

**Minutes of Regular Meeting
Grand River Dam Authority
Board of Directors
Vinita, Oklahoma
December 12, 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 December 12, 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 December 11, 2012, at 9:35 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 10:35 a.m. and apologized for the late start. The committee meetings ran over, but it will be attempted to try to start them earlier. All members were present with the exception of Directors Kerns and Wright. Chair Grodhaus declared a quorum. Ms. Moore introduced guests.

BOARD MEMBERS

Greg R. Grodhaus, Chair	Present
Chris Meyers, Chair-Elect	Present
Betty Kerns	Absent
Tom Kimball	Present
W. Brent LaGere	Present
Stephen R. Spears	Present
Allen B. Wright	Absent

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	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, Larry Cisneros, and Rick Shurtz, NEOREC; Ted Hilmes, KAMO Power; John Bland, City of Siloam Springs; Mike

Furnas, City of Miami; Mike Doublehead, TPWA; Roger Pelcher, Crown Pointe; Shane Woolbright, MESO; Bob Bitting, AEP-PSO; Mike Williams, Shangri-La; Rusty Fleming, GLUE; Sandra Balzer, Assistant Attorney General; Gary Pruet, City of Pryor; Randy Krehbiel, Tulsa World; Justin Alberty, Tamara Jahnke, Holly Moore, Grant Burget, Dave McCollaum, Melanie Earl, Mike Stafford, Eddie Rothermel, Heath Lofton, and Eddie Rogers, GRDA.

CONSENT AGENDA

1. Regular Board Minutes of November 14, 2012

2. Claims, \$56,231,672.79

4.a. Resolutions of Commendation:

- (1) Rocky L. Kammerzell
- (2) Danny L. Tugmon
- (3) Hershall K. Clayton
- (4) Edward L. Hammons

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

(1)

	Mileage or Operation Hours
2005 GMC Yukon 4x4	211,132
2004 Mercury Grand Marquis LS	174,727
2004 Chevrolet Pickup 4x4	141,723
2001 Dodge Pickup 4x4	211,453
2001 Dodge Quad Cab Pickup 4x4	252,183
1999 Dodge Quad Cab Pickup 4x4	216,040
2001 Chevrolet Van	181,899
1999 Chevrolet Suburban	283,894
2001 Dodge Quad Cab Pickup 4x4	260,563
2003 Chevrolet Express Cargo Van	208,856
1983 Fruehauf Single-Axle Pole Trailers (3)	
2005 Kershaw Skytrim 75-X Tree Trimmer	3,200
2006 Ford Crew Cab Truck 4x4	188,650
1977 Ford Truck Flatbed	92,094
1999 Chevrolet Truck	165,330
2000 Altec Aerial Bucket Device	
1996 Chevrolet Extended Cab Pickup	166,505

4.c. GRDA Customer and Industrial Development Plan for 2013

5.b. Approval/Ratification of Purchase Orders Which Are Consistent with GRDA Policies and Procedures (* Denotes Addenda Items)

<i>PO No.</i>	<i>Vendor/Description</i>	<i>Pursuant to</i>	<i>Amount</i>
Standard Orders			
39709	AT&T Corporation / Land Line Services	State Contract ITSW450	\$80,000.00
39726	AT&T Global Network Services / Modem/VPN Network	State Contract ITSW450	\$12,000.00
39727	Southwest Power Pool / Purchased Power	OAC 300:20-1-1	\$8,600,000.00
39728	AT&T Corporation / Modem/Dedicate Lines/SO	State Contract ITSW450	\$30,000.00
39729	AT&T Long Distance / Long Distance Services	State Contract ITSW450	\$45,000.00
39730	AT&T Mobility / Cell Services/Phones/Modems	State Contract ITSW1012A	\$83,000.00
39736	Empire Electric / Purchased Power	OAC 300:20-1-1	\$300,000.00
39737	Oklahoma Gas & Electric / Purchased Power/Redbud Commodity/Redbud Ops & Maintenance	OAC 300:20-1-1	\$21,000,000.00
39926	City of Coffeyville / Purchased Power	OAC 300:20-1-1	\$2,600,000.00
40119	AECI / Purchased Power	OAC 300:20-1-1	\$6,500,000.00
40121	Cargill Power Markets / Purchased Power	OAC 300:20-1-1	\$500,000.00
40123	The Energy Authority / Purchased Power	OAC 300:20-1-1	\$3,000,000.00
40125	Entergy / Purchased Power	OAC 300:20-1-1	\$100,000.00
40126	Kansas City Power & Light / Purchased Power	OAC 300:20-1-1	\$200,000.00
40129	Omaha Public Power / Purchased Power	OAC 300:20-1-1	\$500,000.00
40132	Rainbow Energy / Purchased	OAC 300:20-1-1	\$250,000.00

