility and current customers.
- Capital investment levels
  - Just as depreciation expense reflects the aging and declining useful life of utility assets, so levels of capital investment indicate updates, improvements or expansion. A general concept is when depreciation expenses exceed capital investments of a period of time it tends to indicate a decline in overall system assets, equal spending levels indicate a maintenance mode, while capital investment in excess of depreciation indicates expansion of system assets and capacity.
Definition of terms:

Betterment - A type of action or cost expenditure that contributes towards improving an asset's performance and/or increasing its value. Betterments do not include general maintenance-related actions that seek to sustain an asset's current value.

Capital Asset – Organization’s assets used to start or sustain operations; capital has an unused value, as it is used, the value of the capital is depreciated and is considered an expense of the business’ operations.

Capitalization – When costs to acquire an asset are expensed over the Useful Life of that asset rather than in the period it was incurred.

Capitalization Thresh-hold – A minimum cost and operational useful life to be exceeded before considering an item of organizational property to be a Capital Asset; organizational property Value or Operational Useful Life less than the Capitalization Thresh-hold amounts is considered to be an operational expense and is not capitalized.

Construction Unit (CU) – An operational specification that contains a collection of material items and possible record units commonly used to build a component of construction. Construction Units provide consistency and ease of posting materials.

Constructed Assets – Assets reported at historical costs, including labor, overhead, and other ancillary costs. These can be constructed either internally, by contractor or purchased.

Donated Assets – Assets reported at their estimated fair value at the time of acquisition, plus ancillary charges, if any.

Group Assets – Assets that are functionally similar property categorized together for capital reporting purposes; individual items may not exceed the Capitalization Thresh-hold, but when grouped with other similar items the combined value exceeds the Capitalization Thresh-hold and creates a single reportable Capital Asset. Examples include poles, conductor, transformers, and meters.

Placed in Service – Date when an asset is ready (used and useful) and available for its specific use. Depreciation for assets starts at this time (see exception for Pre-capped assets below).

Pre-Capitalized Assets (Pre-Capped) – Assets where the Useful Life begins when received, then tested and placed into inventory, or the invoice is paid and before being placed in service. Labor charged for testing is added to the asset – specific to transformers (including network protectors).

Purchased Assets – Assets functionally ready for service upon receipt reported at historical costs, including other ancillary charges to place the asset in service.

Record Unit - Represents the cost of a plant item(asset). The cost serves as the basis for depreciation and taxes. Total job costs of record units from Work Orders are used to proportionally distribute cost to appropriate accounts associated with Capital Assets. This provides consistency, standardization and estimates in the design and construction of capital projects. This assists in compliance with the reporting requirements of the Federal Energy Regulatory Commission (FERC).
Regulatory Accounts – Uniform system of accounts prescribed by federal and/or state regulatory agencies to report financial and operational information; FERC represents the standard accounting system for the electric utility industry.

Useful Life – An asset’s Useful Life is determined from perceived service period of asset value and derived estimated useful life tables (Attachment 1). The Useful Life is used to straight-line depreciate the asset over a specified number of years. Operationally, an asset’s life may exceed its Useful Life and provide greater service to the organization after recognizing the costs incurred to place the item into service. An asset may also fail to meet its Useful Life and be disposed, requiring an immediate recognition (expense) of the remaining undepreciated value.

Work Order – A document with unique identification that authorizes certain work and assigns all associated costs to a control account. When the work is done, all costs in the work order are either expensed or capitalized to the appropriate account(s).

**Capital vs Operational & Maintenance (O&M) Expense**

The differences between capital spending and O&M expenses can be subtle in some instances and quite clear in others. With capital or O&M expense, the end result is a cash outflow which is recoverable through the rate-making process and collected from PUD customer-owners. The primary distinction between capital spending and operational expense is one of timing. Capital spending is recognized as depreciation expense over a number of periods equal to the initial estimated useful life of an asset. Operational expenses are recognized in the period they are incurred because the entire benefit to the organization is functionally used in the same reporting period. The idea in both cases is to match costs (capital=>depreciation expense; O&M=>expense) to the period when the underlying benefit is used by the organization.

