



SOUTH FEATHER WATER & POWER AGENCY

TO: Board of Directors

FROM: Michael Glaze, General Manager

DATE: January 17, 2008

**RE: Proposed Water Transfer - 2008
Agenda Item for 1/22/08 Board of Directors Meeting**

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

Since then I have had numerous in-person and telephone meetings with representatives of the Department of Water Resources and the two water districts. Both PID 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.

I will have an update regarding the status of these negotiations at your meeting.

2008 WATER TRANSFER – TERM SHEET

GENERAL

Seller: South Feather Water and Power Agency (“SFWPA”).

Contact: Michael Glaze, General Manager
530-533-4624 (office)
530-370-3312 (mobile)
glaze@southfeather.com

Description: Water transfer as defined by California Water Code Section 1725.

Transfer Period: From May 1 through June 30, 2008.

WATER SUPPLY

Water: The water transferred by SFWPA is available from stored water in Little Grass Valley and Sly Creek Reservoirs (the “Water”). The Water is covered under State Water Resources Control Board Application Nos. 1651 and 2778, and associated Permit Nos. 1267 and 2492.

Quantity: Buyer shall purchase 10,000 acre-feet of Water from SFWPA.

FINANCIAL

Price: \$160 per acre-foot of Water.

Deposit: \$400,000, payable within 30 days after approval of the agreement, and refundable only if regulatory approval by SWRCB is not obtained. The balance shall be paid by Buyer within 30 days of receipt of an invoice from SFWPA confirming the Water has been delivered to Lake Oroville.

Weather & Regulatory Impacts: Delivery of the Water by SFWPA into Lake Oroville constitutes receipt by Buyer of the Water. Subsequent weather, losses, and regulatory limitations impacting Buyer’s ability to transfer the Water to its service area shall not relieve Buyer of its obligation to compensate SFWPA for the Water delivered to Lake Oroville.

Regulatory/Permit Costs: SFWPA and Buyer shall share equally in the cost of regulatory and permitting fees for approval of the water transfer, including but not limited to State Water Resources Control Board fees, and all fees associated with CEQA compliance. Each party shall be responsible for its own transaction costs related to the transfer.

PG&E Generation PG&E will require payment of a “generation impact fee” if SFWPA’s reservoirs

Impact Fee: do not refill in 2009. This impact fee is currently expected to be approximately \$70 per acre-foot not available for generation due to non refill, and may be adjusted higher to reflect then-current energy prices. (In the last 34 years, Little Grass Valley Reservoir did not completely fill 11 times, and Sly Creek Reservoir did not completely fill six times.) In the event the reservoirs do not refill in 2009 and a generation impact fee is required, Buyer will pay half of said fee within 30 days of receipt of an invoice for same from SFWPA. (This additional payment is warranted due to the fact that PG&E's loss of generation results in a generation gain to the SWP's Oroville generating facilities.)

Administrative: Each party shall retain and pay the costs of its own attorneys, engineers, and consultants, and direct their activities for the transfer of the Water.

DELIVERY & CONVEYANCE

Delivery Methodology: SFWPA shall deliver the Water at the Ponderosa Dam spillway into Lake Oroville.

The availability of the 10 TAF of Water will result from a reduction in end-of-month (EOM) target storage in Little Grass Valley and/or Sly Creek Reservoirs. On November 16, 2007, PG&E (the present purchaser – through 2010 – of SFWPA's hydropower) provided a forecast of reservoir operations for the SFPP absent a water transfer, assuming median precipitation. That forecast for 2008 is as follows:

	Little Grass Valley	Sly Creek	Ponderosa Spill
May 2008 EOM	92.2 TAF	65.7 TAF	17.6 TAF
June 2008 EOM	92.2 TAF	62.6 TAF	4.9 TAF
July 2008 EOM	92.1 TAF	40.0 TAF	10.4 TAF

To effect the transfer, the combined storage in Little Grass Valley and Sly Creek will be brought to 144.8 TAF at the end of June, and 10 TAF of water over and above the June "without transfer" spill amount of 4.9 TAF will be released at Ponderosa Dam to Lake Oroville (this would constitute delivery of the water to the buyer). It is possible that the transfer could begin in May 2008, in which case 10 TAF above the combined May-June "without transfer" spill amount of 22.5 TAF will be released at Ponderosa Dam. To ensure that the Water is "new" water, the 2008 end-of-year combined storage in Little Grass Valley and Sly Creek Reservoirs will be drawn down to 50 TAF (10 TAF less than the "without transfer" end-of-year storage volume of 60 TAF)

During the period in which the Water is spilled to Lake Oroville, SFWPA's Kelly Ridge Powerhouse will maintain normal operations, releasing at least 15.5 TAF each month (verified by flow records).

SFWPA will provide assurance to DWR that refilling Little Grass Valley and Sly Creek Reservoirs will not impact the State Water Project (SWP) by refilling the reservoirs in 2009 only during periods when SWP is not releasing stored water to

water is stored by SFWPA during such periods, additional water will subsequently be spilled by SFWPA to Lake Oroville from an "impact account" to compensate for water the SWP would have received absent the transfer (the same conditions as specified in SFWPA's 2004 Environmental Water Account Transfer's Exhibit B Refill Agreement, with the 2008 "without transfer" target storage values substituted).

Conveyance: Buyer shall be responsible for any required storage in Lake Oroville and for the conveyance of the Water from Lake Oroville to its service area.

Regulatory: SFWPA shall submit the transfer application to the State Water Resources Control Board for approval. With all necessary assistance from SFWPA's staff and consultants, and subject to SFWPA's approval, Buyer will coordinate, administer, and negotiate the necessary approvals from all administrative and regulatory agencies, including post-transfer refill criteria for SFWPA's reservoirs.