

**DRAFT MINUTES of the REGULAR MEETING of the BOARD of DIRECTORS of
SOUTH FEATHER WATER & POWER AGENCY**

Tuesday, December 27, 2005, 2:00 PM,
Agency Conference Room, 2310 Oro-Quincy Hwy. Oroville, California

DIRECTORS PRESENT: Jean Brown; Lou Cecchi; Jim Edwards; Dee Hunter; Vivian Meyer.

DIRECTORS ABSENT: None.

STAFF PRESENT: Michael Glaze, General Manager/Secretary;
Jennifer Jellison, Finance Division Manager;
Kathy Petersen, Power Division Manager;
Matt Colwell, Water Division Manager;
Art Martinez, Information Systems Manager;
Jeff Meith, Legal Counsel.

OTHERS PRESENT: Maurice Martinez; Dale Storey (YCWD).

CALL TO ORDER

President Hunter called the meeting to order at 2:00 p.m. and led the Pledge of Allegiance.

APPROVAL OF MINUTES

M/S/C (Cecchi/Edwards) approving the Minutes of the Regular Meeting of November 22, 2005 as presented.

APPROVAL OF WARRANTS

M/S/C (Cecchi/Brown) approving: the total Water Division expenditures for the month of November 2005 in the amount of \$391,799.14 - Warrants #20542 through #20593; and, the total Power Division expenditures for the month of November 2005 in the amount of \$491,243.27 - Warrants #61865 through #61915.

PUBLIC PARTICIPATION – None.

FINANCE DIVISION MANAGER'S REPORT

The Board reviewed a written report by Jennifer Jellison, Finance Division Manager.

South Fork Relicensing Consulting Services

The Board was provided the Monthly Activity Report from Devine, Tarbell and Associates, Inc. (DTA) for the period of October 31 through November 27, 2005.

2006 Water Division Budget/Finance Committee Meeting

Ms. Jellison reported on the Budget/Finance Committee's meeting of December 14, 2005 regarding the proposed 2006 Water Division budget.

Relicensing Expense Report for Yuba County Water District (YCWD)

The May 2005 YCWD/SFWPA Agreement included a provision requiring the Agency to prepare detailed relicensing-expense reports for YCWD. The initial report, including a detailed list of all expenses since commencement of the project through the third quarter of 2005, was sent to YCWD on November 23, 2005, ahead of the December 1 deadline specified in the agreement. Hereafter, quarterly reports are required.

Financial Analysis Update

Efforts continue to minimize all Water Division O&M expenditures as the end of 2005 nears. As of November, the year-to-date domestic and irrigation water revenue is 93.8% of what it was in November of 2004. This is a 1.4% increase over the Water Division's year-to-date position in October.

The latest 2005 year-end projection for the Water Division is for total operating revenues to be approximately 85% of the budgeted amount. This projection excludes the sale of ID1 and all water system contributions made in 2005. The projection is for total operating expenses to also be below the total budgeted amount. Expenses are expected to be at approximately 91% of the budgeted total.

Director Meyer questioned the completion status of the office-expansion project. General Manager Michael Glaze opined that the existing-office remodel would be completed and occupied by October of 2006, and that the total cost for all aspects of the expansion – new building, remodel of existing, parking lot, landscaping and new road entrance on the adjacent property – would be \$800,000.

Director Edwards asked if the payment to resolve the Sly Creek bond refunding had been received and Ms. Jellison affirmed that it had.

POWER DIVISION MANAGER'S REPORT

The Board reviewed a written report by Power Division Manager Kathryn Petersen.

Operations

The Storage and Generation Report and Forbestown Precipitation Report for November were reviewed.

Ms. Petersen reported that the storm series that moved into our area on December 17 produced enough rainfall to increase Slate Creek flow to the point where we were able to conduct a sediment pass-through on December 19. The low-level outlet valve and weir valve were opened for just a little more than an hour until it appeared no more material was being moved. Stillwater Sciences provided water quality monitoring support, and will do follow-up measurements to determine how much material was moved.

Maintenance Projects

Routine Maintenance

As the winter weather has begun to set in, the crew has been busy catching up on several “odd jobs” around the system. They installed staff gauges at Little Grass Valley Dam, set the new campground status sign in place on the Challenge Grade, and have been trying to keep grizzlies and culverts clear of debris. They have also been doing powerhouse-equipment maintenance on systems not requiring the longer annual outages.

