



SOUTH FEATHER WATER & POWER AGENCY

TO: Board of Directors

FROM: Michael Glaze, General Manager

DATE: March 19, 2008

RE: Cost-Sharing Agreement – Woodleaf Powerhouse Transformer
Agenda Item for 3/25/08 Board of Directors Meeting

In 2005, the original transformer at Woodleaf Powerhouse (WPH) failed. To minimize down time, PG&E performed an emergency replacement using an existing used transformer. Although the replacement transformer's specifications indicated it would be functional at WPH, it resulted in an inefficiency totaling 10 MW of generation. Because of the loss of generation at WPH and related restrictions at Forbestown Powerhouse, PG&E agrees that the transformer should be replaced with a new one. Additionally, the 115 kV circuit breaker at WPH is original equipment and, though it is not presently showing any signs of failure, it has survived beyond its 40-years life expectancy. Replacing it with a gas circuit breaker will preclude its certain failure in the not too distant future, and will also eliminate the risk associated with the potential for an oil spill reaching the river if there were to be a catastrophic failure of this existing oil-filled circuit breaker.

Because the end of the present power-purchase agreement is only two years away, and the life expectancy of a new transformer and gas circuit breaker are significantly longer, PG&E proposed that it should pay only 20% of the estimated \$3.1 million replacement cost. Ultimately, PG&E agreed to increase its cost participation to 50%.

Attached is a draft letter agreement from Randy Livingston, PG&E's Vice President, Power Generation, detailing the terms of the cost-sharing proposal. Specified therein is the provision that SFWPA would reimburse PG&E for its 50% of the replacement cost within the first year after the expiration of the existing power contract with PG&E.

Jeff Meith will be available to answer questions you may have regarding existing contract language regarding funding responsibilities for capital repairs and improvements.

The action I am recommending and requesting is as follows:

"Subsequent to its execution by a PG&E representative, I move authorization for the General Manager to sign the March 17, 2008 Woodleaf Generator Step-Up Transformer Bank & Circuit Breaker Replacement Cost Sharing Agreement."

DRAFT
SUBJECT TO REVISION

Mr. Mike Glaze

March 17, 2008

Page 2

March 17, 2008

Mr. Michael C. Glaze, General Manager
South Feather Water and Power Agency
2310 Oro-Quincy Highway
Oroville, CA 95966

Re: Woodleaf Generator Step-Up Transformer Bank & Circuit Breaker Replacement Cost Sharing Agreement

Dear Mr. Glaze:

South Feather Water and Power Agency (“SFWP”) requested that the 13.8/115 kilovolt (kV) Woodleaf generator step-up transformer bank and 115 kV circuit breaker (“CB”) be replaced. SFWP and Pacific Gas and Electric Company (“PG&E”) (collectively the “Parties”) have agreed to share the replacement cost as described below. This letter agreement (“Agreement”) is to formalize the Parties’ understanding.

Background:

- The original Woodleaf transformer failed in 2005 due to moisture in the insulating oil.
- Emergency restoration of Woodleaf Powerhouse to service was performed using an available PG&E transformer.
- While the nameplate rating of the transformer indicated that it would be sufficient, the PG&E transformer has performance limitations that result in a total reduction of 10 MW of generation including Woodleaf Powerhouse and a related restriction on Forbestown Powerhouse.
- The CB is original equipment installed in the 1960s. It is currently not showing any signs of imminent failure but is well beyond its expected useful life of 40 years. The oil-filled CB is adjacent to the river and, while there is secondary containment provided, there is the potential for an oil spill that could reach the river in the event of a catastrophic CB failure. This risk will be eliminated if it is replaced with a new SF6 gas CB.
- The Parties agree that it would be desirable to replace the existing transformer and CB in 2008.
- PG&E currently estimates, but does not warrant, that the cost to purchase and install a new transformer and a new SF6 CB will be approximately \$3.1 million.

SFWP and PG&E agree as follows:

1. PG&E will purchase and install a new transformer and SF6 CB in 2008 as an O&M Fund expense. SFWP agrees that it will reimburse PG&E for a portion of the cost of purchasing and installing the new transformer and CB. PG&E and SFWP agree that SFWP will reimburse

DRAFT
SUBJECT TO REVISION

Mr. Mike Glaze

March 17, 2008

Page 3

PG&E the lesser of 50% of (a) the full actual installed cost or (b) the fair market value of the transformer and CB as of July 1, 2010, the day the existing power contract expires.

2. For the purpose of determining the amount of the payment to be made to PG&E by SFWP, the fair market value shall be determined by a mutually acceptable, independent, qualified appraiser. If the Parties cannot agree on a mutually acceptable appraiser, the fair market value shall be the simple average of values established by three qualified appraisers, each Party selecting one appraiser and the third appraiser selected by the first two.
3. All payments due from SFWP to PG&E pursuant this Agreement shall be paid in full on or before June 30, 2011.
4. The Parties waive any right they may have to seek arbitration of this Agreement, including the cost sharing arrangement set forth in paragraph 1.
5. The Parties agree that this Agreement is unique to the Woodleaf transformer and CB and does not constitute agreement by the Parties for or set a precedent for replacement or refurbishment of any other South Fork Project equipment or features.
6. This Agreement shall not change, modify or amend any of the terms and conditions of the June 15, 1960, South Fork Project Power Purchase Contract except as explicitly noted herein.

The Parties agree to use their best efforts to jointly and cooperatively defend and protect this Agreement in the event of its review by regulatory agencies. Should PG&E's recovery of its costs under this Agreement be denied, the Parties shall meet in good faith to revise the terms of this Agreement in a way that makes it acceptable to the regulatory agencies.

If these terms and conditions are acceptable to SFWP, please have both copies of this Agreement executed by a duly authorized representative of SFWP and return one copy to Kevin Goishi of my staff.

Sincerely,

RANDAL S. LIVINGSTON

//

DRAFT
SUBJECT TO REVISION
Mr. Mike Glaze
March 17, 2008
Page 4

South Feather Water and Power Agency agrees to the terms and conditions described herein:

By: _____

Title: _____

Date: _____

PRELIMINARY DRAFT