

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

Tuesday, October 28, 2008, 2:00 P.M.,
Agency Board Room, 2310 Oro-Quincy Hwy. Oroville, California

DIRECTORS PRESENT: Lou Cecchi, James Edwards, Dee Hunter, Vivian Meyer, and Dennis Moreland.

STAFF PRESENT: 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, Mike Kessler, Ben Marshall (Wachovia Securities), and George Menas.

CALL TO ORDER

President Edwards called the meeting to order at 2:00 p.m. and led the Pledge of Allegiance.

AGENT OF RECORD – LINCOLN 401a/457 DEFERRED COMPENSATION PLANS

Mr. Glaze provided directors with a copy of a letter from Marc Miller advising that he had left Wachovia Securities and moved to Merrill Lynch in their Chico branch, with an office in Oroville. Therein, Mr. Miller asked Mr. Glaze to send a letter to Lincoln National Life Insurance Company stating that he would be the "advisor of record" for its deferred compensation retirement plans available to Agency employees.

Mr. Glaze reported that, on September 24 and 25, he met with all Agency employees to determine their preference for who their agent of record would be for the Lincoln deferred compensation plans. He asked them all two questions. First: "Do you want Marc Miller, now with Merrill Lynch, to be your agent for the Lincoln deferred compensation plans?" Second: "Do you want the agents at Wachovia Securities in Oroville to be your agents for the Lincoln deferred compensation plans?" The response to the two questions was the same in all of the meetings. No one raised their hand or spoke in favor of the first question. The second question was the only one that generated raised hands or verbal affirmations.

Based on employee responses, Mr. Glaze advised Lincoln that the agents in the Oroville Wachovia office would be the agents of record for its SFWPA deferred compensation plans.

When Mr. Miller learned of the decision to specify Wachovia's Oroville agents as agents of record for the Lincoln plans, he asked to express his objection to the Board of Directors. Mr. Glaze added the matter to the agenda as requested, and extended an invitation to attend the board meeting to Jim Moll, manager of the local Wachovia Securities office.

Mr. Moll was unable to attend, but Ben Marshall attended the meeting to represent Wachovia Securities. He provided a summary of the services he and the other Wachovia agents are providing Agency employees.

Mr. Miller did not attend the meeting, leaving a message earlier in the day that he was going to accept the decision without challenge.

No action was taken.

APPROVAL OF MINUTES

M/S/C (Hunter/Moreland) approving the Minutes of the regular monthly meeting of September 23, 2008.

APPROVAL OF WARRANTS

M/S/C (Cecchi/Hunter) approving: the total Water Division expenditures for the month of September 2008 in the amount of \$457,752.56 – Warrants #23335 through #23380, #23424 through #23442, and #23473 through #23521; and, the total Power Division expenditures for the month of September 2008 in the amount of \$732,602.22 – Warrants #64655 through #64671, #64719 through #64738, and #64763 through #64827.

PUBLIC PARTICIPATION

Hank Bailey inquired as to why Forbestown Ditch services were locked after the end of the irrigation season on the Forbestown Ditch. He wanted to know why he was deprived the opportunity to take storm water that might be in the ditch during the winter. Mr. Glaze stated that, if he wanted to pay the monthly service fee of \$17.50, he would be allowed to take storm water accumulating in the ditch periodically through the winter. Mr. Bailey indicated that he was not interested in that offer.

POWER DIVISION MANAGER'S REPORT

The Board reviewed a written report from Power Division Manager Kathryn Petersen, including storage, generation, and precipitation reports, as well as photographs of various projects crews have been working on.

Operations

Ms. Petersen noted that there has been more generation to date this year than in 2007, due primarily to the 10,000 acre-foot water transfer that was accomplished in July and August.

The first measurable rain of the season came on October 3-4 during which the gauge at Forbestown Headquarters recorded 2.07 inches of precipitation.

On October 2, the draft from Little Grass Valley Reservoir was increased to 350 cfs to draw down the reservoir for winter, and to allow access to the spillway channel upstream of the dam so that a crew can clean rock slides out of the approach channel. This information was posted on www.Dreamflows.com for the whitewater boating community, and letters were sent to property owners at Little Grass Valley to advise them that the reservoir water surface level would drop more quickly than in the recent past. The flow will be reduced to 275 cfs on October 23, and then ramped down to about 35 cfs on October 27.

