

**Minutes of Regular Meeting  
Grand River Dam Authority  
Board of Directors  
Vinita, Oklahoma  
May 9, 2012**

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 May 9, 2012. 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 1, 2011, at 11:04 a.m.; by posting the agenda with the Craig County Clerk's office on May 8, 2012, at 8:56 a.m.; and by posting said agenda at the principal office of GRDA at least 24 hours prior to the meeting.

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Chair Spears called the meeting to order at 10:49 a.m. The Secretary called the roll; all members were present with the exception of Director Chernicky. Chair Spears declared a quorum. Ms. Moore introduced guests.

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**BOARD MEMBERS**

Stephen R. Spears, Chair	Present
Greg R. Grodhaus, Chair-Elect	Present
Dewey F. Bartlett, Jr.	Present
David J. Chernicky	Absent
Betty Kerns	Present
W. Brent LaGere	Present
Chris Meyers	Present

**ADMINISTRATIVE**

Daniel S. Sullivan, General Manager/CEO/Director of Investments	Present
Tim Brown, Chief Operating Officer	Present
Ellen Edwards, General Counsel	Present
Charles J. Barney, AGM Thermal and Hydro Generation	Present
Allison Goodpaster-Carter, AGM Human Resources	Absent
Carolyn Dougherty, AGM Market Analysis/Strategic Development	Present
Brian Edwards, AGM Chief of Law Enforcement/Homeland Security	Present
Mike Herron, AGM Engineering, System Operations, & Reliability	Present
Michael Kiefner, AGM Land Management and Properties	Present
Darrell Townsend II, AGM Ecosystems & Lake Operations	Present
Dale Willis, AGM Transmission	Present
Donna M. Jones, Secretary	Present

Others present were as follows: Harold Robertson, Anthony Due, and Rick Shurtz, NEOREC; Julie Hudgins, Stilwell Utilities; John Bland, City of Siloam Springs; Mayor Jimmy Tramel, City of Pryor; Randy Bundy, KAMO Power; Wendy Gregory, Governor's Office; Mark Tedford, Tedford Insurance; Randy Krehbiel, Tulsa World; Peggy Kiefer, Grove Sun; Salisha Wilkin, Claremore Progress; Denton Thomason, Vinita Daily Journal; Betsy Warner, Grand Laker; Mike Williams, Shangri-La; Emily and James Ott, Sunset at Bernice Point; Gary Crow, Wagoner County RWD#7; Leonard Logan, Logan & Lowry; Pete Hisely, City of Vinita; Justin Alberty, Tamara Jahnke, Holly Moore, Melanie Earl, Dave McCollaum, Heath Lofton, Grant Burget, and Chris Carlson, GRDA.

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## CONSENT AGENDA

### 1. Regular Board Minutes of April 18, 2012

### 2. Claims, \$50,312,742.65

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

(1) Ten-Foot Shop-Made Trailer

(2) Transformer

(3) (15) X26 Tasers, (20) 15' Taser Training Cartridges,

(18) 21' Taser Duty Cartridges

#### 5.b. Purchase Order Report (\* Denotes Addenda Items)

<i>Number</i>	<i>Vendor</i>	<i>Amount</i>
35832	Purvis Industries	\$67,187.88
36006	American Wire Group	64,840.00
36011	Trench Limited	57,000.00
36025*	Direct Line to Compliance	45,000.00
36211*	Cummins Southern Plains	336,890.00
36223*	Composite Cooling	<u>98,404.02</u>
<i>Total Standard</i>		<b>\$669,321.90</b>
35839	Ruble Vance Chevrolet	<u>\$61,797.60</u>
<i>Total Emergency Orders</i>		<b>\$61,797.60</b>
<i>Grand Total Purchases</i>		<b><u>\$731,119.50</u></b>

#### 5.c. Work Order Report

<i>Number</i>	<i>Title</i>	<i>Amount</i>
RF012-00508	Motorola Narrow-Banding Project	<u>\$1,296,559.95</u>
<i>Grand Total Work Orders</i>		<b><u>\$1,296,559.95</u></b>

Regarding item 4.a, the items were listed in a Surplus Property Transfer Forms from (1) Mike Ragsdale dated April 26, 2012; (2) Choya Shropshire dated April 3, 2012; and (3) Lake Patrol dated April 11, 2012.

Regarding item 5.b., Director Kerns asked if the first three purchase orders were awarded to the low bidders with no exceptions. Chair Spears suggested moving item 5.b. to the regular agenda, so Ms. Dougherty could report back later in the meeting.

Director LaGere moved to approve the consent agenda, with the removal of item 5.b. (purchase order report), seconded by Director Bartlett, and voted upon as follows: Grodhaus, no; Kerns, LaGere, Meyers, Spears, Bartlett, yes. *Motion passed (5-yes, 1-no, 0-abstained).*

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## **6. Proposed Executive Sessions:**

- a. Proposed Executive Session Concerning a Pending Investigation, Claim, or Action Related to Non-Public Information.**
- b. Proposed Executive Session to Discuss the Purchase or Appraisal of Real Property.**
- c. Proposed Executive Session Concerning *GRDA v. LCR Holdings, LLC*, Case No. CV-2010-52, in and for the District Court of Delaware County Oklahoma.**

Mr. Sullivan reported item 6.a. can be removed from the agenda.

