

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

Tuesday, February 26, 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.

**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/Moreland) approving the Minutes of the Special Meeting on January 22, 2008.

**APPROVAL OF WARRANTS**

M/S/C (Hunter/Cecchi) approving: the total Water Division expenditures for the month of January 2008 in the amount of \$364,158.36 – Warrants #22616 through #22637, #22677 through #22695, and #22731 through #22768; and, the total Power Division expenditures for the month of January 2008 in the amount of \$365,240.30 – Warrants #63956 through #63972, #64012 through #64028, and #64062 through #64117.

**PUBLIC PARTICIPATION** – Hank Bailey questioned why newsletters are no long being published. General Manager Glaze answered that the newsletter has been suspended to help balance tight budgets since 2006. He pointed out, however, that the information provided to directors in support of all non-closed-session agenda items for each board meeting is now available on line, significantly offsetting the role the newsletter played in providing information to Agency customers.

**FINANCE DIVISION MANAGER'S REPORT**

The Board reviewed a written report from Finance Division Manager Steve Wong.

Approval of Warrants

The presentation of the monthly Water Division and Power Division expenditures has been changed. Mr. Wong explained that he has returned to reporting the warrant list and miscellaneous checks in a summary format similar to the presentation the Board saw in prior years. Director Meyer will still receive the full detail report, as requested. All other directors indicated that the summary report was preferable to them.

Finance Division Manager Training

Mr. Wong reported on his attendance at the New Finance Director Overview class from Springbrook Software, the provider of the Agency's accounting software. He stated that the class increased his comfort level with the Agency's software and exposed him to the tools and all of the screens included with the software used at South Feather.

Storage Room Clean-Up

Pat Sands and Art Martinez cleaned up the storage area adjacent to the Board Room and underneath the stairs during the past month.

## **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.

Directors reviewed the 2008 Irrigation Season Notice that was sent to all irrigation customers. It informs customers that the 2008 irrigation season is scheduled to start on May 5 and end on October 17, 2008, which is consistent with the past few years' start and stop dates and emphasize that irrigation water is untreated and not intended for human consumption. Mr. Glaze noted that this is a departure from the past practice of the Board formally approving the beginning and ending dates of each year's irrigation season. He asked if directors were comfortable with staff setting the irrigation-season start and stop dates, with the caveat that departures from the first-of-May to middle-of-October season format come back to the Board for approval. There were no objections.

### Water Treatment Operations

The submittal deadline for the MRTP Expansion Project, Pre-Engineering and Feasibility Study, Request for Proposal was February 16, 2008. The Agency received proposals from four consulting firms:

HydroScience Engineers Incorporated;  
RBF Consulting;  
CDM Engineering; and,  
Black and Veatch Engineers.

All firms appear very qualified for the project. Management evaluations of the proposals will be completed within the next 30 days and a selection recommendation to the Board is anticipated for the Board's March meeting.

MRTP monthly treated water production for January was near average.

## **POWER DIVISION MANAGER'S REPORT**

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

### Operations

The month of January ended with precipitation totals close to average, but February has been relatively dry to date. The snow surveys conducted at the beginning of February measured average snow depths of 109.6, 111.4 and 114.2 inches at Pilot Peak, Lexington Hill and Gibsonville, respectively. The density at Lexington and Gibsonville was fairly low with water content of only 13.1 and 10.5 inches, respectively, while the water content at Pilot Peak was higher at 38.5 inches. The February 1 runoff forecast, prepared by DWR, predicted 82% of average runoff for the South Fork Feather River.

Sly Creek Reservoir on February 11 was about 100 feet below the maximum water-surface level.

### Maintenance Projects

Sly Creek Powerhouse Shaft Alignment -

The shaft coupler turned out to be the source of the misalignment. Instrumentation determined that there was a "dog-leg" in the shaft at the coupler. When the powerhouse was constructed it used a turbine-generator from PG&E's old Melones Powerhouse. The original turbine shaft was cut shorter to fit the design for Sly Creek, and a set of special alloy socket screws were used to attach the pieces. The manufacturer's specifications recommended that these be coated with "Loctite #271" and torqued to 2,000 foot-pounds so they would not loosen. Once the two shaft sections were de-coupled and the turbine shaft was dropped down, Maintenance Foreman John Davis checked the screws and found the first two turned fairly easily when he applied the socket wrench. When removed, they were found to have been coated first with "Never-seize" which prevented the "Loctite" from setting and working properly. Therefore, it appears that the alignment problem resulted from improper installation procedures at the time the powerhouse was constructed. Had the shaft alignment not been investigated at this time the problem would have continued to grow worse the longer the unit remained in service.

New socket screws have been delivered from the manufacturer and installed. The outer 3" coupling bolt holes are being re-bored by Weld Mart, a contractor doing in-place machining, and new bolts will be built to exact hole sizes. The alignment checks were completed on February 17 and the shaft is now plumb. The unit will be reassembled as soon as the in-place machining work is completed.

