

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

**Tuesday, February 24, 2009, 2:00 P.M.,
Agency Board Room, 2310 Oro-Quincy Hwy. Oroville, California**

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

DIRECTORS ABSENT: Lou Lodigiani (Director Lodigiani was attending to funeral arrangements for his mother).

STAFF PRESENT: Steven Wong, Finance Division Manager;
Art Martinez, Manager of Information Systems;
Matt Colwell, Water Division Manager;
Kathy Petersen, Power Division Manager;
Jeffrey Meith, Legal Counsel;
Michael Glaze, General Manager.

OTHERS PRESENT: Tom Barnard (AECOM), Jean Brown and Hank Bailey.

CALL TO ORDER

President Cecchi 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 of January 27, 2009.

SLY CREEK DAM CREST MODIFICATION PROJECT

As she previously reported, Ms. Petersen stated that consultants have been working for the past few years on the engineering design for the modifications to Sly Creek Dam to provide for inflow/outflow control and temporary storage under a probable maximum flood event. The project is now at the point for applications to be filed with FERC and the Division of Safety of Dams to make those modifications.

One of the steps in the process was to conduct a review of the project under the California Environmental Quality ACT (CEQA). An Initial Study and Mitigated Negative Declaration (MND, copies provided to and reviewed by directors) was prepared and circulated through the State Clearinghouse for review and comment. A copy was made available at the Butte County Clerk-Recorder's Office and a public notice was placed in the local papers on December 24 and 27, 2008 and January 1, 2009.

Two agencies provided responses to the MND. Caltrans stated that they had no comments. The Regional Water Quality Control Board provided information about the permits that may be required: Water Quality Certification if activities would result in impacts to jurisdictional waters, and a General Permit for Storm Water Discharges associated with construction activity. The comments do not result in any changes to the MND as the permits required were already discussed in the document.

Tom Barnard, project manager for the AECOM consulting team summarized the project for directors.

President Cecchi opened a public hearing to take comments on the proposed MND at 2:19 p.m. No comments were received and the public hearing was closed.

Directors were also provided and reviewed copies of the Mitigation Monitoring and Reporting Program.

M/S/C (Edwards/Hunter) adopting the Initial Study and Mitigated Negative Declaration for the Sly Creek Dam Crest Raise project in compliance with the CEQA guidelines and Mitigation Monitoring and Reporting Program.

APPROVAL OF WARRANTS

M/S/C (Hunter/Moreland) approving: the total Water Division expenditures for the month of January 2009 in the amount of \$518,774.16 – Warrants #23803 through #23824, #23756 through #237639, and #23861 through #23905; and, the total Power Division expenditures for the month of January 2009 in the amount of \$451,164.718 – Warrants #65102 through #65119, #65067 through #65069, and #651570 through #65198.

PUBLIC PARTICIPATION – None.

POWER DIVISION MANAGER'S REPORT

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

Operations

Precipitation to date at Forbestown headquarters is 37.8". Ms. Petersen reported that the outlook is improving as the series of storms over the past couple of weeks has doubled the snowpack since the first of February. At Pilot Peak, the highest point in the watershed, the water content of the snow increased from 9.1" at the beginning of the month to 17.1" on February 17.

Maintenance Projects

Forbestown Tunnel Sediment Removal Project

The sediment removal project is scheduled to begin March 2 with mobilization of the barges onto the reservoir.

Forbestown Tunnel Intake Trash Rake Project

The technicians from EIMCO Water Technologies who came to program the operating system of the new trash rake discovered several problems with the factory design. Motors were not wound properly and/or were undersized for the application. Corrections will be made and the system will hopefully be placed in service in April.

Spring Outage Season

The annual outages for Forbestown and Sly Creek powerhouses have been moved to the spring to take advantage of the low demand period for generation. The annual outage at Forbestown will begin February 22 and last for two weeks. The outage at Sly Creek will start on March 16 and is also scheduled to last two weeks. The work at both powerhouses will include routine inspections and repairs that cannot be completed with the powerhouses online.

