

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

Tuesday, March 23, 2010, 2:00 P.M.,
Agency Board Room, 2310 Oro-Quincy Hwy. Oroville, California

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

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

OTHERS PRESENT: Hank Bailey and Janel Wilson (Senior Right of Way Agent, CalTrans).

CALL TO ORDER

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

CONVEYANCE OF RIGHT OF WAY – OLIVE HIGHWAY

General Manager Michael Glaze reported that CalTrans is planning to widen Olive Highway and install traffic signals at its intersection with Kelly Ridge Road and Miners Ranch Road. To have adequate sight distance for vehicles traveling westbound and approaching that intersection, a sliver of Agency land is needed adjacent to and on the north side of Olive Highway (below Miners Ranch Reservoir Dam).

Directors reviewed a "Right of Way Contract – State Highway," prepared by CalTrans that would accomplish the conveyance requested. CalTrans is offering to pay \$7,200 for the conveyance, and the appraisal prepared by CalTrans explaining the basis for the offer was also reviewed by Directors.

CalTrans has asked the Agency to consider donating the land and not taking the offered compensation. Attorney Jeff Meith expressed the opinion that such a donation could arguably be considered a violation of the prohibition regarding the gifting of public funds.

Janel Wilson, CalTrans Senior Right of Way Agent summarized the proposed project and answered questions.

M/S/C (Edwards/Hunter) authorizing the General Manager to execute the contract to convey for the offered compensation a portion of the Agency's property identified as APN 072-050-002 and 004 to the State of California to facilitate the reconstruction of Olive Highway at its intersection with Kelly Ridge Road, subject to CalTrans' agreement that the functionality of Agency facilities existing within the Olive Highway right of way be accommodated and maintained by CalTrans in conjunction with said highway widening and signalization project

APPROVAL OF MINUTES

M/S/C (Lodigiani/Moreland) approving the Minutes of the regular monthly meeting of February 23, 2010, and the special meeting of March 8, 2010.

APPROVAL OF WARRANTS

M/S/C (Edwards/Hunter) approving the total Water Division expenditures for the month of February 2010 in the amount of \$396,198.40 – Warrants #25101 through #25109, #25154 through #25198, and #25225 through #25272; and, the total Power Division expenditures for the month of February 2010 in the amount of \$3,721,828.24 – Warrants #66119 through #66123, #66169 through #66202, and #66225 through #66263.

PUBLIC PARTICIPATION – Hank Bailey asked when irrigation season would begin, and Matt Colwell told him it would be April 15.

REGULATORY COMPLIANCE MANAGER'S REPORT

The Board reviewed a written report from Alex Brown, Regulatory Compliance Manager.

Dam Safety and Security

Emergency Action Plan Time Sensitivity Analysis

Per the request of the Federal Energy Regulatory Commission (FERC), SFWPA has completed a Time Sensitivity Analysis of the Emergency Action Plans for Little Grass Valley, Sly Creek and Lost Creek Dams. An analysis of Miners Ranch Dam is to follow in April. The goal of these analyses is to ensure the effectiveness of SFWPA's Emergency Action Plans. This analysis was based on the Sudden Failure Assessment, a method of calculating the time allotted for notification of non-project facilities and the response time to these facilities by Emergency Management Agencies, such as CalFIRE and the Butte County Sheriff.

Vulnerability Analysis

FERC has made changes to security classifications of FERC-project features (dams) throughout the country. These changes have necessitated a review and updating of the appropriate assessments and plans for the critical infrastructure of SFWPA. These assessments and plans may include a Vulnerability Assessment, Security Assessment, Security Plan, Internal Emergency Response and Recovery Plan, and annual certification letters as needed. Previous security analysis of the SFWPA dams was developed by FERC after the terrorist attacks on September 11, 2001. The new guidelines address more security issues, and concerns which may be of interest to dam owners in rural settings. Training will include a discussion of the security grouping changes, new security requirements, and use of FERC software in the security analysis of dams.

In order to better facilitate the formulation and approval of these assessments, Mr. Brown will be attending a one-day training with FERC at its Portland office.

Stability Analysis of Slate Creek Dam

An evaluation of sediment loading and associated structural stability of Slate Creek Diversion Dam (SCDD) has been requested by FERC. SFWPA is currently seeking a qualified structural engineer to provide this required analysis.

Under FERC'S dam-safety program, annual dam safety operations inspections of the dams of SFWPA, including SCDD, are performed. These inspections typically result in recommendations to improve the understanding of factors that might affect performance of the dams. Based on the 2009 dam safety and operations inspections, FERC recommended that the structural stability of SCDD be evaluated for loading appropriate to the current sediment accumulation.

