

**Minutes of Regular Meeting
Grand River Dam Authority
Board of Directors
Vinita, Oklahoma
October 10, 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 October 10, 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 October 9, 2012, at 8:43 a.m.; and by posting said agenda at the principal office of GRDA at least 24 hours prior to the meeting.

Chair Grodhaus called the meeting to order at 10:26 a.m. The Secretary called the roll; all members were present. Chair Grodhaus declared a quorum. Ms. Moore introduced guests.

Chair Godhaus introduced new Board Member Allen Wright and asked him to share information about himself. Director Wright stated he is proud to be a part of GRDA and added he is a lifelong Oklahoman who was born in Durant. He went to junior high at McCalester and high school at Cheyenne. He attended the University of Oklahoma and got involved in politics for a number of years. He worked on several presidential campaigns. He worked for Governor Henry Bellmon and Congressman Mickey Edwards, J.C. Watts when he was at the Corporation Commission, and was Chief of Staff for Frank Lucas. He worked for Koch Industries in Oklahoma and in Wichita, Kansas. He is currently Vice President of Public and Government Affairs for Devon Energy. He and his wife of 26 years, Jacque, have two sons, and he is active in the community

BOARD MEMBERS

Greg R. Grodhaus, Chair	Present
Chris Meyers, Chair-Elect	Present
Betty Kerns	Present
W. Brent LaGere	Present
Stephen R. Spears	Present
Allen B. Wright	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	Present
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	Absent
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 and Rick Shurtz, NEOREC; Randy Bundy, KAMO Power; John Bland, City of Siloam Springs; David Rountree and David Rountree and Mike Furnas, City of Miami; Julie Hudgins, Stilwell Utilities; Wendy Gregory, Governor's Office; Maressa Treat, Secretary of Energy's Office; Senator Greg Treat; Bill Zizic, Andrew Fuller, KPMG; Terry Simonson, PathWays Consulting; Dennis Patrick, Ameristar Fence Co.; Lana Daugherty, Vinita; Steve Miller, CH2M Hill; Mike Williams, Shangri-La; Randy Krehbiel, Tulsa World; Justin Alberty, Tamara Jahnke, Holly Moore, Grant Burget, Dave McCollaum, Melanie Earl, Jeff Tullis, Bob Billingsley, and Eddie Lee, GRDA.

CONSENT AGENDA

1. Regular Board Minutes of September 12, 2012

2. Claims, \$46,825,874.12

4.a. Resolutions of Commendation:

(1) Edmond W. Lee

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

(1) **Obsolete Steel Coal Car Parts: Brake Beam R-H #18 (114), Brake Beam L-H #18 (92), Brake Step 31 x 10 (30), Spring D-7 Outer Coil (560), Spring D-7 Inner Coil (723), RB-9 Side Bearing Block (211), RFE-18 Friction Shoe (432), Friction Shoe Outer Coil Spring (224), Friction Shoe Inner Coil Spring (204), WE 2016 Center Bowl Liner (64), WE 1016 Center Bowl Liner (68), Bottom Rod Offset 38-inch (17), Clip on Roof Liner (13), Side Frame Wear Plate (281), Stucki Retro Kit 4500 (18), 688-B Rocker (42), 688-B End Closure (42), 688-B Side Bearing Cage (12), 6 1/2 x 12 Pedestal Adapter (16), Brake Beam Liner b(128), ABD Service Valve (8), ABDW Emergency Valve (19), 36-inch Wheel Set 6 1/2 x 12 (4), Pressure Plate 45-Degree (24), and Sandwich Pressure Plate (73)**

(2) One Lot Miscellaneous Relay Test Equipment

(3) GE Oil Circuit Breaker (OCB)

(4) GE Transformer

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

<i>Number</i>	<i>Vendor</i>	<i>Amount</i>
35758	EMC Corporation	\$404,537.00
39141	Chickasaw Telecom Inc	9,575.78
39248	Storage Battery Systems	157,250.00
39263	Matheson Tri-Gas Inc	34,744.00
39629	EMC Corporation	138,841.02
39294	Rotating Equipment Repair	63,950.00
39301	Buckman Laboratories Inc	75,200.00
39308	Triumfant Inc	52,250.00
39347	Air Management Specialist	121,412.00
39349	Warren Power & Machinery	1,125,000.00
39358	Chouteau Telephone Co	<u>157,085.00</u>
<i>Total Standard</i>		\$2,339,844.80
6385	Total Resource Management	\$395,251.98
38441	Cummins Southern Plains	318,815.00
38477	CDW Government LLC	<u>25,325.24</u>
<i>Total Change Orders</i>		\$739,392.33
<i>Grand Total Purchases</i>		<u>\$3,079,237.02</u>

5.c. Work Order Report (* Denotes Addenda Items)