	Power		
40134	Tenaska Power Services / Purchased Power	OAC 300:20-1-1	\$250,000.00
40136	Western Farmers Electric Coop / Purchased Power	OAC 300:20-1-1	\$450,000.00
40137	Westar Energy / Purchased Power	OAC 300-20-1-1	\$650,000.00
40138	Endure Energy LLC / Purchased Power	OAC 300:20-1-1	\$200,000.00
40139	American Electric Power / Purchased Power	OAC 300:20-1-1	\$350,000.00
40362	Dell Marketing / Servers	State Contract ITSW206	\$160,032.60
40385	APPA / Dues	OAC 300:20-1-15(c)(4)	\$100,000.00
40387	Office of Mgmt & Enterprise Services / Admn Costs & Expenses	74 O.S. § 840-1.18A	\$52,000.00
40388	North American Reliability Corp / Assessment Fees	NERC & SPP Guidelines	\$300,000.00
40397	Oklahoma Natural Gas / Natural Gas	Regulated Utility	\$100,000.00
40516	Experis Manpower Group / Recruitment Assistance	NJPA Contract 021610	\$500,000.00
40602	Marmic Fire and Safety / Fire Extinguisher Services	RFQ 11605	\$43,136.05
40614	CG Power Systems / Transformers	RFQ 11502	\$1,209,000.00
40623	Standley Systems / Copier/Scanner/Printer	ITSW171	\$8,507.60
40661	Preferred Sales Agency / Material for Construction	RFQ 11308	\$1,000,000.00
40662	Fletcher-Reinhardt Company / Material for Construction	RFQ 11308	\$1,000,000.00
40663	Techline / Material for Construction	RFQ 11308	\$1,000,000.00
40688*	IBT / Conveyor Belt	RFQ 11407	\$123,189.00
40689*	Duecker Rubber Service / Conveyor Belt	RFQ 11407	\$83,079.00

40705	Schneider Electric / Meters	RFQ 11642	\$275,580.00
40721	Southwestern Power Admn / Purchased Power	OAC 300:20-1-1	\$2,500,000.00
40731	Mail Finance / Digital Mailing System	State Contract ITSW1008	\$8,909.04
40779*	Pelco Structural LLC / Galvanized Steel Structures	RFQ 11592	\$1,880,482.00
40798*	State of Nebraska / Railcar Assessment	Nebraska Rev. Stat. § 77-684	\$125,000.00
40809*	GE Energy Mgmt Services / Tier 3 Patch Mgmt Upgrade	RFQ 11656	\$150,280.00
Total Standard Orders			\$56,319,195.29

Change Orders			
34362*	TransAmerican Power Products / Engineering Revisions Requested	Engineering Revisions	\$812,861.00
39472	Specialty Aviation Services LLC / Freight Charges	Inv. for Freight on Emergency Acquisition	\$306,365.11
Total Change Orders			\$1,119,226.11

Emergency Orders			
40655	Mechanical Dynamics & Analysis / Return Unit 2 to Service	Emergency Acquisition	\$482,632.00
Total Emergency Orders			\$482,632.00

Grand Total All Orders			\$57,921,053.40
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5.c. Work Order Report (* Denotes Addenda Items)

Number	Title	Amount
RF012-00551	GE Tier 3 Patch Management Upgrade	\$285,600.00
Grand Total Work Orders		\$285,600.00

Regarding item 1, Director Meyers moved to approve the November 14, 2012, minutes; seconded by Director LaGere; and voted upon as follows: Kimball, LaGere, Meyers, Spears, Grodhaus, yes. *Motion passed (5-yes, 0-no, 0-abstained)*.

Director Spears moved to approve the consent agenda, less the minutes; seconded by Director LaGere; and voted upon as follows: LaGere, Meyers, Spears, Grodhaus, Kimball, yes. *Motion passed (5-yes, 0-no, 0-abstained)*.

On behalf of the Board of Directors, Chair Grodhaus recognized the retirement of Messrs. Kammerzell, Tugmon, Clayton, and Hammons. They have been with the Authority for 36, 31, 29, and 29 years, respectively—125 years of experience, knowledge, and skills that have gone into GRDA. Approximately 60 percent of GRDA's employees will need to be replaced over the next five years. What GRDA loses with these four men is astounding, and the Board thanks them for their support and wishes them well.

REGULAR AGENDA

3. Unfinished Business

3.a. Progress Reports

Mr. Sullivan reported Unit 2 has experienced an extended outage. There were some vibration issues which required shutting the unit back down and doing some additional work and repairs. It is in the process of being brought back up. Mr. Barney added the unit was on line last night, but there was some leakage to repair on one bearing. It is hoped to be up and going full speed by the end of the week.

Two weeks ago, Mr. Sullivan attended the APPA CEO Climate Change and Generation Task Force meeting in Washington. There was a lot of discussion about

what is going on around the country with other utilities and very similar circumstances to GRDA. They have coal and are looking at making upgrades or going to gas. There are not any clear answers, and everyone is in a little different situation. One thing that is important in looking at the cost of power are some of the changes that are happening on the coast, especially in California. GRDA's rate is from 5 cents to 5.5 cents per kilowatt hour on an average compared to the retail rate in Pasadena, California, which is 14 cents for their residential customers. California currently has a five-tier system that goes up to 35 cents per kilowatt hour, and they are expecting about a 70 percent increase over the next ten years because of the changes being mandated from moving away from coal to other forms of generation. GRDA's challenges are very daunting, but when taken in context with what is going on in the country, GRDA is still in a much better competitive situation.

Regarding the **Monthly Video Update**, Media Services presented a video entitled "GRDA December 2012 Update" highlighting a report on the tabletop exercise on GRDA's Emergency Action Plan (EAP) for all three hydro projects that was held on December 5 at the GRDA Ecosystems and Education Center. Mr. Sullivan added GRDA is responsible under its Markham Ferry license to maintain the Salina Dike that protects the city.

4. New Business

4.d. Assets Committee Recommendations:

4.d.1. Request by Kingston Properties, LLC, for Lease of GRDA Property for a Concrete Deck in Delaware County Oklahoma.

4.d.2. Request by Gregory and Kristina Denney for a License to Encroach for Property Located in Delaware County Oklahoma.

4.d.3. Request by GORE DOP VII, LLC, for a Partial Release of a Transmission Line Easement Located in Sequoyah County Oklahoma.