Microwave Changeover Project

The microwave conversion from 2 GHz analog to 6 GHz digital on the Sunset Hill-Chico and Sunset Hill-Pike County Peak-Forbestown Headquarters paths has been completed. Brian Howerton, Communications Technician, has been working closely with PG&E crews on the changeover so that he will be ready to maintain the system going forward.

Ponderosa Spill Gates Recoating

A Request for Bids (RFB) was distributed earlier this month for recoating the Ponderosa Dam spill gates, and a bid walk is scheduled for the afternoon of February 25. The RFB was sent to 22 firms throughout California, Nevada and Oregon. The spill gates were scheduled for repainting in 2004 in conjunction with the Woodleaf Penstock painting job, but the budget that year could not cover the entire cost, so the job was deferred until this year. There will probably be an agenda item in March to approve a contract with one of the firms, and the gates should be recoated in April or early May.

General Information

Highway 162 Intersection Near Miners Ranch Dam

Caltrans notified the Power Division that they will be adding a signal to the intersection of Olive Highway and Kelly Ridge Road/Miners Ranch Road, and will be making some road approach changes in conjunction with that project. They inquired about the culvert capacity requirements for the channel downstream of the leakage weir and the spillway outflow at Miners Ranch Dam. They do not anticipate the project impacting the roadway where the Bangor Canal crosses underneath, but were given the flow capacity requirements for the canal anyway.

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 covering the period of December 29, 2008 through January 31, 2009 in the amount of \$4,912. Including this invoice, payments to DTA for their services on this project to-date amount to \$4,972,096.

Payroll Software and Processing

The Finance Division is continuing the process of up-grading and converting to on-line payroll processing. The initial payroll processing is now being input at the Power Division headquarters and in the Water Division warehouse offices for the field personnel.

2008 Annual Audit

Work in preparation for the 2008 annual audit has begun. Field work is scheduled for March 3-6, 2009. This begins the third and final year of the audit contract with Mann, Urrutia, Nelson, CPAs.

Health Savings Account

At the last Board meeting, Director Hunter informally inquired about the possibility of establishing Health Savings Accounts for employees. The current provider for employee health insurance is CalPERS. CalPERS does not currently offer these accounts to its members. However, the Agency also uses ACWA/JPIA for its dental and vision insurance benefits provided to employees and ACWA/JPIA does offer the health plan component for Health Savings Accounts. Staff will continue to research Health Savings Accounts if the Board or Personnel Committee want this carried forward into annual negotiations.

ACWA/JPIA Retrospective Premium Adjustment

The Agency has its property, liability and workers compensation insurance coverage through ACWA/JPIA. In (circa) 2000, the ACWA/JPIA established the Retrospective Premium Adjustment (RPA) Stabilization Fund to minimize fluctuations in member premiums. Last year ACWA/JPIA began refunding amounts in excess of RPA Stabilization Fund requirements and the Agency received a refund of slightly over \$15,000. The refund paid to the Agency this year is \$125,054. It should be noted that each agency's balance is maintained and calculated separately each year.

Line of Credit

It does not appear that the Agency will require line-of-credit funding in the next 60-90 days. If such funding does appear to be necessary or beneficial to the Agency, a request will be brought forward to the Board.

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.

A noticeable recent change is the lack of new service installations. No new services were installed in November, December and January. The economic situation is the obvious explanation, Mr. Colwell opined. This unusual trend is not unprecedented but is still important information for future planning purposes. The MRTP customer base growth is 1.1% annually for

the past 18 years. Considering the lack of new residential development, the recent trend is anticipated to continue.

Woodleaf Creek Siphon Failure

The Woodleaf Creek siphon is repaired and operable. On January 28, 2009 the 42" diameter full-circle repair bands were installed and effectively repaired the broken section of the siphon. After some roadway augmentation to allow for cement trucks to access the site, the pipeline was bedded in a pea-gravel slurry mix. A minor crack on the Techite pipe below the broken section was encased in a full circle concrete collar to restore structural integrity. Approximately 150' of the ditch upstream of the siphon was shotcrete lined to help with the excessive seepage problem. On February 5, water was delivered to the siphon and has been in service intermittently since then. Additional work is still required around Young Life Woodleaf to place the site back to pre-project conditions.

