

**Minutes of Regular Meeting
Grand River Dam Authority
Board of Directors
Vinita, Oklahoma
October 14, 2009**

A regular meeting of the Board of Directors of the Grand River Dam Authority was held at the Grand River Dam Authority Administration Headquarters, Vinita, Oklahoma, on October 14, 2009. Notice was given pursuant to 25 O.S.A. § 301 et seq. by submitting a schedule of regular monthly meetings to the Secretary of State on December 2, 2008, at 11:28 a.m.; by posting the agenda with the Craig County Clerk's office on October 13, 2009, at 9:30 a.m.; and by posting said agenda at the principal office of GRDA at least 24 hours prior to the meeting.

Chair Kerns called the meeting to order at 10:06 a.m. The Secretary called the roll; all members were present with the exception of Directors Bartlett, Gay, and LaGere. Chair Kerns declared a quorum. Ms. Moore introduced guests.

BOARD MEMBERS

Betty Kerns, Chair	Present
David J. Chernicky, Chair-Elect	Present
Dewey F. Bartlett, Jr.	Absent
Gerald H. Gay	Absent
Terry G. Frost	Present
W. Brent LaGere	Absent
Stephen R. Spears	Present

ADMINISTRATIVE

Kevin A. Easley, General Manager/CEO	Present
Michael Kiefner, Chief Operating Officer	Present
Gretchen Zumwalt-Smith, General Counsel	Present
Charles J. Barney, AGM Thermal Generation	Present
Carolyn Dougherty, AGM Market Analysis/Strategic Development	Present
Dale Willis, AGM Transmission and Engineering	Absent
Donna M. Jones, Secretary	Present

Others present were as follows: Robert Echenrode, NEOEC; Randy Bundy, KAMO; Mike Doublehead, SADA/Stilwell; Stanley Day, TPWA; Gary Pruett, MUB Pryor; David Rountree, City of Miami; Steve McGie, City of Coffeyville; Beth Griswold, Vinita Daily Journal; Kathy Parker, Pryor Daily Times; Candy Woodruff, Grand Lake Business Journal; Alan Holt, Global Asset Management; Chris Broyles, GYTE Technologies; Ken Hall (Reece Moore Pendergraft LLP) and Russ Allard, Elk River Landing; Michael Moore and David Naylor, C. H. Guernsey & Co.; Rusty Fleming; GLUE; Dan Taber,

Tulsa; Darrell Townsend, Justin Alberty, Lana Daugherty, Holly Moore, Melanie Earl, Tamara Jahnke, Mike Herron, and Jim Fraley, GRDA.

CONSENT AGENDA

1. Board Minutes of September 9, 2009

2. Claims, \$43,881,954.82

4.a. Declare Surplus and Not Necessary to the Business of the District:

- (1) **Office Chairs, Tables, Desks, Bookcases, Credenzas, Microwave Cabinet, Typewriter Table, Dining room Tables and Chairs, Bunk Beds, Box Springs with Mattresses, Dressers, Night Stands, Coffee Tables, and End Tables**

4.b. Contracts for Commercial Service:

- (1) **Community Action Resource & Development Inc.**

- (2) **TIC-The Industrial Company**

- (3) **Tulsa Life Flight**

5.b. Purchase Order Report

<i>Number</i>	<i>Vendor</i>	<i>Amount</i>
16260	Buckman Laboratories	\$69,600.00
16321	RPCI Inc.	54,107.00
16473	Central Electric Company	1,153,472.00
16659	Clyde Bergemann Inc., c/o Bartlett Equipment Co.	60,924.15
16669	ABB Inc., c/o J H Davidson & Associates Inc.	82,385.00
16719	Areva T & D Inc.	61,749.00
16750	Brenntag Southwest Inc.	127,380.00
16758	Alcatel-Lucent USA Inc.	195,491.70
16761	Alcatel-Lucent USA Inc.	222,085.00
16814	ABB Power, c/o J H Davidson & Associates Inc.	184,130.00
16823	Fisher Scientific Company	<u>60,670.19</u>
<i>Total Standard</i>		\$2,271,994.04
8316	C L Boyd Company	34,823.46
14795	Mayes County Petroleum Products	5,153.87
16007	Heyl & Patterson Inc.	<u>3,165.00</u>
<i>Total Change Orders</i>		\$43,142.33

(1) Addendum to Purchase Order Report:		
16839	Fisher Scientific Company	14,756.63
16891	Capp Inc.	<u>51,772.71</u>
Total Addendum Orders		\$66,529.34
 Grand Total Purchases		 <u>\$2,381,665.71</u>

5.c. Work Order Report		
<i>Number</i>	<i>Title</i>	<i>Amount</i>
RF009-00359	GRDA Network Operations Center	\$200,000.00
RF009-00368	GRDA Additional Remote Terminal Units	177,917.25
RF009-00379	Redundant Microwave Hop to Salina Repeater	<u>230,523.61</u>
Total		\$608,440.86

(1) Addendum to Work Order Report:		
RF009-00384	Salina Dike Certification	<u>\$220,000.00</u>
 Grand Total Work Orders		 <u>\$828,440.86</u>

Regarding item 4.b, this item requires five votes and failed because of insufficient votes.