Director Grodhaus moved to go into executive session at 10:55 a.m., seconded by Director LaGere, and voted upon as follows: Kerns, LaGere, Meyers, Spears, Bartlett, Grodhaus, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

Director Grodhaus moved to return to regular session at 12:07 p.m., seconded by Director LaGere, and voted upon as follows: LaGere, Meyers, Spears, Bartlett, Grodhaus, Kerns, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

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**7. Action on Executive Session Items:**

- a. Action, As Necessary, Concerning Non-Public Information.**
- b. Action, As Necessary, Concerning Purchase or Appraisal of Real Property.**
- c. Action, As Necessary, Concerning *GRDA v. LCR Holdings, LLC.***

Regarding item 7.a., this item was removed from the agenda.

Regarding item 7.b., Director Spears reported the Board discussed the possible purchase of some property in Tulsa for future engineering office, control center, and some IT people. Mayor Jimmy Tramel, City of Pryor, had asked to address the Board. Mayor Tramel stated he is not here today to be negative and appreciates what GRDA does. His job as Mayor is to look into matters that involve the relocation of jobs or anything else regarding future economics. Mayor Tramel stated it was his understanding no study had been done to see what the level of engineer pay is and if GRDA is competitive with other providers like PSO. Mayor Tramel asked the Board to table this item and work with OSU, OCAT, and figure out how to keep these jobs. He is present to support rural Oklahoma and support their area. Director LaGere moved GRDA purchase the real property in Tulsa, seconded by Director Grodhaus, and voted upon as follows: Meyers, no; Spears, Bartlett, Grodhaus, yes; Kerns, no; LaGere, yes. *Motion passed (4-yes, 2-no, 0-abstained).*

Regarding item 7.c., Director LaGere moved GRDA settle the lawsuit and not incur anymore expenses moving forward to appeal it, seconded by Director Grodhaus. Chair Spears stated this is a condemnation action for an easement necessary for a power line. The motion was voted upon as follows: Spears, Bartlett, Grodhaus, Kerns, LaGere, Meyers, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

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## **REGULAR AGENDA**

### **5.b. Purchase Order Report**

Ms. Dougherty reported that regarding P.O. 35832 to Purvis Industries, there was one non-conforming bid. Based on a request about a year ago, staff was asked not to list any non-conforming bids on the report. Regarding P.O. 36006, every vendor that bid was listed. Regarding P.O. 36011, only one bid was received. No exceptions were listed for P.O. 36223. The low bidders had no exceptions to the bid. Director Grodhaus moved to approve the purchase order report, seconded by Director Spears, and voted upon as follows: Bartlett, Grodhaus, Kerns, LaGere, Meyers, Spears, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

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## **3. Unfinished Business**

### **3.a. Progress Reports**

Mr. Sullivan announced two promotions: Dr. Darrell Townsend's new title will be Assistant General Manager of Ecosystems and Lake Management. Allison Goodpaster-Carter's new title will be Assistant General Manager of Human Resources.

GRDA was involved in a swift water rescue that occurred last week. There was a drowning at the Twin Bridges area. It was reported on Tuesday afternoon, and the body was recovered Saturday morning near Sailboat Bridge, about 20 miles downstream.

Regarding the **Monthly Video Update**, Media Services presented a video entitled "GRDA May 2012 Update" highlighting the Grand Lake watershed.

Mr. Sullivan reported he had mentioned to the Audit and Budget Committee this morning that he and Ms. Dougherty and Mr. Brown went to New York and met with all three credit rating agencies. The meetings went well; the agencies received the positive happenings at GRDA that gave staff a lot of comfort going forward that GRDA may be in a good position for a credit rating upgrade in the near future.

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#### **4. New Business**

##### **4.b. Assets Committee Recommendations:**

**4.b.1. Possible Approval of Revision to Water Rates for Ft. Gibson Lake.**

**4.b.2. Request by Indian Electric Cooperative for an Electric Line Easement Located in Osage County Oklahoma.**

**4.b.3. Request by Sunset at Bernice Point for Lease of 5 Acres Located on Grand Lake in Delaware County Oklahoma.**

**4.b.4. Request by Jim Weast for Lease of GRDA Property on Lake Hudson in Mayes County Oklahoma.**

**4.b.5. Request by John Tytenicz, Jr., for a Crop Lease at the Redbud Plant in Oklahoma County Oklahoma.**

**4.b.6. Possible Approval of the Rules Related to GRDA's CSERRA Property in Ottawa County Oklahoma.**

**4.b.7. Request by Grand Lake Holdings LLC, DBA Tera Miranda Harbor & Resort, to Install a Boat Ramp in Delaware County Oklahoma.**

Director Kerns reported the Assets Committee met this morning; she and Director Spears were present. Because there was a tie vote on some items, they are being presented to the full Board for a decision.