Periodic visits to Little Grass Valley Dam and South Fork Diversion have yielded a rough idea of the number of boaters who have been kayaking the releases. Based on the license plates of vehicles that have been parked at the dams, the releases have attracted people from Nevada, Minnesota and North Carolina, as well as from the local area. Butte County CDF reported that, as of October 20, they had not been called on for any rescues. All of the kayakers to whom employees spoke were appreciative of the flows and the information provided.

Maintenance Projects

Fall Outages

The fall outage season started October 13 with clearances on Kelly Ridge Powerhouse and Miners Ranch Conduit. The crew is cleaning and patching the canal and performing routine maintenance at Kelly Ridge. The canal will be returned to service October 24 and then taken out of service again in early November when a crew from PG&E will repair a section of the up-slope canal wall that slipped. The annual outage at Forbestown Powerhouse will begin October 27.

Woodleaf Transformer and Circuit Breaker Replacement Project

A PG&E crew began the civil work in preparation for replacing the generator step-up transformer during the week of September 22, and completed preparing the concrete pad on October 2. The next phase of transformer installation began on October 13 with the dismantling of the existing transformer and 115 kV circuit breaker. On October 16 the new circuit breaker and transformer arrived at the powerhouse and the process of moving the old equipment out of the yard and the new equipment in began. With all of the major equipment now in place, the next phase will be wiring and testing. Joe Romero (Electrical Technician) is taking the lead on working with the PG&E crew throughout the installation and start-up testing.

Forbestown Headquarters Welding Shop Extension

Bob Cherry (Apprentice Electrical Machinist), with the assistance of a Water Division crew, completed pouring the concrete foundation for the welding shop extension prior to the start of outage season. The overhead crane for the shop has been received and will be installed when the metal building is erected later this winter.

Microwave Replacement Project

The project to convert the Chico-Sunset Hill and Sunset Hill-Forbestown microwave paths from 2 GHz to 6 GHz kicked off on October 2 with a "job walk" led by PG&E's Telecommunications construction forces. The Forest Service approved amending the communication lease to include a reflector site at Pike County Peak for the Sunset Hill to Forbestown Headquarters path. Leading up to the job start, Jola Battershell worked with PG&E's project engineer to order the materials, saving money (approximately \$45,000) and time by avoiding the PG&E materials overhead charges and working directly with the vendors, something that was greatly appreciated by the PG&E team leads. Brian Howerton (Communications Technician) is working closely with the PG&E technicians on the installation, since maintenance of the system will be his responsibility, and this provides him an excellent training opportunity.

Sly Creek Campground Restroom

The new ADA-compliant restroom for Sly Creek Campground was delivered October 16. Water Division Foreman John Franklin, Equipment Operator Larry Johnston, and Utility Workers Tyler Fuller and Eddie Paul spent the week of October 13 preparing the hole for the new vault and assisted with the installation of the unit. The old restroom at this location will be converted to a storage building, with the old vaults filled in and capped.

General Information

DSOD Inspection

The annual dam inspections by the Division of Safety of Dams were conducted on October 15-16. A new area engineer, David Borger, has been assigned to cover this area and he accompanied Khondikar Islam, who will provide the report of the inspection. They noted some minor maintenance items that will be taken care of when the outages are complete.

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, leak repairs, and assisting Power Division on projects.

Water Treatment Operations

The September MRTP production was 107% of the recent average. This is a continuation of the above-average cumulative trend.

CDM, the MRTP plant-expansion consultant, was on-site for a half-day workshop on the draft Technical Memorandum #1 Facilities Review and Plant Assessment on October 9, 2008. The Workshop utilized the results of the TM#1, CDM staff's knowledge base, and MRTP staff experience to further refine the plant expansion alternatives. The draft TM#2, which will outline comparisons for identified alternatives, should be received by mid-November. To date, the project expenditures are approximately 45% of the authorized budget of \$100,313.

FINANCE DIVISION MANAGER'S REPORT

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

South Feather Relicensing Consulting Services

Devine, Tarbell and Associates, Inc. (DTA), consultant for the South Feather Project relicensing submitted an invoice and report for the period of September 1 through September 28, 2008 in the amount of \$841.50. Including this invoice, payments to DTA for their services on this project to-date amount to \$4,961,751.

2008 Water Transfer

The balance due from the State Water Project Contractors Authority for the 2008 Water Transfer, in the amount of \$1,700,000, was received and deposited on October 9, 2008. Upon receipt of the funds, the Agency's outstanding balance on its Line of Credit with Tri-Counties Bank was paid,

a short-term 2007 loan from Power Division was satisfied, and the monies borrowed from System Capacity proceeds were re-paid.

