

**MINUTES OF
ENERGY NORTHWEST
SPECIAL EXECUTIVE BOARD MEETING
COURTYARD BY MARRIOTT – RIVERVIEW HALL
480 COLUMBIA POINT DRIVE
RICHLAND, WASHINGTON
APRIL 26, 2012 – 8 A.M.**

The special meeting of the Executive Board of Energy Northwest was called to order by Chair Sid W. Morrison at 8:05 a.m. There was a quorum present. An environmental analysis of the April 26, 2012, special Executive Board meeting agenda had been prepared which reflected that all items on the agenda were exempt from further procedural compliance with the State Environmental Policy Act.

ROLL CALL

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

Others Present:

Board of Directors members T. Brewer, Grant County PUD; B. Burke, Jefferson County PUD; T. Casey, Greys Harbor PUD; A. Congdon, Chelan County PUD; B. Gordon, Franklin County PUD; L. Gott, Mason County PUD No. 3; C. Knapp, Pend Orielle County PUD; J. Ridge, Asotin County PUD; and E. Williams, Centralia City Light; Participants' Review Board member S. Nelson, Franklin County PUD; C. Andrews, K. Black, J. Dull, L. Felton, M. Harris, and A. Rapacz, Bonneville Power Administration; R. Prentke, Perkins Coie; Legislative Liaison S. Reese; and Consultant E. Rockett.

Staff Present:

M. Reddemann, G. Armatrout, D. Atkinson, J. Baker, J. Dobken, R. Dutton, D.. Gregoire, G. Hettel, R. Hogue, A. Javorik, M. Kuklok, P. Lilly, J. Oakley, R. Olson, M. Paoli, S. Praetorius, B. Ridge, B. Sawatzke, J. Vance, and S. Barwick.

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

COMMENTS FROM MEMBERS OF THE PUBLIC

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

APPROVAL OF MINUTES

The minutes of the following meetings were presented for consideration:

- Executive Board/Participants' Review Board Budget Review Meeting – March 20, 2012
- Regular Executive Board Meeting – March 21 – 22, 2012

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

REPORT BY CHIEF EXECUTIVE OFFICER

M. Reddemann, Chief Executive Officer (CEO), stated that since all Executive Board members were in attendance at the Board of Directors' meeting yesterday, he is not going to repeat all the items reported at that time. He made the following report:

- There is good news on license renewal for Columbia Generating Station; staff expects to receive the approval next month
- A presentation on uranium tails will be provided later in the meeting; all boards were briefed on this proposal last week and we appreciate all those that attended the meeting; thanks to all of the individuals that were involved, it shows the strength of the organizations working together
- Thank you to the Compensation Subcommittee for all their efforts in creating the tools to enable Energy Northwest to compete in the market to get strong leadership
- Staff is encouraged by the Excellence Plan and what has been done in the initial steps
- Energy Northwest's outreach program enables Mr. Reddemann to meet with Energy Northwest members and communicate what we are doing and the results we expect to achieve
- The public service announcements were shown at yesterday's meeting; it is an important step to educate the region on nuclear energy and what Energy Northwest is doing

NUCLEAR OVERSIGHT & SAFETY COMMITTEE REPORTS**CHIEF NUCLEAR OFFICER REPORT**

B. Sawatzke, Vice President, Nuclear Generation/Chief Nuclear Officer (CNO), introduced

new members of the Energy Northwest team – Alex Javorik, Vice President of Engineering and Grover Hettel, Vice President of Operations. He reported that Columbia has been online 159 straight days and is currently operating at 100 percent power.

Station focus:

- Reactor recirculation pump seal
- Main transformer
- Institute of Nuclear Power Operations (INPO) Focus Team Visit
- Circulation water pump
- Residual heat removal system

Mr. Sawatzke provided overviews on the human performance cross-cutting and emergency preparedness regulatory issues and the following industry topics: Executive Advisory Group (EAG), Corporate Nuclear Safety Review Board (CNSRB) meeting, INPO visits and the Safety Culture assessment.

Mr. Sawatzke reviewed senior management engagement with employees, the industry and the community, new personnel on site, and station and department event-free clock resets.

Mr. Sawatzke reported on the phases of excellence focus areas, indicators, and measurements for improving behaviors.