Regarding item 4.b.1., Mr. Sullivan reported that under statute, most of the municipalities around the lake are able to draw water free of charge up to a certain level, depending on the size of the municipality, from the lakes GRDA manages: Grand, Hudson, and Ft. Gibson. GRDA's jurisdiction over the watershed goes all the way to the dam at Ft. Gibson. Rural water districts do not have that same capability. They are charged raw water rates to draw from those reservoirs. GRDA has met with the rural water districts that draw from the Ft. Gibson Reservoir. Because of the lower cost associated with GRDA's management of the resources in that reservoir and the difficulties of the rural water districts being able to supply water to their customers, Mr. Sullivan agreed to recommend to the Board a reduction from \$.10 per 1,000 gallons on the Ft. Gibson Reservoir to \$.03 per 1,000 gallons for rural water districts that draw from that reservoir. GRDA would keep the same rates for commercial interests but give, in recognition for the value that rural water districts provide to their customers, a price break that recognizes GRDA's lower costs associated with that reservoir. Mr. Sullivan made that recommendation. In response to a question by Director LaGere, Mr. Sullivan stated the difference is about \$45,000 annually. Director Spears stated GRDA did a study a couple of years ago regarding what the water was worth to try to be fair to all of GRDA's customers. The study came back with about \$.25 per 1,000 gallons—a large increase from where GRDA was. The study took into account things like storage, the cost to maintain the lakes, ecosystem, etc.—direct costs the water customers should be

paying for. The study was based on all the water being sold across the whole basin. Mr. Sullivan stated water resources is on GRDA's agenda to address going forward and something GRDA needs to assess. Rates have not been raised in the other reservoirs since they were set to the \$.10 per 1,000-gallon level. The added recommendation is for those that have towns in good standing to recognize there is a smaller investment, not an absence of investment in the water that spills over the Kerr Dam. Director Spears added that water quality affects all customers should pay for those costs. GRDA is giving the water away at \$.10; GRDA is trying to recover a little bit of its costs. Ms. Dougherty added that one of the main costs included in the current rate is lost generation because GRDA does not generate with the water. The number is between \$.03 and \$.04 cents for the value of the generation. Another component of the current rate is the Lake Patrol costs. After the study, all the lakes were treated consistently. Previous to that, there was a recognition of the generation value, so Grand Lake paid the most. Director Spears recommended tabling this item to study it. Director Kerns moved the Board approve changing the raw water rate to \$.03 per 1,000 gallons effective June 1, 2012, for those raw water customers located on Ft. Gibson whose accounts are in good standing; seconded by Director Meyers; and voted upon as follows: Grodhaus, Kerns, LaGere, Meyers, yes; Spears, no. *Motion passed (4-yes, 1-no, 0-abstained).*

Regarding item 4.b.2., Director Kerns reported the Assets Committee recommends approval. Director Kerns moved the Board approve the grant of an underground and overhead electric line easement to Indian Electric Cooperative for the

amount of \$200, seconded by Director Spears, and voted upon as follows: Kerns, LaGere, Meyers, Spears, Grodhaus, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

Regarding item 4.b.3., Director Kerns moved the Board approve a ten-year lease for approximately five acres in Delaware County to James and Emily Ott of the Sunset at Bernice Point in the amount of \$865 per month, seconded by Director Meyers, and voted upon as follows: LaGere, Meyers, yes; Spears, no; Grodhaus, Kerns, yes. *Motion passed (4-yes, 1-no, 0-abstained).*

Regarding item 4.b.4., Director Kerns reported the Assets Committee recommends denying this request because Mr. Weast does not own land adjoining the land he wanted to lease, which situation has never been approved by the Board before, and the Committee does not want to start a precedent of doing that. Director Kerns moved the Board deny the request by Jim Weast for lease of GRDA property on Lake Hudson, seconded by Director Spears, and voted upon as follows: Meyers, Spears, Grodhaus, Kerns, LaGere, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

Regarding item 4.b.5., Director Kerns reported the Assets Committee recommends approval of the request and moved the Board approve the Tytenicz request for a crop lease at the Redbud Plant. In addition, it has already been approved by OMPA and OG&E. Director Grodhaus seconded the motion, and the motion was voted upon as follows: Spears, Grodhaus, Kerns, LaGere, Meyers, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

Regarding item 4.b.6., Director Kerns reported the Assets Committee tabled the CSERRA item for further information.