SCDD is operated by SFWPA to divert water from the Slate Creek watershed (Yuba River basin) to Sly Creek Reservoir (Feather River basin) for hydropower production purposes. Much of SCDD impoundment is filled with cobble, gravel, sand, and silt. The high rate of sedimentation is related to past hydraulic mining in the upstream source area. Delivery of material from upstream hydraulic mine sites and aggraded channel reaches to the SCDD impoundment was exacerbated in the 1950's by the breaching of the St. Louis Debris Dam, located approximately one mile upstream of SCDD on Forest Service-owned land. Sediment pass-through events have been attempted in 2002, 2003, 2004 and 2005. Most of these events were unsuccessful at moving any significant amount of sediment due to hydraulic conditions at the dam. The build-up of sediment and the upstream face places a potentially higher-than-desirable structural load on SCDD.

A Request for Proposal has been delivered to several firms that routinely perform structural analysis of dams. Work tasks include determination of original structural loading capacity of SCDD, field investigations, structural stability analysis, and the preparation of a report of findings for review by SFWPA and to be filed with FERC.

Recreation

2010 Recreation Season

The 2010 recreation season is quickly approaching for SFWPA facilities. This year SFWPA will continue operating Sly Creek and Strawberry campgrounds, but will not yet be responsible for the recreational facilities around Little Grass Valley Reservoir (this will not occur until the new FERC

license is issued). Sly Creek Reservoir campgrounds will be closed during this season due to the Sly Creek Dam crest raise project. Strawberry Campground and car-top boat launch will remain open.

POWER DIVISION MANAGER'S REPORT

The Board reviewed a written report from Kathy Zancanella, Power Division Manager, including storage, generation and precipitation statistics through March 17.

Operations

Based on the Pilot Peak snow data and current reservoir storage, Little Grass Valley Reservoir should come within 15,000 acre-feet of filling, or nine feet below maximum elevation, if no additional precipitation falls. To capture as much inflow as possible, the spill gates at Little Grass Valley were closed on March 15. DWR's March Bulletin 120 forecast indicates 73% percent of average April–July runoff for the South Fork Feather River, and 79% of average for the Feather River overall.

2010 Water Transfer

The State Water Resources Control Board issued the public notice for the transfer to San Diego County Water Authority on March 8 and it was published in the local papers on March 11. Public comments on the transfer are due by April 12, 2010. On March 15, Mr. Glaze and Mrs. Zancanella met with DWR staff to discuss the 2008 transfer and 2009 refill and repayment of the impact account balance as it potentially affects the current transfer, and DWR appears to be poised to block the 2010 transfer by requiring that the combined storage in Little Grass Valley and Sly Creek be drawn down to 40,000 acre-feet (20,000 acre-feet below normal combined minimum storage).

Maintenance Projects

Sly Creek Outage

The outage at Sly Creek started on March 1 and the unit was returned to service on March 12. Henry Reeson, Bob Cherry and John Davis spent some time going through the governor system and correcting the pressure regulator valve operation. The crew checked the shaft coupling nuts and retightened them. The air valves on the penstock were removed for inspection and the floats inside were sent out to be powder-coated, while much of the rest of the penstock valve chamber was repainted.

Sly Creek Dam Crest Modification Project

On March 11, representatives from AECOM, Teichert Construction, FERC, DSOD, and SFWPA met with Independent Consultant Wayne Edwards and Independent Facilitator Bill Rettberg to develop a construction-specific emergency action plan and potential failure modes analysis in compliance with FERC requirements. Two new potential failure modes were identified, one during construction and one after completion, although neither were considered "highlighted."

General Information

Employee Milestone

Nick Brandt and Guy Mastelotto were hired by the Agency on March 11, 1985 as utility workers. They both subsequently held the positions of ditch tender and equipment operator before coming to Power Division as operators-in-training, and both are now roving operators. The Power Division crew celebrated their 25-year employment anniversary on March 17 with a barbeque lunch.

PG&E Contract Discussion

On March 2, Scott Underhill and Mrs. Zancanella met with representatives from several departments at PG&E to discuss operations communications under the new power purchase agreement. PG&E staff were provided with information that should clarify their understanding of how the powerhouses operate under a variety of hydrologic conditions. It was learned that communications within PG&E itself is complicated by multiple departments handling similar duties, and that, as PG&E continues to reorganize itself, Agency staff have to be careful not to assume that their communications to one group of PG&E employees – namely Fresno Operating Center – are communicated throughout the other organizations.