#### Maintenance Projects

##### DSOD Inspection –

Alex Brown and Kathy Petersen accompanied an engineer from the California Division of Safety of Dams on an inspection of Miners Ranch and Ponderosa dams on February 14. The only significant follow-up item noted was the need to replace the gate-hoist cables at Ponderosa Dam, a job that was already planned for later this year.

#### **GENERAL MANAGER'S REPORT**

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

#### Relicensing

The Agency's license application filed in March 2007 proposed an increase in in-stream flows that would have resulted in a 1.7% loss of water for generation purposes. At the time it was filed, the resource agencies were discussing an in-stream flow protocol that would have resulted in approximately 15% lost generation. On December 19 the U.S. Forest Service (USFS) and Fish & Game (F&G) proposed in-stream flows that would result in a 6.8% loss of water for generation purposes.

After the December 19 meeting the Agency's relicensing team went to work developing a counter offer that would reflect good science and would be oriented around the goals and objectives that seemed to be the basis for the USFS/F&G proposal. At a January 31 meeting with representatives of the USFS, F&G, State Water Resources Control Board, property owners at Little Grass Valley Reservoir, and State Water Contractors, Agency consultants presented a response to their December 18 proposal. Directors reviewed copies of the PowerPoint slides used to present the Agency's proposal.

Several slides summarized the Agency's understanding of the USFS/F&G position; one slide listed the goals or priorities that were foundational to the Agency's proposal; another slide explained that the USFS/F&G proposal would reduce the surface elevation of Little Grass Valley Reservoir from historic elevations (in years when the reservoir does not fill) six feet on average, compared to the Agency's new proposal that would reduce the surface elevation by about two feet on average; and, the remaining slides compare the "FLA" (final license application) to the December 19 SFS/F&G proposal ("FS/CDFG") and to SFWPA's January 31 counter-proposal ("SFWPA").

Although not shown on any of the slides, the model data for the counter-proposal submitted to the agencies by Agency consultants on January 31 would result in a 4.1% loss of water for generation purposes.

On February 14, FERC issued its "Ready for Environmental Assessment" notice. Issuance of this notice starts the clock for the agencies to submit their terms and prescriptions to FERC for the new license for the Agency's project. They have until April 14, 2008 to get those in.

Meetings with the Forest Service, Fish & Game, and the State Water Resources Control Board previously scheduled for March 7 and 14 are still on the calendar and Mr. Glaze speculated that these meetings – if they aren't canceled by the resource agencies – will be the last opportunity to reach a consensus proposal for FERC's consideration. Those meetings and the agencies' submittals to FERC on or prior to April 14 will inform the Agency's decision as to whether an appeal and evidentiary hearing will be necessary.

#### Future Power-Purchase Agreement Discussions

At the end of January, PG&E's Jeff Henderson telephoned Mr. Glaze and emphasized that PG&E is very committed to partnering with SFWPA in a power-purchase partnership after 2010, but that those to whom he reports are still not confident that they completely understand the long-term effect on the power market of several new electricity pricing regulations. They are moving cautiously to ensure that any contract into which they enter will be able to survive the constant changes in a future power industry.

Notwithstanding Mr. Henderson's confidence that they would be responding soon to the Agency's last proposal, Mr. Glaze informed him that the Agency could not afford to wait any longer before beginning informal discussions with other potential partners. He was assured that the Agency would very much like to have the opportunity to continue meaningful discussions with PG&E, and would keep confidential the elements of those discussions, but with only a little more than two years remaining in the current contract with PG&E, finalizing a future contract, no matter who the buyer may be, will take months after the basics of the deal are agreed to. To ensure that the Agency isn't confronted with the disadvantage of insufficient time to effectively negotiate, McDonald Partners (SFWPA's power-marketing consultants) have been directed to begin informally contacting other potential buyers to determine their level of interest in discussing a partnership with the Agency.

Mr. Glaze predicted that a formal request-for-proposal process would have to be launched in June if PG&E fails to respond conclusively to the Agency's proposal.

#### State Budget

In conjunction with the Governor's declared state of "fiscal emergency" and proposed \$3.3 billion budget reduction, he stated that he would not support suspending Proposition 1A (the constitutional amendment that is supposed to prevent the permanent taking of local-government property tax revenue). However, there are legislators who are arguing that a final 2008-09 budget solution will include suspending Proposition 1A.

#### Mooretown Rancheria Subdivision Easements

Mr. Glaze reported that the termination of services in the new unit of Mooretown Rancheria's residential subdivision (affecting eight customers) scheduled for tomorrow was averted yesterday when the Bureau of Indian Affairs confirmed that it had conveyed the permanent easements that were the condition upon which the temporary service agreement with Mooretown had been approved one year ago.