Regarding item 4.b.7., Director Kerns reported the Assets Committee recommends approval and moved the Board approve the boat ramp application as submitted by Tera Miranda to construct a new two-lane boat ramp to improve access at their location, seconded by Director Spears, and voted upon as follows: Grodhaus, Kerns, LaGere, Meyers, Spears, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

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**4.c. Update Concerning Change Order #1 to Contract 28747, Tonnece Microwave Tower, with Preferred Tank & Tower Maintenance Division, Inc., Regarding Delays Caused to Contractor by Rohn Tower**

Mr. Herron reported this \$100,000 contract was awarded on June 8, 2011. Notice to proceed was issued on August 5, 2011. The tower drawings were required, and a foundation design was required. GRDA required foundation loading information from the tower company. That information was then to be used by Black & Veatch (B&V) and included in the general contractor's construction work at the Tonnece substation. As of November 11, 2011, GRDA had not received information from the contractor, so GRDA initiated contract termination. The Purchasing Department and the contractor came to an agreement, and the contract was continued as of that date. Tower drawings were received on November 15, 2011. The foundation loading information was not received until January 10, 2012. The delay was supposedly due to Rohn Tower's not providing the needed information to the tower contractor. B&V had completed their work by that date, so GRDA obtained designs from an on-call engineering firm for \$2,835. Those designs were too late for the Tonnece construction contractor to install foundations without remobilizing, so GRDA crews installed the foundations. Preferred Tank did perform the tower installation the week of April 18; the tower was completed on April 27. Preferred Tank has since requested an extension of the completion date to May 15,

2012 (an approximate 135-day extension) as a no-cost extension. Mr. Herron showed some slides of the tower construction. The total height of the tower is 160 feet. The bids were opened on May 31. Based on the timeline quoted by the contractor, GRDA expected completion by September 9. Because of the problems with the paperwork, the notice to proceed was not received until August 15. Based on that date, expected completion was October 24, 2011. Contract completion actually occurred on April 27, 2012. The drawings were received "as manufactured," so there was no reason for GRDA to approve them. Contract completion was 189 days late (from October 24, 2011). Liquidated damages could total up to 20 percent of the project, so that could equal \$20,000. Staff recommends Preferred Tank be held liable for the \$2,835 of additional costs for engineering as liquidated damages resulting from Preferred Tank's delay in providing foundation loading data. Also, staff recommends Preferred Tank be held liable for any additional GRDA expenses resulting from the delays caused by Preferred Tank (costs of GRDA's installation of the tower foundations minus the credit from Breaux for quoted foundation substation contract work that he did not do and for which GRDA has not yet received). At the June meeting, there was an action approved, and that action would need to be rescinded. Mr. Herron would come back to the June meeting with a summary of the actual costs incurred, and it is hoped to have Breaux's credit by then. Director LaGere moved to rescind approval of Change Order #1 to Contract 28747 as presented at the GRDA board meeting on April 18, 2012; seconded by Director Meyers; and voted upon as follows: Kerns, absent; LaGere, Meyers, Spears, Grodhaus, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

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#### **4.d. Change Order #1 to Contract 33572, NERC CIP Compliance Consulting Services, with Direct Line To Compliance (DL2C) to Cover Additional Actual Costs of Travel and Incidental Expenses**

Mr. Herron reported DL2C was awarded this contract in January. The contract included work performing two mock audits (Task 1, 693 standards; Task 2, CIP standards). Task 3 was not quoted because the contractor could not do all three tasks at the same time. DL2C quoted not-to-exceed amounts for Task 1 at \$36,000 and Task 2 at \$51,000. They also quoted travel and incidentals cost estimates at \$7,120 for Task 1 and \$10,680 for Task 2. The projects are now complete. Actual travel and incidental expenses were documented at \$19,664.51. Only \$17,800 was authorized by original board action. The difference from the original approval is \$1,864.51. Change Order #1 is for the additional total. Director Meyers moved that the Board approve Change Order #1 to Contract 33572 for the amount of \$1,864.51 to cover additional actual costs of travel and incidental expenses incurred during this contract, seconded by Director Spears, and voted upon as follows: Grodhaus, yes; Kerns, absent; LaGere, Meyers, Spears, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

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#### **4.e. Change Order #3 to OATI “webTrader” Project #881 Contract for Additional User IDs**

Mr. Herron reported GRDA is required to have a tagging agent which provides services needed for GRDA to participate in the Southwest Power Pool (SPP) power sales market and to provide congestion management services. GRDA bid this service in 2000 and awarded it to OATI (Open Access Technology International, Inc.). GRDA has continued with OATI since that time. Currently, GRDA has user IDs for 20 people: system operators, energy traders, and energy accounting staff. IDs are individually

assigned for the tracking of actions and for security purposes. GRDA needs two additional IDs; IDs are only available in blocks of five. There is a one-time charge of \$5,000 and a monthly charge of \$500 for that additional block. Change Order #3 is to provide for one additional block of IDs. There will be three empty seats with this block, but they will be available if additional people are added. Director Meyers moved the Board approve Change Order #3 to the OATI webTrader Services Project #881 contract with a one-time fee of \$5,000 and monthly recurring fees of \$500 for a block of five additional user IDs, seconded by Director LaGere, and voted upon as follows: Meyers, Spears, Grodhaus, yes; Kerns, absent; LaGere, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

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**4.f. Request Review of RFQ 10269  
by the Oklahoma State Auditor & Inspector**

Director Grodhaus reported that after the audit last year, he had asked the management team for review and update of any bids awarded of which there is a disclosable situation from either contact or family members, etc., to make certain the Board had the opportunity to give extra vigilance and care from perception or anything else in these types of situations. This was one of the things criticized in the audit. Director Grodhaus wanted the knowledge and was happy to pass it on to other board members if they would like, but he wanted it before voting on any RFP to be approved in board meetings. In February, RFP 10269 was approved by the Board unanimously. A few weeks after it was approved, a letter was received from one of the non-winning vendors that raised some questions and some issues with it. Director Grodhaus felt the Board should have an independent party take a look at GRDA's handling of the bid.

