

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

**Tuesday, June 23, 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;
Art Martinez, Information Systems Manager;
Matt Colwell, Water Division Manager;
Kathy Zancanella, Power Division Manager;
Jeffrey Meith, Legal Counsel;
Michael Glaze, General Manager.

OTHERS PRESENT: Jean Brown.

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/Lodigiani) approving the Minutes of the regular monthly meeting of May 26, 2009.

APPROVAL OF WARRANTS

M/S/C (Hunter/Moreland) approving the total Water Division expenditures for the month of May 2009 in the amount of \$474,880.65 – Warrants #24153 through #24180, #24236 through #24256, and #24283 through #24324; and, the total Power Division expenditures for the month of May 2009 in the amount of \$274,306.89 – Warrants #65395 through #65411, #65455 through #65471, and #65490 through #65525.

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.

Sand Complaints –

It appears that the Kelly Ridge Road mainline interconnection project (2008) has redirected the flow patterns in the high-service pumped-distribution system (different from the gravity system) enough to have created an unanticipated problem. Field crews have noticed an inordinate amount of sand in the system and also there have been a few customer complaints about sand in their services. Investigation of the

problem has concluded that operational problems with the old sand filter used at ID1 (20± years ago) injected large quantities of filter media into the distribution system. Over the years most of the sand has been flushed out but, apparently, significant quantities have accumulated in the water mains running through steep swales. The redirected flow patterns and velocity changes have shifted the settled sand and it is now showing up in the vicinity of Greenbrier Drive in Kelly Ridge Estates.

Staff has been performing has been flushing services and mainlines to address the problem and it appears that most of the old filter media has been flushed out of the system.

Lone Tree Road Mainline Break –

Water distribution crews were called out at 5:30 p.m. on June 10th and found a major pipeline failure on Lone Tree Road and Lone Tree Court. This is an old section of 8" AC pipe with very high pressure and the tee section blew out damaging the road. Crews completed the repairs by 11:30 p.m. with minimal disruption to the remainder of the system and customers. Mr. Colwell commended staff for the rapid repair and for maintaining superior customer service around the clock.

Question From Last Board Meeting –

An issue at the May board meeting was presented by Ms. Smart concerning the lack of water in the natural swale feeding her pond and irrigation system. Directors reviewed a copy of the response Mr. Colwell sent Ms. Smart and her son as a result of the subsequent investigation. Ms. Smart was advised that a raw-water service could be installed on the Palermo Canal to serve her needs at her request and expense.

Distribution crews have spent a couple of weeks relocating domestic water mainline, services, and valves in a cooperative effort on a Butte County Safe Route to Schools Project along Lower Wyandotte Road and Monte Vista Avenue. The project will provide curbs, gutters and sidewalks in the vicinity of Helen Wilcox Elementary School. The installation of a 48" concrete arch drainage pipeline creates the most conflict with existing utilities.

<u>Irrigation system's current releases:</u>	Forbestown Ditch	SF 14	= 13 cfs
		SFWPA	= 10 cfs
		NYWD	= 3 cfs
	Bangor Canal	SF 25	= 8 cfs
		Palermo Canal	= 12 cfs

Water Treatment Operations

All bacteriological requirements were met for the Miners Ranch Treatment Plant, Bangor Treatment Plant, Sly Creek Campground and Strawberry Campground.

The 2009 cumulative MRTP water production through May is approximately 96% of the recent five-year average.

Solar Plant Production

The monthly solar power production exceeded consumption by 21,000 KWH during May.

POWER DIVISION MANAGER'S REPORT

The Board reviewed a written report from Mrs. Zancanella, including storage, generation and precipitation reports. The June thunderstorms produced an additional 0.63 inch of rain and Little Grass Valley and Sly Creek reservoirs are currently remaining near full.