<i>Number</i>	<i>Title</i>	<i>Amount</i>
RF012-00533	SafeNet Inline Layer 2 Encryption for Lab	\$65,904.43
RF012-00537	Collinsville Sub (Feeder #33) Relay panel Upgrade	67,000.00
RF012-00538	Storage Addition for Transmission Warehouse	242,000.00
RF012-00539	Isilon Storage Hardware	149,507.42
RF012-00542	VNX Storage Hardware ETC	483,819.00
JF055-00000	Superheat Tube Panels for GRDA Unit 2	<u>5,248,156.20</u>
<i>Grand Total Work Orders</i>		<u>\$6,256,387.05</u>

Regarding item 2, Director Spears asked if Claim 258772 to KPMG, page 17, was the final payment on that contract and asked that it be moved to the regular agenda for further information.

Regarding item 4.b, Regarding item 4.b, the items were listed in a Surplus Property Transfer Forms from (1) Chris Cornett dated August 20, 2012; (2) Jamie Eby dated August 27, 2012; (3) Choya Shropshire dated September 12, 2012; and (4) Choya Shropshire dated September 12, 2012.

Director Spears moved to approve the consent agenda, with the removal of Claim 258772; seconded by Director LaGere, and voted upon as follows: Kerns, LaGere, Meyers, Spears, Wright, Grodhaus, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

On behalf of the Board of Directors, Chair Grodhaus presented a resolution of commendation to Eddie Lee, thanking him for his many years of service to the Authority.

REGULAR AGENDA

3. Unfinished Business

3.a. Progress Reports

Mr. Sullivan reported that this is Public Power month, and this week has specifically been designated as Public Power Week. Mr. Sullivan reiterated the importance of public power to the State of Oklahoma by having reliable, not-for-profit power that allows municipals, rural electric cooperatives, and other GRDA customers to be able to serve their customers at a not-for-profit basis but also bring down to the community level the involvement and recognition of management of those systems. GRDA appreciates the opportunity to celebrate that this week.

Mr. Sullivan stated he attended a meeting last month following the board meeting in Washington with the Large Public Power Council. The members met with several members of congress related to tax-exempt bond financing. It is a big issue going forward into the next congress. The group is ahead of all the activity that will happen after the election.

Mr. Sullivan stated he and Ms. Carter attended the APPA Public Power Leadership workshop last week in Nashville. It was a very good presentation with a lot of good discussion.

Fitch Ratings made a visit on September 27 and 28 and met with staff. A report from them is expected probably next week on their current and updated rating of GRDA. Staff felt it was a positive meeting, and it is hoped that will be reflected in their report. Moody's is coming on October 22 and 23, and Standard & Poor's will be coming after the first of the year.

The KPMG report will be presented later on the agenda. It has been a long process of meetings involving employees, customers, and outside stakeholders. It was a collaborative effort that went into preparing that report. Further discussion will be held regarding the Steering Committee that helped oversee the process. There have been meetings with the Governor's office and the Joint Legislative Task Force a week ago where the report did come out. It was presented at the meeting, and the Board is the only ones who have seen it before the presentation was made to them. Meetings have also been held with employees to go over the process and what is anticipated going forward.

Regarding the **Monthly Video Update**, Media Services presented a video entitled "GRDA October 2012 Update" highlighting the September 21 customer meeting regarding EPA regulations and how they affect GRDA's plans for future generation, the visit by Fitch Ratings, and the MESO annual meeting at which Charles Barney was named the 2012 recipient of the Ray Duffy Personal Service Award.

3.b. Assets Committee Recommendations:

3.b.1. Request by Ameristar Fence for a Transmission Line Easement Release Located in Tulsa County Oklahoma.

Regarding item 3.b.1., Director Kerns reported the Assets Committee met this morning; all members were present. This item has been carried over for the last couple of months. The details are finally worked out to everyone's satisfaction, and the Committee unanimously recommends approval of the request. Director Kerns moved the Board approve the relocation of a current easement and release of the easement on Ameristar Fence's property in Tulsa County, subject to approval by staff of the new easement location; seconded by Director Spears, and voted upon as follows: LaGere, Meyers, Spears, Wright, Grodhaus, Kerns, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

4.c. Change Order No. 8 to Contract 22120, Tonnece Substation Construction Services, with Ernest P. Breaux Electrical Inc. to Cover Remobilization Costs for Foundation Contractor

Mr. Tullis, Chief Engineer, reported he is standing in for Mr. Herron today, as he is involved in his second week of the NERC CIP audit. This item is a closeout of the Tonnece Substation construction. E.P. Breaux was awarded both the Tonnece