Woodleaf Slide

Neil’s Controlled Blasting (NCB) has made good progress on the work at Woodleaf Powerhouse. They have drilled two sets of the fan drains into the lower slope to relieve the mountain of the water that has built up in it. The drains have been working effectively, producing as much as 200 gallons per minute during the most recent rains. One of the deepest holes drilled (160 feet) contains the four piezometers that provide continuous monitoring of the water pressure inside the mountain, and it has tracked the buildup of water from storms fairly well. The NCB crew has also been installing soil nails in the weaker shear zone material.

General Information

Dam Crest Modifications Project

On December 9, Ms. Petersen and Tom Barnard of DMJM+HARRIS attended a meeting with Division of Safety of Dams staff to discuss the status of the engineering for the crest modifications for Sly Creek, Lost Creek and Ponderosa dams.

By a letter dated December 5, FERC commented on the PMF reports submitted by the Agency in September of 2004. Because some of their comments require clarification before the issues discussed can be resolved, members of the DTA and DMJM+HARRIS teams will be joining Ms. Petersen in meeting with FERC in January. FERC originally asked for supplemental reports to the PMF reports to be submitted by January 30, 2006. However, because of the time needed to resolve some of the issues, an extension of time to submit the additional reports will be requested.

EAP Update

FERC also issued comments on the recently revised Emergency Action Plans. Their comments primarily pertained to the inundation maps submitted with the plans, and Chris Crown and Ms. Petersen will be responding to those comments.

Year-End Notes

2005 was a challenging year for the Power Division, with the transformer failure and the slide at Woodleaf early in the year. The crew responded well to the challenges by working long hours when asked, and reprioritizing other jobs as needed. Necessary ongoing maintenance went forward, as did the scheduled circuit breaker replacement at Sly Creek. Power Division staff appreciated the help of the Water Division crews on projects such as the repairs to Station 3 and the canal access road, the dredging at Slate Creek and the annual canal outage.

WATER DIVISION MANAGER’S REPORT

The Board reviewed a written report by Matt Colwell, Water Division Manager.

Distribution Operations

Mr. Colwell reported that, in addition to routine system maintenance, office-expansion

construction, service installations and leak repairs, Water Division staff installed over 400 feet of 12" C-900 mainline at the old ID1 site as part of an ongoing project to relocate the existing water mains and booster pump station throughout the site.

New Services and Leaks

In the month of November, seven new meters and backflow devices were installed. Five service line leaks (no mainline leaks) were repaired.

Water Treatment Operations

Solar Plant Production

The November MRTTP energy demand exceeded the solar plant production by 24,000 KWH.

Water Plant Production

MRTTP production (system demand) for November is below average for the recent five-year period. The 2005 cumulative production through November is 89% of average. Bacteriological requirements were met for the Miners Ranch Treatment Plant, Bangor Treatment Plant, Sly Creek and Strawberry Campground.

GENERAL MANAGER'S REPORT

The Board reviewed a written report by Michael Glaze, General Manager.

Forbestown Pipeline Project – Yuba County Water District

Manager Glaze reported that the YCWD Board of Directors again voted 3-2 to abandon the Forbestown Pipeline Project and walk away from the \$4.2 million Proposition 13 grant that DWR approved in 2003. They had made the same decision by the same vote at their meeting on November 10, but decided to reconsider the matter at their meeting this month.

Fee Increases

In accordance with action the Board took in 1999, the System Capacity Charge, Backflow Maintenance Charges and Annexation Fee will increase by 3.3% on January 1, 2006. In a 1999 resolution, the Board specified that these fees and charges would...

...be increased on January 1 of each year in accordance with the Engineering News Record's National Construction Cost Index, subject to prior notification of the Board of Directors by Staff that said index conforms to anticipated changes in cost for such facilities.

The present ENR 20-City Construction Cost Index of 3.3% is actually below the increase in costs the Agency has experienced over the past year, especially considering increases in petroleum and pipe-material prices. This increase will bring the System Capacity Charge to \$3,357 for a standard 5/8" residential service.

CEQA Expenses – Water Rights Permits Extension Petition

At the end of 2004, South Feather Water and Power Agency and Yuba County Water District filed petitions with the State Water Resources Control Board (SWRCB) to extend by 40 years the time to place to beneficial use water available to them under their respective consumptive water rights.

