

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

Tuesday, April 28, 2009, 2:00 P.M.,
Agency Board Room, 2310 Oro-Quincy Hwy. Oroville, California

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

STAFF PRESENT: Steven Wong, Finance Division Manager;
Matt Colwell, Water Division Manager;
Kathy Zancanella, Power Division Manager;
Jeffrey Meith, Legal Counsel;
Michael Glaze, General Manager.

OTHERS PRESENT: Jean Brown, Hank Bailey, Mike Koestler, Michael McDonald (McDonald Partners), Joe Lawlor (PG&E), Kevin Goishi (PG&E), and Jack Purkis (PG&E).

CALL TO ORDER

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

POWER PURCHASE AGREEMENT – PG&E

Mr. Glaze summarized the history of the Agency's relationship with PG&E and the power-purchase agreement that will expire on June 30, 2010. He explained that work began in 2005 on developing a strategy for securing the next power-purchase partner in 2010 by hiring McDonald Partners as power-marketing consultants to assist in the analysis of alternatives and contract negotiations. Mr. Glaze's first meeting with PG&E representatives Kevin Goishi, Dave Landes and Frank Derosa to initiate discussions about a possible future agreement with PG&E was in April 2006.

With the assistance of Jeff Meith and Kathy Zancanella, and guidance from the board's Hydro Committee – Directors Edwards and Cecchi - the process has resulted in an agreement that has been accepted by PG&E and now ready for consideration by SFWPA's Board of Directors.

Mr. McDonald explained that the current power sales contract with PG&E facilitated the construction of the South Fork Power Project in 1963 by providing the revenue stream necessary to pay for the Project. At that time, PG&E was the Agency's only option since the utility owned and controlled all of the electric transmission facilities needed to access the power grid and ultimate consumers. Since then, a wholesale power market has developed in the United States which gives owners of generation complete access to wholesale purchasers of electricity. A functioning wholesale power market greatly increases South Feather's options and ability to maximize the value of the Agency's generating assets. In addition to the wholesale power market, the evolution of the California Independent System Operator ("CAISO") has resulted in the development of a number of additional energy related products which will enable the Project to produce substantial value beyond the energy itself.

To capture this value, Mr. Glaze began to explore alternative power sales arrangements by soliciting informal proposals from PG&E and a number of other potential buyers.

Early in the review process, Agency staff and consultants met with the Hydro Committee to discuss the range of power sales alternatives, value components, and selection criteria. The Hydro Committee directed staff to proceed with the effort to maximize the economic value of the hydro facilities, but to do so in a manner that keeps South Feather's overall mission at the forefront and ensures the smooth, efficient operation of the hydro facilities. In the view of the Hydro Committee, a continued relationship with PG&E was preferable if it could be established that PG&E was willing and able to pay a competitive market price for the power and related products produced by the Project. With this direction, Agency staff, General Counsel, and consultants negotiated a non-binding term sheet with PG&E that met the criteria of achieving market value for the energy and related products while also ensuring continued smooth operation of the Project.

With agreement on the term sheet, a decision was made to forego a formal RFP process and proceed directly to negotiation of a formal agreement with PG&E consistent with the provisions of the term sheet. These negotiations proceeded on a schedule that allowed sufficient time to select an alternative buyer in the event an acceptable agreement could not be reached. The negotiations were successful, and resulted in the contract now before the Board.

Mr. McDonald summarized the proposed contract as follows:

Term – 10 years, beginning July 1, 2010.

Payment – Combination of variable, market based payments and a fixed monthly payment as follows:

- A. 100% of the CAISO day-ahead hourly index for energy produced by the Woodleaf, Forbestown, and Sly Creek powerhouses during uncontrolled periods.
- B. 100% of the monthly average of the CAISO day-ahead hourly index for all peak hours when PG&E controls dispatch for Woodleaf, Forbestown, and Sly Creek.
- C. 100% of the CAISO day-ahead hourly index year-round for Kelly Ridge.
- D. \$354,167 per month for rights to the Renewable energy credits, Resource Adequacy Capacity, and Ancillary Services.

