

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

Tuesday, January 22, 2008, 2:00 P.M.,
Agency Board Room, 2310 Oro-Quincy Hwy. Oroville, California

DIRECTORS PRESENT: James Edwards, Lou Cecchi, Dee Hunter, Vivian Meyer, and Dennis Moreland.

STAFF PRESENT: Arthur Martinez, Manager of Information Systems;
Steven Wong, Finance Division Manager
Matt Colwell, Water Division Manager;
Kathy Petersen, Power Division Manager;
Jeffrey Meith, Legal Counsel;
Michael Glaze, General Manager.

OTHERS PRESENT: Hank Bailey, Dennis Overfield, and Robert Warka.

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 Special Meeting on December 18, 2007.

APPROVAL OF WARRANTS

M/S/C (Cecchi/Hunter) approving: the total Water Division expenditures for the month of December 2007 in the amount of \$376,351.53 – Warrants #22542 through #22553, #22596 through #22615, and #22638 through #22676; and, the total Power Division expenditures for the month of December 2007 in the amount of \$655,052.12 – Warrants #63875 through #63892, #63931 through #63955, and #63973 through #64011.

PUBLIC PARTICIPATION – None.

FINANCE DIVISION MANAGER'S REPORT

Directors welcomed Steven Wong, Finance Division Manager, to his first board meeting. He stated that the SFWPA staff has been warm and welcoming and that he has spent his first few weeks at SFWPA becoming acquainted with the team members and the Agency's accounting software and other policies, procedures and practices, and actually visiting Miners Ranch Treatment Plant and some of the powerhouses.

The Board reviewed a written report from Mr. Wong.

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 October 1 to November 25, 2007 in the amount of \$19,128.82.

Sly Creek Generation

Revenue of \$122,858 earned from PG&E for 2007 Sly Creek power generation was recently received. By comparison, the Sly Creek power generation earnings in 2006 were \$369,149, and the 2008 estimated revenue from Sly Creek Power Generation is \$255,000.

Property Tax Revenues

The Agency's first installment of 2007-08 property tax revenue was received from Butte County in the amount of \$250,612. Total property tax revenue for 2007 was \$494,987. The 2008 budget for Property Taxes is \$452,000.

ACWA/JPIA Refund

A refund of \$15,681 was received from the Association of California Water Agencies/Joint Powers

Insurance Authority (ACWA/JPIA). The refund represents the Agency's share of excess funds in ACWA/JPIA's Retrospective Premium Adjustment Stabilization Fund for the 03-04 through 05-06 policy years. Refunds were issued only to agencies that had premiums on deposit in excess of retrospective premium calculations (or the amounts needed on deposit with ACWA/JPIA).

Line of Credit

As Mike Glaze and Art Martinez have previously discussed with the Board, it is probable that the Agency will experience a temporary revenue shortfall in March when the bulk of Water Division debt service is due. As has been reported previously, the Agency's revenue in 2007 was significantly less than in 2006. For the past three months, staff has been, and continues, reviewing cash flow, reserves, and anticipated expenses in 2008. It is possible the Agency may not have adequate cash in its operating funds to cover the annual debt service payment due in late March. However, especially if a water-transfer agreement is consummated, revenues may be sufficient during 2008's first quarter to cover all expenses.

For this reason, staff has been investigating establishing a \$1 million line of credit with Tri Counties Bank (the bank that handles Water Division activity). They have offered to establish a line of credit for the Agency at prime + 0.75% (currently 8.00%). The interest would be applied only on the outstanding principal balance, and there are no prepayment penalties. An annual fee of \$2,500 would be applied regardless of whether any amount was borrowed.

Revenues and expenditures will be closely monitored over the next few weeks to determine if a Line of Credit will be necessary. Approving the line of credit will most likely be an item on the Board's February agenda, with all documentation provided to answer questions directors may have.

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, new service installations, and leak repairs.

On Saturday, December 29, 2007 at approximately 4:00 pm, a 16" water main near Glen Drive and Oro-Dam Blvd broke and discharged approximately 0.5 million gallons before the mainline could be shut down. Standby crews were quickly overwhelmed with phone calls from customers out of water. Within hours the distribution grid was functioning again except for three customers who were out of water until approximately 7:00 p.m. Jeff Fridrich, Rick McCoullough, Dennis Vincelet, Rick Broderson, and Zenaido Martinez were called in to work and efficiently restored the system. Bacteria analysis was performed by the MRTP operators.

The cause of the problem appears to have been excessive stress loading on the pipe due to soil bedding and alignment issues.

Mr. Colwell commended Agency staff for being adequately prepared and available for these types of emergencies.