MRWTP Expansion Project

The Agency has received, reviewed and commented on the draft second technical memorandum produced by consultant CDM that outlines and compares expansion alternatives. The planned expansion goal is to efficiently meet water quality and demand for the 25 to 30 year horizon. The draft report addresses the raw water supply, pre-treatment flocculation and sedimentation, disinfection, filtration, and sludge waste options.

It appears that a 50% plant expansion would be adequate for the planned growth period of 30 years. This would translate to an increase of 7.2 million gallons per day (MGD) and a plant maximum capacity of 21.5 MGD. Based on preliminary planning costs of approximately \$2 per gallon of expansion, estimated costs could be \$14-15 million.

Approximately 65% of the \$100,000 Phase 1 project costs have been expended to date. Copies of the final technical memorandum will be available at the next board meeting.

Water Treatment Operations

MRTTP operators completed the annual ID#2 storage reservoir hypolon liner cover inspection. Eight holes and a seam failure were repaired. The liner has reached the end of its estimated useful life and has shown significant wear over the years. Review of the liner replacement alternatives will occur this year in preparation for the 2010 budget.

LEGAL COUNSEL'S REPORT

Attorney Jeff Meith reported that his office filed a petition for reconsideration with the State Water Resources Control Board in response to its recent denial of the Agencies petition for an extension of time on its water rights permits.

GENERAL MANAGER'S REPORT

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

Relicensing

No dispute resolution meetings with the U.S. Forest Service (an agency with mandatory conditioning authority over our relicensing project) have yet been requested, but will probably take place in April or thereafter. However, a meeting on March 25 has been scheduled by FERC with regulatory agencies that do not have mandatory conditioning authority (primarily Cal Fish and Game).

Future Power Purchase Agreement – PG&E

The negotiations for a new power-purchase agreement with PG&E that began nearly three years ago at an ACWA conference in Monterey are nearing what appears to be a satisfactory end. The latest version of the proposed power-purchase agreement has come back from PG&E. Jeff Meith, Kathy Petersen, Mike Glaze and McDonald Partners (SFWPA's energy marketing consultants) convened on February 20 via conference call to finalize a response.

Extension of Water Transfer Agreement with Yuba City

The long-term water-transfer agreement between North Yuba Water District (NYWD) and the City of Yuba City will expire next year. Because that transfer is already permitted with the State Water Resources Control Board, extending the term of the agreement is a reasonable consideration.

After 2010, the revenue from all surface-water transfers involving water rights of either SFWPA or NYWD will be treated as revenue to the benefit of the Joint Operating Fund of the South Feather Power Project. Therefore, SFWPA staff has been involved in the negotiations between NYWD and Yuba City. Most of the details have now been worked out and a pricing proposal is anticipated from Yuba City shortly.

Water Transfer Agreement – San Diego County Water Authority

After the State Water Resources Control Board (SWRCB) opened the comment period on SFWPA's permit application for the proposed 10,000 acre-foot-transfer to SDCWA this coming summer, DWR began complaining that SFWPA was attempting to violate the reservoir-refill agreement it had made with DWR for the 2008 transfer to the State Water Contractors buyers group. A meeting with DWR officials was held on February 3 and Mr. Glaze explained to them that SFWPA is fully committed to honoring the 2008 agreement. However, based on previous transfers involving DWR and the Environmental Account in which DWR had agreed to allow two transfers back-to-back before refill criteria had to be satisfied, he suggested that DWR should allow that same arrangement for the proposed transfer to SDCWA. Subsequently, DWR notified the SWRCB that it would not protest the SDCWA transfer if the SWRCB would approve it with similar refill conditions as were imposed on the 2008 transfer (effectively agreeing with our suggestion).