Substation and the Saline Creek Substation projects. Breaux planned to use the same foundation contractor on both projects, moving to Saline Creek after the 345-kV Tonnece foundations were completed. The Saline Creek substation foundations would then be done. The contractor would then move back to Tonnece to complete the 161-kV and 69-kV foundations and containment structures for both transformers. The Saline Creek project was delayed. The foundation contractor was released, went elsewhere, then had to re-mobilize later when needed at Tonnece. The cost to remobilize was \$9,504. It was planned to include this cost as part of the remobilization charges for Saline Creek, but that project contract was terminated because FERC approval of the final plans is still pending. This is the final change order for Tonnece. The change order total is \$213,904.78, or 8.47 percent of the original contract amount of \$2,524,600, making the revised contract total \$2,738,504.78. JSHP was assessed \$119,000 in liquidated damages because of the late delivery of the Tonnece 345/161-kV transformer. That covers over half of the Breaux change order costs, many of which were due to the transformer delivery delay. Director Meyers moved the Board approve Change Order No. 8 to Contract 22120 for a value of \$9,504 to cover the remobilization costs for the foundation contractor, seconded by Director Spears, and voted upon as follows: Meyers, Spears, Wright, Grodhaus, Kerns, LaGere, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

4.d. Report by GRDA Compensation Committee

Chair Grodhaus reported this report is to alert the Board, the audience, and the entire GRDA team of the OPM 2010 Compensation Study, comments about recruiting and retaining lessons learned, and two huge tidal waves that are going to hit GRDA that

dwarf any of the problems seen in the past that GRDA needs to be prepared for. All the facts and figures are part of public and open records. The OPM Compensation Study is done every two years. From the 2011 study of classified employees, the good news is that GRDA's salary is 3.4 percent under market and 22.5 percent above other state agencies. GRDA's benefits were 29.5 percent above market and the same compared to other state agencies. Total compensation is 8.3 percent above market and more than 25 percent above other state agencies. GRDA voluntary turnover is 2.1 percent compared to 10.3 percent for other state agencies. GRDA overall turnover is 2.7 percent compared to 13 percent for other state agencies. There were 31 of 301 (10.3 percent) classified employees that were found to be below market, which places GRDA at risk for increased voluntary turnover with these employees. Five of the 31 have now received career progression opportunities. It was not fair and equitable to other employees. A plan is being worked on to increase the remaining 31 employees' total compensation to market. GRDA is working within the executive order. Following this meeting, it will be announced that the remaining 26 approvals will be received, so all 31 employees will be brought up to at least market compensation. There are about 500 GRDA employees. About 300 are classified; 200 are unclassified. GRDA is going to contract with a service that does salary data and information by positions for OPM and other companies to do a study for unclassified employees. The two most expensive employee/operational issues for any company are voluntary turnover and prolonged unfilled positions. When these positions are open, the workload burden to current employees until the positions are filled is huge because fewer employees are doing the same job and taking up the slack for the people who are not there. It affects the quality of work and productivity and has a

negative effect on morale and is a drain on management. The voluntary turnover involves a cost for recruiting, and new hires must be at or above market. New employees are not trained and have no GRDA experience. The experience and training of the previous employee is lost. The costs of unfilled positions is real and substantial. The recent engineering issues revealed a big problem which resulted in wasted Board and management time, effort, focus, and costs. GRDA spent about \$7.5 million in outsourcing engineering projects before purchasing the new Engineering and Technology Center (ETC). About 90 percent of that amount could have been avoided in the unfilled positions had been filled. When GRDA has hired and awarded the bids to outsource companies, GRDA is essentially paying them for upgrading and training instead of investing in GRDA employees. The engineering recruiting issue was a wakeup call. GRDA has two big challenges. GRDA has a tremendous graying workforce. GRDA has 135 employees who will reach full retirement age and on-the-job requirements over the next five years. In addition, a large amount of employees are commuting. In Vinita, more than 50 percent of GRDA employees commute. Over 70 percent of that 50 percent commute from Tulsa. Commuters incur a lot of costs. People are more likely to commute if unemployment is high. As jobs open up in the local communities, the commuters will be targeted by headhunters. These factors show that GRDA will potentially have to replace 45 percent or more of its workforce over the next five years, and that is a huge, expensive task. A commuter incurs over \$6,000 per year in gas and tolls, plus the maintenance and repairs to cars. Costs are not tax deductible. They are putting 34,000+ miles per year on their personal vehicles, and it is a couple of extra hours per day away from home and family that is unpaid time. GRDA has to

prepare now and engage now. Buying the ETC is only part of the solution. GRDA needs to get target employee recruit profiles, accentuate GRDA advantages and minimize deficiencies, and better understand market human resource demographics. GRDA needs to do an across-the-board annual human resource study and resource plan. GRDA needs a recruiting presentation to highlight GRDA advantages. The market will become increasingly more competitive. GRDA must think outside the box and get creative. Chair Grodhaus gave examples of how to lessen the risk of commuting employees: using a GRDA commuter van service and engaging a local community recruiting task force. There are solutions; GRDA needs to find them. Director LaGere stated he thinks it is a good plan and said he appreciates Director Grodhaus's work. Director Wright asked about succession planning. Director Grodhaus stated that is what has to be done in the formalized resource planning process.