January 4, 2008 Wind Storm

It appears that much of the water distribution system was not seriously impacted by the damaging winds experienced on Friday, January 4. Distribution crews are still investigating and clearing the irrigation conveyance system. Crews have removed and chipped many downed trees and debris in and along the ditch system. The Miners Ranch Water Treatment Plant experienced minor damage. Denny Lewis and Eddie Paul quickly repaired the damage to the aging roof. A shattered window at MRTP appears to have been caused by the flying roof tiles from the adjacent out-building.

Water Treatment Operations

MRTP monthly treated water production for December was 110% of the recent five-year average. The cumulative 2007 (January-December) water production is average.

SFWPA FINANCING CORPORATION ANNUAL MEETING

President Edwards adjourned the meeting at 2:32 p.m. for the purpose of conducting the annual meeting of the South Feather Water and Power Agency Financing Corporation

The regular monthly meeting of the Board of Directors of the South Feather Water and Power Agency was reconvened at 2:35 p.m.

POWER DIVISION MANAGER'S REPORT

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

Operations

On January 1, new reservoir storage rating tables were put into use. These were developed as a result of the bathymetry studies conducted for the relicensing. Because of using the new tables, it appeared that combined storage in Little Grass Valley and Sly Creek reservoirs was reduced by about 5,000 acre-feet on that day, so operators sent an explanation of the apparent reduction to the agencies who receive the storage data.

The storms of January 3-6 brought just over 6" of precipitation at Forbestown (rain and snow). The 115 kV transmission line tripped on January 4 and was not restored to Forbestown and Woodleaf until January 6. Woodleaf and Forbestown powerhouses both remained spinning in speed-no-load condition to supply station power, as the 12 kV circuits were also down. Because Sly Creek was dismantled, the standby generator supplied power, but the propane tank had to be refilled every three days, requiring crews to plow snow throughout the weekend. Other than trees down, no damage to roads occurred. The crew worked safely throughout the storm, communicating with each other where the various hazards were located.

Maintenance Projects

Sly Creek Powerhouse Staff Alignment -

The storms in early January delayed work on the powerhouse because the generator housing could not be removed during wet conditions. Work resumed with the crane on January 14, and the crew is reassembling the unit. Technicians from PG&E should arrive on January 18 to begin the alignment measurements. If all goes well and the weather continues to cooperate, the unit should be back in service around February 8.

Forbestown Tunnel Intake Trash Rake Installation and Sediment Removal Project

Prior to installing the new trash rake at the Forbestown Tunnel intake, the plan was to dredge the sediment pile in front of the intake. Based on discussions with local contractors and PG&E, a budget for \$90,000 was set for the dredging project, and a Request for Bids was sent out in early December. Three bids were received on the project, all of which were at least three times the budgeted amount. Therefore, the dredging project will be deferred, while the installation of the rake will go ahead this year. Water Division personnel will assist with the installation work.

GENERAL MANAGER'S REPORT

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

Relicensing

Kathy Petersen and Mike Glaze met with U.S. Forest Service (USFS) and Fish & Game (F&G) staff on December 18. USFS and F&G made a PowerPoint presentation for the purpose of explaining their proposal for in-stream flows. For comparison purposes, the license application filed with FERC by the Agency early in 2007 proposed in-stream flows that would result in a 3% average annual loss of water for generation purposes. The USFS/F&G proposal would result in a 6.8% loss of water for generation purposes (their estimate using the Agency's model). The presentation contained no mitigation targets or scientific justification for the proposed flow increases. Additionally, USFS and F&G representatives are proposing that the Agency install a fish screen in Lost Creek Reservoir at the diversion to Woodleaf Powerhouse.

Although the presentation was submitted with a take-it-or-leave-it attitude, Agency consultants are reviewing the information presented to evaluate the impact the proposal would likely have on the Agency in terms of lost generation. Once complete, USFS and F&G representatives will be invited back to the table for the purpose of discussing possible alternatives that could be mutually satisfactory.

USFS and F&G have affirmed that all other measures proposed in the Agency's license application are acceptable to them.

Future Power-Purchase Agreement Discussions

As reported at the Board meeting on December 18, PG&E representative Jeff Henderson stated in an email on December 14 that he did not know when he would be able to respond to the Agency's counteroffer made last September due to PG&E's "need for greater and more-detailed analysis" of contract costs and revenues. Mr. Glaze responded by telling Mr. Henderson that PG&E had already had sufficient time to gather necessary data for its analysis and that the delay in negotiations was unacceptable. Mr. Henderson was also advised that the exclusive-negotiations relationship that the Agency had honored with PG&E since negotiations began would be terminated on February 1.

On January 7, Mr. Glaze received a voice-mail message from Mr. Henderson promising that he would have a response "before February 1."