Director Spears reported neither Director Wright nor Director Kerns were present, so there was no quorum; therefore, the items will be presented to the full Board.

Regarding item 4.d.1., Ms. Jahnke reported this property is on Monkey Island and is connected with the Crown Pointe Marina. On GRDA property is a concrete deck that measures approximately 1,540 feet. Crown Pointe/Kingston Properties would like to lease the deck to use as part of their marina. The marina now has five docks and 37 slips. The gas dock walkway will connect to the deck. It used to be Port Duncan. Since Crown Pointe has taken over the marina, all the docks have been refurbished. This is another step in improvement of the area. The deck attaches to private property that is owned by Kingston. Kingston is proposing to install a metal structure and resurface the deck. Also, Kingston will build a ship store on their property behind the deck. The property was appraised at \$1,224.84 per year including the 18 percent administrative charge typically charged for commercial leases. They are requesting a 20-year lease that would require an appraisal after ten years. Staff recommends the lease be issued to Kingston Properties. Director LaGere moved the Board approve a 20-year lease to Kingston Properties, LLC, of a 1,540-square-foot concrete deck located in Delaware County for the amount of \$1,224.84 per year; seconded by Director Spears; and voted upon as follows: Meyers, Spears, Grodhaus, yes; Kimball, abstained; LaGere, yes. *Motion failed under 82 O.S. § 874(D) for failure to get the affirmative vote of five or more board members (4-yes, 0-no, 1-abstained).*

Regarding item 4.d.2., Ms. Jahnke reported this property on Grand Lake at Wolf Creek is a 599-square-foot deck. The structure was built prior to June 2005. They are

requesting a 30-year license to encroach, and the property appraised for \$310 a year. Staff recommends the license to encroach be issued to the Denneys. Director Spears moved the Board approve a 30-year license to encroach to Gregory and Kristina Denney for a 598.5-square-foot wooden deck, stairs and concrete patio located in Delaware County for the amount of \$310 per year; seconded by Director LaGere; and voted upon as follows: Spears, Grodhaus, Kimball, LaGere, Meyers, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

Regarding item 4.d.3., Ms. Jahnke reported this is Line 701. The line was originally built in 1951 by KAMO. At that time, they obtained a blanket easement for half-quarter sections. In the late 90s, this line was assigned to GRDA as built. It turned out to be approximately 2,500 feet north of the subject property. A release of the portion of the easement on this particular piece of property will have no effect on the easement that is in place for GRDA's current line, and it will not affect GRDA's operations of that line. In the past, when doing partial releases, GRDA had charged the requester \$200. Director Spears moved the Board approve a partial release of GRDA transmission line right-of-way easement for Line 701 in Sequoyah County in favor of GORE DOP VII, LLC, for the amount of \$200; seconded by Director LaGere; and voted upon as follows: Grodhaus, Kimball, LaGere, Meyers, Spears, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

4.e. Power Cost Adjustment (PCA) for the First Six Months of 2013

Ms. Dougherty reported the calculation includes \$13 per MWh in GRDA's base energy cost for fuel and purchased power. This year, whether it was generated with coal or gas or was purchased, for the most part the cost is ranging from \$23 to \$27. The calculation in the simplified example used \$25, and with collecting \$13 in the base

energy rate, the surcharge should be \$12. In previous years, the board policies and some of the rate schedules required the PCA be calculated in December for January through June and then calculated in June for July through December. Because loads in Oklahoma are usually much higher in July, August, and September, probably 45 percent to 48 percent of GRDA's energy is usually sold in the first half of the year, and 52 percent to 55 percent is sold in the second half of the year. It also costs more in the second half of the year (supply and demand). As a result, the PCA for the first half of the year is much less than the PCA for the second half of the year. This year, that happens not to be the case. It provides a good opportunity to do something differently and adopt something that several of the customers have talked about to staff. If the PCA were recommended as normally done, the PCA recommended for the first half of would be 11.44 mills. A second option uses a weighted average for the year of 11.66 mills. The reason Ms. Dougherty would like the Board to consider that option is because the board policy and rate schedules have changed, and the board policy now says the Board will look at the PCA at least every calendar year and that it will be adjusted no less than every six months. Therefore, the PCA could be adjusted daily, weekly, monthly, quarterly, or semi-annually. The market in general is moving toward gas. Gas has more volatility. There is a chance if the PCA is calculated only every six months that GRDA could be highly over collected or very much under collected, and that would cause swings in the PCA. Ms. Dougherty recommended adopting the 11.66 for the whole year, and then staff will meet with the customers and decide between now and April when the final budget is presented how frequently the PCA should be trued up and if there should be a threshold set at the end of the year. The key thing is it would make

the calculation less volatile, and it will help GRDA's customers from having rate shock. If there is a lot of volatility, the calculation could be adjusted sooner. Either option would be appropriate; however, Ms. Dougherty recommended the second option. The difference to the customers for the first six months is the difference between 11.66 and 11.44, and every other time staff has talked about doing this, the PCA for the first six months has always been significantly less than the weighted year average. Therefore, it would have been punitive to the customers to transition into that. Director Spears stated there is not much difference either way. If interest rates were high, it would probably be best to postpone expenses as long as possible, and the 11.44 would be better. Mr. Pruettt stated the 11.66 may make it easier to budget and added he likes the 11.66, and the timing of the calculation can be determined later. Mr. Doublehead stated that TPWA is okay with the 11.66. NEO did not have an opinion. Director Meyers stated he believes it is what the customers want; he is not a big fan of long intervals with fixed PCAs because the future cannot be predicted, and someone ends up holding a lot of money. At the end of the day, the customer ends up paying it. Director Meyers is in favor of a monthly true-up, but he believes the customers should have what they want. Director Meyers asked about a dollar amount or percent change threshold that would trigger the adjustment. Ms. Dougherty stated it would probably take a policy change, but a rolling 12-month calculation may need to be considered, so it would be updated each month but would vary very little. GRDA has about an \$8 million under collection right now. If not for the under collection, the 11.44 would have been closer to 10 cents. Mr. Sullivan stated that customer meetings are set up for next month. Some customers would like a monthly change, but that would require all of their billing systems to have changes