Small Claims Court – Loyd v. SFWPA

The judge pro tem's ruling in this matter has still not been published.

DIRECTORS' REPORTS – None.

COMMITTEE ASSIGNMENTS

The policy-prescribed (Policy #240) standing committees are Budget and Finance, Community Relations, Personnel, Claims, Hydro, and Policy.

President Cecchi explained that the Deferred Compensation (employee retirement program) Finance Committee is not prescribed in policy as a standing committee but continues on an as-needed basis year after year. The Agency's deferred comp agreements specify the makeup of that committee as including employee and management representatives, together with one director. The purpose of the committee is to evaluate requests from employees for early disbursements of proceeds from their respective accounts, and meets very infrequently if not at all during the course of a given year.

In May 2005 the Board approved the agreement with Yuba County Water District (now North Yuba Water District) that contains provisions significantly altering the way the Forbestown Ditch will be operated, and the value of the water diverted to it, after 2010. At its June 2005 meeting, the Board took action to postpone action on all requests for annexation involving Forbestown Ditch service "until the Board has established a strategic plan for implementing the provisions of the '05 Agreement with Yuba County Water District." Subsequently in that meeting, then-President Dee Hunter appointed Lou Cecchi and Jim Edwards to an ad hoc committee with staff to develop a Forbestown Ditch strategic plan for Board consideration. To date this committee has not met, primarily because it has been waiting to develop a better understanding of the power-generating value that would be diverted to the Forbestown Ditch. Now that the committee has received a valuation from its consultants (McDonald Partners) and are close to an agreement for a future power-purchase agreement with PG&E, a meeting of this committee should be convened some time in the coming year to begin the planning process directed by the Board. Therefore, President Cecchi stated that he would be continuing the Forbestown Ditch Strategic Planning Committee.

President Cecchi advised that he was also continuing the ad hoc committee he formed last year that worked with staff and the Agency's energy-marketing consultant, McDonald Partners, to prepare a strategy for developing the Agency's next power-purchase agreement (for post-2010), and to negotiate with PG&E representatives.

President Cecchi announced his committee appointments as listed below.

2008 BOARD COMMITTEE ASSIGNMENTS

STANDING COMMITTEES –

Budget and Finance Committee:	Dee Hunter (Chair) and Lou Cecchi;
Community Relations Committee:	Dee Hunter (Chair) and Lou Lodigiani;
Personnel Committee:	Jim Edwards (Chair) and Dennis Moreland;
Claims Committee:	Lou Lodigiani (Chair) and Dennis Moreland;
Hydro Committee:	Jim Edwards (Chair) and Lou Cecchi;
Policy Committee:	Dennis Moreland (Chair) and Lou Lodigiani.

AD HOC COMMITTEES –

Deferred Compensation Finance Committee:	Lou Cecchi (Chair), Steven Wong (Vice Chair), Michael Glaze, Kathy Petersen, Henry Reeson, and Rick McCullough;
Forbestown Ditch Strategic Planning:	Lou Lodigiani (Chair) and Dennis Moreland;
Power Marketing:	Jim Edwards (Chair) and Lou Cecchi.

REGULATORY COMPLIANCE MANAGER

The new FERC license that is anticipated to be issued early in 2010 will contain a significant number of new conditions that will require implementation, monitoring, reporting, and environmental consulting contracts on a scale that will dwarf the current license's conditions. In addition to all the environment-related conditions, the Agency will also be assuming responsibility for managing all recreation facilities within the project, most of which are presently being operated and maintained (euphemistically speaking) by the U.S. Forest Service. This will involve several years of upgrade, repair, and expansion construction projects, together with ongoing management of camp hosts and day-to-day operations.

Manager Glaze proposed a new position that would be responsible for ensuring the Agency stays in compliance with all of the new licenses conditions, except those that are directly related to the operations of the hydro project's facilities (generators, dams, diversions, tunnels, penstocks, canals, gages, etc.). While working directly and cooperatively with the Power Division Manager, this position would be a direct report of the General Manager, just as are the IT Manager and the Environmental and Safety Manager.

