

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

Tuesday, June 24, 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: Steven Wong, Finance Division Manager;
Art Martinez, Manager of Information Systems;
Matt Colwell, Water Division Manager;
Kathy Petersen, Power Division Manager;
Michael Glaze, General Manager.

OTHERS PRESENT: Dan Hunter and 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 regular monthly meeting on May 27, 2008.

APPROVAL OF WARRANTS

M/S/C (Hunter/Cecchi) approving: the total Water Division expenditures for the month of May 2008 in the amount of \$404,212.51 – Warrants #22959 through #22992, #23060 through #23068, and #23091 through #23143; and, the total Power Division expenditures for the month of May 2008 in the amount of \$335,920.38 – Warrants #64307 through #64323, #64373 through #64383, and #64406 through #64458.

PUBLIC PARTICIPATION – Hank Bailey complimented the Agency's efficiency.

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 combined March–June precipitation total was 2.76 inches, making it the driest March-June since records have been kept at Forbestown. Sly Creek Reservoir filled, although Little Grass Valley Reservoir topped out at about 9,500 acre-feet below maximum.

Water Transfer

The proposed water transfer is still in a holding pattern until the State Water Resources Control Board issues the necessary permits, which is contingent upon DWR providing the SWRCB with refill criteria all parties can live with. PG&E began operating the power project in early June to move the water into Oroville, but was notified that any water moved early would not count, so generation has since been reduced to avoid spill at Ponderosa Dam. Approximately 1,900 acre-feet was spilled before operations were curtailed.

Maintenance Projects

Forbestown Headquarters

A crew from the Water Division has installed a new fire hydrant system at the Forbestown Headquarters. Two hydrants have been installed between the upper and lower portions of the yard, improving fire fighting safety. The old fire hose reels were installed adjacent to propane storage tanks at the upper end of the yard. One hydrant is now located across the parking area from the main office building and the second is located near the hazardous waste storage area and diesel fuel tank.

Lost Creek Dam – Pipe Protectors

Vandals continue to drop rocks, appliances, and other objects over Lost Creek Dam onto the outlet pipes, which could lead to an uncontrolled release of water should one of the pipes be pierced. The Power Division crew came up with the idea of using large diameter culvert pipe as covers to deflect dropped objects away from the pipes.

General Information

NERC Compliance

Matthew Fulk from Rocky Mountain Power Services, Inc. was onsite in the Power Division June 9–11 to conduct the WECC/NERC compliance gap analysis, and was assisted by Scott Underhill and Scott Alcantara in finding the appropriate documentation. A report should be ready for South Feather's review in the next month or so.

Slate Creek Bypass Agreement

Due to the extended Sly Creek Powerhouse outage earlier in the year, Sly Creek Reservoir filled and could not take additional water from Slate Creek. An agreement copied from previous bypass situations was worked out with PG&E by Ms. Petersen whereby SFWPA was compensated \$37,958 for allowing water to flow down Slate Creek to Bullards Bar to be used for generation at Colgate Powerhouse. For the first time, however, the compensation included unrealized Woodleaf Powerhouse tailwater depression revenue.

Grizzly Powerhouse Maintenance Contract

Ms. Petersen reported that she has been contacted to see if the Agency would be interested in taking over the maintenance contract with the City of Santa Clara for its Grizzly Powerhouse. Preliminary investigations are being initiated.

WATER DIVISION MANAGER'S REPORT

The Board reviewed a written report from Matt Colwell, Water Division Manager.

Distribution Operations

Water Division staff have been accomplishing water system maintenance and normal operations tasks. Ongoing projects include irrigation and domestic distribution system betterments, new service installations, and leak repairs.

Irrigation operations are the focus of considerable effort by the distribution crews in an attempt to meet customer demands. Dry conditions contributing to Forbestown Ditch losses have made it difficult to push water to the extreme ends of the ditch system. Staff have been clearing, cleaning, reshaping, and fixing leaks to assist in moving the water. Currently, SFWPA has 13 cfs combined with NYWD's 12 cfs demand from SF-14 (Woodleaf Penstock), and the SF-14 diversion may be increased by another 1 cfs if the upper reaches of the Forbestown Ditch can handle it.