made. There is a wide variety, and it is desired to make it as user friendly as possible. Director Kimball asked who would be against Option B. Ms. Dougherty stated it is possible the customers with a high load factor, like some of the industrials, may want it to be a true price signal because their load does not fluctuate very much. Proportionally, what they pay in May is closer to what they pay in August than it is for a cooperative or a municipal. Ms. Dougherty estimated about 75 to 80 percent of GRDA's customers would like to go with Option B. Director Spears moved approval of an 11.66-mill PCA surcharge for the 2013 calendar year, to be refined at intervals no less than every six months. Staff is to discuss frequency of calculation with customers at upcoming meetings, and the Board will vote on their recommendation at the April board meeting. The motion was seconded by Director Meyers and voted upon as follows: Kimball, LaGere, Meyers, Spears, Grodhaus, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

4.f. Preliminary 2013 Budget

Ms. Dougherty reported the preliminary budget is required by statute to be approved in December. After more analysis, it is tweaked, and the final budget adopted in April is usually a little more accurate. The load forecast has been updated, and an economic dispatch model has been run. Guernsey was hired because they have sophisticated software, and they have run an economic dispatch model of GRDA's loads and resources. The thing they did this year that does not have much impact in 2013 but will going forward is the pricing for SPP marketplace as a whole is looked at to decide whether GRDA's generation runs. Historically, GRDA has dispatched its generation to its customer loads in only any excess for shortages bought or sold to the SPP market. Going forward GRDA will buy in essence everything from the SPP market

and will sell what is economic into the market. Therefore, GRDA could be a winner or loser with the key being to have economic generation. The other key assumption is all the AGMs specifically identify major maintenance and major capital addition items. Those items are adjusted for specifically. They are items that are not the same cost each year, such as an overhaul at Salina. The rest of the operating and maintenance has been escalated at three percent and miss, although a bottom-up budget is being worked on and are getting a lot of details on construction contracts and materials. GRDA's debt service requirements are decreasing. The last \$91 million payment will be made on June 1, 2013. On June 1, 2014, a \$34 million payment will be made (about \$18 million is principal; the rest is interest). After that date, the only outstanding debt are the bonds issued in 2008 and 2010. It was assumed whatever environmental decision the Ad Hoc Committee and the Board makes, there will probably be debt issued for that in the fourth quarter of this year. For budgeting purposes, the worst-case scenario was picked and put that borrowed money in, so there is about \$2 million in the budget for a 2013 bond issue. Meetings will be held with the customers in January to go through ten-year projections. Ms. Dougherty referred to some slides on the load forecast because they have the numbers essentially used in setting the revenue figures. In 2011 and 2012 there was a drought, and it was hot. Weather normalized those, and then a conservative approach was used. In assuming that will not be the normal weather pattern going forward, the growth rate was reduced in the projections. This is for GRDA's native load—the municipals, cooperatives, and industrials are in a metered load. Regarding the revenue projection, the load forecast and half the year at the existing rate was used. Beginning in July 1, reverted back to the rates that were in effect

on July 1, 2009. The assumption is there will be about a nine percent rate decrease on an annualized basis, in effect for half a year. On operating expenses, the fuel and purchased power are specifically identified major maintenance expenses, and the rest of the costs are escalated at three percent. Other income goes down. There are two priority numbers; those investments are booked at market value, so any smooths in the market impact the other income, and it is incumbent as the construction funds are drawn down, less interest income will be earned. The other available funds is money that will be available as the debt service requirement declines. There has to be an amount equal to the maximum aggregate debt service in the reserve account, and as the future debt service requirements go down, the amount required for deposit on that account will go down. With the current funds, the 1.14x coverage is still needed. With the other available funds, it would be 1.3x coverage. There are a lot of capital items that are being paid for out of the revenue fund, things that do not make sense to borrow long term. It is believed that amount could be \$41 million this year, so \$8 million is being budgeted to be drawn from existing cash and investments. Director LaGere moved the proposed Preliminary 2013 Budget be approved as presented, seconded by Director Meyers, and voted upon as follows: LaGere, Meyers, Spears, Grodhaus, Kimball, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

4.g. Annual Designation of Additional Supplemental Reserve Funds

Ms. Dougherty reported that at the end of 2011 there were General Operating funds (reserve and operating fund) of \$105,063,893. They are funds that are restricted by GRDA's bond covenants. The other Special Purpose Funds have to do with FERC licensing requirements. In early 2000, the Board started designating a supplemental