Because YCWD, by agreement, uses SFWPA's diversion, storage and conveyance facilities to supply water to YCWD facilities and customers, SFWPA and YCWD further agreed to jointly comply with the SWRCB's order that the two agencies – prior to June 1, 2006 – prepare and submit completed environmental documentation in support of their petitions for extension of time of their respective water rights.

At the Board's meeting last September, a Consulting Services Agreement with Jones & Stokes Associates was approved for the permit-extension project's CEQA (California Environmental Quality Act) processing. At that time Jones and Stokes estimated the project cost at \$30,000 to \$60,000, depending on the scope of work ultimately required by SWRCB.

Because extension of the water rights permits benefits the Agency's South Feather Power Project, staff believes that the CEQA-processing costs are project expenses and, therefore, payable by PG&E. Copies of a letter to PG&E, written by attorney Jeff Meith earlier this month, were distributed to directors. The letter asks PG&E to consider reimbursing the South Fork O&M Trust Fund for a portion of the expenses. No response has yet been received from PG&E.

Allegations by Richard Mullins

Richard Mullins, son of YCWD Director Peggy Mullins, sent a letter dated December 13, 2005 to President Dee Hunter, and copies to all other SFWPA directors. The letter's allegation of a criminal conspiracy to defraud YCWD of public funds involves the hiring by Manager Glaze of a T-3 certified treatment plant operator who had been previously employed by YCWD. Mr. Glaze stated that the gap that exists between the facts surrounding that event and Mr. Mullins' libelous inferences requires a leap of logic beyond imagination.

Mr. Glaze provided a summary of how the treatment plant operator was hired. He stated that Steve Owsley, who had been an SFWPA T-3 treatment plant operator since 1993, was promoted to Operator-in-Training in the Power Division to be effective on April 11, 2005. Unfortunately, this created a vacancy in the Water Division that could only be filled by someone with a T-3 certification. Having previously experienced the difficulty of recruiting T-3 operators, Mr. Glaze contacted and extended an offer of employment to a YCWD employee whom he knew had a T-3 certification. The YCWD employee expressed an interest in the position, but subsequently advised Mr. Glaze that he had a medical condition that would prevent him from accepting the offer. After understanding the nature of the condition, Mr. Glaze offered him the position on a light-duty basis subject to him seeking medical treatment during the first six months of employment. He accepted the offer and began working for SFWPA on April 5, 2005. On July 18 he initiated the necessary medical treatment. He returned to work with a full medical release on October 10. During his 60-work-day absence for medical-treatment, the Agency compensated him for 56.49 hours of vacation and sick leave that he had accumulated since starting work, but did not compensate him for the remaining 423.51 hours of his absence. Mr. Glaze stated the assumption that SFWPA's health insurance covered a portion of the employee's medical expense, but he does not believe that the employee received any compensation from YCWD.

Relicensing Update

The Board reviewed a status report through November 27, 2005 from relicensing consultants Devine, Tarbell & Associates.

DIRECTORS' REPORTS

Director Edwards expressed his appreciation for and complimented the annual employee safety dinner earlier in the month.

ELECTION – BCSDA EXECUTIVE BOARD

The Board reviewed an election ballot that had been submitted by Butte County Special Districts Association for vacant positions on its executive board.

M/S/C (Edwards/Cecchi) to cast the Agency's votes for Nan Johnson (Paradise Cemetery District) and Al McGreehan (Paradise Recreation and Park District) for the two non-enterprise positions, and Alan Brown (Lake Oroville Area Public Utility District) and Jean Brown (SFWPA) for the two enterprise positions.

ELECTION – NCWA BOARD OF DIRECTORS

The Board reviewed an election ballot that had been submitted by Northern California Water Association for vacant positions on its board of directors.

M/S/C (Cecchi/Edwards) to cast the Agency's vote for Jean Brown for the Foothill Class representative on the Northern California Water Association board of directors.