Discussion ensued regarding corrective maintenance backlog, work order backlogs, the corrective action plan, the number of corrective actions per employee, and what the colors on the CAP scorecard indicate. Mr. Sawatzke stated that he would annotate the colors on this chart in the future.

Mr. Orser asked where Columbia stands in relation to the rest of the industry on the equipment reliability chart. Mr. Sawatzke advised that Mr. Hogue will add that chart going forward.

EQUIPMENT RELIABILITY PLAN

A. Javorik, Vice President, Engineering, stated that the equipment reliability (ER) plan is designed to develop pride and rigor in what Engineering and Project Management bring to the table, build alliances with departments whose function may not naturally be aligned with improving equipment reliability performance, and study and understand the drivers for equipment issues. It is a living plan which will set expectations reinforced through repetition and follow up to attain equipment reliability improvement.

Mr. Javorik reported the equipment reliability plan was implemented to: (1) improve management of corrective actions for poor performing systems, (2) manage and mitigate long-standing equipment issues, (3) improve trending of equipment issues, (4) implement rigorous management of single-point vulnerabilities, (5) improve management controls for the deferral of important but non-critical preventive maintenance (PM) deferral process, (6) improve the tracking and completion of first-time PMs, and (7) develop a life cycle management and long-range plan. He provided brief overviews of each of the focus areas.

Mr. Javorik displayed a slide of the bubble chart and stated that every six months a bubble charting exercise will be performed for the purpose of identifying programmatic and equipment weaknesses within the organization. The first bubble charting exercise will be performed in June 2012. The results of the bubble charting exercise will develop additional actions that will feed into the equipment reliability excellence plan for resolution. An ER summit will be held for station management to review the results of the bubble charting and discuss appropriate actions to address the issues.

Discussion ensued with respect to emissions tracking rigor, the Plant Health Committee, and support functions such as contractors, purchasing, security, etc., and how it all comes together. Mr. Reddemann stated that there is a nuclear excellence model and also a support organization excellence model; each organization does D-15 or W-30 meetings and everyone is committed to the same processes. There is a need for discipline, rigor and accountability all across the organization. He noted that he has seen improvement; some organizations are a little behind but the senior management team is working hard with each of the directorates.

Mr. Gunkel thanked Mr. Javorik for his presentation.

REGULATORY UPDATE

D. Gregoire, Regulatory Affairs Manager, reported that Columbia remained in the licensee response column of the Nuclear Regulatory Commission's (NRC) reactor oversight process action matrix; all performance indicators are green with no "greater than green" findings or violations. He advised that the NRC has identified a substantive cross-cutting issue in human performance, which has been explained by Mr. Sawatzke over the past couple of months.

Mr. Gregoire reviewed NRC inspection results on non-cited violations for the February – April timeframe and provided an overview of Licensee Event Report (LER) 2012-002 on technical specification non-compliance due to inadequate procedure guidance.

Mr. Gregoire summarized the fourth quarter 2011 as follows:

- Positives: Columbia is still in column 1 with a relatively low number of regulatory findings; the diesel generator issue was considered of low safety significance
- Areas of regulatory attention: emergency plan calculation and a substantive cross-cutting issues

Mr. Gregoire stated that there are a number of things in the excellence plan that will address the cross-cutting issue and noted that by the end of the year, Columbia should be able to show improved and sustained performance.

LICENSE RENEWAL UPDATE

Mr. Gregoire reported that Energy Northwest is awaiting the NRC decision on Columbia's

license renewal, which is expected in the May/June timeframe. He expressed appreciation for the board's support in helping make this happen and advised that he was proud to be at the Advisory Committee on Reactor Safeguards (ACRS) meeting to get the news.

Mr. Reddemann recognized Mr. Gregoire and the rest of the license renewal team for their tremendous effort in this endeavor.

The meeting was recessed for a short break at 10:20 a.m.; the meeting was reconvened at 10:40 a.m.

PROPOSED FUEL PROCUREMENT TRANSACTION

B. Ridge, Vice President/Chief Financial and Risk Officer, reported that the Executive Board was briefed last week on the proposed fuel procurement transaction and that this is very similar to the uranium tails pilot program that was done several years ago. Over the past five weeks individuals from several organizations have worked together on this transaction, which will provide significant savings to the ratepayers and sets Columbia up for low cost fuel going forward. He advised that staff will provide additional information requested at last week's meeting and will request Executive Board approval to execute the tails program contracts and proceed with initial financing.