reserve and contingency amount for risk management. Up until that time, off-peak pricing was usually \$18; on-peak pricing was \$21. Enron came along, and the market started getting volatile. Capacity started meaning something, so there were people selling insurance policies for unit trips. They were cost prohibitive for the most part. GRDA decided to set aside some money each year, instead of paying it to somebody else, for any unforeseen risks. The Board started funding it at \$2 million a year and built it up to \$15 million, which was the goal, and the Board stopped funding it a few years back. The other Board-designated fund has to do with environmental costs. It is not a deferral of revenue. It is like taking money out of a checking account and setting it aside in a savings account for a special purpose. Only the Board can spend money out of the savings account. The fund has a balance of \$20 million. Ms. Dougherty asked the Board to set aside another \$2.5 million this year, and next year, staff will be asking the Board to spend the money. Director Grodhaus expressed his concern that there are \$603 million in retained earnings as it could be given to customers in the form of rates, and he is happy that there are plans to spend the money. Director Spears asked if it needs to be done before the final budget is approved; Ms. Dougherty stated it needs to be done before the end of the year. It does not impact the budget or the debt service calculation. It is just setting aside money. Director Spears questioned if GRDA would be better off borrowing the money than saving the money and look at how \$2.5 million could be spent to reduce rates. Ms. Dougherty stated the Board has the option to do that. Staff has to come back to the Board to get approval to spend any of the money, so the Board can use it for a different purpose. It has already been applied to the bottom line in the past. Director LaGere asked about the environmental uses, and Ms. Dougherty stated

GRDA is either going to retrofit a coal-fired plant or embark on some type of alternative generation. It is the Board's prerogative on how the money gets spent. The Board can also cap it at \$35 million. This fund was a way to show the financial community the Board is aware there is risk and that GRDA has a rainy day fund for unexpected expenses. Director Kimball asked if the funds have helped GRDA's bond ratings, and Ms. Dougherty stated it has. Mr. Doublehead asked about the Rate Stabilization Fund. Ms. Dougherty answered GRDA never collected. If GRDA did not do the rate increase in the budget, the threshold to the fund would be hit. The methodology is there for a rate stabilization fund, but it has never been funded. Director LaGere moved an additional \$2.5 million be designated to the Supplemental Reserve Fund for environmental purposes to bring the total up to \$22.5 million, seconded by Director LaGere, and voted upon as follows: Meyers, Spears, Grodhaus, Kimball, LaGere; yes. *Motion passed (5-yes, 0-no, 0-abstained).*

4.h. Bid Award Recommendation for Contract 39164, Precipitator Maintenance Services

Mr. Barney reported the precipitator consists of thousands of plates that are each about 46 feet in length. A lot of heavy maintenance is required every year to keep them functional. They have to remove all the solid dust material from the combustion process. To maintain them, once a year a contractor that has specialty knowledge and experience is brought in. It is not uncommon to have as many as a hundred people working on the precipitator for a three-week period. The existing contract is expiring, so the contract was placed out for bid. The contract was sent to 18 potential bidders; five responses were received. Two of the bidders chose not to bid. The rest did not respond

at all. The low bid that complied with GRDA's requirements was Mechanical Construction Services of Newark, Arkansas, in the amount of \$2,701,133. It appeared Southern Environmental Inc. was a lower bid in the amount of \$2,437,507, but upon further review, their bid did not include the required bonds. They stated they would supply bonds at cost, and GRDA has no way of determining what their costs would be. In reviewing with the Legal Department, staff would recommend this is a non-conforming bid. In response to some questions by Director LaGere, Mr. Barney stated they sent a bid bond, but once the contract is signed, they are obligated to supply GRDA a performance bond that guarantees that (1) when the project is completed, there will be no liens; (2) the contract will be performed exactly to the specifications; and (3) it provides a one-year warranty bond on completion of the work. To make the bid, they have to supply GRDA a bid bond. As part of their bid price, GRDA requires them to include the cost of their performance and warranty bonds, which are quite significant. It is required by the State. There is a bid closing time, and the bids cannot be changed after that. The cost of the performance and warranty bonds have been as high as 20 percent of contract price. If a contractor has good standing in Oklahoma, the cost probably should not exceed two percent. The only alternative is to rebid the project again, but Mr. Barney did not recommend doing that because it is anticipated there will be significant work in just two or three months. All bidders have the opportunity to ask questions; if they had any doubts, they should have asked questions. GRDA has a process, and they did not follow it. Mechanical Construction Services holds the existing contract and has done a good job for GRDA, and they complied with all of GRDA's bidding rules, as did Southern Field Maintenance. Mr. Barney added there is an

escalation each year of two percent, if GRDA chooses to renew. The purpose of this type of arrangement is GRDA would like to have a contractor that is knowledgeable and experienced that can be called on. If a five-year contract were issued, the contractor would have to provide a five-year bond, including one year warranty beyond that, so they would have to provide a bond for six years. ODOT is the first entity to adopt this strategy. Other state agencies are also using it now, and it works well. Director Meyers moved the Board award Contract 39164 to Mechanical Construction Services for Precipitator Maintenance Services in the not-to-exceed amount of \$2,701,133 for a one-year period with up to four (4) automatic one-year renewals, seconded by Director Spears, and voted upon as follows: Spears, Grodhaus, Kimball, LaGere, Meyers, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

4.i. Status of Implementation of KPMG Report and Possible Approval of Same

Mr. Sullivan reported there were seven Authority-wide recommendations made in the report: strategic and operational management, performance management, operational and capital budgeting, organization alignment, supply management, workforce management, and technology management. Those covered the entire enterprise. They have been prioritized. Regarding strategic and operational management, plans are in place for a staff retreat to set strategic goals to recommend to the Board. Operation goals will have great impact by generation mix, and those decisions will be made over the next couple of months by the Board. Planning meetings will be held with the Board and relevant committees—Ad Hoc, Long-Range Planning, etc.—to discuss those operational goals. Regarding performance management, once