Water Treatment Operations

The Agency's annual water quality report presenting the sampling results taken during 2007 for the Miners Ranch Treatment Plant and distribution system has been produced and sent to customers. All regulated, secondary, and other substances that are tested and monitored are within state and/or federal drinking water standards. Art Martinez and Jim Coffelt were commended for putting out a very professional report.

The May MRTP production was 130% of the recent average, reflecting the high and early demand due to low precipitation and dry conditions.

All bacteriological requirements were met for the Miners Ranch and Bangor Treatment Plants and Sly Creek Campground. Strawberry Campground's routine sample tested positive for coliform bacteria, but follow-up samples were negative for coliform.

FINANCE DIVISION MANAGER'S REPORT

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

Disability Insurance

South Feather contracts with the Association of California Water Agencies (ACWA) for its short-term and long-term disability insurance. The Agency has received notification from ACWA that the renewal for the next two years, beginning July 1, 2008, will have a 20% decrease in the short-term disability rates, and the long-term disability rates will be maintained at their current level.

Employee Appreciation Breakfast

The Agency's management team prepared and served the annual employee appreciation breakfast on Thursday, June 4, 2008. The employee election to participate in CalPERS was also conducted at the breakfast.

PERS

Work continued on understanding the ramifications of PERS participation for the Agency and its employees, as well as preparing the necessary documents for starting with the PERS retirement program effective with the pay period beginning June 29, 2008.

2007 Audit

The Agency's auditors, Mann, Urrutia, Nelson, CPAs, have submitted the Annual Financial Report and audit for 2007. The report, together with supplementary information, comments, findings, recommendations, and responses will be reviewed by the Board's Finance Committee. As mentioned last month, the entire Finance Division staff (Pat Sands, Debby Cunningham, Cheri Ruloph and Cindy Griffin), as well as Art Martinez, are to be commended for their efforts in assisting with the audit.

GASB 45

The Governmental Accounting Standards Board (GASB) relatively recently issued its Statement No. 45. GASB 45 requires public agencies to disclose the current value of post-employment benefits in its annual financial report. An actuarial is required in order to compute and report this liability. This requirement to report the liability is effective with the financial report for this year, 2008, which will be prepared and audited in Spring 2009. Work has begun on preparing a Request for Proposal for the required actuarial consulting services.

GENERAL MANAGER'S REPORT

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

Relicensing

FERC is processing its environmental review of the license application and has been in contact with Agency consultants regarding minor clarification of information items.

Power Marketing

Immediately after the Board's last meeting Mr. Glaze received a call from PG&E's Marc Bommersbach advising that they were sending a new proposal before the week was over. That proposal was received on May 30.

Over the next week McDonald Partners, the Agency's power-marketing consultants, analyzed the proposal. Their evaluation was presented to the Ad Hoc Power Marketing Committee (Directors Edwards and Cecchi), Jeff Meith and Mr. Glaze on June 5. The Committee's conclusion was that PG&E's May 30 proposal was a good one in the sense that it cut in half the difference between their April 22 proposal and the Committee's valuation of the project.

The Committee agreed that a counteroffer should be made, which Mr. Glaze subsequently delivered to Mr. Bommersbach. In summary, PG&E was advised that the Committee would recommend to the Board: (1) acceptance of the terms of the May 30 proposal, but for no more than a five-year term; or, (2) acceptance of a ten-year or longer term if the proposed energy price was increased by 1% and the annual fixed payment was increased by \$1.4 million.

A conference call between McDonald Partners, the Committee, Agency management, and PG&E representatives occurred on June 19, to discuss the Agency's counteroffer. Mr. Glaze summarized the details of that meeting.

Exploring Opportunities for Collective Power Marketing

As reported last month, a meeting has been set for July 1 during which CAPP members will meet with representatives of Northern California Power Authority to discuss the future of power marketing and to evaluate the pros and cons of creating a joint powers authority (JPA) of public hydropower-producing agencies like SFWPA, and how a JPA functions and serves its members through synergistic sharing of technical resources and connecting hydro resources to loads and markets. In addition to discussing scheduling and ISO requirements, legislative and regulatory issues affecting hydropower marketing, the group will also explore various paths of opportunity, the issue of CAPP members all having different license- and contract-end dates, political obstacles, and obvious next steps if there is interest in pursuing the matter.

