

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

Tuesday, April 24, 2007, 2:00 P.M.,
Agency Board Room, 2310 Oro-Quincy Hwy. Oroville, California

DIRECTORS PRESENT: Lou Cecchi; James Edwards; Dee Hunter; Dennis Moreland.

DIRECTORS ABSENT: Vivian Meyer.

STAFF PRESENT: Matt Colwell, Water Division Manager;
Jennifer Slinkard, Finance Division Manager;
Art Martinez, Information Systems Manager;
Jeffrey Meith, Legal Counsel;
Michael Glaze, General Manager.

OTHERS PRESENT: Hank Bailey; Robert Warka; Nancy Lueder; Dan Hunter.

CALL TO ORDER

President Edwards called the meeting to order at 2:00 p.m. and led the pledge of allegiance.

APPROVAL OF MINUTES

M/S/C (Hunter/Cecchi) approving the Minutes of the Regular Meeting on March 27, 2007, as presented.

APPROVAL OF WARRANTS

M/S/C (Cecchi/Hunter) approving: the total Water Division expenditures for the month of March 2007 in the amount of \$528,194.72 – Warrants #21796 through #21835; and, the total Power Division expenditures for the month of March 2007 in the amount of \$834,229.08 – Warrants #63224 through #63268.

PUBLIC PARTICIPATION – Robert Warka inquired about the present snow pack, and Mr. Glaze responded with the current conditions.

Nancy Lueder complained that the Agency was no longer adding chlorine to the Community Line. She also wanted to know if the Agency had plans to extend domestic water service to her property on Foothill Boulevard. Mr. Glaze stated that when funds were available, he would recommend a mainline extension to provide domestic water service to all the Community Line customers, including Mrs. Lueder.

FINANCE DIVISION MANAGER'S REPORT

The Board reviewed a written report from Jennifer Slinkard, Finance Division Manager, including a 2007 Summary Financial Report for both the Water and Power divisions, together with a consumption report on each of the Agency's water distribution systems. Mr. Glaze informed the Board that Mrs. Slinkard would be starting a three-month maternity leave tomorrow (no one was surprised).

South Feather Relicensing Consulting Services

Devine, Tarbell and Associates, Inc. (DTA), consultant for the South Feather Power Project relicensing, submitted its Monthly Activity Report for the period of January 29, 2007 through February 25, 2007 in the amount of \$62,389.

2006 Audit

Mann, Urrutia, Nelson CPAs and Associates completed the on-site work for the 2006 audit on March 22, 2007. The Auditor's portion of the draft financial statements was received on April 12th. The draft of the SFWP MD&A should be completed by April 20th, and the audit report is on schedule and will be ready for presentation to the board at its May meeting.

Woodleaf Generation Enhancement

On March 28th and April 17th, the February and March data on revenue earned from the tailwater depression (TWD) system at the Woodleaf Powerhouse, respectively, was received. The TWD system was responsible for an additional 51,940 KWH during February and 131,870 KWH in March, earning the Water Division \$2,216 and \$4,467 in revenue for those two months. As of March, a total of \$6,863 in revenue for the year has been earned from this source although payment has not yet been received (it is expected by the end of April and the middle of May, respectively). For comparison purposes, \$500,192 in TWD revenue was earned in March 2006.

POWER DIVISION MANAGER'S REPORT

The Board reviewed a written report from Power Division Manager Kathryn Petersen, including storage, generation, and precipitation reports.

Operations

Based on the April 1 snow surveys, DWR estimates that April through July runoff in the South Fork Feather River will be at 36% of average (down from 59% as of March 1), and the total Feather River watershed will be about 39% of average. While more than 60% of average rainfall has been received, there is no late spring snowpack. PG&E is operating the power project to generate during the late afternoon peak period, which means that the upper three powerhouses are only operating 4-6 hours per day, and Kelly Ridge has been operating about 20 hours per day.

The FERC license allows for the flows below Little Grass Valley, South Fork Diversion, and Forbestown Diversion dams to remain at 5 cfs (rather than 10 cfs) throughout the summer when the DWR runoff forecast is less than 50% of average. Accordingly, FERC was notified by letter dated April 11, 2007 that the project would operate under this dry-year criteria. The last time this occurred was in 2001.