ENGINEERING, PROCUREMENT AND CONSTRUCTION SERVICES AGREEMENT FOR MICROWAVE UPGRADE PROJECT

Power Division Manager Kathy Petersen reminded directors that the last two Power Division budget submittals to PG&E contained a request to upgrade the South Feather Power project's microwave system to digital. This was primarily due to the fact that the last time a renewed FCC license was received, the Agency was listed as a secondary licensee. The FCC is planning to reserve the Agency's particular frequency band (2.1 gigahertz) for personal telecommunications services, so the Agency needs to move to a new frequency band, and upgrading to digital makes sense. PG&E did not authorize completion of the upgrade in either the 2005 or 2006 budget year. However, it is expected that the budget request will be approved in 2007 because the FCC is planning to conduct the auction of the band in mid-2006, and the frequency will need to be vacated within 12 months after the band has been reassigned.

For this reason a telecommunications engineering firm is needed to help with preparing for the microwave upgrade prior to receiving the approval from PG&E to actually do the work. The engineering, equipment and needed permits will need to be sorted out and ready to move ahead as soon as the 2007 budget request is approved.

A Request for Qualifications was prepared earlier in the year, and responses were received from four firms: Alcatel, Black & Veatch, Harris, and Utility Telecomm Consulting Group. Chuck Newman, John Davis and Scott Underhill helped Ms. Petersen evaluate the responses, and it was agreed that the Black & Veatch proposal was the most comprehensive and best suited our needs. With Mike Glaze's input, a contract was negotiated for services with Black & Veatch.

The Board reviewed the negotiated Master Agreement for Engineering, Procurement and Construction. The agreement is with Overland Contracting Inc. (OCI), rather than with Black & Veatch Corporation because OCI is the licensed construction arm (affiliate) of Black & Veatch (a licensed engineering firm). The scope of services in 2006 will include developing the project design and 2007 budget, and these costs will be covered in the approved 2006 budget.

M/S/C (Cecchi/Edwards) approving the Master Agreement for Engineering, Procurement and Construction between South Feather Water and Power Agency and Overland Contracting, Inc., licensed construction affiliate of Black & Veatch Corporation.

CONVEYANCE AGREEMENT – THE RIDGE PHASE 1, UNIT 2

The Board reviewed a Conveyance Agreement that has been submitted for execution to Bob Thurman, developer and builder of The Ridge Subdivision, Phase 1, Unit 2. Part A, Section 4.A. of the Agency's Rules & Regulations specifies the following:

After completion of plans and specifications...and prior to commencement of construction, the developer shall enter into a Conveyance Agreement with the Agency, approved by the Board of Directors, describing the conditions upon which the Agency will accept the developer's completed water system improvements.

Water Division Manager Matt Colwell has tentatively approved the engineered construction drawings for the referenced project's proposed water system, and the Conveyance Agreement describes the conditions upon which the Agency will accept the project's water system into its maintained system.

Mr. Thurman has been advised that he may commence construction after approval of the Conveyance Agreement and after the following items have been accomplished:

- [1] Approval by the County of the construction drawings and submittal of an original to SFWPA for signature;
- [2] Submittal to SFWPA of one set of the construction drawings (25 sheets) reduced to 11"x 17" for attachment as Exhibit A to Conveyance Agreement;
- [3] Deposit \$11,925 (3% of project engineer's estimate for construction of the water system) with SFWPA for engineering and plan-check services;
- [4] Deposit \$11,925 with SFWPA for construction-inspection services; and,
- [5] Deposit \$3,000 with SFWPA to cover the estimated cost for SFWPA personnel to install two connections to the existing water system facilities on Lariat Loop (you will be responsible for the actual cost of the connection, with any surplus deposit refunded).

M/S/C (Edwards/Cecchi) approving the Conveyance Agreement with Thurman & Thurman, LLC, specifying the terms and conditions, together with those contained in the Agency's Rules and Regulations Governing Water Service, whereby the Agency is willing to accept upon completion the water-system improvements in The Ridge, Phase 1, Unit 2, provided they are constructed in accordance with the approved plans and specifications thereof, and in a manner meeting the Agency's approval.

2006 WATER DIVISION BUDGET

The 2006 Water Division budget, as recommended for adoption by the Finance Committee, was reviewed by the Board. Director Cecchi, chair of the Finance Committee, reported on the Committee's evaluation of the proposed budget and described the difference in the new format from previously.