The 2008 water transfer to the State Water Contractors resulted in a determination by DWR that refill impacts occurred and that an additional 10,000 acre-feet will need to be spilled to Lake Oroville this year, over and above what would normally spill. PG&E prepared two model runs for operations of the South Feather Power Project in 2009. One provides the end-of-month storage targets, powerhouse operations schedules and expected spills at Ponderosa under "normal" conditions, with an end-of-year combined storage target of 60,000 AF in Little Grass Valley and Sly Creek. The other provides a monthly schedule that will provide an additional 10,000 AF of spill and an end-of-year storage target of 50,000 AF in the two upper reservoirs. The second case will be used for the remainder of this year's operations.

Preparation for New PG&E Contract

Now that the new ten-year power-purchase agreement with PG&E has been approved, there are a number of activities that need to occur to implement the contract provisions. Already completed in late May was registration of Woodleaf and Forbestown powerhouses with the Western Electric Coordinating Council (WECC), a regional compliance organization under the North American Electric Reliability Corporation (NERC). The compliance documentation for WECC is already in place.

Next steps include registering with the Climate Action Registry, which will track the Agency's emissions; registering with the Western Renewable Energy Generation Information System (WREGIS) which will track the renewable energy credits produced by Sly Creek and Kelly Ridge; obtaining certification by the California Energy Commission of the renewable facilities; and negotiating agreements with the California Independent System Operator (CAISO).

The CAISO requires several agreements: 1) a Participating Generator Agreement, 2) a Meter Service Agreement, 3) a Large Generator Interconnection Agreement for Woodleaf and Forbestown, 4) a Small Generator Interconnection Agreement for Sly Creek and Kelly Ridge, and 5) an Affidavit certifying that the electrical characteristics of the powerhouses haven't changed and that no new interconnection studies are required. The CAISO also requires direct telemetry of the facilities, so a Data Processing Gateway device may need to be installed, which will require that an additional communication circuit also be installed.

Once the various registrations and agreements have been negotiated, they will be submitted for board approval prior to execution.

Maintenance Projects

Forbestown Diversion Trash Rake Commissioning

The Forbestown Diversion trash rake is finally functioning, after several issues that needed to be corrected by the manufacturer's representative. Some additional work by PG&E on the 2.3 kV line to the dam will also be required to correct a problem involving excessive voltage drop. A video of the operation of the trash rake was shown.

Road Work

The crew, led by equipment operator Joe Gibson, spent part of the week of June 15 patching holes on Barton Hill (Sly Creek) Road, to improve the condition for the recreating public that drives it. The Forest Service has had plans for a couple of years to bring in a Durapatch machine to work on the entire road, but has yet to do so. Joe and utility worker Gary Daley also plan to do quite a bit of work to improve the condition of the road that extends from Lost Creek Dam along Pinkard Creek to Lewis Ridge Road, as this will be the primary access route for Agency employees once the Sly Creek Dam construction starts next spring.

General Information

Employee Milestone

On June 3 a barbeque lunch was held to celebrate Henry Reeson's 25 years with the Agency. Henry started working as a full-time employee in the Water Division on April 30, 1984. He held the classifications of Meter Reader, Ditch Tender and Equipment Operator while there. He came to the Power Division in September 1997 as a Heavy Tractor Driver, and then entered the Electrical Machinist apprenticeship program in May 2000, reaching journeyman status in November 2002. Henry also serves as the IBEW shop steward for the Hydropower Generation Employees Unit.

Communication Sites

The Forest Service requires annual "self-inspection" photo documentation of sites authorized by special use permits, including the Agency's communications sites. Directors viewed photos of the newest reflector site at Pike County Peak.

FINANCE DIVISION MANAGER'S REPORT

The Board reviewed a written report from Mr. Wong, including a breakdown of revenue and expenses for each of the irrigation system components.

South Feather Relicensing Consulting Services

Devine, Tarbell and Associates, Inc. (DTA), consultant for the South Feather Project relicensing have submitted invoices and reports covering their progress from March 1, 2009 through April 25, 2009 in the amount of \$13,029. The payments to DTA for their services on this project to-date amount to \$4,989,879. DTA is now also known as HDR Engineering Inc.