Annual Budget

It is anticipated that a budget will be available for Board consideration in November.

Accounting and Payroll Software and Processing

The Finance Division has participated in substantive discussions this past month regarding the accounting/billing software, accounting needs, and payroll processing. Although no changes have resulted to date, the process is being reviewed in consideration of converting to on-line payroll processing with ADP (vs. the current batch processing methodology), which might also provide a labor-cost distribution application and allow more flexibility for staff involved in the process.

The process of bringing fixed assets into Springbrook has begun – data which is currently maintained on spreadsheets.

Discussions with Power Division about its accounting needs are also underway, and it appears that its account structure will be changed in the near future. Also, Kathy Petersen, Jola Battershell and John Davis have been introduced to Springbrook's Project Management software.

Liability Insurance

The limits on the Agency's liability insurance coverage with ACWA/JPIA have been increased with no increase in the premium for the upcoming policy year. Total liability coverage per occurrence has been increased from \$50 million to \$60 million. And now there are no longer any aggregate limits applicable to the excess coverages (the previous limit was 3 times the per-occurrence limit). The increase was initiated by ACWA/JPIA.

GENERAL MANAGER'S REPORT

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

Relicensing

FERC issued a schedule several months ago that identified October 14, 2008 as the date its draft environmental impact statement (DEIS) would be published. It is still not available for review.

Recruitment – Facilities Maintenance Worker

A three-week application period produced 233 applications for the new Facilities Maintenance Worker the Board approved last month. About one-third of the applicants had relevant experience in either landscape maintenance or janitorial services. Individuals with experience in both were a little harder to find. Nevertheless, 24 applicants were invited for an interview on Friday, October 24th. The position has been offered to one of the individuals interviewed, subject to a satisfactory physical exam.

Small Claims Court – Loyd v. SFWPA

Yesterday, Kathy Petersen and Mr. Glaze were in small claims court defending the Agency against a suit by Joseph and Holly Loyd of Gridley. They were asking for \$4,000 as compensation for "pain and suffering, loss of good time in campground, [and] expenses to cover the trip" when they went camping at Sly Creek Campground on the last weekend in June 2007.

Mr. Glaze stated that he received a letter from the Loyds in March 2008 wherein they requested a meeting to resolve a dispute they had with other campers and Northwest Park Management's camp manager at Sly Creek Campground. The letter stated that they had been barred from camping at Sly Creek. They concluded the letter with the following:

If there is no response [to my request for a meeting], I only have one other choice. That is go to court and prove my case before a judge. If this happens, then I will be asking to monetary damages for harassment on your employees part. \$1000 for the trip, \$1500 for me and \$1500 for my wife, as on Sunday, we both had to take Nitro pill after all that happened.

We both have heart conditions and didn't heed the harassment we endured.

Notwithstanding the Loyd's allegations, no SFWPA employees were involved in the incident, and Pete Dryer, owner of Northwest Park Management, apologized to the Loyds for anything his

employees may have said or done, refunded their camp fees, and assured them that they were welcome to camp at Sly Creek Campground any time in the future.

Given Mr. Dryer's handling of the matter, there appeared to Mr. Glaze to be no need to schedule a meeting or pursue the matter further. The Loyds apparently felt otherwise and carried through with their threat to go to court.

In court, the judge pro tem heard the case and advised that he would first consider the Agency's previously submitted motion to dismiss on the grounds that the Loyds failed to comply with the law regarding the proper filing of a claim for damages and then, if necessary, on the merits of the case. No information was provided as to how long it would take to receive his verdict.

DIRECTORS' REPORTS – Director Cecchi reported on a recent "Passport Day", during which local farmers opened their operations and facilities to visitors.

RECESS (called at 3:12 p.m.)

CLOSED SESSION (convened at 3:19 p.m.)

Conference with Real Property Negotiations – Government Code §54956.8

Property: Surplus Water.

Agency Negotiators: Michael Glaze and Jeffrey Meith.

Negotiating Party: San Diego County Water Authority.

Under Negotiation: Price, quantity, refill requirements, and terms of payment.

OPEN SESSION (convened at 3:35 p.m.)

President Edwards announced that no action was taken by the Board during the closed session. Negotiators were instructed.

ADJOURNMENT

President Edwards adjourned the meeting at 3:35 p.m.

Michael C. Glaze, Secretary

James Edwards, President