Mr. Cecchi explained that the proposal is a balanced budget that maintains the same rate structure that was implemented with the 2003 budget (no increase in rates in 2006). Total expenses in this budget amount to \$5,588,799, summarized as follows:

O & M Expenses	\$4,005,900
Capital Outlay Expenses	\$ 267,900
Debt Service.....	\$1,037,900
FERC Relicensing Expenses	\$ 277,099

Assumptions framing the budget are as follows:

- (1) new connections in 2006 will equal the number in 2005;
- (2) domestic-customer growth for 2006 will follow the 2003-2005 trend;
- (3) irrigation-customer growth for 2006 will follow the 2003-2005 trend;
- (4) a 3% COLA for all employees is funded;
- (5) newsletters will be published on the website in 2006 (saving publication costs);
- (6) 3.4% increase in general insurance premiums;
- (7) 9% decrease in workers compensation insurance premiums;
- (8) 9% increase in employees' health insurance premiums;
- (9) 3.3% increase in System Capacity Charge revenue;
- (10) a water sale, although anticipated, is not included in the budgeted revenues;
- (11) no new employees will be hired in 2006.

The proposed 2006 Water Division budget has a smaller amount of money available for capital projects than in recent years' budgets. Additionally, the 2006 proposed budget's coverage for debt service compliance is minimal compared to recent years, but still conforms with previous bond covenants.

General Manager Glaze expressed concern that there seems to be a growing general misconception that this decrease in available funds is a result of the office-expansion project. He stated that it is important that the Board and public understand that this is not true. The amount of funds available for capital projects in a given year is the net revenue after debt service payments have been made. This net revenue number continues to decrease as expenses increase at a substantially greater rate than revenues increase. Personnel expenses are a fixed cost unless some portion of that labor cost can be transferred to capital projects such as the office-expansion project. He stated that the office-expansion project is actually contributing positively to debt service compliance ratio by providing a way to move personnel time, equipment time and overhead expenses out of Operations & Maintenance expenses and into Capital.

Mr. Glaze stated that the Agency's customer base is not growing fast enough to cause revenue to increase at the same rate as personnel expenses. Without an increase in the rate structure in excess of the schedule approved in 2003, these two trend lines will converge within the next

several years so that there will be no funds available for capital projects, and the Agency will also not be able to achieve compliance with the debt-service covenant.

The Board was advised that the proposed 2006 Water Division Budget necessitates the continued inter-fund borrowing that it authorized last August because revenue from System Capacity Charges, although assigned to a restricted account, will be needed in 2006 to fund capital projects. Although the budget does not include revenue from an anticipated water transfer in 2006, revenue from a transfer would restore reserve accounts from which funds are borrowed to their original balances plus interest. In the unlikely event that a transfer does not occur, the deadline for repayment of the loans would need to be extended for 12 months.

M/S/C (Cecchi/Brown) approving the 2006 Water Division Budget as recommended by the Finance Committee, including appropriation of funds for the recommended cost-of-living adjustments for personnel, and for the Betterments, Distribution System Projects, and Irrigation Augmentation Projects specified in Schedule 4.

Ayes: Directors Brown, Cecchi, Edwards and Hunter.
No: Director Meyer.

Director Cecchi questioned why Director Meyer voted against the proposed budget. Director Meyer stated that she was opposed to borrowing funds from restricted accounts as the budget proposed. Director Cecchi asked what Director Meyer would propose be done in lieu of that. Director Meyer stated that she wanted to have more time to review the budget and that she preferred postponing the budget's approval.

ANNUAL BOARD REORGANIZATION

M/S/C (Brown/Meyer) electing Director Lou Cecchi as President and Director Jim Edwards as Vice President for 2006, and appointing the General Manager as Board Secretary and the Finance Division Manager as Treasurer for 2006.

CLOSED SESSION (convened by President Hunter at 3:47 p.m.)

Conference with Labor Negotiator (Govt. Code §54957.6)
Negotiator: Michael Glaze, General Manager
Employee Units: Water Treatment and Distribution

OPEN SESSION

The open session was reconvened at 4:05 p.m. President Hunter stated that the Agency's labor negotiator was advised.

AMENDMENT OF MOU – WATER TREATMENT AND DISTRIBUTION EMPLOYEES UNIT

M/S/C (Cecchi/Edwards) approving a 3% cost-of-living adjustment for members of the Water Treatment and Distribution Employees Unit in 2006 and 2007, with no reopeners until 2008, in conclusion of annual negotiations for 2006 and 2007, subject to ratification by unit members.

ADJOURNMENT

The meeting was adjourned at 4:06 p.m.

Michael C. Glaze, Secretary

Dee Hunter, President