Standard and Poor's

In 2003, the Agency issued Certificates of Participation to finance the purchase of the solar energy system at the Miner's Ranch Water Treatment Plant and to fund improvements to the administration building. When issued, these Certificates were rated "BBB" by the bond rating agency of Standard and Poor's (S&P). S&P recently completed a review of the Agency's current financial position and subsequently upgraded its rating on the Certificates to "A". Copies of the S&P report published on June 2, 2009 were provided to directors.

PG&E Internal Audit

PG&E sent one of its internal auditors, Jeff Wilkins, to visit SFWPA the first week of June. At this time the audit is still in process. It is anticipated that the report will be completed by the end of the month, circulated among PG&E staff and then forwarded to the Agency. Kathy Zancanella provided Mr. Wilkins

with a quick tour of a few facilities. Mr. Wong complimented Pat Sands and Debby Cunningham of the Finance Division for their efforts to supply Mr. Wilkins with the documentation he requested.

Woodleaf TWD

SFWPA has received \$39,831 from PG&E for Woodleaf Tailwater Depression activity in April and May, 2009. While better than the 2009 budget estimate, the payments were less than anticipated, given the substantial spring rains.

GENERAL MANAGER'S REPORT

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

Suspension of Prop 1A Promised by Governor

As reported last month after the state-wide special election, voters rejected the slate of budget propositions that were proposed by the governor and legislature as part of the 2009-10 state budget. Thereafter, local governments across the state began preparing for the loss of property tax revenue that would result from the governor's promised suspension of Prop 1A and borrowing \$2 billion from property tax revenues to help close the state's \$24.3 billion budget deficit.

Under Proposition 1A, passed in 2004, the state can borrow 8% from special districts, cities and counties, but must repay the funds, with interest, within three years. Notwithstanding this constitutional limit to borrowing local property tax revenue, the state's legislative analyst has suggested taking more than 25% from water and wastewater districts because they can raise rates to recoup the money.

After the budget propositions were defeated in the special election, associations representing special districts, cities and counties aggressively organized a campaign against the proposed Proposition 1A suspension. On June 15, the legislative budget conference committee voted to reject the proposal to borrow property tax revenue from local governments.

Unfortunately, the \$24 billion deficit is still standing between the legislature and a budget for 2009-10, and there seems to be no willingness on its part to spend within its means.

Relicensing

FERC has issued its Final Environmental Impact Statement and recommended most of the Alternative Conditions proposed by SFWPA, including SFWPA's minimum instream flows (rather than those proposed by the U.S. Forest Service). Agency consultants are beginning to gear up to accomplish the CEQA processing in preparation for acquiring the required water quality permit from the State Water Resources Control Board. A best guess as of today is that the new license is still probably a year away.

Annual Facilities Tour

At this writing, 50 guests have confirmed they will be attending, making this year's tour one of the largest in recent memory. This will be a great opportunity for directors to mingle and connect with community members and regulatory staff from various agencies. This is the Agency's primary public-relations effort for the year.

LEGAL COUNSEL'S REPORT

Jeff Meith reported on a recent ruling from the 5th District Court of Appeals that the State labor code does not apply to public agencies unless specifically applied. He also discussed current efforts by National Marine Fisheries to reintroduce anadromous fish above Bullards Bar and New Melones Dam.

DIRECTORS' REPORTS

Director Edwards, who is also President of the Butte County Special Districts Association (BCSDA), encouraged board members to attend the August 8 annual meeting of BCSDA.

PUBLIC PARTICIPATION – None.

INDEPENDENT AUDITOR'S CONTRACT

In August 2006 a request for proposals (RFP) for independent auditing services was sent to the following seven firms:

Boler & Associates (Davis);
Davis Hammon & Company (Oroville);
Gilbert Financial Services (Sacramento);
Matsom & Isom (Chico);
Richardson & Company (Sacramento);
Robert Johnson, CPA (Citrus Heights); and,
Tittle & Co. (Chico).