Director Chernicky moved to approve the consent agenda, seconded by Director Spears, and voted upon as follows: Chernicky, Frost, Kerns, Spears, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

REGULAR AGENDA

3. Unfinished Business

3.a. Progress Reports

Regarding the **Monthly Video Update**, Media Services presented a video entitled "GRDA October 2009 Update" that included an update on the rehab of the Kerr hydro units and the Energy Control Center renovation projects and associated cost savings.

4. New Business

4.c. Assets Committee Recommendations:

4.c.1. Request by John W. and C. Joan Butler, Co-Trustees of the John W. and C. Joan Butler Living Trust Dated July 17, 1997, for a 30-Year License to Encroach on Grand Lake, Ottawa County Oklahoma.

4.c.2. Request by Misty M. Deaton for an Assignment of the License to Encroach Issued to the John W. and C. Joan Butler Trust.

4.c.3. Request by Orchids Paper Products Company for a Partial Release of Transmission Easements Located in Mayes County Oklahoma and Grant of Transmission Easement to GRDA.

4.c.4. Request by BAK, LLC d/b/a Elk River Marina Landing Outdoors, to Replace the Current 8-Slip Dock and Ship Store/Concession Dock with Three New Docks Containing a Total of 86 Slips for an Existing Commercial Marina Located on Elk River in Delaware County Oklahoma.

4.c.5. Request by BAK, LLC d/b/a Elk River Marina Landing Outdoors, to Lease 3.32 Acres of GRDA Property.

Regarding item 4.c.1., Director Spears reported the Assets Committee recommends approval of the request for a license to encroach.

Regarding item 4.c.2., Director Spears reported the Assets Committee recommends approval of the transfer.

Regarding item 4.c.3., Director Spears reported the Assets Committee recommends approval of the request, subject to the closing of the sale of the property.

Regarding item 4.c.4., Director Spears reported the Assets Committee recommends approval of the request as submitted, but to include a pumpout facility if the applicant so desires, predicated upon applicant adding five to seven no-wake buoys. The Committee further recommends approval of the waiver of the 125-foot rule and parallel slip rule.

Regarding item 4.c.5., Director Spears reported the Assets Committee recommends approval of the request, with a recommendation of a ten-year lease instead of the two-year lease because it would be beneficial to the Authority by saving administrative costs. Ms. Zumwalt-Smith reported this item requires five votes, so this item should be passed to the next meeting.

Regarding items 1-4, Director Spears moved to approve the recommendations of the Assets Committee, seconded by Director Frost, and voted upon as follows: Frost, Kerns, Spears, Chernicky, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

4.d. Proposed Electric Rate Schedule Revisions

Ms. Dougherty introduced Michael Moore with C. H. Guernsey, the engineering firm which completed the cost-of-service and rate studies. Mr. Moore explained this work is the latest effort in trying to get GRDA positioned for the future. Mr. Moore reviewed the historical background which included GRDA's issuance of \$575 million of new debt in August 2008 to purchase the Redbud plant and fund capital projects, special purpose funds, and bond issuance costs. At that time the financial forecast showed no need for a rate increase for at least ten years. However, dramatic economic changes occurred with the recession, rising unemployment, declining natural gas and power prices, GRDA's firm sales being below forecast, and very low margins on spot sales. The forecast was updated to reflect the changes presented at the April 2009 customer meetings. At that time, it appeared a base rate increase would be needed to retain a 1.1 debt service coverage. The amount would depend on additional sales and future debt issues. With no additional sales or other changes, an increase of a minimum of 15 percent would be needed. Taking the PCA into consideration, the overall increase