Annual Fee Increases

In accordance with Board policy, the Residential Meter/Backflow Fee, System Capacity Charges, Backflow Maintenance Charges, and Annexation Fees will increase by 2.6% on January 1, 2008.

The action regarding the Residential Meter/Backflow Fee occurred in September 2006 when the Board amended the Rules & Regulations as follows:

...to replace the Standard Meter-Set Fee and the Radio-read Meter-Set Fee with a Residential Meter/Backflow fee of \$904 that will be charged whenever water service is requested for a parcel with an existing service line and meter set; that said fee will be payment in full for installation of a 5/8" residential radio-read meter and 3/4" backflow prevention device; and, that said fee be increased annually, commencing on January 1, 2008, in accordance with the Engineering News Record's National Construction Cost Index, subject to suspension on a year-by-year basis by the Board of Directors.

In a 1999 resolution, the Board specified that System Capacity Charges, Backflow Maintenance Charges, and Annexation Fees 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 2007 National Construction Cost Index through December is 2.6%, which is a reasonable reflection of the increase in costs the Agency's Water Division has experienced over the past year.

A schedule of each of these charges and fees are shown below, showing the 2007 and the new 2008 rates.

| <i>RESIDENTIAL METER/BACKFLOW FEE</i> | |
|--|-----------------|
| <u>2006 Fee</u> | <u>2008 Fee</u> |
| \$904 | \$928 |

| BACKFLOW MAINTENANCE CHARGES | | |
|-------------------------------------|----------------------------|----------------------------|
| <u>Size</u> | <u>2007 Monthly Charge</u> | <u>2008 Monthly Charge</u> |
| ¾" | \$4.72 | \$4.85 |
| 1" | \$7.07 | \$7.25 |
| 1½" | \$9.46 | \$9.70 |
| 2" | \$10.63 | \$10.90 |
| 3" | \$23.63 | \$24.25 |
| 4" | \$28.34 | \$29.08 |
| 6" | \$41.34 | \$42.41 |
| 8" | \$50.00 | \$51.30 |
| 10" | \$58.00 | \$59.51 |

| SYSTEM CAPACITY CHARGES (MRTP) | | |
|---------------------------------------|-----------------------------|-----------------------------|
| <u>Meter Size</u> | <u>2007 Capacity Charge</u> | <u>2008 Capacity Charge</u> |
| ⅝" | \$3,465 | \$3,555 |
| 1" | \$8,659 | \$8,884 |
| 1½" | \$17,321 | \$17,771 |
| 2" | \$27,716 | \$28,437 |
| 3" | \$55,422 | \$56,863 |
| 4" | \$86,599 | \$88,850 |
| 6" | \$173,198 | \$177,702 |
| 8" | \$415,675 | \$426,482 |
| 10" | \$658,151 | \$675,263 |
| 12" | \$865,989 | \$888,504 |

| ANNEXATION FEES | |
|-----------------------------------|-----------------------------------|
| <u>2007 Fees</u> | <u>2008 Fees</u> |
| \$124 – processing (developed) | \$127 – processing (developed) |
| \$247 – processing (undeveloped) | \$247 – processing (undeveloped) |
| \$365/acre – annexation | \$374/acre – annexation |
| \$731/⅝" meter - annexation | \$750/⅝" meter - annexation |
| \$1,827/1" meter - annexation | \$1,874/1" meter - annexation |
| \$978/flat rate - annexation | \$1,004/flat rate - annexation |
| \$1,462/miner's inch - annexation | \$1,500/miner's inch - annexation |

Governor Declares Fiscal State of Emergency

Directors expressed concern at the last meeting that the predicted declaration by the Governor of a fiscal state of emergency was a harbinger of another round of property tax revenue taking by the State. CSDA's e-News for the week of January 7 contained the following paragraph.

Governor to Present State of the State Address

The governor will present his State of the State address Tuesday at 3:30 before both houses of the Legislature. This Thursday, he will release his 2008/09 proposed state budget and declare a fiscal state of emergency, calling for a special session of the Legislature to address the budget crisis. **This declaration is not the declaration he is required to issue under Proposition 1A** [emphasis added]. CSDA will be staying on top of any updates pertaining to Prop 1A and will keep members posted as information becomes available.

A subsequent ACWA "Communications Outreach Advisory" about the emergency declaration contained the following statement: "The fiscal woes could ignite a new battle over local property tax revenues, which have been tapped in the past years to fill holes in the state budget."

Management Training

After returning from providing the American Samoa Power Authority (ASPA) management team with a week of training, Mr. Glaze decided that it would be good for SFWPA's management team to work its way through the information developed for ASPA. So, rather than replicating the same intensive format, the management team is going to meet for 1½ hours each week for 10 – 12 weeks.