The only response to the RFP was from Davis Hammon & Co. stating that they had decided not to submit a proposal due to the "rapid development and growth of other areas" of their accounting practice. In follow-up phone calls, several of the other firms stated that they decided not to submit a proposal because they assumed Davis Hammon & Co. would win the bid again because of their long-term relationship with the Agency.

The RFP was again sent out with an amendment that informed interested companies that Davis Hammon & Co. would not be in consideration for the reasons given in their letter. The following eight firms received the second-round RFP:

Bartlett, Pringle & Wolf, LLP (Santa Barbara);
Hathaway & Ksenzulak, LLP (Redding);
Mann, Urrutia, Nelson & Associates, LLP (Sacramento);
Matsom & Isom (Chico);
Michael Hinz, CPA (Yuba City);
Moss, Levy & Hartzheim (Sacramento);
Richardson & Company (Sacramento);
Smith & Newell, CPA (Yuba City).

Two firms responded to the second-round RFP: Mann, Urrutia, Nelson & Associates, and Richardson & Company. The three-year-contract cumulative fee proposed by each of the two firms was:

Mann, Urrutia, Nelson & Associates	\$54,200
Richardson & Company	\$94,000

In November 2006 the Board awarded a contract to Mann, Urrutia, Nelson & Associates, LLP to perform the Agency's annual independent audit for the years ending December 31, 2006 through 2008. With last month's acceptance of the audit report for 2008 by the board, Mann, Urrutia, Nelson & Associates, LLP completed its three-year contract.

Given the limited number of firms responding to the RFP last time around, and given the quality work and qualifications of Mann, Urrutia, Nelson & Associates, Mr. Wong asked them to submit a proposal for extending the just-completed contract for an additional three years. Their proposal, with a cost of \$21,500 annually (\$64,500 cumulative), was reviewed by directors.

M/S/C (Edwards/Hunter) accepting the proposal from Mann, Urrutia, Nelson & Associates, LLP to extend the previously-approved audit contract, and authorization for them to perform the Agency's annual independent audit for the years ending December 31, 2009 through 2011, in accordance with their proposal.

SUNSET HILL TELECOMMUNICATION LEASE – DIGITALPATH, INC.

In September 2007 the Board approved a lease agreement with DigitalPath, Inc. for use of the tower and public room at Sunset Hill. Kathy Zancanella reported that since that time they have expanded their service area and have added additional antennae and equipment. They plan to have a total of 20 antennae, dishes or panels at full build-out at the site. The original lease agreement needs to be amended to reflect the equipment that is now installed at the site.

M/S/C (Hunter/Edwards) approving the Sunset Hill Communication Lease Agreement between South Feather Water and Power Agency and DigitalPath, Inc., as amended, and authorizing the General Manager to execute said agreement.

LAFCO ELECTION

Directors reviewed a ballot from LAFCo for the election of a Non-Enterprise Special District Commissioner. The election in May resulted in a three-way tie, creating the need for a run-off election.

M/S/C (Hunter/Edwards) casting the Agency's vote for Mark Sweany as Non-Enterprise District Regular LAFCo Commissioner, and authorizing the General Manager to execute and submit the ballot accordingly.

CLOSED SESSION (convened at 2:55 p.m.)

Conference with Real Property Negotiators (Government Code §54956.8)

- Property: Surplus water.
- Negotiating Party: San Diego County Water Authority.
- Agency Negotiators: Michael Glaze.
- Under Negotiation: Price, quantity, conditions for transfer, and terms of payment.
- Under Negotiation: Price, conditions, and terms of payment.

OPEN SESSION (convened at 3:16 p.m.)

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

ADJOURNMENT

President Cecchi adjourned the meeting at 3:16 p.m.

Michael C. Glaze, Secretary

Louis F. Cecchi, President