Mr. Atkinson provided a high level overview of the nuclear fuel cycle from mining to use in nuclear plants, and advised that the enrichment process performed by the U.S. Enrichment Corporation (USEC) is a very power intensive process that is not competitive in the industry. He noted that USEC will provide the enrichment process and that Columbia ends up with material that is below market, which protects Energy Northwest from the future fuel market, and the Tennessee Valley Authority (TVA) will buy the fuel.

Consultant E. Rockett reviewed the program process, and material flow. Discussion ensued regarding Energy Northwest fronting the money while the other entities are reaping the benefits early on, book costs versus market costs, fuel plans used by the industry, and USEC's sustainability.

Mr. Rockett reviewed the financial requirements. Discussion ensued regarding the financial strategy, the impacts of the program on the next two rate cases, and aligning the costs with the benefits.

Mr. Rockett reported that all purchases and sales prices for the program have to have predetermined pricing structures which do not have Energy Northwest taking any risk on the future prices. He advised that Energy Northwest must ensure that Columbia has the right uranium in the right form at the right location, which restricts how much can be sold. Mr. Ridge added that the team has worked through four pages of constraints and have whittled the risks down to a couple.

S. Praetorius, Program Manager Nuclear Fuels Procurement, went over the financial decision model base case and decision model. Discussion ensued regarding net present value (NPV) requirements.

Mr. Ridge advised that risk assessments were performed by both BPA and Energy Northwest in addition to holding a joint risk committee meeting. He introduced C. Reyff, Enterprise Risk Management Supervisor, to provide information on risk management.

Ms. Reyff reported that this was a joint effort of a cross functional team providing input at all levels. A cross functional mitigation strategy was developed and 11 primary risks were identified. She reviewed the most important risks and issues, as follows:

- Doing business with a company with financial challenges
- Ability to negotiate needed contract mitigation
- Issuance of long-term debt
- Reputation
- Timeframe and complexity of deal development
- Storage – risk of loss
- Administering and monitoring contracts

Following a joint Energy Northwest/BPA risk committee assessment, both entities concurred to proceed with the following requirements:

- Decision and financial criteria are met
- Communication strategy developed
- Final financing structure needed
- Necessary contract terms are implemented

B. Dutton, General Counsel, recognized Kathy Black from BPA and commended her on her noteworthy contributions to the team. He reported that contract negotiations are continuing and issues are being addressed as they are identified. He noted that there are challenges and limitations when dealing with a company that has financial challenges and staff is trying to protect Energy Northwest.

Discussion ensued regarding third-party creditworthiness, USEC's revolving line of credit with J.P. Morgan, potential sale of the material if Columbia shuts down early, and potential ramifications if USEC goes into bankruptcy.

G. Armatrout, Finance Manager, reviewed the multi-phased financing plan beginning with Phase 1 – issuing a short-term line of credit to provide adequate funding to meet initial June and July 2012 fuel purchasing requirements and allow adequate time for rating agency and investor tours. He noted that there will be a performance review of USEC's creditworthiness prior to issuing the long-term debt. Phase 2 involves issuing long-term bonds. He indicated that issuing long-term bonds will minimize interest rate exposure and lock in low cost debt. Staff will come back to the Executive Board for approval of long-term bonds in mid-July.

Discussion ensued regarding the financial risk of issuing long-term debt with potential non-performance of the contract with USEC, how long it will take to process all of the material, and off-ramps/exit strategies. Mr. Ridge advised that outside experts were brought in to look at the financial models. Mr. Reddemann suggested that perhaps the Executive Board would like to get a report from the outside experts. Additional discussion ensued regarding

the timeline, the potential for a guarantee of performance from DOE, and potential impacts on Columbia trying to turn performance around at the plant at the same time as staff is concentrating on going forward with this program. Mr. Reddemann advised that staff is working very hard to separate this transaction from the operations at Columbia; if it would make the board more comfortable to put together a team dedicated to this fuel program, that can be done.

The meeting was recessed for lunch at 12:55 p.m.; the meeting was reconvened at 1:35 p.m.

Mr. Rockett reviewed the USEC contract, DOE agreement, and TVA purchase contract and provided information on where the risks were for each. Discussion ensued with respect to costs of storage and who pays for what if the deal falls through, who holds title to the material, options if Energy Northwest ends up with all of the material, and fallback positions.