<table>
<thead>
<tr>
<th></th>
<th>Cash Outflow Realized</th>
<th>Expense Recognized</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Spending</strong></td>
<td>When purchased/constructed/paid</td>
<td>Over multiple years through depreciation expense</td>
</tr>
<tr>
<td><strong>O&amp;M Expense</strong></td>
<td>When purchased/paid</td>
<td>In period incurred</td>
</tr>
</tbody>
</table>

Is one form of spending better than another? Not really. Both result in a reportable expense and an outflow of cash, with the difference is in the timing of when the expense is recognized.

Bond funded Capital Assets represents borrowed money which is repaid, with interest, by PUD customer-owners through the rate-making process. The PUD issues bonds to supply cash for near/intermediate term capital project needs. The idea is to effectively match the cost recovery to the benefits to customers over the life of the capital asset.

**Procedure Guidelines**

**A. Office Furniture and Equipment** Individual items costing $1,000 or more should be capitalized. For example, a single office chair costing $200 would not be considered a Capital Asset, but nor would the purchase of 10 chairs, costing $2,000 unless the items were purchased at the same time with as part of a
facility renovation or replacement. A single purchase for a $10,000 copier would be considered a Capital Asset because it meets the Capitalization Thresh-hold individually.

**B. Computer Hardware** Networking hardware, such as servers, or upgrades to an existing PC, (e.g. for additional memory, larger hard drive, or new monitor, etc.) should be considered a Capital Asset if the individual item meets the Capitalization Thresh-hold.

**C. Computer Software** Computer software licenses are generally not capitalized. However, the capitalization of software applies in situations where PUD staff applies more than a minimal incremental effort before placing the software into operation. For example, licensed financial accounting software modified to add special reporting capabilities would be considered internally generated.

Computer Software projects should be broken into stages and recorded across separate work orders for correct treatment of the expenses. However, stages do not necessarily equate to separate Work Orders for each software project. The Capitalization Thresh-hold for internally generated computer software is $1,000.

Activities involved in developing and installing internally generated computer software can be grouped into the following stages:

1. **Preliminary Project Stage – Expense.** The stage of a project including the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of software. Costs incurred during this stage are to be expensed and labor recorded to either the department’s shared services work order, or an IS project specific work order.

2. **Application Development Stage – Capitalize.** The period of active development and implementation of the software product should be capitalized. This stage is considered to have commenced once the activities noted in the preliminary project stage are complete and management authorizes and commits to funding, at least currently in the case of a multiyear project, the software project. Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including parallel processing phase. Costs are to be recorded to a capital work order. Capital work orders for software consist of two tasks: 1) Implementation and 2) Closeout.

Please note training costs (learning the new software system to install the software) are to be expensed as incurred. Data conversion should be considered part of the Application Development Stage only to the extent it is determined to be necessary to make the software operational (i.e. in condition for use). Other data conversion should be considered an activity of the Post-Implementation/Operation Stage and expensed.

3. **Post-Implementation/Operation Stage – Expense.** This is essentially equivalent to the post go-live date for most new software. Normal costs here are for new users training and for on-going maintenance of the software system, including system upgrades. Costs incurred during the third stage are to be expensed and costs recorded to a department’s standing work order task or function.

The activities within the stages of development may occur in a different sequence from that listed above. The recognition guidance for costs associated with the development of internally generated computer
software should be applied based on the nature of the activity, not the timing of its occurrence. For example, costs incurred with application training activities that occur during the application development stage should be expensed.

Costs associated with an internally generated modification of computer software already in operation should be capitalized in accordance with the above guidelines if the modification results in any of the following:

- An increase in the functionality of the computer software – for example, the software is able to perform tasks that it was previously incapable of performing.
- An increase in the efficiency of the computer software – for example, the level of service provided by the software increases without the ability to perform additional tasks
- An extension of the estimated useful life of the software.

If the modification does not result in any of the above, it should be considered maintenance and expensed.

D. Plant Additions and Extensions

The physical assets making up the electric systems, including the acquisition of land or construction of a building, are considered to be Capital Assets if they meet the Capitalization Threshold Costs incurred during the capitalization period are anticipated to provide an operational benefit to the organization in a future period. Therefore, the expense is recognized over the estimated useful life of the asset through depreciation expense, as opposed to non-capital expenses recognized in their entirety in the period incurred.

Inexhaustible capital assets such as land and land improvements are not depreciated.

A Work Order must result in a clearly defined asset upon completion. A Work Order that does not result in a clearly defined asset, either due to cancellation of work or non-qualifying expenses, will be reclassified as operating expense. Many of the PUD’s capital assets go through several phases before completion.