Maintenance Projects

Forbestown Headquarters – Truck Barn Expansion

Bob Cherry and Tom Veurink, assisted by various Power Division employees, continue to work on the extension of the truck barn. The concrete footings were poured on April 5.

Forbestown Powerhouse – Outage Follow-up

The annual outage revealed some issues with relay and protective devices settings, which Joe Romero is working to correct. A subsequent trip of the powerhouse also showed problems with the cooling water low-flow devices, and Joe is also researching how to correct this issue.

Woodleaf Penstock – Forbestown Ditch Release

Henry Reeson and Dorinda Matney completed installing the new gears at the release valve to the Forbestown Ditch, and it is now ready to supply the demands on the ditch system.

General Information

Budget

The 2008 budget proposal is due to PG&E May 8, (a copy was attached to Ms. Petersen's report). A Hydro Committee meeting is scheduled for May 7 to review and approve the proposed budget submittal. Once the final budget has been negotiated with PG&E, it will be brought to the Board for approval.

DSOD Valve Operations

The Division of Safety of Dams requests that dam valves be operated periodically under its observation. On April 10 the large valves at Little Grass Valley, Lost Creek, and South Fork Diversion dams were operated for the DSOD inspector. The time each valve was open was kept to a minimum so as to avoid "losing" water (all of the flows released were captured either at Sly Creek or Forbestown reservoirs).

WATER DIVISION MANAGER'S REPORT

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

Distribution Operations

Mr. Colwell reported that Water Division staff has been accomplishing distribution-system maintenance and normal operations. Ongoing projects include irrigation and domestic distribution system betterments; Power Division construction projects; new service installations; and, leak repairs.

Mr. Colwell reported that the contractor (Dunn Construction) installing the Palermo Canal pipeline project through the Cottage Cove subdivision had been experiencing difficulty completing the project in a manner acceptable to the Agency. Mr. Glaze stated that an initial installation of a single 36" pipe, in accordance with plans prepared by engineer Robert Feeney, was inspected by Agency staff. Mr. Glaze and Mr. Colwell then conducted a field survey of the existing canal above and below the installed pipe and determined that the pipe, as designed and installed, would not satisfy the flow-capacity criteria of 35 cfs that had been specified by the Agency when the project was being designed in 2005.

The project was "shut down" and the developer was required to have his engineer affirm that the project, as designed and installed, would satisfy the 35 cfs flow-capacity criteria. Subsequently, engineer Feeney submitted revised plans that specified a new vertical alignment and the installation of twin-36" parallel pipe (rather than the single pipe that had originally been designed).

The developer's contractor removed the single 36" pipeline that had initially been installed, re-excavated the trench, and installed two 36" pipeline in accordance with the revised plans. Directors reviewed pictures of the work described.

Water Treatment Operations

The treated water production at MRTP for March was nearly 20% above normal due to unseasonably dry conditions. The cumulative 2007 (January through March) water production is approximately 10% above average.

Solar Plant Production

March MRTP energy consumption exceeded solar energy production by 1,500 kWh.

LEGAL COUNSEL'S REPORT

Jeff Meith gave the Board a verbal report regarding a re-petition his firm filed on behalf of the Agency after the State Water Resources Control Board denied the Agency's petition for reconsideration of a refund of water rights fees, in accordance with a recent court decision.

Mr. Meith also discussed a subpoena received earlier in the month from the Butte County District Attorney's office for documents and communications relating to various toxic chemicals and potential pollutants that the Agency may have used. Mr. Glaze stated that Environmental and Safety Manager Scott Alcantara had prepared the requested copies at a time expense of 48 hours. He also said that no documents or communications were found indicating improper use or mishandling by the Agency of the chemicals and substances specified in the subpoena. He stated that in a phone conversation between Mr. Alcantara and Assistant D.A. Hal Thomas, Mr. Thomas stated that he was not "after" SFWPA, but was looking for evidence of violations by P.G. and E.

GENERAL MANAGER'S REPORT

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

Relicensing

The application to FERC for a second-term license for the South Feather Power Project has been filed, and Mr. Glaze provided directors with a copy of the FERC notice that it received the application and providing information to interested parties regarding their opportunities to apply for "cooperating agency status" and to submit additional study requests. The deadline for filing such requests is May 25, 2007. The schedule by which the application will be processed by FERC is summarized on page 6 of the notice.