Total annual revenue will vary depending upon power prices and hydrologic conditions. Based upon current market power projections and an average water year, South Feather will receive annual revenue in the range of \$35 to \$40 million.

Services – PG&E will serve as the CAISO Scheduling Coordinator and will make all plant dispatch decisions.

South Feather's Obligations – South Feather will be responsible for maintaining all facilities and for all costs to generate and deliver the power to the point of interconnection with PG&E.

Regulatory Approval – The agreement must be reviewed and approved by the CPUC before going into effect. That process is expected to take six to nine months. If approval has not been obtained by January 10, 2010, or contains modifications to the agreement unacceptable to South Feather, South Feather may terminate the agreement and proceed with another buyer.

PG&E representatives Joe Lawlor, Kevin Goishi and Jack Purkis addressed the board and explained that PG&E's management had already approved and signed the proposed agreement. They stated that PG&E agreed to certain aspects of the agreement because of the long and positive relationship it has had with the Agency over the years.

M/S/C (Edwards/Hunter) approving the Power Purchase Agreement between PG&E and South Feather Water and Power Agency for the ten-year term commencing July 1, 2010.

APPROVAL OF MINUTES

M/S/C (Hunter/Moreland) approving the Minutes of the regular monthly meeting of March 24, 2009.

APPROVAL OF WARRANTS

M/S/C (Hunter/Edwards) approving the total Water Division expenditures for the month of March 2009 in the amount of \$435,824.28 – Warrants #239175 through #23949 (#23943 void), #24007 through #24025, and #24070 through #24126; and, the total Power Division expenditures for the month of March 2009 in the amount of \$819,209.68 – Warrants #65213 through #65243, #65280 through #65286, and #65331 through #65368.

PUBLIC PARTICIPATION – None.

LEGAL COUNSEL'S REPORT

Jeff Meith reported that a federal judge (Wanger) just issued a ruling in which he upheld area-of-origin rights. Although it is subject to appeal, it was a good decision for agency's such as South Feather.

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 Power Project relicensing has submitted invoices and reports covering work through February 28, 2009. The payments to DTA on this project to-date amount to \$4,976,850.

2008 Annual Audit

The 2008 Financial Statements and annual audit are complete and have been provided to the Board's Finance Committee with this agenda package. The Committee is scheduled to meet with the auditors on May 19, 2009. The Board will then receive the Finance Committee's report at its May 26, 2009 meeting.

Accounting Structure

Preliminary work has commenced on revising the Agency's account coding structure so that in the future the budgeting and accounting for both the Water Division and Power Division will be similar.

ACWA/JPIA Reimbursement

The Agency received a reimbursement in the amount of \$2,651.90 from ACWA/JPIA for vandal damage to and repair of the MRTP solar panels. The payment was for the direct costs to repair the damage and reimbursement for lost generation less the \$10,000 deductible.

New Trucks

A new maintenance utility truck for the Water Division, a Ford F-350, was received a few days after last month's Board meeting. A new 2009 Chevy Silverado 1500 4WD for the Water Division Manager is scheduled to be received on Friday, April 24, 2009. And the Power Division has ordered and is now awaiting delivery of two new trucks.

POWER DIVISION MANAGER'S REPORT

Directors congratulated Power Division Manager Kathryn Zancanella on her recent marriage.

The Board reviewed a written report from Mrs. Zancanella, including storage, generation and precipitation reports. She reported that the warm weather in late March brought down some of the snowpack in runoff, and Sly Creek and Lost Creek reservoirs both spilled for a few days. Even with the relatively warm weather, the snow water equivalent at Pilot Peak measured during the April 1 snow surveys was about 40 inches. On April 21, Utility Worker Denny Lewis opened the Little Grass Valley Dam spill gates briefly to wash dirt and rocks from the spillway and to provide proof of operability under head for the regulatory agencies. Presently, Little Grass Valley Reservoir is within seven feet of filling.