4.e. Presentation of Report of KPMG Performance Efficiency Audit of the Grand River Dam Authority, Possible Approval of Change Order No. 1 for Preparation and Delivery of Presentations of Audit Results, and Possible Approval of Proposal for Future Work Related to Implementation of the Plan

Mr. Sullivan reported this presentation is the same presentation that was given to the Governor and Legislative Task Force. A collaborative effort has gone toward including stakeholders and employees. The report was finalized last Tuesday, and Mr. Sullivan sent it electronically to the Board Wednesday. Bill Zizic, project manager, introduced Andrew Fuller and Terry Simonson, project advisor. Mr. Fuller gave an overview of the process. The organization was looked at from two perspectives: strategic and operational. Over 80 interviews were conducted, which included management and staff, customers, external steering committee participants and

legislative representatives. There were 75 distinct services that were identified that GRDA delivers across 13 operating and support departments. Mr. Fuller summarized GRDA's operations. Mr. Zizic added that GRDA's financial situation indicates a position of strength and flexibility. Mr. Fuller went over GRDA's department structure and stated KPMG's review process compliments the bottom-up budgeting process. It is hoped it will set a framework around how the costs are allocated and can then be reviewed on an ongoing basis through the normal budget process. Mr. Zizic summarized 87 distinct recommendations—strategic, operational, and department-level—that are allocated to the 75 functions and stated these are multi-year undertakings. Management has begun conversations with state officials regarding what flexibilities may benefit not only GRDA but also other state agencies. GRDA can become a model for some of the other agencies. Director Spears expressed his concerns that the approach is very academic, but the study was sold to the Board that there would be a plan going forward of things to implement to save money for the Authority and cut costs, and that is one of the main focuses of the customers. The City of Tulsa was the example, and they came up with \$26 million in savings. Director Spears could not see how this would be implemented in terms of substantial savings. Most appear to be increases in costs. Mr. Zizic explained the difference between the mandates of the City of Tulsa and GRDA. Mr. Zizic added that KPMG responded to the solicitation that was put out and the specific questions that were asked. Quantifying cost statements was not one of the questions, but that does not mean to say that KPMG has not put forth those recommendations in the hopes that some of the changes in doing something different with the resources GRDA has today over time will give GRDA better information in order to determine where those savings

opportunities are. Director Spears expressed his concerns that GRDA has spent a quarter of a million dollars for something that he could have read in a textbook in an hour and a half. Mr. Zizic stated KPMG worked very hard on the report and put in a lot of man-hours, and management was with KPMG every step of the way in developing the recommendations and stands behind it as the things they want to address going forward to be more efficient and effective. Director Grodhaus stated a performance audit was conducted for 2003 to March 2011 by the State Auditor at the request of the Governor, and it gave an entire book of things that were highly critical of business activities, functions, and operations that GRDA was doing that were considered incorrect. The performance audit does not give any direction as to what to do about it. It would make good sense that the people who are causing the problem would figure out what to do about it. The performance audit was given to KPMG, and the first thing KPMG did was address those questions and break it down into categories. That has not been shown in this presentation, but it has been given to the Steering Committee over the past five meetings. Director Kerns expressed her wish that Director Bartlett was still on the Board as he is the one who recommended the audit. Director LaGere expressed that he did not feel this was all a waste of time and that GRDA may have too much money in retained earnings and that the balance needs to be looked at about how much money does GRDA really want to retain and if GRDA is going to build a combined-cycle gas plant or retrofit both coal units. It was projected there would be some customer rate reductions at the end of 2013 when a lot of the debt is paid off. It was not his understanding costs would be cut on day one. Director Meyers asked how it is determined where the resources are spent for the most benefit. Director Grodhaus said

each Director comes from different constituencies, so some Directors zero in on costs and some zeroed in on the performance audit. Without a doubt, the recommendations will result in dollars saved. GRDA had 500 people to do \$420 million in revenue without a bottom-up budget. Director Spears stated that 90 percent of GRDA's costs are fixed for fuel, employee costs, and debt service, so there is little control over those costs.