Given the professional and management nature of the job, it Mr. Glaze opined that it should be a salaried position in the Management and Professional Employees Unit, with a compensation range similar to that of the Water Treatment Superintendent to make it comparatively equivalent. He proposed that the beginning rate for 2009 be \$34.60/hr. (\$1.23 less than the start rate for the Superintendent) and that it top out at \$48.24 (the same as the top rate for the Superintendent).

He stated it would be his intention to start someone in this position four to six months prior to the issuance of the new license so that they are oriented with Agency facilities, personnel and policies, and so that they will have time to lay out a compliance calendar and tracking system in advance of the need to implement the new license's conditions. PG&E agreed to the inclusion of this position in the Power Division's 2009 budget for the last six months of the year.

Directors received a copy and reviewed the classification specification (job description) for the proposed Regulatory Compliance Manager position.

M/S/C (Hunter/Edwards) approving of the classification specification for the Regulatory Compliance Manager as a position within the Management and Professional Employees Unit, including the proposed compensation range, and for the General Manager to fill the position as needed after July 1, 2009.

AMENDMENT OF RULES & REGULATIONS – REPEAL OF STANDBY CHARGE

Mr. Glaze reported that the current economic crisis has significantly increased the number of foreclosures and abandonment of residences within the Agency's service area. With each of these comes a request for termination of water service. Notwithstanding the fact that the resident requesting discontinuation of their service is doing so because they will no longer be living in the home and can no longer afford any expense associated with it, our office staff has to explain that the Agency's policies require that, even though the service will be terminated, a \$5.00 monthly standby charge will continue to be billed to the property's account until there is a new owner.

A further complication comes in the case of foreclosures because the ownership of the home is in limbo until the foreclosing bank transfers title to a new buyer (which often does not occur for many months). During the foreclosure process, the previous owner certainly wants not to be responsible for any expenses on a home they have been forced to leave, and the bank wants to minimize its growing losses and, technically, does not assume title to the property other than as trustee. Getting either of them to assume responsibility for a \$5.00 monthly standby charge is virtually impossible, and adding the accumulation of these monthly charges to the escrow account when a new buyer finally takes title is problematic and often not worth the trouble involved.

Mr. Glaze requested that, at least until there is a turnaround in the economy, the Board eliminate the standby charge on inactive domestic water accounts. The average annual revenue from this source over the past three years has been \$5,600.

This charge was added in 1996 when the Agency was aggressively replacing old steel pipe. As part of the construction, services that had previously been discontinued, or that had been installed to vacant lots and never placed in service, had to be connected to the new main lines being installed. It seemed prudent at the time to implement the standby charge on inactive services to provide funding for future maintenance they might require.

The real estate boom several years ago resulted in most of the inactive services being placed in service. Parcels with water service already installed and ready for a building permit became highly desirable as sites for new homes or remodeling projects. Most, if not all of the discontinued services that were discovered as part of the steel pipeline replacement project, have since been replaced and put into service. Now, most of the inactive accounts are the result of the aforementioned downturn in the economy.

M/S/C (Hunter/Edwards) approving the amendments to the Rules and Regulations to eliminate the monthly standby charge and backflow maintenance fee for inactive domestic water accounts as proposed by the General Manager.

CLOSED SESSION (convened at 3:24 p.m.)

Conference with Real Property Negotiators (Government Code §54956.8)

Property: Conserved water.
Agency Negotiators: Michael Glaze and Jeffrey Meith.
Under Negotiation: Price, quantity, conditions for transfer, and terms of payment.

OPEN SESSION (convened at 3:29 p.m.)

President Cecchi announced that no action was taken by the board during the closed session.

ADJOURNMENT

President Edwards adjourned the meeting at 3:29 p.m.

Michael C. Glaze, Secretary

Louis F. Cecchi, President