strategic goals are in place, the performance goals can be set for each of those. In workforce management, there is an RFP out with responses due the early part of January that look at the performance management phase in terms of how the performance is measured. Part of that process will be training supervisors. There were seven Authority-wide recommendations, and there were 80 individual department-level recommendations. Thirty-five fall into the performance management category, nearly half of the specific department-level recommendations. Regarding operational and capital budgeting, last year GRDA started the process of bottom-up budgeting for a personnel budget. This year, operations and maintenance were included in the bottom-up process. There are new personnel in the Human Resources and Finance departments that are focused on the budgeting issues and will continue to add and refine the process going forward. Regarding organization alignment, it is a top priority for implementation. The current reporting structure has many people reporting directly to the CEO, which is not the most efficient structure. The report recommended creating a Chief Administrative Officer position, and Mr. Sullivan's plan is to fill it with existing personnel. The report also recommended a Chief Operating Officer for Lake Management, and Mr. Sullivan plans to make a promotion to include that within the scope of the Law Enforcement, Homeland Security and Lake Operations with existing personnel. There was also a recommendation for a government relations position. Mr. Sullivan felt a Stakeholder Relations person would be better suited for what GRDA needs, and that would be a new position. The budget approved for this year included a position Mr. Sullivan had recommended for a Chief of Staff. All of these changes can be done and still be under what was budgeted for the Chief of Staff position. This plan will

create a savings and will cover two department level recommendations. Mr. Sullivan showed a slide of the proposed organizational chart. Regarding supply management, that is one thing that cuts across all departments. Policy changes have been initiated. Once the policy is adopted by the Board, then specific changes can be implemented. This will cover all departments and is one of the biggest issues raised by GRDA's employees of streamlining and pushing down further to the department level some of the delegation of authority for purchasing. Some AGMs have a \$2,500 purchasing limit, and that is too low for the organization and pushes too much to the central purchasing department in Vinita and does not utilize all the expense and training for Certified Purchasing Officers in the field. Regarding workforce management, it is the biggest issue facing GRDA and involves all departments and is top priority. About 55 to 60 percent of GRDA's employees are eligible to retire in the next five years. It is an industry phenomenon. A safety component is out for a new process to obtain bids. There is a huge amount of savings to be obtained by making sure the plants are operated safely and reducing workers' comp exposure. An RFP is out on remaining issues with responses due on January 4 that includes a scope of recruitment, succession planning, strategic goals, performance measurement and assessment, knowledge retention and transfer, and rewards structure. It is hoped a recommendation can be made at the January meeting. Altogether, this covers 11 of the 80 departmental recommendations. This will be the hardest issue to address. Regarding technology management, it is a top priority. GRDA has been doing a good job of doing upgrades in the IT areas, specifically related to compliance and operations. However, a poor job has been done in upgrading Human Resources, Finance and other areas. Most are being done on individual

spreadsheets which is very inefficient. One of the KPMG recommendations is to have an IT Project Manager—basically, someone who looks at the customers within the Authority, HR, Finance, and other departments to solve individual needs. Tim Brown has been leading the effort in assessing software for the Human Resources and Financial Information Services. The State is leaning toward and has recommended People Soft. Conversations have taken place with the OSU School of Business. They have an MIS program and an internship program at a very low cost, providing the opportunity for people to do some research for GRDA and provide some of the latest information and technology. To recap, staff is looking for Board approval of policy changes regarding spending authorities. Priorities will cover 49 of 80 department level recommendations, the alignment plan will maximize efficiency and minimize costs, and the RFP process should provide that recommendation at the January board meeting regarding workforce management strategy, and IT issues will be addressed in the next several months with hiring and software evaluation process. Director Grodhaus asked when Mr. Sullivan will be able to give to the Board for each of the items being prioritized a responsible person, an end result that is committed, a due date, and an agreed-upon scoring. Mr. Sullivan responded the delegation of spending authority issue is on the agenda today. Rulemaking issues will need to be started; it is a legislative process. Some internal policy changes can be made now that will have an immediate impact. On workforce management, staff should be able to make a recommendation on the RFP in January. Mr. Sullivan added that the Steering Committee continues to meet; a meeting was held yesterday and another is planned for February. That is another form of accountability and feedback. Director Grodhaus added the Steering Committee is

comprised by people by business and other leaders in the outside community to give an unbiased view. Mr. Sullivan stated staff has a lot of significant irons in the fire with the generation discussions and customer meetings, but this is on the forefront of staff's activity.

4.j. Revised Appendices for Affected Systems' Facilities Construction Agreement between SPP, Osage Wind LLC, and GRDA (SPP Service Agreement SA 2233R1)

Mr. Herron reported Osage Wind is constructing a 150-MW wind farm in Osage County. GRDA is supposed to construct a 138-kV switching substation in that area and rebuild 20 miles of transmission line. Osage Wind is required to pay for the system upgrades. The original agreement was approved by the Board in June 2011. Since then, there have been cost estimates on the transmission line, and they have gone up substantially. Because it is a written agreement, modifications need to be made to the agreement to accommodate the changes. In the transmission line area, the cost was originally estimated at \$9.6 million. The current estimate is \$11.9 million. The substation cost stays the same at \$2.5 million. The revised total is \$14.4 million. The completion schedule is also moved out. The original in-service date was December 31, 2012. It is now June 30, 2014. The final invoicing will be September 30, 2014. The payment schedule to GRDA has also been adjusted based on the fact that the timeframe has moved out. In response to a question by Director Meyers, Mr. Herron stated these are transmission upgrades necessary on GRDA's system to accommodate additional capacity. KAMO and PSO are also involved in doing work to upgrade for the system. Part of the reason for being so far back is KAMO and PSO have to have theirs done before GRDA can do its part. Osage has done the leases, but they have done no

construction. There are get-out clauses in the agreement. If they tell GRDA to stop, GRDA can bill them for what work has been done so far. GRDA does have plans to go ahead and build the substation, probably next spring. Director LaGere moved the Board approve the Revised Appendices for Affected Systems' Facilities Construction Agreement between SPP, Osage Wind LLC, and GRDA—SPP Service Agreement SA 2233R1; seconded by Director Meyers; and voted upon as follows: Grodhaus, Kimball, LaGere, Meyers, Spears, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