**DIRECTORS' REPORTS** – None.

#### **PROPOSED WATER TRANSFER - 2008**

During the last week of January, Palmdale Irrigation District (PID) and the State Water Contractors (primarily Metropolitan Water District) struck a deal in which PID agreed to withdraw its offer to purchase water from South Feather Water and Power Agency. Subsequently, Eric Chapman, Principal Engineer with the State Water Contractors, contacted Mr. Glaze and said that the contractors were still interested in purchasing 10,000 acre-feet of water from SFWPA. The e-mail offer he made is copied below.

*With the expected increase in the SWP allocation and the Court imposed restriction on delta pumping, my buyers are no longer willing to risk a substantial upfront payments. However, we are willing to pay a \$5/AF upfront deposit (upon completing a letter of intent) to cover your development cost and then make a \$155/AF compliment payment (for a total of \$160/AF) if we call on the water on or before April 15, 2008. Note that we would not actually take delivery until after July 1, 2008.*

The term sheet approved by the Board in November specified that the buyer commit to purchase the water at \$160/AF with no option, a \$400,000 up-front deposit, and agreement to split an accommodation fee to PG&E if reservoirs did not completely fill in 2009 (this fee has been \$70/AF in previous transfers). Mr. Glaze stated that his initial response to Mr. Chapman was that, while he believed the Board would agree to eliminating the up-front deposit, the Agency was not interested in a transfer that involved a delivery-option condition.

Several days later he received a phone call from Mr. Chapman and Steve Hirsch of Metropolitan Water District offering to increase the purchase price to \$165/AF, but stating that the agencies they were representing were not willing to abandon the option component. Based on their firm position, Mr. Glaze then prepared a revised term sheet for their consideration and stated that he would recommend its approval to the Agency's Board. It included the \$5/AF up-front deposit, a total price of \$165/AF, an April 15 call date, and sharing the PG&E accommodation fee.

M/S/C (Cecchi/Hunter) authorizing filing an application with the State Water Resources Control Board for a temporary change in place of use to facilitate the one-time

transfer of 10,000 acre-feet of water to a consortium of State Water Contractor agencies, together with authorization for the General Manager to accept an offer to purchase 10,000 acre-feet of water from a buyer willing to accept the conditions specified in the 2008 Water Transfer Term Sheet as revised by the General Manager on February 2, 2008, with the additional condition that the buyer's share of the PG&E Generation Impact Fee be capped at \$35 per acre-foot..

#### **LINE OF CREDIT**

Since the Board's last meeting, staff has been monitoring cash flow, reserves, and anticipated expenses closely to determine if a line of credit would be necessary to bridge a temporary revenue shortfall at the end of March when the bulk of Water Division debt service is due.

At present, Water Division cash available, including System Capacity Charge reserves (\$1,028,758 as of 12/31/07), is approximately \$1.8 million. Receipt of \$250,000 in cash receipts is anticipated prior to the end of March and just before the April 1 debt service (\$800,000) is due. During that same period there will be approximately \$500,000 in cash disbursements for payroll and regular accounts payable. Therefore, if the Board directed that System Capacity Charge reserves be used (borrowed) to cover expenses, staff estimates that there would still be \$750,000 in reserves after the April 1 debt service payments, and the Agency would be solvent without having to utilize funds from a line of credit.

However, the potential exists that the Agency may have to appeal conditions imposed by resource agencies in the FERC relicensing process and, as has been previously estimated and reported, the cost of preparation for and representation by special counsel in an evidentiary hearing could easily exceed \$350,000. Mr. Glaze expressed his belief that there is at least an even chance that the Agency will need to challenge the resource agencies' proposed conditions.

Given this uncertainty, he recommended creating a \$1 million line of credit with Tri Counties Bank. Tri Counties Bank handles Water Division activity and has offered to establish the line of credit at prime (currently 6.0%) plus 0.75%. The interest would be applied monthly only on the outstanding principal balance, and there would be no prepayment penalties. An annual fee of \$1,875 would be applied regardless of whether any amount was borrowed, and the entire principal balance would be due on or before December 31, 2008.

M/S/C (Cecchi/Hunter) adopting Resolution 08-2-1, authorizing the establishment of a \$1 million line of credit with Tri Counties Bank.

#### **CLOSED SESSION** (convened at 3:17 p.m.)

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

#### **OPEN SESSION** (convened at 3:29 p.m.)

M/S/C (Hunter/Moreland) in conclusion of negotiations with the Water Treatment and Distribution Employees Unit for 2008, approving: (1) a 3% cost-of-living adjustment for 2008 (effective January 1), 2009, and 2010; (2) a 20% increase in the top rate of the compensation range for each Unit position, with the condition that no merit increases be granted to employees already at the top of their present range during 2008 and 2009; and, (3) amendments of Articles 8.2, 12.4, 15.9, and 19.2(a) of the WTDEU MOU as tentatively agreed to by the General Manager and WTDEU representatives.

#### **ADJOURNMENT**

President Edwards adjourned the meeting at 3:20 p.m.

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Michael C. Glaze, Secretary

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James Edwards, President