After speaking with the CEO and General Counsel, to make certain everything is being done fairly and properly, Director Grodhaus is requesting to ask State Auditor Jones to review not only GRDA's processes but also the handling and award of this particular bid to make sure everything was done as it should have been. Because it is after the appeal period, it would also allow to see if there is anything GRDA needs to do in its processes for the future. Director Grodhaus asked for approval to allow asking the State Auditor to review GRDA's handling of RFQ 10269 and the processes and procedures GRDA uses in both issuing, vetting, and awarding these types of bids. Director LaGere moved the Board ask the Oklahoma State Auditor & Inspector to review this particular RFQ 10269, seconded by Director Meyers. Director Spears stated it was his understanding that the audit had been done. Mr. Sullivan stated he had spoken with Mr. Jones, but it was felt it would be best to have a formal request from the Board for forwarding that information. They are aware of this request and are ready to receive it and review it. The motion was voted upon as follows: Grodhaus, yes; Kerns, absent; LaGere, Meyers, Spears, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

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#### **4.g. Renewal of Employment Practices and Directors and Officers Liability Insurance Coverage**

Mr. Lofton reported this insurance policy is up for renewal on May 15. It provides coverage for claims involving allegations of a breach of duty by employees, directors, and officers and also covers employment practices, wrongful termination claims, and claims under federal employment acts. The policy GRDA has, which is obtained through the state's Risk Management Division, provides for two layers of coverage. The first layer is the primary policy of \$20 million, subject to a \$250,000 self-insured retention

and an excess policy of \$15 million for a combined \$35 million coverage. The estimated premium for 2012-2013 went up \$1 from the actual premium for 2011-2012. Director LaGere moved to approve the renewal of the Employment Practices and Directors and Officers Liability insurance coverage from Chartis and Ace American for the combined premiums of \$145,204, seconded by Director Spears, and voted upon as follows: LaGere, Meyers, Spears, Grodhaus, Kerns, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

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#### **4.h. Renewal of Excess Public Liability, Aircraft, and Pollution Insurance Coverage**

Mr. Lofton reported that GRDA has several liability insurance policies coming up for renewal on May 16. The liability insurance coverage covers claims by third parties complaining of injuries due to negligence of GRDA. Then policies exempt all claims for which GRDA is exempt from liability under the Governmental Tort Claims Act, so there is no waiver of that immunity. GRDA has three layers of coverage. Last year, GRDA had three layers providing \$60 million of coverage over and above a \$500,000 self-insured retention. This year's proposal is identical except the second layer, which is provided by Ironshore Specialty Insurance Company, is going to take \$10 million, whereas they took \$25 million last year. The third layer, Navigators Insurance Company, is going to pick up that additional \$15 million. The annual premium for last year was \$547,833. This year there has been an increase to \$690,699.06. The reasons given for the increase is that the estimated payroll for the year was up 18 percent. That information was passed along from GRDA's budget, and it is unlikely the actual payroll will increase anywhere near that amount. Last year, the actual payroll increased

between 1.5 and 2.0 percent. The other reason given for the increase is the number of vehicles reported to the insurance company during the application process went up by 32 percent over last year. There is a question over whether GRDA actually purchased that many vehicles. The number reported from the vehicle fleet this year was 260 vehicles. The number reported last year was 202 vehicles. Mr. Tedford stated that the liability insurance would cover any incidents involving any vehicles used for GRDA purposes. Mr. Tedford reported the actual rate increase is about eight percent. It is rated on payroll. The underwriter informed him this morning they are willing to adjust the basis downward if the payroll reported was too high. Director Grodhaus stated the employee count has been around 490 over the past six years and that most insurance is dependent on headcount rather than payroll. Director Grodhaus asked that Mr. Tedford inform the underwriter there should not be any increase of premium due to increase in payroll because that payroll did not come from increased headcount. Mr. Tedford stated his belief that the underwriter is willing to convert the policy to an employee count basis, which may bring the premium down about 15 percent. Director LaGere added that commercial liability insurers are increasing premiums from 5 percent to 12 percent. Director LaGere agreed Mr. Tedford should go back and renegotiate. Mr. Tedford stated that AEGIS, which is a competitor of Lexington, was affected by the basis as well. They came in at \$578,000. Part of the problem with finding carriers willing to write the first \$25 million in coverage is that it is a claims-made policy that goes back to 1986 on a retroactive date. AEGIS wanted to quote \$578,000 with a retroactive date of May 16, 2012, at the \$578,000. They said they would go back to 1986 for additional premium. Director LaGere stated GRDA needs to start earlier when going out for

requests for proposals and developing specifications. This year, GRDA got started too late to get into the marketplace. The marketplace is very limited. Director Grodhaus moved to approve the acquisition of liability insurance from Lexington, Ironshore Specialty, and Navigators through Tedford Insurance for the combined premiums not to exceed \$690,699.06, seconded by Director Meyers, and voted upon as follows: Meyers, Spears, Grodhaus, LaGere, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