- A Work Order is created and associated costs charged to tasks within the work order.
- Work performed on group assets (poles, conductor, transformers and meters) is capitalized.
- Close-out items should be completed within 30 days after construction has been completed and underlying assets are placed in service.
- After a Work Order is set to finished status, associated costs are no longer considered capital and should be charged to either an O&M work order, a departmental standing work order or a function.
  - Note: A Work Order will be reopened only if the amount of the cost is in excess of $500.
• Maintenance of plant assets is expensed.

• The preliminary planning phase represents the period up to the point when the Job Initiation & Scoping Document is approved. Activity associated to wording such as “feasibility”, “investigation” or “planning” is typically deemed preliminary and should be expensed.

Not all group assets are pre-capped, but all pre-capped assets are group assets. Pre-capped assets represent a segment of the group asset category. In particular pre-capped refers to meters and transformers. Other group assets that are not pre-capped include: poles and conductors.

Purchased assets are ready for service at the time of purchase and require insignificant amounts of labor to place into service.

Constructed assets require significant employee labor before an asset can be placed in service for its intended use. Constructed assets incur overhead charges for labor as part of the overall cost related to placing the asset in service. (A note on overhead: Overhead is not an added charge, rather it is a reallocation of other general and administrative charges already incurred and expensed. It reduces the amount recognized in expense for the current period and increases the asset value which will ultimately be depreciated in a future period.)

Donated assets, such as easements, are recorded at their estimated fair value at the time of acquisition.

Note: On Poles, conductors and Transformers, all charges are to be capitalized regardless if it is a new extension or a replacement or a change in size.

Depreciable costs are those costs required to place an asset into service or commercial operation. These costs may include ancillary charges necessary to place the asset into its intended location and condition, such as freight or site preparation costs, but would not include the cost of meals for employees while performing or monitoring ancillary activities.

E. Renovations and Remodeling Costs Capitalization decisions for renovation and remodeling are based on whether significant value or an extended life is provided by the expenditure. Remodeling costs in an office area, such as removing or adding interior walls, would ordinarily be expense since they do not appreciably extend the useful life of the structure; nor do they appreciably add additional value to the structure. Built in units such as cabinets, counters, etc. are also considered remodeling and would be expense. Major renovations or improvements would, however, ordinarily be capital expenditures. For example, installing an elevator in a building would be a major renovation job and thus capital. Painting done to prolong the useful life of the painted asset may be considered capital, assuming the costs exceed the capitalization thresh-hold.

F. Retirement of Plant All materials removed from the field should be identified by an asset number to be disposed of, fixed, or sold for scrap metal. For a disposal, if the value is known, accumulated depreciation is debited and plant is credited. If the value is unknown an estimate can be made using other like historical costs or a resource, Handi-Whitman Index. Materials returned to the warehouse are credited back to the store’s inventory. Retirement values of group assets are based on the average unit cost of the entire group.
### Summarization Table for Determining If It Is an Addition, Betterment (Improvement), Extraordinary or Ordinary Repair and Maintenance

The Yes and No answers below can give guidance on whether this is a Capital or Expense item:

<table>
<thead>
<tr>
<th></th>
<th>Additions</th>
<th>Betterments</th>
<th>Extraordinary Repairs &amp; Maintenance</th>
<th>Ordinary Repairs &amp; Maintenance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increases the physical size</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>of a facility</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost capitalized.</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Extends initial useful life.</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Benefits a future period.</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>May involve Replacement</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>May involve substitution</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Maybe</td>
</tr>
<tr>
<td>Makes facility better than</td>
<td>Yes</td>
<td>Yes</td>
<td>Maybe</td>
<td>No</td>
</tr>
<tr>
<td>the when it was acquired</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other criteria to consider in deciding if a cost should be capitalized or expensed:

1. Is it an improvement to an existing asset?
2. Does it extend the useful life of an existing asset?
3. Is it a completely new asset or a replacement of an asset?
4. Is it a major renovation over $10,000?

Some items meet the Capital purchase threshold of $1,000 and useful life of more than 1 year, however it is not clear if it extends the useful life of an existing asset or adds value to an existing asset. Or, an item has a useful life <5 years and/or is less the $5,000. In these situations, some consideration might need to be made and possible consultation with one of the Senior Financial Analysts is necessary.