



SOUTH FEATHER WATER & POWER AGENCY

TO: Board of Directors

FROM: Michael Glaze, General Manager

DATE: September 15, 2008

RE: General Information (regarding matters not scheduled on the agenda)
9/23/08 Board of Directors Meeting

Relicensing

FERC continues its environmental review processing of the license application with no findings or conclusions yet published. However, FERC has issued a "notification of updated relicensing schedule" that identified the following two "milestones": notice of availability of draft environmental impact statement (EIS) on October 14, 2008; and, notice of availability of final EIS on May 12, 2009. Given that the Agency's current license expires on March 31, 2009, FERC will be issuing a temporary extension of the license to accommodate its updated schedule.

State Budget Deal (Maybe) – No Prop 1A Borrowing

The three month budget impasse looked as if it had come to an end as legislative leaders came to a compromise budget deal on Tuesday, September 16. The deal would close the \$15.2 billion budget deficit without a tax increase and without any borrowing, including Proposition 1A (borrowing from local government coffers). Instead, the compromise sees cuts in spending that amount to \$9 billion. The rest of the gap will be patched through closing tax loopholes and "accelerated revenue collections," an accounting gimmick for collecting some one-time revenue in this fiscal year rather than the next. This however, leaves an immediate \$2 billion gap in next year's budget.

Governor Arnold Schwarzenegger has promised to veto this budget because it does not contain the changes to the budget process that he has been demanding. While this budget seems gimmicky with one-time takings from future revenue collections (borrowing from future budgets), it does contain language to increase the rainy day fund and gives the governor limited ability to make mid-year budget cuts, items Schwarzenegger wanted.

Future Water-Transfer Planning

According to DWR, statewide precipitation from February through July 2008 was 45% of average – the fourth driest in 114 years on record. State reservoirs are severely low, with Folsom at 31% of capacity,



Shasta at 34% and San Luis at 13%. By the end of the water year, Lake Oroville will reach its lowest carryover storage since the drought of 1977 (as evidenced by the picture at left of the south fork arm of Lake Oroville taken by Matt Colwell on September 17). Preliminary data shows the 2009 water year will likely be dry and, in order for reservoir levels to recover, the state would need to receive 95% of average precipitation next year.

DWR will announce its initial allocation for 2009 on December 1 and it is expected to be in the 10-15% range – the lowest initial allocation since 1993. With fears of a continued drought prevalent, and predictions of a catastrophic water crisis in the state as early as 2009, SFWPA is being courted by several thirsty water agencies south of the Delta. On August 20 we met with representatives of Dudley Ridge Water District, Lost Hills Water District, and Bel Ridge Water Storage District who are looking for a long-term water transfer deal. On September 18, Jim Edwards, Matt Colwell, and Kathy Petersen joined me in a meeting with representatives of San Diego County Water Authority who are interested in a one-year deal for 2009, as well as a long-term transfer contract. On September 26 we will be meeting with folks from Palmdale Water District who are also looking to secure long-term commitments from water suppliers.

On September 4, DWR announced that it is creating a 2009 Drought Water Bank to facilitate water transfers and to help mitigate water shortages in a potential third dry year. To implement the bank, DWR plans to purchase water from willing sellers – primarily upstream of the Delta. The water, if acquired, would be transferred using State Water Project and Central Valley Project facilities to agencies that are at risk of water shortages in 2009 and that require supplemental water supplies to meet anticipated demands.

Conditions imposed by DWR on the 2009 water bank include the following:

- Local water needs will be considered before transferring water out of a region.
- Transfers must be made without injuring other legal water users or unreasonably affecting fish, wildlife or other instream beneficial uses.
- No more than 20% of farmland in any county may be idled due to the water bank unless environmental impacts are evaluated.
- Water will be allocated according to need, with health and safety taking priority.
- Transfer recipients are expected to have adopted and implemented a water management plan, including appropriate water shortage contingency provisions that will result in a 20% reduction in normal urban water demand.

While creation of the water bank to mitigate the current and quickly escalating water crisis in the state seems reasonable and laudatory, our experience over the past eight months of attempting to get DWR to facilitate, or even just cooperate with SFWPA in its recent transfer of water to the State Water Contractors buyers group creates significant doubt that the initiative will have much chance of success. In fact, putting

DWR in charge of facilitating and expediting state-wide water transfers is analogous to appointing Barak Obama as John McCain's campaign manager.

It is too early to predict the impact the drought water bank will have on independently negotiated single-year transfers in 2009, although San Diego County Water Authority is aggressively searching for willing sellers in its effort to acquire an additional 50,000 acre-feet.

Without some relief in DWR's refill criteria attached to its approval of the transfer just completed, it would be nearly impossible for SFWPA to get approval for another transfer in 2009.

2008 Water Transfer Complete

The State Water Project Contractors Authority has been invoiced for the recently completed transfer of 10,000 acre-feet of water. As shown on the attached copy of the invoice (the documentation referenced on the invoice is not attached but is certainly available for your review if so desired), \$1.7 million is due and payable and, in accordance with the Purchase Agreement, must be remitted by October 11, 2008.

SOUTH FEATHER WATER & POWER AGENCY



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September 12, 2008

State Water Project Contractors Authority
1121 L Street, Suite 1050
Sacramento, California 95814-3944

Attention: Eric Chapman

INVOICE FOR TRANSFERRED WATER

In accordance with the Purchase Agreement for Water Transfer ("Agreement") between South Feather Water and Power Agency (SFWPA) and the State Water Project Contractors Authority buyers group (SWPCA), SFWPA hereby requests payment for 10,000 acre-feet of water transferred from the Agency's Ponderosa Reservoir to Lake Oroville between July 9 and August 27, 2008, together with one half of the initial "power generation fee" pursuant to Agreement Section 5(b).

Transferred Water – 10,000 acre-feet @ \$165.00/acre-foot	\$1,650,000.00
Initial Transfer-Processing Fee – 10,000 acre-feet @ \$5.00/acre-foot	<\$50,000.00>
Half of Power Generation Fee payable to PG&E by SFWPA – 10,000 acre-feet @ \$10.00/acre-foot....	<u>\$100,000.00</u>
Payment Due	\$1,700,000.00

DOCUMENTATION

Attached is a printout of the data logger at USGS gauging station #11396350 (Ponderosa Dam spillway – transfer delivery point into Lake Oroville). The daily mean discharge values (in cubic feet per second) for the transfer period – July 9 (date approved by DWR for physical transfer to commence) through August 27, 2008 – are shaded and confirm that 10,315.8 acre-feet of water was spilled from SFWPA's Ponderosa Reservoir to Lake Oroville during the transfer period.

Also attached is a copy of the agreement between SFWPA and PG&E whereby PG&E cooperated to accomplish the subject transfer. Section 4, thereof, requires payment of an initial "accommodation fee" of \$20 per acre-foot (SWPCA's obligation is half of this fee per Agreement Section 5(b)), and an additional indemnification, up to a maximum of \$10 per acre-foot, depending on the actual cost of generation impacts to PG&E affected by the transfer.

South Feather Water and Power Agency

A handwritten signature in black ink, appearing to read 'Michael C. Glaze'.

Michael C. Glaze, General Manager