would be about 12 percent. The forecast was to be updated in late summer. If an increase was needed, it would be effective January 1, 2010, because the debt service coverage ratio is what drives GRDA's needs for a rate increase. To get the highest coverage ratio with the lowest rate increase, the rate increase needs to be in place for a full year. Mr. Moore showed the history and forecast of the debt service coverage ratios as well as power sales (excluding OMPA and spot sales). GRDA committed to look at new off-system sales, recognizing part of the deterioration in the financial picture was a reduction of loads. GRDA would also update the load forecast, prepare a rate study, and also update the financial forecast. Mr. Moore reviewed GRDA's additional contracts added for off-system firm sales and gave an update on GRDA's load and fuel price forecasts. He further explained market prices for power. Mr. Moore described the process followed to do the recently completed rate study and explained the adjusted test year sales and revenue and operating expenses. The rate study showed an adjusted debt service coverage of .903 which does not meet the minimum under the bond indenture. GRDA has set a minimum target of 1.1 coverage. The increase in base rates needed to get to the 1.1 coverage is a little over \$28 million, so the rates need to be designed to recover the \$28 million to get to the coverage ratio of 1.1. Mr. Moore explained the components of the rate increase and showed the different existing and proposed retail rates and wholesale rates and a summary of where the money would be coming from. The overall increase works out to be 11.95 percent as compared to 15.9 percent predicted in April. Taking the PCA into consideration, the overall increase in rates is about 10 percent. GRDA also wanted to do a financial forecast to answer the question of how big of an increase is needed to get the coverage ratio to 1.1. The

numbers regarding debt issues, fuel price forecast, load projections, dispatch analysis, cost and projections per budget, and other non-power sales revenues were updated. It also assumed the future \$18.955 million taxable bond issue to replace existing bonds in 2010. Another key element is GRDA's reserve funds, some of which are driven by debt service. Mr. Moore added that the good news is that from an overall rate standpoint, at least for the next couple of years, with the recommended increase in base rates, GRDA's overall rates are lower than forecasted in November 2008. Regarding potential future rate issues, revenues are driven primarily by power sales. If the loads continue to be less than the forecast, coverage ratios will decline. An additional rate increase may be needed to maintain adequate coverage. Interest rates will also impact rates. It will depend on the magnitude of the increase of the rates, and it will also depend on how much debt GRDA issues. Future debt issuance will increase debt service and lower coverage ratios. The amounts needed will depend on future events. It is primarily an issue through 2014; things will get better at that point because of the retirement of the CFC debt. Greenhouse gas emission costs is the big unknown. All of the assumptions are based on the Waxman-Markey bill. Discussions followed about lowering the rate at a later date. Mr. Easley stated this increase is viewed as a temporary rate increase. It will not be needed after 2014. The customers have asked for their own rate analysis, and staff plans to work closely with the customers on their projections. Director Spears stated GRDA's financial stability is not only important to the Board but also to all the customers. The customers want to make sure any increase is essential to maintain GRDA's financial stability. The customer group is planning to hire an outside independent rate analyst to review Guernsey's work. In 2014 it appears rates could be

reduced. The customers want a commitment that as soon as the rates look favorable—even if it happens within the year—that GRDA would try to reduce rates to the customers. The customers also want to know what the potential is of lowering the 1.1 debt service coverage. Mr. Easley stated the customers have staff's commitment to sit down to review the customers' rate study. Secondly, Mr. Easley has concerns about the Board's lowering the 1.1 debt service coverage because the margin is so close and the market is so volatile, GRDA might be looking at emergency or multiple increases throughout the year. It would also send some bad signals to the marketplace. In response to postponing the rate increase, Mr. Easley stated GRDA has to give 60-day notice under the contracts for any kind of increase. Delaying the increase now and then deciding to do it later would make the increase higher because it would be collected over a smaller period of time. Discussion followed about lowering the increase at a later date, selling futures, and increasing off-system sales. Discussion also ensued about reviewing the rates yearly and reducing the rates later, if possible. Ms. Dougherty stated that every December, GRDA has to update its ten-year financial forecast, and GRDA normally has its customer meeting in October, so it would make sense to review the rates during that time. Director Frost moved to adopt staff's rate increase recommendation, subject to review in December and constant review so if GRDA starts exceeding the 1.1 debt coverage ratio, that GRDA make adjustments to the rate, seconded by Director Chernicky, and voted upon as follows: Kerns, Spears, Chernicky, Frost, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

4.e. First Amendment to Kansas Municipal Energy Agency Power Purchase and Sale Agreement