Mrs. Zancanella reported that she had initiated a withdrawal of the license amendment application for the Sly Creek Dam Crest Raise project because FERC staff had advised her the work would be reviewed as required under Part 12(d) dam-safety regulations.

Maintenance Projects

Sly Creek Powerhouse

The annual outage on Sly Creek Powerhouse was completed on March 27. A PG&E crew attempted to balance the unit by adding weights near its top, but they seemed to exacerbate the problems, so the weights were removed. The crew has determined that the shaft coupler will probably need to be dropped every couple of years to check that the turbine shaft collar is remaining tight enough. When the unit eventually needs to be rewound, it would be prudent at that time to install a new turbine shaft with a different design for coupling with the generator shaft.

Miners Ranch Reservoir Trash Rake

Equipment Operator Joe Gibson and Utility Worker Gary Daley have excavated near the Kelly Ridge Power Tunnel intake in preparation for installation of a trash rake that will be added to the intake structure. This rake will be of a different design than the one at Forbestown Diversion because the vegetation to be removed (milfoil) is much finer.

Kelly Ridge Penstock

Joe Gibson and Gary Daley are in the process of clearing accumulated rock and debris from the Kelly Ridge Penstock right-of-way. They are replacing drainage culverts and are laying back the slope of the embankment along the penstock. Assistant Engineer Alex Brown is assisting them with the design of a retaining wall to be installed where the penstock crosses under Canyon Drive.

Ponderosa Dam Spill Gates

Jeffco Painting began mobilization and setup to paint the Ponderosa Dam spill gates on April 6. Because they are working over water as the reservoir spills, they are employing full containment of the gates to keep the blast cleaning material from entering the water. The first gate was completed on April 20 and they expect to finish the job before the deadline of May 15.

General Information

FERC License

The original FERC license expired on March 31, 2009, and FERC has issued an annual license for continued operation of the project until the new license is issued. The South Fork Project license was originally issued on July 17, 1952.

WATER DIVISION MANAGER'S REPORT

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

Distribution Operations

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

Approximately 600' of 6" irrigation pipe was installed on the Cook Pipeline at the end of the Bangor Ditch near Tennessee Lane and La Porte Road. The old, leaking and dilapidated pipeline was preventing the landowner from accessing his property.

Distribution crews are relocating 12 water services along Brookdale Drive from the older pipeline with lowest pressure (ID#2 zone) to the new adjacent higher pressure (Lower zone) pipeline. This will allow abandonment of the redundant older pipeline along Brookdale Drive.

Water Treatment Operations

The 2009 cumulative MRTTP water production is approximately 87% of the recent five-year average. During this reduced demand period, MRTTP staff is performing routine plant and filter maintenance activities.

Solar Plant Production

The monthly solar power production exceeded consumption by 2,400 KWH which will be credited to the plant's annual demand account with PG&E. There is enough data to verify that the spring months provide the opportunity to produce power exceeding the MRTTP power demands.

Family Addition

Mr. Colwell announced that his son, Joshua Matthew Colwell was born on April 15, 2009. He came in at a healthy 10 lbs. 5 oz. Congratulations were expressed by all present.

GENERAL MANAGER'S REPORT

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

Relicensing

Mr. Glaze reported that he directed the Agency's special counsel, John Whittaker, to file a petition with FERC last week requesting that it submit the U.S. Forest Service's Final Section 4(e) Condition No. 19 (Part 1) and Condition No. 19 (Part 2) to FERC's Dispute Resolution Service.

Water Conservation Legislation

Legislation is again being proposed this year (SB12) that would recommend a reduction of statewide water use by 20% by 2020. The proposals reduction methodologies, if adopted, would affect both SFWPA domestic and agricultural customers and would call for the following implementation measures: (1) tiered pricing that would incrementally increase the cost of water as a customer's usage increases; and, (2) required reduction of water use per capita to some minimum level to offset population growth. Other measures are included in the bill, but they would impact large agricultural users (over 3,000 acre-feet per year), would give power to the State Water Resources Control Board impose new irrigation practices on farmers, and would require more recycling of water.

