



SOUTH FEATHER WATER & POWER AGENCY

TO: Board of Directors

FROM: Michael Glaze, General Manager

DATE: February 21, 2008

**RE: Proposed Water Transfer - 2008
Agenda Item for 2/26/08 Board of Directors Meeting**

During the week of your last meeting, 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 me and said that the contractors were still interested in purchasing 10 TAF 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 you approved at your November 2007 meeting 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 had been \$70/AF in previous transfers). My initial response to Mr. Chapman was that, while I 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 I 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. With that line now drawn in the sand, I prepared a revised term sheet for their consideration (attached) and stated I would recommend its approval to SFWPA's Board of Directors. It includes the \$5/AF up-front deposit, a total price of \$165/AF, an April 15 call date, and sharing the PG&E accommodation fee.

At this writing I have not received a formal acceptance of the revised term sheet, but Mr. Chapman is providing us with the information we are requesting that will permit filing an application for a temporary

change in place of use (water rights) with the State Water Resources Control Board that will be necessary for the transfer (about a two-month process).

To expedite closing this deal I would like the Board to consider taking the following action:

"I move authorization for 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.

SOUTH FEATHER WATER & POWER AGENCY

MICHAEL C. GLAZE, GENERAL MANAGER

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2008 WATER TRANSFER – TERM SHEET (REVISED 2/02/08)

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: \$165 per acre-foot of Water if Buyer calls on the Water on or before April 15, 2008.

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: Buyer shall pay SFWPA \$5.00/AF for each acre-foot of water made available, within 30 days of acceptance of the terms specified herein in compensation for SFWPA's regulatory and permitting costs associated with acquiring approval of

the water transfer, including State Water Resources Control Board fees and all fees associated with CEQA compliance.

PG&E Generation Impact Fee:

PG&E will require payment of a “generation impact fee” if SFWPA’s Little Grass Valley and Sly Creek reservoirs 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 Little Grass Valley and Sly Creek 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 result’s 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”

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: (1) actual storage in Lake Oroville encroaches into flood control reservation as defined by the Corps of Engineers Flood Control Diagram dated September 1971; (2) total releases to the Feather River below Thermalito Afterbay outlet are greater than or equal to 10,000 cubic feet per second and the Delta is not in Balanced Conditions; or, (3) storage in Lake Oroville exceeds normal maximum storage of 3,500,000 acre-feet..

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.