Mr. Lofton reported the next policy up for renewal is a pollution liability policy. It provides coverage for claims made by third parties, for either bodily injury or property damage due to a pollution condition. It also provides a limited amount of coverage for any type of emergency response costs. It provides \$25 million coverage for third-party claims, subject to \$500,000 self-insured retention. The emergency response cost liability limit is \$250,000 per incident with an aggregate limit of \$1 million. There was an increase in premium. Last year's actual premium was \$54,010; this year's estimated premium is \$69,059. The increase was due to several substation locations that were added to the schedule. The substations present a substantial potential liability for pollution. Director LaGere added GRDA did not have pollution coverage until last year. Director LaGere moved to approve the acquisition of pollution liability insurance from Chartis through Tedford Insurance for the amount of \$69,059, seconded by Director Grodhaus, and voted upon as follows: Spears, Grodhaus, LaGere, Meyers, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

Mr. Lofton reported the last policy is for excess aircraft liability. Primary coverage is provided through the State of Oklahoma. The State has an insurance policy that provides \$175,000 per person up to \$1 million coverage for an in-state accident. The

liability limit increases to \$5 million for any accident out of state. The excess aircraft liability provides an additional \$50 million coverage over and above the primary policy. Director LaGere asked what the retention is out of state for the helicopters. Mr. Tedford answered it is \$5 million—the coverage to the State. The retention for the excess aircraft liability policy matches that \$1 million in state and \$5 million out of state coverage afforded by the primary policy. Director LaGere moved to approve the acquisition of excess aircraft liability insurance from Chartis through Tedford Insurance for the amount of \$26,300, seconded by Director Meyers, and voted upon as follows: Grodhaus, LaGere, Meyers, Spears, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

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**4.i. Proposed Ratification of Contract 32124,  
Low-NOx Burners/Overfire Air System**

Mr. Barney reported that on January 27, a bid opening was held, and the results were brought to the Board on February 8. This was an urgent project because of a new EPA rule that effectively puts GRDA in the situation of doing retrofits on the coal-fired boilers starting this September. All the terms and conditions were not finalized with the low bidder, so approval was requested to negotiate those final terms. Satisfactory agreement was reached on all issues. Power & Industrial Corporation has supplied all the bonds GRDA requires, and the contract is ready to move forward. Staff is asking the Board to ratify this agreement in the amount of \$17,193,760, the original amount of the contract. Director Grodhaus moved the Board ratify Contract 32124 to Power & Industrial Corporation in the amount of \$17,193,760, seconded by Director Meyers, and voted upon as follows: LaGere, Meyers, Spears, Grodhaus, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

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**4.j. Bid Award Recommendation for Contract 34521,  
Markham Ferry Radial Gate No. 17 Repair Project**

Mr. Barney showed a slide of Kerr Dam with the Energy Control Center and powerhouse that is being refurbished, as well as the 17 floodgates. The floodgates are used to regulate discharge flows from Lake Hudson to Lake Ft. Gibson. Gate 17 does not operate properly because of a misalignment and needs refurbished to meet FERC safety requirements of working properly. This project was put out for bids, with two bids being received. The apparent low bidder was Williams Construction of Pryor, Oklahoma. Williams Construction has done other projects for GRDA. Gate 1 was put out for bid in 2008, and Williams Construction was the low bidder for that project and performed an excellent job and finished ahead of schedule. Their bid for this project met specifications and took no exceptions. Director LaGere moved the Board award Contract 34521 for the Markham Ferry Radial Gate No. 17 Repair Project to Williams Construction in the amount of \$385,945, seconded by Director Spears, and voted upon as follows: Meyers, Spears, Grodhaus, LaGere, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

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**4.k. Amendment No. 2 to Work Authorization 28973,  
Air Quality Control Implementation Plan, Black & Veatch Engineering**

Mr. Barney reported this is a relatively small dollar amount, but Mr. Barney wanted to give some overview because the proposed amendment could have some potential significant impact on the future generation capability of GRDA. Black & Veatch has been hired to give GRDA a plan for meeting the variety of numerous new environmental regulations from the Environmental Protection Agency (EPA) at the federal level. B&V has worked hard on this plan over the last few months in parallel as EPA was finalizing