Staff will continue to monitor the progress of this proposed legislation and will attempt to get answers to questions about how the 20% conservation goal could be achieved by SFWPA without imposing undue hardships on customers.

Community Line Proposition 50 Grant Funding

Directors reviewed a letter sent recently by Mr. Glaze to the Department of Public Health advising that the Agency will not participate in the Proposition 50 grant funding for the Community Line domestic-water conversion project. He recommended that once sufficient excess power revenue funds are available that this project be initiated.

FERC License Expiration – Authorization for Continued Operation

Directors reviewed the notice from FERC that authorized the Agency to continue operating the South Fork Power Project, even though the license therefore expired on March 31, 2009. Per the notice, FERC has now issued an "annual license" to SFWPA "under the terms and conditions of the prior license" that will renew automatically each year "until a new license is issued."

Future CalPERS Rates

CalPERS is being impacted similarly to other investors by the present economic downturn. The potential exists that it will increase employer contributions in the future to make up for any actuarially based capital deficiencies. The reason for this is that the rate for fiscal year 2009/2010 is based on a fiscal year ending on June 30, 2007. Since the most significant economic downturn started happening in June of 2007, it won't be until 2010/2011 that employers will start to be affected by any negative returns. Also, CalPERS own investment smoothing model and double digit gains in the years prior to 2007 will help cushion the impact of the economy downturn in the near future.

DIRECTORS' REPORTS - None

HYDROLOGIC MONITORING SERVEY AND DESIGN – INNOVATIVE HYDROLOGY, INC.

Part of South Feather Water and Power Agency's (SFWPA) obligation under the license issued to operate its power project by the Federal Energy Regulatory Commission (FERC) is the installation, operation and maintenance of stream-flow gauging stations throughout the project and the reporting of the data therefrom to the U.S. Geological Survey (USGS).

Presently, SFWPA operates 34 stations (including flows at the powerhouses that are calculated from generation); stretching from one on the South Fork Feather River above Little Grass Valley Reservoir to several at Miners Ranch Reservoir, nine of the stations are for consumptive-water deliveries and not part of the FERC-license requirement.

Each gauging station has stream-flow monitoring equipment that mechanically determines flow quantities or water surface elevation data and records that data onto memory devices in 15-minute intervals. That data is collected monthly, tabulated and reported annually to the USGS.

The stations also include 1) float wells that use weights and tapes, 2) orifice lines that use nitrogen pressure to provide elevation readings, 3) staff gauges for measuring elevations and/or 4) acoustic velocity measurement (AVM) devices that determine pipe flow.

For the last 21 years the Agency has contracted with Surface Water Data, Inc., to operate and maintain the gauging stations, and to certify and report the stream-flow data to the USGS. The most recent 10-year extension of that contract expires at the end of the 2009 water year. The next item on the agenda requests the board's consideration for extending the contract with Surface Water Data for one additional year, the reason for which is the subject of this item.

As the Agency moves into a new FERC license, controlling and ensuring correct volumes of water released for environmental purposes becomes more complex than under the current license conditions. Also, as the Agency moves into a new power-purchase agreement with PG&E, the value of water for generation increases significantly, making efficient and non-wasteful releases for consumptive purposes economically imperative. While the present stream-flow gauging system and its historical operational methodologies will continue meeting the needs and requirements of the USGS, Agency staff will need much more immediate and reliable information for operational decision making.

Over the past six months staff has been analyzing how to optimize the Agency's stream-flow data needs. They have talked with the current provider of hydrographic services (Bill Faulkender of Surface Water Data), as well as other firms that provide similar services. As a result of these investigations, Mr. Glaze recommended that the Agency develop a network design for converting the existing gauging stations to real-time data loggers that report via a satellite communication system to a central computer where the data is stored and available for analysis by staff and system-modeling software. Not only would real-time data allow for a better balancing of operations, it would be available to operators at PG&E's dispatch center, and would also provide more immediate advance warning of any event that would require activation of an emergency action plan. Further, once the system's satellite communication link and data retrieval software are in place, stream-flow monitoring/gauging stations could be added at strategic locations throughout the Water Division's irrigation system to also make the distribution process more balanced and efficient.