Mr. Ridge asked board members what they want to do: stop working on the transaction, continue with approval condition options or call another meeting for further discussions. He reviewed the following approval conditions:

- Risk of loss of onsite material, if we need to assume the risk
- Change in payment conditions related to power sales and USEC deliveries
- Additional negative information regarding counter party finances
- If additional agreements are required
- Other items?

Discussion ensued regarding third-party review, impacts of delaying the vote but continuing the negotiations, the need for additional financial information and specificity in the contracts, and concerns about unknowns. Mr. Gunkel reiterated the concern about loss of focus on Columbia's performance and opined that a subcommittee or task force be considered.

Following those discussions, board members requested additional information to be presented at an in-person meeting. Mr. Ridge thanked the BPA representatives for their assistance in presenting this information and expressed appreciation to the board members for their feedback. He advised that staff would research the risks further and poll board members for a good date for the next meeting.

COMMITMENT REVIEW/FORWARD PLANNING

The following new commitments were added:

- Provide definitions of Phase I measures and add to BoardDocs – Brad Sawatzke/
Rochelle Olson – May

- Add goal to equipment reliability index Excellence Model chart – Brad Sawatzke – ongoing
- Add color distinctions to performance index charts – Brad Sawatzke – ongoing

OTHER BUSINESS

No other business was discussed.

ADMINISTRATIVE, ENERGY & MEMBER SERVICES COMMITTEE REPORTS

Mr. Sheldon stated that this meeting will be very brief; informational items are posted to BoardDocs and the legislative report was pulled from the agenda as there is nothing new to report. He requested that the next Compensation Subcommittee meeting be scheduled for an additional hour. Ms. Olson confirmed that staff will add an extra hour to the next meeting.

Ms. Sanders provided a short report on a recent TRIDEC meeting she attended on small modular reactors. She opined that Energy Northwest is in a good position to offer the proposed energy park as a viable location for a potential future small modular reactor and suggested that public power should get engaged in these meetings.

Mr. Reddemann stated that there is a lot of interest in the community and a lot of ongoing dialogue with the Department of Energy and that there are some opportunities out there. He advised that Mr. Atkinson will replace Mr. Baker on the small nuclear advisory board and working group.

Mr. Atkinson stated that he has already met with NuScale and other entities in Washington, D.C. He noted a willingness to sign a power purchase agreement and opined that if one of the member utilities wanted to sign up for power, there is a possibility for Energy Northwest involvement.

The meeting was recessed at 2:55 p.m. for a short break; the meeting was reconvened at 3:12 p.m.

AUDIT, LEGAL & FINANCE COMMITTEE REPORTS

INFORMATION AGENDA ITEMS

Mr. Kenney advised that the March cost report is attached to the agenda in BoardDocs for board members' information.

FY 2013 BUDGETS

Mr. Ridge stated that the FY 2012 budgets were discussed during the budget review last month and the resolutions were included in the board package. He asked if there were any questions on any of the budgets.

Hearing none, Mr. Kenney moved for adoption of Executive Board Resolution No. 1729 entitled "A RESOLUTION APPROVING AND ADOPTING ENERGY NORTHWEST NUCLEAR PROJECT NO. 1 ANNUAL BUDGET FOR FISCAL YEAR 2013" as presented. Mr. Janda seconded the motion. EXECUTIVE BOARD RESOLUTION NO. 1729 ADOPTED BY UNANIMOUS VOTE.

Mr. Kenney moved for adoption of Executive Board Resolution No. 1730 entitled "A RESOLUTION APPROVING AND ADOPTING ENERGY NORTHWEST ANNUAL OPERATING BUDGET FOR FISCAL YEAR 2013 FOR COLUMBIA GENERATING STATION" as presented. Mr. Purser seconded the motion. EXECUTIVE BOARD RESOLUTION NO. 1730 ADOPTED BY UNANIMOUS VOTE.

Mr. Kenney moved for adoption of Executive Board Resolution No. 1731 entitled "A RESOLUTION APPROVING AND ADOPTING ENERGY NORTHWEST NUCLEAR PROJECT NO. 3 ANNUAL BUDGET FOR FISCAL YEAR 2013" as presented. Ms. Vaughn seconded the motion. EXECUTIVE BOARD RESOLUTION NO. 1731 ADOPTED BY UNANIMOUS VOTE.