Mr. Sullivan reported the 2011 performance audit focused on board governance, compliance management, corporate culture, and expense management. The KPMG audit focused on strategic and operational management, performance management, operational and capital budgeting, organizational alignment, supply management, workforce management, and technology management. The model presented is called the Center of Excellence (CoE), and it will coordinate actions to implement the 87 enterprise and department-level improvement initiatives. Staff has discussed how the CoE would be staffed. Mr. Sullivan discussed the preliminary action steps that GRDA will have to go through; staff is struggling with the most efficient way to undergo those steps. The Steering Committee participants will continue to provide monthly oversight of audit improvement initiatives to help guide the Authority's progress. KPMG has submitted a proposal where they can assist GRDA in implementing the recommendations. Mr. Sullivan stated his main concern is that there is good follow-through and that the recommendations are implemented in order to get the savings and the value of what GRDA has already spent. With the report complete, the focus now turns to continued external communication of the results and launching implementation of the CoE model. Staff has a recommendation regarding continued involvement by KPMG. Director Grodhaus discussed the 1,278 redundant operations on the supply side

that has not been recognized for 75 years. As a result of the study, they are being questioned, and KPMG has not indicated how much money that will save GRDA. Even though the report makes it look easy, whenever unneeded operations are cut out, that will cost GRDA less money. Mr. Sullivan added it makes the operation more efficient for the people involved to have input. Fitch questioned that with all the audits, would management be able to focus on long-term strategy. Central Purchasing needs to be freed up to work on the big items instead of spending time on 1,278 small purchase items that could be done at the department level. Mr. Zizic stated there were countless spreadsheets, hours of conversations, and detail that was gone through to get to the report. KPMG values the thought process. A lot of Tulsa's savings came from identifying individual services that were outside the scope of their mandate. GRDA's mandate is very broad. Mr. Sullivan added that one of the main takeaways is that this is a continuous process and will not end with the report; it will provide opportunity for continuous improvement. Director Grodhaus stated there are 87 clear directives to correct items in the performance audit. The biggest issue is who will monitor that. If these directives are not executed, the study will be a total waste of money. Director Spears stated the example about blanket purchase orders is the clearest of the 80 as to action; most are theoretical. Mr. Zizic stated one of the dangers of a report like this is that it gets too prescriptive, and as environmental factors, etc., change, it becomes too rigid. KPMG believes the intent of the 87 directives are understood by the personnel who need to implement them. Director Spears stated as long as staff understands what those directives mean, so they can implement them, he feels much better, and a cost/benefit analysis would be helpful. Director Grodhaus added KPMG worked with the

departments bottom-up, so it was collaborative with them. The Steering Committee was concerned with what kind of scorekeeping matrix was KPMG going to assign to each recommendation to see if it is going to work and what kind of benefit would be gained. Director Spears explained the risks with blanket purchase orders but stated it is something to consider. Director LaGere stated that GRDA has been behind regarding the IT department, so that will improve efficiency.

Mr. Sullivan stated there is a change order related to the audit. There were some additional items that came up. With the political environment GRDA is in, Mr. Sullivan felt GRDA needed to meet with some state officials. KPMG felt that was beyond the scope of the original engagement. Mr. Sullivan recommended the Board approve an additional \$7,315. They are not charging for the time to come here today for this presentation as that was provided for in the original agreement. Director Spears expressed the stakeholders listed look like all the other stakeholders. Director Kerns noted that page 25 of the cost proposal reads "KPMG has determined all-inclusive maximum price to complete the engagement, including all direct, indirect, and out-of-pocket expense of \$223,000," so this appears to be part of that. Mr. Sullivan said the meetings were not only to present the information but also to gather information. For example, the Governor had several members of her cabinet present for the discussion and to educate them on the process and how it is in response to the audit that the Governor had requested. Director Kerns said to let the Governor pay it and that she would be glad to ask her; this amount should be included in their basic cost. Director Wright asked if the cost is for time or for specific requests by the policy makers. Director Spears stated the report was dated prior to the meetings and asked if there is a revised

report that includes that information. Mr. Zizic stated the topics were similar, but the bulk of the cost is not time but expense for travel separate from the ten-week timeline. Mr. Zizic stated his people had talked internally, and they do not want the Board to feel it is an unfair situation, so they agreed to adjust the price from \$10,500 to \$7,315. Director LaGere moved the Board approve the change order in the amount of \$7,315 for additional services provided by KPMG, seconded by Director Wright, and voted upon as follows: Spears, no; Wright, Grodhaus, yes; Kerns, no; LaGere; yes; Meyers, no. *Motion failed (3-yes, 3-no, 0-abstained).*

2. Claim 258772 to KPMG

Ms. Dougherty asked for approval of Claim 258772 to KPMG in the amount of \$84,053. This amount is part of their original contract the Board approved for services they have provided. GRDA has an additional invoice for about \$100,000 that will be on next month's claim list. Director Meyers moved to approve Voucher 258772 to KPMG in the amount of \$84,053. Director Spears seconded the motion, with the stipulation that Legal review the contract to make sure KPMG has performed under the contract as he does not feel they have performed based on the presentation given to the Board of what the Board's expectations were. The motion was voted upon as follows: Wright, Grodhaus, Kerns, LaGere, Meyers, Spears, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