Recruiting for Communication/Network Technician

Long-time Comm Tech Chuck Newman will be retiring at the end of July. With the goal of having his replacement on board for the last month of his SFWPA employment, a recruitment process was initiated several months ago. In response to advertisements published on the Agency web site, in the local newspaper, the Sacramento Bee, ACWA News, and several others, 39 applications were received. Interviews of the top six applicants were conducted on June 12, with Steve Wong, Art Martinez, Kathy Petersen, and John Davis joining Mr. Glaze on the interview panel.

Based on the interviews, Mr. Glaze extended an offer of employment to Brian Howerton who is presently an Equipment Systems Specialist for C.S.U., Chico. In that position he is the lead technician responsible for administration of campus telecommunications infrastructure, data network, voicemail administration, and wireless systems. He has had 13 years of extensive and comprehensive experience in the telecommunications field in California.

Mr. Howerton will begin work on June 29, giving him the opportunity to shadow Chuck Newman for a month before Chuck retires on July 31. And, fortunately, Mr. Newman has agreed to continue as a contract employee thereafter in the event his expertise is needed while Brian is getting up to speed.

Water Marketing – Yuba City

The current water sale agreement between North Yuba Water District (NYWD) and the City of Yuba City expires in 2010. Thereafter, in accordance with the 2005 agreement between SFWPA and NYWD, the proceeds from any water transfer by either of the agencies becomes power project revenue. Therefore, Agency staff has become involved in negotiations for continuing that sale of water to Yuba City.

On June 3, Kathy Petersen, Matt Colwell and Mike Glaze met with NYWD's General Manager, Bill Suppa, and Yuba City's Utilities Manager, Bill Lewis, to flush out issues to resolve so that an agreement can be drafted to facilitate a future water sale to Yuba City.

The meeting resulted in a framework being developed, with Yuba City needing to take the next step to develop a valuation proposal back to SFWPA and NYWD.

DIRECTORS' REPORTS

Director Vivian Meyer expressed her ongoing concern for State budget issues and the seemingly tireless efforts on the part of the legislature to take property tax revenue from enterprise special districts.

Director Dee Hunter asked staff to report back on the feasibility of utilizing the head at Concow Reservoir for a hydroelectric facility.

WATER TRANSFER AGREEMENT

Logistically, the transfer to the State Water Contractors (SWC), approved by the Board last month, requires DWR's cooperation and participation because the 10 TAF is spilled by SFWPA into Lake Oroville where it is held until there is an opportunity for it to be conveyed to SWC facilities south of the Delta. As with prior transfers to the Environmental Water Account (2002 and 2004), an agreement with DWR is required.

Directors reviewed the storage and conveyance agreement proposed for this year's transfer, which is very similar in language to the prior agreements, except for the specifics of how the water is delivered by SFWPA and conveyed by DWR to the SWC. Approval of the agreement is required for the transfer permit by the State Water Resources Control Board to be valid.

M/S/C (Cecchi/Hunter) Adopting Resolution 08-6-1, approving the storage and conveyance agreement with DWR and the State Water Contractors for the 2008 water transfer, and authorizing the General Manager to execute said agreement.

CLOSED SESSION (convened at 3:37 p.m.)

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

OPEN SESSION (convened at 3:57 p.m.)

PERS CONTRACT APPROVAL

M/S/C (Cecchi/Hunter) (1) Adopting Resolution 08-6-2 authorizing a Contract Between the Board of Administration, California Public Employees' Retirement System, and the Board of Directors, South Feather Water and Power Agency; (2) adopting Resolution 08-6-3 to permit tax deferral of employee PERS contributions; (3) authorization for a 3.58% wage/salary increase for all employees; and, (4) setting the employer PERS contribution at 11.42%, and the employee PERS contribution at 8.00%.

CLOSED SESSION (convened at 3:58 p.m.)

Conference with legal counsel regarding: (1) case number DSC 07738, Small Claims Court, Butte County; and, (2) two potential litigation cases.

OPEN SESSION (convened at 4:22 p.m.)

M/S/C (Hunter/Moreland) Authorizing the General Manager to execute and send the standard claim-rejection letter recommended by ACWA/JPIA regarding the property-damage claims filed by Mr. and Mrs. Robinson and Mr. and Mrs. Montgomery, regarding their respective homes on Skyline Boulevard.

ADJOURNMENT

President Edwards adjourned the meeting at 4:23 p.m.

Michael C. Glaze, Secretary

James Edwards, President