some of these regulations. Most notably, there is a set of regulations EPA has implemented that would effectively require GRDA to retrofit the plant with additional emission control equipment and complete that by no later than April 16, 2016—47 months. The equipment would include catalytic converters for additional NOx control, in addition to the low-NOx burners described earlier, and also the addition of an additional dry scrubber and bag houses for additional SO2 and mercury control and particulate control. The tentative estimated cost for the potential new emissions control is approximately \$544 million. This has appeared to be the best solution for the Authority's customers—the lowest cost to continue to provide reliable, low-cost generation. However, natural gas prices have fallen dramatically recently, and it has caused staff to consider converting a portion of the facility to natural gas firing. The existing facility has tremendous infrastructure already built into it. It has a very large water supply, a transmission distribution center, employees, land, fire system, and other assets to reduce the capital cost. It is apparent that adding a gas-fired Unit 3 to take the place of one of the existing coal units would give GRDA gas-fired generation capability at a very efficient level with brand-new equipment and would allow continued use of the coal-fired facility for some years until the new laws actually take effect. It would likely result in eventually closing one of the units—probably Unit 1—and continuing to operate the other unit. To operate a coal unit in the long term would require retrofit with emission control equipment. The cost for new combined-cycle gas units has fallen significantly. There is a window of opportunity over the next few months for purchase of such a Unit 3. This type evaluation is being performed by most utilities, and it is expected there will be a large number of orders for such across the U.S. over the next year. The

optimum configuration for GRDA would consist of two jet engines, and then the exhaust heat goes through a boiler to run a steam turbine. That is why they are called combined cycle. Mr. Barney showed a comparison of capital costs for a Unit 3 combined-cycle gas facility: \$710/kw for GRDA's share of the Redbud combined-cycle plant and \$846/kw estimated for a new combined-cycle Unit 3 at the CFC and offsets to the capital cost of a combined-cycle Unit 3 (\$550 million capital total, minus \$61 million deferred maintenance, minus \$230 million emissions project deferred, minus \$135 million for additional needed 160 MW capacity). The projected Unit 3 facility would generate about 160 MW more power than Unit 1's 490 MW and 160 MW of additional capacity it is expected will be needed by GRDA over the next five years due to growth in customer demand. Amendment No. 2 is for a not-to-exceed amount of \$103,800 to do a more detailed feasibility study by Black & Veatch to include confirmation of gas availability and cost estimates. It is anticipated that in 30 to 45 days to bring to the Board recommendations for the emission control equipment, plus this proposed natural gas option. It would be appropriate for the Board to make a decision within a few months as to which direction to take. In order to bring the best information to the Board to make their decision as to what is best for the Authority's customers, Amendment No. 2 is recommended. Director LaGere asked about the economics and the abundance of gas and the costs of the railroads—that the economics should be considered before spending a lot of money on an old, worn out coal facility. Mr. Barney stated this option would probably give the best of both worlds; at least for a period of years GRDA would have a choice of gas or coal. At this time, gas generation at the Redbud plant is actually significantly lower cost than coal. In response to a question by Director Meyers, the

capacity mix would be about 40 percent coal and 60 percent gas. Right now, it is about 70/30. This option is also what PSO is doing at their Northeast Plant at Oolagah. This plant is subject to even more rules from EPA. They are going to close one of their units in favor of one of these combined-cycle type facilities, and they are going to retrofit their second unit with emission controls. Mr. Sullivan added that having such fuel diversity will be a specific concern of credit rating agencies when they evaluate the credit rating of GRDA in the future. Mr. Barney stated available information will be presented to the Ad Hoc Committee on Resources at their planned June 1 meeting. Director Grodhaus moved the Board authorize Amendment No. 2 to Work Authorization No. 28973 with Black & Veatch Engineering for additional engineering services in an amount not to exceed \$103,800, seconded by Director LaGere, and voted upon as follows: Spears, Grodhaus, LaGere, Meyers, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

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#### **4.I. Other New Business**

Ms. Dougherty reported that since GRDA passed the standard contracts, it has worked out well in that it has been consistently applied to everyone. Several of the customers have paid late too, and GRDA has consistently enforced the late fees on everyone. When the April billings were sent out earlier this week, a request was received from Paragould. Their contract is a take-or-pay contract. This situation is a little different than the other previous situations in which GRDA has always had to deny requests for a waiver from the late payment penalty. Ms. Dougherty referred to a spreadsheet Paragould sent to GRDA's dispatchers and to Westar for the tagging on March 1 for deliveries throughout the month of April. To meet their minimum take-or-pay contract, they had to schedule 30,304, which they thought they did. What they did not

know was there was a formula error for the 24,400 that took the 976 times 25 days instead of the 21 days. As a result, they under scheduled approximately 4,000 MWh during the month of April. Their request, which Ms. Dougherty thinks is reasonable, is that they be able to schedule the under scheduled energy that they would have scheduled on peak during the month of April; they are asking if they can take the 4,000 MWh off peak for the remaining month of May. Market prices are not up yet because the summer heat has not happened. There are two reasons Ms. Dougherty would like to recommend approval. First, this formula error is more like a scrivener's error in a contract, and it is not them trying to take advantage. With market prices the way they have been over the last month, what Paragould is paying GRDA is higher than market prices. The second reason is that every single time GRDA has had an operational problem, like last summer when SPP was short on generation, Paragould is always great at letting GRDA cut its deliveries to them. They fire up their own generation, and they do not mark it up. Director LaGere stated the Audit & Budget Committee discussed this at the meeting this morning, and Director LaGere moved the Board authorize the exception for Paragould, seconded by Director Grodhaus. Director Spears added this is a special case, and the Board is not setting a precedent here. The motion was voted upon as follows: Grodhaus, LaGere, Meyers, Spears, yes. *Motion passed (4-yes, 0-no, 0-abstained).*