**4.f. Change Order No. 2 to Contract 33839,
Pensacola Powerhouse Roof Replacement, with Mr. Roof Inc.
to Extend Completion Date**

Mr. Barney reported GRDA is replacing the 20,000-square-foot roof on the Pensacola powerhouse. The contractor has requested a time extension to complete the job, due to unexpected circumstances. The contractor has been making regular progress, but there have been delays because of excessive heat and delivery of stainless steel vent material. The lower roof has been completed, and the upper roof should be completed before the end of October. The contractor is requesting an additional 30-day time extension to complete the job. The work that has been completed so far has been very effective in stopping water leakage into the powerhouse. Mr. Barney recommended approval of the change order. He also described that under O.S. 61, all such contract change orders require the Board's approval, even though ten percent overrun is allowed on a contract and even if the change is to reduce the price. In response to a question by Director Kerns, Mr. Barney stated Change Order No. 1 was to change the materials and allow 90 days to complete. This Change Order No. 2 is to provide an additional 30 days to complete the work. Director Spears moved the Board authorize Change Order No. 2 to Contract 33839, Pensacola Powerhouse Roof Replacement, to extend the contract completion date by an additional 30 days due to unexpected weather and materials issues, at no additional cost; seconded by Director Meyers; and voted upon as follows: Grodhaus, Kerns, LaGere, Meyers, Spears, Wright, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

4.g. Work Authorization 39382 with Burns and McDonnell Engineering Company for Engineering Services to Evaluate and Restore Piezometers at Pensacola, Markham Ferry, and Salina Pumped Storage Project

Mr. Barney explained a piezometer is a strategically placed monitoring well; it monitors groundwater uplift pressure. Trends are tracked to monitor structure safety. In the past two years, FERC has strongly recommended GRDA piezometer threshold limits be evaluated. A threshold limit is a low point and a high point as to what is reasonable. It has been identified some of the piezometers are not functioning correctly, and they need to be restored or reevaluated. Inside each arch of Pensacola Dam is a potential place for a piezometer; however, they are not inside every arch. Associated with Markham Ferry is a large earth dam. Piezometers are drilled into the body of the dam at the top and along the slope. There is also a large earth dam associated with Salina Pump Storage with many piezometers. There are also piezometers on the concrete structure. The Salina Dike is the most significant risk in the event of Pensacola failure. There are piezometers along the length of the dike that would identify any weakening condition that could occur. Mr. Barney showed slides of piezometers. Some of the piezometers need to be restored, and all of them need to be assessed. He also showed slides of typical piezometer installation on earth dams and inside concrete dams and the data collected. Director Kerns moved the Board approve the proposed Work Authorization 39382 with Burns & McDonnell Engineering for engineering to evaluate and restore GRDA dam piezometers in a not-to-exceed amount of \$185,200, seconded by Director Meyers, and voted upon as follows: Kerns, LaGere, Meyers, Spears, Wright, Grodhaus, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

4.h. Ratification of Interagency Agreement with Oklahoma Department of Wildlife Conservation for Fish Mortality Protocol for GRDA Tailwaters

Dr. Townsend reported this item is the result of a meeting staff had last March with FERC staff. In 2010 and 2011, GRDA had some minor fish kill incidents (50 to 100 fish each time) below Markham Ferry. They happened in July and August. This happened the same time staff was working on the dissolved oxygen (DO) enhancement plan that GRDA has been implementing with the Oklahoma Water Resources Board (OWRB). Those incidents resulted in some letters to FERC staff. FERC, in their regulatory environment, did not necessarily see those as minor incidents. When compared to other actions throughout the state that involved fish kills below dams, sometimes in the thousands to hundreds of thousands of fish, these are minor incidents. As a result, FERC wanted GRDA to implement into the DO plan a fish kill reporting protocol for the tailraces. At the March meeting, two important distinctions were established associated with the fish incidents and for the DO enhancement measures. In the reports the Oklahoma Department of Wildlife Conservation (ODWC) filed with FERC regarding the incident, approximately 100 fish were counted in a ten-mile stretch below Kerr Dam. ODWC presumed the kill to be associated with low DO. The 2010 bond issue included approximately \$6 million in funds associated with installing DO enhancement equipment directly onto the turbines. Those discussions were made because the resource agencies had been expecting GRDA to meet DO standards well below GRDA's project boundary, into the river system several miles downstream. At the March meeting, staff was able to get a big distinction from FERC staff that they do not expect GRDA to meet DO standards below GRDA's project boundary. That saved GRDA the \$6 million to install the DO enhancement on the turbines. GRDA implemented a plan this summer at