Directors reviewed a proposal from Mark Heggli (Innovative Hydrology, Inc.) to perform a field survey of all stream and reservoir gauging sites; to make application to the National Environmental Satellite Data, Information Service for enough time-slot assignments for present and future needs; and to prepare a network design that would identify all necessary components at all sites for upgrading the system. His fixed price for the work is \$20,000.

Mr. Heggli is both a meteorologist and hydrologist whose firm has the capabilities of providing telecommunication design/installation services, hydrologic and meteorologic data collection, and hydrologic studies. He was previously employed by DWR. Since 2004, as Innovative Hydrology, Mr. Heggli has been working on flood warning, water quality, water supply, and water management projects around the world in Australia, Romania, Canada, Bulgaria, Croatia, Mexico, Columbia, Cyprus, Rwanda, Morocco, the Phillipines, and at this writing in India.

If, after completion of the network design, the decision is made to proceed with its implementation (cost range \$200,000 - \$350,000), part of the project would involve the creation of a Hydrographer position within the Water Division and training an existing SFWPA employee to fill that position and maintain and operate the new system. Based on compensation rates at Nevada Irrigation District and PG&E, the annual savings (compared to the present contract with Surface Water Data) to do this work in house, after the initial system installation, would be approximately \$40,000 annually. Mr. Glaze estimated that the Agency would break even on the initial investment for the system in approximately 7.5 years.

M/S/C (Edwards/Hunter) approving the proposal from Innovative Hydrology for a survey and network design for hydrologic monitoring at a cost not to exceed \$20,000, and authorization for the General Manager to execute a standard consulting-services agreement with Innovative Hydrology for said work.

HYDROGRAPHICAL SERVICES – SURFACE WATER DATA, INC.

As discussed under the previous item, Surface Water Data, Inc., has been under contract for the last 21 years to operate and maintain the gauging stations, and to certify and report the stream-flow data to the USGS. The most recent 10-year extension of that contract expires at the end of this (2009) water year.

With approval of the previous item, a subsequent decision will be required of the board after final cost estimates are available regarding whether to proceed with upgrading the Agency's hydrologic monitoring system. The information needed to inform that subsequent decision will probably not be available until the July or August board meeting. Then, if the project is approved, installation of the system would be completed in 2010. Therefore, the services of Surface Water Data will still be needed through the 2010 water year to collect, analyze, compute and deliver the data required by the USGS.

Surface Water Data has agreed to a one-year extension of the current contract (directors reviewed copies of the contract) at a cost of \$177, 240, being the same as the present annual fee. Mr. Glaze advised the board that Surface Water Data has also offered to provide its services for a three-year period at this price, and also for two years thereafter at a cost of \$181,680 annually.

M/S/C (Edwards/Hunter) approving a one-year extension of the contract with Surface Water Data for hydrographical services at a cost of \$177,240.

RECESS (3:29 p.m.)

CLOSED SESSION (convened at 3:39 p.m.)

Conference with Legal Counsel – Anticipated Litigation (Government Code §54956.9)
One potential case.

Conference with Real Property Negotiators (Government Code §54956.8)
Property: Surplus water.
Negotiating Party: San Diego County Water Authority.
Agency Negotiators: Michael Glaze and Jeffrey Meith.
Under Negotiation: Price, quantity, conditions for transfer, and terms of payment.

Conference with Real Property Negotiators (Government Code §54956.8)
Property: APN 072-240-003.
Negotiating Party: RE/MAX Altima Realty.
Agency Negotiators: Michael Glaze and Jeffrey Meith.
Under Negotiation: Price, conditions, and terms of payment.

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

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

ADJOURNMENT

President Cecchi adjourned the meeting at 3:58 p.m.

Michael C. Glaze, Secretary

Louis F. Cecchi, President