4.k. Second Amendment to Lease for Oklahoma City Office with BEP One Limited Partnership

Mr. Sullivan reported this lease came in on Monday. The office is located at 63rd and Broadway Extension, about five miles north of the capitol. It has 2,316 square feet. There are five full-time employees at this location, four in GRDA's purchasing area. This is a one-year extension of the lease that has been in effect since 2010. There is a three percent increase in the cost. The renewal rate is \$3,064.84 per month (\$36,778.08 per year), and utilities are included. Because GRDA's Purchasing Department is there, GRDA has participated in the PCard program. GRDA received a rebate this year of \$328,860 for GRDA's participation in the program. That is basically using a credit card to make regular payments, and it is all consolidated payments through the Epay program. It has decreased the number of transactions that are manually handled. The cost of maintaining the office is just \$36,000, so it is a ten-fold benefit to having the facility in Oklahoma City. Staff recommends renewal for one year of the Oklahoma City office. Director Spears stated whether or not there is really a savings there is questionable. Mr. Sullivan added GRDA has been one of the bigger users of the

program, and it has helped the entity formerly known as DCS work through some of the kinks in developing the program. Tina Balmer oversees that program, and it is watched over very carefully. In response to a question by Director Meyers, Mr. Sullivan stated that function does not have to work out of Oklahoma City, but GRDA has been able to get experienced people from other state agencies because of the office there. Mr. Rothermel worked at the State Auditor's office, and Ms. Balmer worked for the Department of Central Services. In response to a question by Director Spears, Ms. Dougherty stated the personnel there were hired when there were vacancies, but GRDA hired in Oklahoma City to get more experienced people that were already familiar with the state process. In response to some questions by Director LaGere, Mr. Rothermel stated that in 2012 it is expected about \$20 million will be spent through the PCard program. A lot of GRDA's computer equipment is bought off of statewide contracts, and it is a requirement that they accept PCard. The average transaction is less than \$1,000. Ms. Dougherty added GRDA does not have to have a PCard; it was politically correct to have one because it is important to the State that GRDA participate, and it has made things more efficient. Director LaGere moved to approve the renewal of the lease for the Oklahoma City office in the amount of \$3,064.84 per month from February 1, 2013, until January 31, 2014; seconded by Director Grodhaus; and voted upon as follows: Kimball, LaGere, Meyers, Spears, Grodhaus, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

4.I. Other New Business

Director Grodhaus stated the board members are to help the staff be successful, to plan things, to sell things, and there are also board members who live on the lake. When controversial things come about that the Board is proposing, Director Grodhaus

noted there is an issue about dock permits that has come up. Director Grodhaus first learned about it by reading the GLUE Report, phone calls, and reading about it in the newspaper. Director Kimball found out about it the same way, so Director Grodhaus assumed the rest of the Board are in the same position. When there are controversial items that will have to be sold to the public, Director Grodhaus believes GRDA needs to pay specific attention that sometimes the strategies and work that go into strategizing and finding a plan to properly introduce and sell something to the public may be as important as the actual plan itself. There needs to be one message that goes out to the public, and the Board cannot do that if they are not alerted. Director Grodhaus would like some assurances that in the future he will learn about this internally. Mr. Sullivan stated the message was received.

5. Reports

5.a. Board of Directors Committee Reports

1. **Assets Committee:** There was no report.
2. **Audit and Budget Committee:** Director LaGere had no report.
3. **Fuel Committee:** Director Spears had no report.
4. **Marketing Committee:** Director Grodhaus had no report.
5. **Policy Committee:** Director LaGere reported the Policy Committee met this morning and discussed rules and policy changes and some proposed legislation GRDA would present to the Oklahoma legislature this year.

(a) Possible Action Regarding Administrative Rulemaking: Opening of Rulemaking Record Pursuant to the Oklahoma Administrative Procedures Act.

(i) Title 300, Chapter 20 - Purchasing Rules

(ii) Title 300, Chapter 35 - Lake Rules

Ms. Edwards reported it is time again for all state agencies to begin promulgating and amending their administrative procedures. The purchasing rules are fairly finalized. They were run through last year. They made it to the Governor's office; the Governor's office was not able to approve them last year. Therefore, the purchasing rules have been reviewed again with the benefit of the KPMG audit. Staff is asking for the Board's authorization to open Administrative Rulemaking Record for the Purchasing Rules. The Lake Rules are not in as final form, but pursuant to the timetable, the Rulemaking Record needs to be opened. There will be a public meeting on each set of rules. Once they are in final form, they will be sent to the legislature. Director Grodhaus moved to open the Rulemaking Record pursuant to the Oklahoma Administration Provider's Act for Title 300, Chapters 20 and 35; seconded by Director Spears; and voted upon as follows: LaGere, Meyers, Spears, Grodhaus, Kimball, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

(c) Second Reading of and Possible Action on Revisions to Board Policy 2-3, Board Committees.