Agency staff (Glaze and Petersen) and consultants (DTA and Stillwater Sciences) continue to meet with resource agency staff to resolve issues regarding what the minimum flow requirements will be for the project. The last meeting was on April 12 at Fish and Game Department headquarters in Rancho Cordova, and the next scheduled meeting will be on April 26 and 27. The reaches under discussion so far are Little Grass Valley Reservoir, Slate Creek, and South Fork Diversion.

Future Power-Purchase Agreement Discussions

There have been no meetings with PG&E representatives since the last one on March 26. However, McDonald Partners are finalizing a response to PG&E's proposal that will be available shortly for review by the Hydro Committee.

Surplus Water Agreements

An application for surplus water has been received from and approved for Pacific Coast Producers (from the Palermo Canal) and Young Life at Woodleaf (Forbestown Ditch). These are long-term surplus-water customers and the agreements are carbon copies of previous years. It has been approved in conformance with Policy #480.

Lake Wyandotte Lot-Line Adjustment

A letter was received at the end of last month from Robert Taylor advising that the project was finally complete whereby the Agency conveyed to him a sliver of the Lake Wyandotte property on the north side of Hurleton Road. In his letter he stated that "the purpose of this letter is to thank you [Glaze] and the Board of Directors for your assistance and patience over the past several years to accomplish this objective."

DIRECTORS' REPORTS – None.

START OF IRRIGATION SEASON

M/S/C (Cecchi/Hunter) approving starting the irrigation season on May 1, 2007.

INTERFUND LOAN

Mrs. Slinkard stated that, as discussed at last month's board meeting, the Agency will temporarily need to borrow funds from the reserves held in LAIF that are designated for System Capacity expansion. While the Agency's budget for 2007 is sufficient to cover anticipated expenses if they were to come in evenly throughout the year, heavy expenses occur at the first half of the year with 75% of the total debt service payments (\$771,959) due on April 1st.

Although the majority of Water Division's operating revenues begin being realized in the middle of the year, usually tail-water depression (TWD) proceeds are available in the spring and help with the beginning-of-the-year expenses. Due to the dry conditions this winter and spring, however, no TWD payments have been received this year, with only a little over \$4,000 anticipated in the near future. Revenues from water sales should increase significantly beginning in early summer. Payments from Butte County for property taxes, from PG&E for the semi-annual payment, and from the Bank of New York for the 2004 Sly Creek Re-financing savings, will be received within the next several months. Once they have been received and water sales revenue picks up, the borrowed reserves will begin to be re-paid.

Toward that end, all Water Division staff have been advised that purchase orders will not be approved for anything that is not critical and essential for continued operations at this time. Expenditure authorizations will be withheld until revenues are received. Regardless of whether something has already been approved in the 2007 Water Division budget, it will require a new approval from both the General Manager and the Finance Division Manager before it can be purchased.

Reserves are sufficient to bridge this short-term gap in timing until anticipated revenues have been received. However, those reserves are in accounts designated for System Capacity expansion. Permission to "borrow" from the System Capacity Charges fund is needed from the Board, and then the account can be repaid when funds are available.

M/S/C (Hunter/Moreland) adopting Resolution 07-4-1, authorizing interfund borrowing from the System Capacity Charges account.

AMENDMENT OF POLICY #435 ("Disposal of Surplus Equipment/Property")

Now that a successful and profitable internet-based sale of the recently-declared surplus Power Division vehicles and equipment has been completed, a draft amendment to the referenced policy has been prepared for the board's consideration that would routinely permit such future surplus equipment/property sales. The proposed amendment was reviewed by the Policy Committee (Directors Hunter and Meyer).

Directors were provided a copy of the proposed amendment, and a second copy of the amendment showing additions and deletions.

The proposed amended policy starts the process with the Board: declaring vehicles and/or equipment surplus; and, deciding whether the items should be sealed on a sealed-bid basis, or via the internet. From that point on, staff is authorized to process the sale, with the results reported back to the Board for accountability purposes.

M/S/C (Hunter/Cecchi) approving the proposed amendment to general policy #435, "Disposal of Surplus Equipment/Property", to permit internet-based sales of surplus Agency vehicles and equipment.

ADJOURNMENT

The meeting was adjourned at 3:12 p.m.

Michael C. Glaze, Secretary

James Edwards, President