DIRECTORS' REPORTS – None.

PROPOSED WATER TRANSFER - 2008

As directed by the Board at its November 2007 meeting, a term sheet (Directors reviewed a copy) specifying the terms and conditions by which the Agency would transfer water in 2008 was prepared and submitted to both Palmdale Water District (PWD) and Metropolitan Water District (MWD).

Since then Mr. Glaze has had numerous in-person and telephone meetings with representatives of the Department of Water Resources and the two water districts. Both PWD and MWD remain very interested in purchasing SFWPA's block of water, but discussions between the two of them are ongoing regarding their respective obligations and opportunities as State Water Contractors, and no commitments have been made to date.

COMMITTEE ASSIGNMENTS

Board policy (#240) specifies that the Board's President will publicly announce standing committee assignments at the regular January board meeting. The policy-prescribed standing committees are Budget and Finance, Community Relations, Personnel, Claims, Hydro, and Policy. Directors reviewed a matrix of the historical standing committee assignments from 1998 through 2007.

President Edwards explained that the Deferred Compensation (employee retirement program) Finance Committee is not prescribed in policy as a standing committee but continues on an as-needed basis year after year. The Agency's deferred comp agreements specify the makeup of that committee as including employee and management representatives, together with one director. The purpose of the committee is to evaluate requests from employees for early disbursements of proceeds from their respective accounts, and meets very infrequently if not at all during the course of a given year (e.g., it did not meet in 2005 or 2006).

In May 2005 the Board approved the agreement with Yuba County Water District that contains provisions significantly altering the way the Forbestown Ditch will be operated, and the value of the water diverted to it, after 2010. At its June 2005 meeting, the Board took action to postpone action on all requests for annexation involving Forbestown Ditch service "until the Board has established a strategic plan for implementing the provisions of the '05 Agreement with Yuba County Water District." Subsequently in that meeting, then-President Dee Hunter appointed Lou Cecchi and Jim Edwards to an ad hoc committee with staff to develop a Forbestown Ditch strategic plan for Board consideration. To date this committee has not met, primarily because it has been waiting to develop a better understanding of the power-generating value that would be diverted to the Forbestown Ditch. Now that the committee has received a valuation from its consultants (McDonald Partners) and are close to an agreement for a future power-purchase agreement with PG&E, a meeting of this committee should be convened some time in the coming year to begin the planning process directed by the Board. Therefore, President Edwards stated that he would be continuing the Forbestown Ditch Strategic Planning Committee.

President Edwards advised that he was also continuing the ad hoc committee he formed last year that worked with staff and the Agency's energy-marketing consultant, McDonald Partners, to prepare a strategy for developing the Agency's next power-purchase agreement (for post-2010), and to negotiate with PG&E representatives.

President Edwards announced his committee appointments as listed below.

2008 BOARD COMMITTEE ASSIGNMENTS

STANDING COMMITTEES –

| | |
|--------------------------------|---|
| Budget and Finance Committee: | Lou Cecchi (Chair) and Jim Edwards; |
| Community Relations Committee: | Vivian Meyer (Chair) and Dennis Moreland; |
| Personnel Committee: | Dee Hunter (Chair) and Vivian Meyer; |

Claims Committee: Dennis Moreland (Chair) and Dee Hunter;
Hydro Committee: Lou Cecchi (Chair) and Jim Edwards;
Policy Committee: Vivian Meyer (Chair) and Dee Hunter.

AD HOC COMMITTEES –

Deferred Compensation Finance Committee: Jim Edwards (Chair), Steven Wong (Vice Chair), Michael Glaze, Kathy Petersen, Henry Reeson, and Rick McCullough;
Forbestown Ditch Strategic Planning: Dee Hunter (Chair) and Dennis Moreland;
Power Marketing: Jim Edwards (Chair) and Lou Cecchi.

CLOSED SESSION (convened at 3:07 p.m.)

Conference with Labor Negotiator (Govt. code §54957.6). Agency-designated representatives: Michael Glaze and Jeffrey Meith. Employee Organizations: Clerical & Support Employees Unit; Water Treatment & Distribution Employees Unit; Hydropower Generation Employees Unit; and, Management & Professional Employees Unit.

OPEN SESSION (convened at 3:39 p.m.)

President Edwards announced that, by an affirmative vote of all directors present, the Board approved the seven items requested by the Management and Professional Employees Unit members in their memorandum dated December 28, 2007, including a 3% cost-of-living adjustment for 2008 (retroactive to January 1), 2009, and 2010, in conclusion of negotiations for 2008.

ADJOURNMENT

President Edwards opened the meeting to the public and immediately adjourned it at 3:43 p.m.

Michael C. Glaze, Secretary

James Edwards, President