Ms. Dougherty reported this item deals with additional sales. A couple of years ago the Board approved a contract with Kansas Municipal Energy Agency (KMEA) for 81 MW. GRDA has required all of GRDA's off-system firm sales to be tied to their receiving transmission approval. GRDA does not keep a block of power available to that customer if it does not have the transmission and capability to take that power. About a year later, KMEA was only able to get transmission approved for 63 MW, so the contract automatically reverted back to the 63 MW for which they could get transmission approval. KMEA has since been able to get 4 MW of additional transmission approval. This amendment allows KMEA to begin taking that additional 4 MW in May or June. The amendment covered two items: (1) adding 4 MW, and (2) KMEA was the first customer that signed the new standardized contract. In that window staff thought off-system firm customers could go from 20 MW to 30 MW. Later, when debt was issued, the consensus was if GRDA has to carry on through that point, the customer might as well be obligated to their share of the debt. It was thought the Board may want to extend the contract to 2042. There was conversation at the customer meeting in which the customers like the 4 MW, but they did not want to have the 67 MW available through 2042, so they prefer to leave the termination date of 2026. Ms. Dougherty recommended approval of the 4 MW but keep the termination date of April 30, 2026. Director Chernicky moved to approve Ms. Dougherty's recommendation, seconded by Director Frost, and voted upon as follows: Spears, Chernicky, Frost, Kerns, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

4.f. Change Order #2 to Contract 11627, Claremore Interconnect Substation, with Re-Con Company for Substation Construction Services

Mr. Herron reported GRDA is in the process of remodeling this substation. The old circuit switcher has become faulty and is difficult to find parts for, so it needs to be replaced. Staff asked Re-Con Company, the contractor that is already there performing construction services, if they would change it for GRDA. There are two foundations that also need to be removed and replaced. Re-con submitted a proposal in the amount of \$18,982 for the work. Director Chernicky moved to approve Change Order #2 to Contract 11627 to allow the contractor to replace a 138-kV circuit switcher which has become faulty since the original contract was awarded, seconded by Director Spears, and voted upon as follows: Chernicky, Frost, Kerns, Spears, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

4.g. Work Authorization No. 16667 to EPS Engineering & Design, Inc., for Design of GRDA Portion of Claremore City #5 Substation

Mr. Herron reported GRDA is involved with the construction of the new Claremore #5 substation. It is a 25-MW substation in the south part of Claremore where the new shopping center is being built. The City is building the distribution part of the substation. GRDA will be building the 69,000-volt portion which involves a breaker, metering, and protection. GRDA is also providing the possibility of a second transformer if the City decides to make the substation larger. Staff has contacted an engineering firm to determine what their price would be for the design, preparation of drawings, and other work needed through the specification level, so GRDA could go out for competitive bid on the work. Staff recommends approval of the work authorization with EPS Engineering with the total project approved billing limit of \$76,720 for engineering

design services. EPS is presently designing the Dry Gulch substation for GRDA. Director Chernicky moved to approve the work authorization, seconded by Director Spears, and voted upon as follows: Frost, Kerns, Spears, Chernicky, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

4.h. Bid Award Recommendation for Land Agent Services (RFQ 5834)

Mr. Herron reported that land agent services are not considered professional services, so a multi-year contract cannot be entered into with them. Therefore, the work has to be bid on an annual basis. Six bids were received and evaluated. The recommended award for this contract is Pinnacle Consulting Management Group, Inc. They are working for GRDA right now. This contract would start January 1, 2010. Staff recommends approval of the contract based on Pinnacle's quoted hourly rates. Because the contract for next year would be with the same company, staff also recommends the Board approve a cap of \$150,000 for any overrun during the remainder of calendar year 2009 and for calendar year 2010. GRDA is in the process of buying right-of-way for the Tonnece substation and transmission line. The cap would ensure right-of-way work is not disrupted near the end of the year because of the previous budget cap. Director Chernicky moved to approve staff's recommendation, seconded by Director Frost, and voted upon as follows: Kerns, Spears, Chernicky, Frost, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

4.i. Change Order #8 to Contract Hydro 2005-3, Markham Ferry Hydroelectric Plant Upgrade, with Alstom Hydro US Inc., for Extra Shop and Site Work on Unit 4

Mr. Easley asked that this item be stricken from the agenda.

4.j. Other New Business

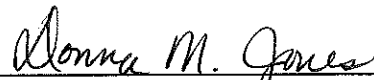
There was no other new business.

5. Reports

5.a. Board of Directors Committee Reports

1. **Assets Committee:** Director Kerns had no further report.
 2. **Audit Committee:** There was no report.
 3. **Coal Committee:** Director Chernicky had no report.
 4. **Marketing Committee:** Director Frost had no report.
 5. **Policies and Procedures Committee:** There was no report.
 6. **Long-Range Planning Committee:** There was no report.
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Director Spears moved for adjournment at 11:40 a.m., seconded by Director Chernicky, and voted upon as follows: Spears, Chernicky, Frost, Kerns, yes. *Motion passed (4-yes, 0-no, 0-abstained).*



Donna M. Jones, Secretary

DATE APPROVED:

December 9, 2009
GRDA Board of Directors