Kerr Dam to open a gate one chain link and spill water to address the area in the tailrace. FERC has indicated GRDA needs to focus on the tailrace areas, and that is what GRDA has done. The DO management plan implemented this year has been successful. The biggest issue was an amendment submitted last summer in which GRDA was able to keep and maintain control over the Pensacola power pool, so GRDA could provide water through the drought conditions to avoid fish kills. It took a lot of input from staff and communication with FERC staff and filing amendments to be able to address those issues. In anticipation of the drought, GRDA approached FERC and told them GRDA needs to store some water to have enough water to address the DO and fish kill issues throughout the summer months—July, August, September, and even October. FERC granted GRDA that, so GRDA has been able to manage its pool at Grand Lake more efficiently this year. Through one of the most extreme drought years, GRDA has been able to maintain state standards as far as DO and avoid any major fish kills. From the March meeting, FERC wanted GRDA to incorporate the fish kill response plan, and that is what GRDA is doing with the ODWC. GRDA is asking ODWC for their help in manpower for assessing any kind of fish kill incident below the tailrace. A key component of similar contracts is GRDA deposits \$27,000 at the beginning of each year to address any vandalism for bat caves under GRDA's jurisdiction under GRDA's FERC license. Since 2008, GRDA spent about \$13,000 out of that fund in total. Most was associated with a vandalism incident. This contract sets up a \$40,000 fund that, if needed, GRDA can pay ODWC to come in and help assess a fish kill. It is not expected that any major issues will be seen associated with fish kills moving forward. As long as GRDA has the control to look at current conditions and can anticipate and pull water at

Pensacola, that seems to be enough to get GRDA through the hot conditions, but that takes a FERC amendment to accomplish that. Dr. Townsend does not anticipate using many funds from the account. Staff would like to submit this to FERC for their approval and demonstrate GRDA is taking the fish kill incident seriously and has a protocol in place. Mr. Sullivan reiterated that because of the March meetings with FERC and showing them the area from the air, GRDA did not have to spend the \$6 million from the 2010 bond issue. Director Meyers moved the Board ratify the Interagency Agreement with the Oklahoma Department of Wildlife Conservation to maintain FERC compliance with Article 401 of the Markham Ferry Project and Article 403 of the Pensacola Project in an amount not to exceed \$40,000 in any given year, seconded by Director Spears, and voted upon as follows: LaGere, Meyers, Spears, Wright, Grodhaus, Kerns, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

4.i. Emergency Purchase Order 39472 to Specialty Aviation Services for the Purchase of a Rolls-Royce 250C30P Engine for LB4 Helicopter

Mr. Edwards reported that several months ago, the Board approved a contract to overhaul the engine in GRDA's helicopter. The bid came in at \$54,350. It was substantially lower than any of the closer bids, so when they tore it down, it came in at \$181,000. That is a non-production engine, so GRDA could overhaul the current engine, but when it times out again, this same scenario will be faced of not being able to get parts. All this materialized late Friday evening. Staff found two engines. They are both a C30, which is a little larger and has more horsepower and will increase the capacities of the current aircraft to allow it to hoist an extra 400 pounds. One of the things discussed after the wildfires this year was being able to carry water. This will help with that effort

and will also allow another passenger or two to be transported. The mid-time engine has about 1,300 hours on it and will cost \$231,625 versus a zero-hour engine that has a one-year, 1,000-hour warranty that is \$305,125. The Authority paid about \$500,000 for the aircraft, and it has appreciated in value. Staff found one on the market that is six serial numbers different from GRDA's, and its value is \$780,000. If a C30 engine is added, the value of the asset would be further increased to about \$980,000 with the engine upgrade. The cost per hour to operate between the next overhaul is about a \$31,000 difference. An upgrade to the \$231,625 engine could be done, or GRDA could buy the zero-hour engine that is fresh off the refurbishing line for \$305,125, which does not include labor because GRDA's own mechanic can install it. It does include the retro kits and FFA certifications for air worthiness. Mr. Edwards likes the idea of having a warranty on the engine, and this engine is still in production. Engines are overhauled after 2,000 hours. In response to questions by Director Kerns, Mr. Edwards stated GRDA is not the only ones searching for these engines. This helicopter is very prominent in the air ambulance business, and everyone is facing the same dilemma that GRDA is. The market does not have a lot of these engines available. The Emergency Purchase Authorization is Purchasing's vehicle to be able to retain the services of an organization to get a serviceable engine for GRDA's aircraft. GRDA is flying on a rental engine right now. In response to a question by Director LaGere, GRDA's helicopter is an '82, so this aircraft has been through several overhauls. There are competing interests for the parts to overhaul the engine. A new engine from the factory is about \$640,000. A new helicopter would cost over \$3 million. GRDA's helicopter is a good aircraft, and it saves GRDA a lot of money and time. When the engine times out again, GRDA will be

faced with the same dilemma. The new engine will time out in 2000 hours, but it is still a production engine and has parts available. Mr. Edwards recommended purchasing the zero-time engine. Director Kerns moved the Board approve the contract with Specialty Aviation Services for the purchase of a Rolls-Royce Aircraft engine for the amount not to exceed \$305,125, seconded by Director LaGere; and voted upon as follows: Meyers, Spears, Wright, Grodhaus, Kerns, LaGere, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