Mr. Kenney moved for adoption of Executive Board Resolution No. 1732 entitled "A RESOLUTION APPROVING AND ADOPTING THE ANNUAL OPERATING BUDGET FOR FISCAL YEAR 2013 FOR THE PACKWOOD LAKE HYDROELECTRIC PROJECT" as presented. Ms. Vaughn seconded the motion. EXECUTIVE BOARD RESOLUTION NO. 1732 ADOPTED BY UNANIMOUS VOTE.

Mr. Kenney moved for adoption of Executive Board Resolution No. 1733 entitled "A RESOLUTION APPROVING AND ADOPTING THE ANNUAL OPERATING BUDGET FOR FISCAL YEAR 2013 FOR THE NINE CANYON WIND PROJECT" as presented. Mr. Janda seconded the motion. EXECUTIVE BOARD RESOLUTION NO. 1733 ADOPTED BY UNANIMOUS VOTE.

Mr. Kenney moved for adoption of Executive Board Resolution No. 1734 entitled "A RESOLUTION APPROVING AND ADOPTING ENERGY NORTHWEST BUSINESS DEVELOPMENT FUND ANNUAL BUDGET FOR FISCAL YEAR 2013" as presented. Mr. Purser seconded the motion. EXECUTIVE BOARD RESOLUTION NO. 1734 ADOPTED BY UNANIMOUS VOTE.

Mr. Kenney moved for adoption of Executive Board Resolution No. 1735 entitled "A RESOLUTION APPROVING AND ADOPTING THE GENERAL BUSINESS UNIT BUDGET, FISCAL YEAR 2013, FOR ENERGY NORTHWEST" as presented. Ms. Vaughn seconded the motion. EXECUTIVE BOARD RESOLUTION NO. 1735 ADOPTED BY UNANIMOUS VOTE.

PRICEWATERHOUSECOOPERS' AUDIT SERVICES CONTRACT

Mr. Ridge reported that PricewaterhouseCoopers (PwC) is Energy Northwest's external audit firm and there was a request last month for staff to research the reasoning for the action of renewing PwC's contract for another two years coming to the board. He advised

that the committee charter states that the Audit, Legal & Finance Committee shall recommend the appointment of a firm to perform outside audits. He indicated that staff will bring forward new language to change the charter in the next few months but until that is done, this action needs Executive Board approval.

Mr. Ridge stated that staff has already extended the contract for six years and that he and Mr. Kenney discussed rebidding the contract. He recommended extending the contract for one year and rebidding it next year for the normal three year term with multiple one-year extensions. He advised that PwC have been auditing Energy Northwest for many years, they understand bond financing and nuclear aspects of Energy Northwest's business, have been very fairly priced. He indicated that the only down side to rebidding the contract is that the price will go up.

Mr. Kenney moved to approve a one-year extension of the existing PwC contract and rebid the contract next year. Mr. Janda seconded the motion. The question was called for. MOTION UNANIMOUSLY PASSED.

NOANET REPORT

Mr. Kenney indicated that there was nothing new to report.

LEGAL STATUS REPORT

The meeting was recessed at 3:25 p.m. for the purpose of holding a 60-minute Executive Session to discuss litigation matters in accordance with RCW 42.30.110.(1)(i)(B). Ms. Olson came out of the meeting at 4:24 p.m. and announced that the Executive Session would be extended for another 30 minutes. Ms. Olson came out of the meeting at 4:53 p.m. and announced that the Executive Session would be extended for another 15 minutes. The Executive Session ended at 5:03 p.m. and was immediately recessed for the remainder of the 15 minutes allotted for the Executive Session.

The regular session was reconvened at 5:10 p.m.

COMMITMENT REVIEW/FORWARD PLANNING

No new commitments were added.

OTHER BUSINESS

Hearing none, the next item on the agenda was addressed.

MEETINGS

Chair Morrison stated that the next board meeting will be held on May 23 and 24, 2012, at the Multipurpose Facility in Richland, Washington.

OTHER BUSINESS

Chair Morrison thanked everyone for attending, wished everyone a safe journey home and adjourned the regular Executive Board meeting at 5:12 p.m.

Respectfully submitted,

Susan L. Barwick
Board Relations Specialist