Ms. Edwards reported this item was discussed in the October meeting. Director Grodhaus had requested revising and realigning committee structure and to provide for telephonic committee meetings as long as it does not violate the Open Meetings Act. Director Kerns had some questions about the telephonic meetings and requested an attorney from the Attorney General's office be present to discuss that issue. Sandra Balzer is present; she is GRDA's contract attorney through the Attorney General's office. She is the one who did the research and provided a comprehensive discussion

which Ms. Edwards provided to the Directors a couple of months ago. Ms. Balzer stated a Committee is not subject to the Open Meeting Act, meaning it can conduct its meetings telephonically if it so chooses, unless the Committee has actual or defacto decision-making power. It was her understanding GRDA's committees do not have actual or defacto decision-making power. Because the committees consist of three members, and three members may be a majority of a quorum of the GRDA Board, there is a concern that if those three committee members are also the majority three votes to pass a measure recommended to the Board as a whole by the Committee, then that would constitute their having actual decision-making power. The fix for that is that if the three members making a recommendation are the three committee members that are going to vote on that recommendation, that vote be deferred until there is a different mix of board members. Director Grodhaus moved to amend and approve Board Policy 2-3 to realign the committees and to provide for telephonic committee meetings when allowed by the Open Meetings Act, seconded by Director LaGere, and voted upon as follows: Meyers, Spears, Grodhaus, Kimball, LaGere, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

(d) Possible Action on Amendment to the GRDA Personnel Manual, Subsection 6.

Ms. Edwards reported this amendment is to bring the personnel manual in line with the provisions of the Federal Labor Standards Act, specifically 29 USCA § 213 which defines employees that are exempt from the Federal Wage and Hour laws—the minimum wage, maximum hour-per-week requirement. Currently, the personnel manual provides that all classified employees are entitled to overtime. The Fair Labor Standards

Act allows an employer employing an exempt employee, whether paid hourly or otherwise, to remove that employee from the 40-hour-per-week and the minimum wage requirements. Therefore, GRDA does not have to pay that employee overtime. The personnel manual currently requires GRDA to pay an exempt employee (one who has administrative or supervisory decision-making ability) overtime if he works more than 40 hours each week. Certain GRDA employees are classified who have decision-making authority and a certain amount of autonomy and fit within the rules promulgated under Section 213 of Title 29. Under the current personnel manual, GRDA is required to pay them overtime any time they work over 40 hours per week. GRDA currently has 17 employees who fall under exempt but classified category. There are 7 of those 17 who are regularly paid overtime. It prevents GRDA from scheduling these employees along with all the other employees. Staff recommends removing that one requirement from GRDA's personnel manual but continue to pay overtime to non-exempt employees who are also classified who work over 40 hours per week. Director Grodhaus summarized that GRDA is trying to bring its practice in line with federal law and is not trying to circumvent paying someone normal overtime but is for regularly scheduled ongoing shift work of which the employees are part of. Ms. Edwards added the employees still fall under the 2,080 hours per year. There is also another amendment in the policy that allows GRDA to pay overtime during an outage or other extraordinary circumstance. Director Grodhaus moved to amend Subsection 6 of the Personnel Manual to exempt from the minimum wage and maximum hour requirements of the Federal Fair Labor Standards Act as defined in 29 USCA § 213, seconded by Director Meyers, and voted

upon as follows: Spears, Grodhaus, Kimball, LaGere, Meyers, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

(b) Review and Possible Action on 2012 Annual Review of Board Policies.

Ms. Edwards presented the Board Policies, including the amendment to Policy 2-3, for annual review.

(e) Proposed Legislation.

There was no discussion regarding proposed legislation.

6. Compensation Committee: Director Grodhaus stated that regarding the realignment, the items presented were all within budget and all within present standards. Some of those people are in new positions that did not get an increase, and Mr. Sullivan is talking about taking them to a further position. That puts the Board at some jeopardy that even if the alignment did not take place, these people have not gotten compensation. For example, there may be an AGM who is making considerably less money than a supervisor, so there is some catch-up work needed. Mr. Sullivan stated staff is ready and prepared to act as soon as clearance is received from the Governor's office.

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

8. Ad Hoc Resource Committee: Director Spears had no report, but a meeting is scheduled for this month. A report will be given at the next meeting.

6. Proposed Executive Sessions:

a. Proposed Executive Session Concerning a Pending Investigation, Claim, or Action Related to Non-Public Information.

b. Proposed Executive Session for the Sole Purpose of Discussing the Terms of the Employment Contract Offered to Daniel S. Sullivan for the Position of General Manager/Chief Executive Officer and Director of Investments in November 2011.

Director Spears moved to go into executive session at 12:34 p.m., seconded by Director LaGere, and voted upon as follows: Grodhaus, Kimball, LaGere, Meyers, Spears, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

Director Grodhaus moved to return to regular session at 1:38 p.m., seconded by Director LaGere, and voted upon as follows: Kimball, LaGere, Meyers, Spears, Grodhaus, yes. *Motion passed (5-yes, 0-no, 0-abstained).*

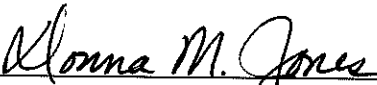
7. Action on Executive Session Items:

- a. Action, As Necessary, Concerning Non-Public Information.**
- b. Action, As Necessary, Concerning the Terms of the Employment Contract Offered to Daniel S. Sullivan for the Position of General Manager/Chief Executive Officer and Director of Investments in November 2011.**

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

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

Director LaGere moved for adjournment at 1:39 p.m., seconded by Director Spears, and voted upon as follows: LaGere, Meyers, Spears, Grodhaus, Kimball, yes. *Motion passed (5-yes, 0-no, 0-abstained).*



Donna M. Jones, Secretary

DATE APPROVED:

January 16, 2013
GRDA Board of Directors