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 and Budget Committee:**

(a) Selection of Auditing Firm for 2012 Financial Audit.

Director LaGere reported the Committee met via teleconference yesterday and unanimously recommends that GRDA engage Deloitte to audit the 2012 financial statements at a not-to-exceed cost of \$101,970. Director LaGere moved to approve same, seconded by Director Spears, and voted upon as follows: Spears, Wright, Grodhaus, Kerns, LaGere, Meyers, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

3. **Fuel Committee:** Director Spears had no report.

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

5. **Policy Committee:**

(a) First Reading of Revisions to Board Policy 2-3, Board Committees.

Director LaGere reported the Committee met this morning. Chair Grodhaus reported Legal has opined the Board can vote on this item or table it. This revision combines the seven committees into five committees. That will cause each board member, with exception of one, to only need to serve on two committees and should be able to help improve attendance and effectiveness. The Audit and Budget Committee will take in the Policy Committee, and the Marketing and Compensation Committees will be combined. In addition, to give the Committee Chair some tools to use, each Committee Chair can make the decision on whether their committee is staffed by two or three members. Also, they may avail themselves of an alternate committee member. The Board Chair would name at least one or two alternate committee members. If a Committee Chair were to determine there were going to be absences that would keep their committee from having a quorum, and they do not want to pass that meeting to another day, they could call on the alternate committee member to attend that meeting to get the quorum. The other item addressed, with the advice of Ms. Edwards, is that the Board has the ability to do telephonic meetings, but it does require there are no de facto or actual decisions made. The members may discuss and then make a recommendation to the full Board. Director Kerns asked if telephonic meetings have to follow the teleconference statutes. Ms. Edwards stated that as long as a committee is not exercising any actual or de facto decision-making authority, that committee need not comply with the Open Meetings Act. The members do not have to make recommendations as a whole. There could be three different opinions come out of a

committee meeting. Discussion followed about public bodies. Director Spears recommended passing this item to the next month for further research.

6. **Compensation Committee:** Director Grodhaus had no further report.
7. **Long-Range Planning Committee:** Director Meyers had no report.
8. **Ad Hoc Resource Committee:** Director Spears had no report.

6. Proposed Executive Sessions:

- a. **Proposed Executive Session Concerning a Pending Investigation, Claim, or Action Related to Non-Public Information.**
- b. **Proposed Executive Session Concerning a Pending Claim or Action Related to a Lease of GRDA Property in Delaware County Oklahoma.**
- c. **Proposed Executive Session Concerning a Pending Action.**

Director Spears moved to go into executive session at 1:19 p.m., seconded by Director LaGere, and voted upon as follows: Wright, Grodhaus, yes; Kerns, absent; LaGere, Meyers, Spears, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

Director Spears moved to return to regular session at 2:22 p.m., seconded by Director Meyers, and voted upon as follows: Grodhaus, Kerns, LaGere, Meyers, Spears, Wright, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

7. Action on Executive Session Items:

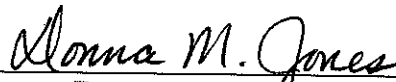
- a. **Action, As Necessary, Concerning Non-Public Information.**
- b. **Action, As Necessary, Concerning a Lease of GRDA Property in Delaware County Oklahoma.**
- c. **Action, As Necessary, Concerning a Pending Action.**

Regarding item 7.a., no action was deemed necessary at this time.

Regarding item 7.b, Director Spears moved the Board approve the lease of GRDA property above the high-water mark to Ted and Gail Mitchell as discussed in executive session, seconded by Director LaGere, and voted upon as follows: Kerns, LaGere, Meyers, Spears, Wright, Grodhaus, yes. *Motion passed (6-yes, 0-no, 0-abstained).*

Regarding item 7.c, no action was deemed necessary at this time.

Director Wright moved for adjournment at 2:24 p.m., seconded by Director Kerns, and voted upon as follows: LaGere, Meyers, Spears, Wright, Grodhaus, Kerns, yes. *Motion passed (6-yes, 0-no, 0-abstained).*



Donna M. Jones, Secretary

DATE APPROVED:

November 14, 2012
GRDA Board of Directors