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## 5. Reports

### 5.a. Board of Directors Committee Reports

1. **Assets Committee:** There was no further report.
2. **Audit and Budget Committee:**

**(a) Update of Recent Meetings with Bond Counsel and Credit Rating Agencies**

**(b) 2011 Comprehensive Annual Financial Report**

**(c) Completion of the 2011 Financial Audit by Deloitte & Touche**

Director LaGere reported the Audit and Budget Committee met this morning. The audit went extremely well. Deloitte was very complimentary of the GRDA staff. They got started earlier in the fall and did not find any material or significant weaknesses during the course of their audit, which is a first since he has been on the Committee. The net assets of GRDA are about \$474 million with working capital of \$195 million and a debt service ratio of 1.19:1, and GRDA generated operating income of \$89 million for the 2011 calendar year. Director LaGere congratulated Ms. Dougherty and her people. He has seen improvement every year as GRDA moves forward with the audit and whole accounting process. Ms. Dougherty added staff is very grateful of the training and helping them stay current on the pronouncements. The training and support of the Board flows through to these audits, and Ms. Dougherty stated she has a great team.

**3. Fuel Committee:** There was no report at this time.

**4. Marketing Committee:** Director Grodhaus had no report.

**5. Policy Committee:** There was no report.

**(a) Possible Action Regarding Administrative Rules OAC Title 300, Chapter 20: Purchasing Rules**

Ms. Edwards reported the Policy Committee met this morning and discussed the Purchasing Rules. Staff began the process to promulgate administrative rules back

in December as required. The rules were put out for comment, and no public comment was received; therefore, nothing could change in the rules. Over the course of the last several months, Mr. Sullivan has reorganized the administration. That would necessitate amending the rules again in 2013. This issue was discussed with the Governor's office. The Governor's office would prefer GRDA withdraw its rules and start the process over again in 2013. The day GRDA had to withdraw its rules was Monday. This item was mainly to report to the Policy Committee and the full Board that the Purchasing Rules have been withdrawn, and the process will be started again with the 2013 session. The current rules in place in December 2011 are still in effect. In response to a question by Director LaGere, Ms. Jahnke reported there are still four policies that will be brought up again. After the last meeting, a couple of directors suggested some additional changes.

**6. Compensation Committee:** Director Grodhaus reported the Committee has met and has also met with CEO and staff. One of the things being worked through is to develop more detailed rules and responsibilities to communicate to the Committee and to present and get full Board approval. The Committee is also working with the CEO and staff to make sure what it is doing is something that adds value. The second item is the Compensation Committee does not approve or make budget; that is done by the Audit & Budget Committee/Finance Committee, and then the full Board approves it. Once the budgets are approved, the Compensation Committee would be working on holding people accountable, reporting to, educating, keeping up to date and doing vigilance on everything with compensation. The Committee is intent on developing with management some delegations of authority to go with the budget. A delegation of authority might be, e.g., once the budget is approved, the CEO and team are able to

make headcount and salary actions and just report them after the fact each month in the personnel report. But a delegation of authority might be able to say you can do those things as long as you are operating within budgeted headcount and budgeted dollars. If any salary action on a rolling 12-month period that would exceed for an employee 17.5 percent, instead of redoing it and reporting it after the fact, if it crosses that threshold, the team would need to present it to the Compensation Committee that is acting for the Board to get prior approval to make sure there is a disciplined process. The executive team now is working on their ideas as far as what delegations they would need to be able to run their business effectively without micromanaging but still do the disciplines. That will be presented to the Committee before its next meeting, and it will be presented to the full Board. If so, it will be put in place for July 1 for the third and fourth quarters of the year, but not going backward. Director Spears expressed his appreciation to Director Grodhaus for his work on the Compensation Committee.

**7. Long-Range Planning Committee:** Director Meyers had no report.

**8. Ad Hoc Resource Committee:** Director Spears reported the Committee is going to meet on June 1 and will bringing back a full report and presentation to the Board on the options.

Director Grodhaus stated he was pleased at Dr. Townsend's promotion and delighted to see Ms. Goodpaster-Carter's position has been elevated from superintendent of human relations to assistant general manager. This is a \$400 million company with 500 employees. This would fit within the public company of the Fortune 2000. To say that the employees are the greatest asset but not to have the HR position elevated to that point is something that needed to be done for a long time. On behalf of

all employees, it is a great progression and confidence in Ms. Goodpaster-Carter. Director Grodhaus congratulated both and added this is a big win for all the employees of GRDA.

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Director LaGere moved for adjournment at 1:52 p.m., seconded by Director Meyers, and voted upon as follows: LaGere, Meyers, Spears, Grodhaus, yes. *Motion passed (4-yes, 0-no, 0-abstained).*



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Donna M. Jones, Secretary

DATE APPROVED:

June 13, 2012  
GRDA Board of Directors