GOES and a Visit to NID

The Agency initiated a consulting services agreement with Mark Heggli of Innovative Hydrology for services related to purchasing and installing the GOES satellite telemetry equipment this year. Mark will also provide training for the Agency's new hydrographer on the system.

In order to better understand what GOES looks like before it is installed, Art Martinez, Matt Colwell, Eddie Paul, Brian Howerton and Mrs. Zancanella paid a visit to Nevada Irrigation District's hydrographer, Jessica Erickson, on March 16. Jessica showed the group her office setup and GOES web interface, and took them to two of her field sites, one at Dutch Flat and the other below Rollins Reservoir on the Bear River. Jessica will be assisting with training Eddie Paul in some of the field activities by having him accompany her on some of her site visits.

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's components.

South Feather Relicensing Consulting Services

HDR Engineering, Inc. (HDR), consultant for the South Feather Project relicensing has submitted an invoice and report for the period of January 31 through February 27, 2010 in the amount of \$10,927. The payments to HDR for their services, including this invoice, amount to \$5,071,306.

Disposition of Trucks

Five surplus trucks were sold last month, one by way of an auction service for surplus government vehicles in Sacramento and four using Craigslist and a sealed bid process. The total earned from the disposition of the trucks was \$7,630. In the meantime, the four new vehicles included in the 2010 budget have been purchased, have arrived, and have been placed into service.

2009 Annual Audit

Field work for the 2009 annual audit took place from March 9-11, 2010. The work was performed by the same staff as last year from the firm of Mann, Urrutia, Nelson, CPAs. The auditors also had a meeting with the Board's Finance Committee on March 11. It is anticipated the report and audit will be completed in April.

State Mandated Cost – Brown Act

Agency attorneys have advised that a recent court case is requiring the State to re-activate the State mandated-cost reimbursement program, allowing local governmental agencies subject to the Brown Act to seek reimbursement for the costs of preparing agenda packets for board and standing committee meetings. It appears that South Feather may be able to get reimbursed for the costs related to Brown Act compliance incurred over the last four years. A report will be provided to the Board following a review of the guidelines and submittal of the initial reimbursement request.

WATER DIVISION MANAGER'S REPORT

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

Senate Bill No. 7

On March 8, the California Department of Water Resources and the California Urban Water Conservation Council hosted a "Public Listening Session" regarding the implementation of the 2009 Water Conservation Act. The public process was intended to provide DWR with public views and feedback on the technical methodologies and water-use target methods not yet developed that is a required part of the legislation. DWR is legislatively tasked with developing the daily per capita water usage that will be used as the basis for implementing the 20% conservation goal by 2020.

Mr. Colwell attended that meeting and provided some feedback from SFWPA's perspective. He said that it was reassuring that the legislation and implementation of the legislation was discussed by additional viewpoints from ACWA member agencies other than large municipal agencies primarily in southern California.

Water Distribution Operations

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

The Agency irrigation system current releases are:

Forbestown Ditch	SF 14 = 0 cfs
	SFWPA = 0 cfs
	NYWD = 0 cfs
Bangor Canal	SF 25 = 5 cfs
Palermo Canal	= 0 cfs

Water Treatment Operations

The Miners Ranch Treatment Plant (MRTP) volumes for 2010 continue to run below average as a result of wetter-than-normal precipitation. The cumulative January and February volume is at 93% of the recent five-year average.

The lab results for the first quarter of 2010 are presented in the following table. As anticipated, water disinfection by-products are very low and overall water quality remains high.

TTHMs (Total Trihalomethanes)	MCL = 80 ppm	MRTP = 19.3 ppm	By-product of drinking water chlorination	Some people who drink water containing trihalomethanes in excess of the MCL over many years may experience liver, kidney, or central nervous system problems, and may have an increased risk of getting cancer.
Haloacetic Acids	MCL = 60 ppm	MRTP = 2.0 ppm	By-product of drinking water disinfection	Some people who drink water containing haloacetic acids in excess of the MCL over many years may have an increased risk of getting cancer.

LEGAL COUNSEL’S REPORT

Directors reviewed documents provided by Jeff Meith’s office regarding current issues: an update on ACWA Legislative Committee activities; and, a summary of evidence submitted to the State Water Resources Control Board regarding Delta flow criteria.

GENERAL MANAGER’S REPORT

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

Relicensing

The CEQA Initial-Study/Mitigated-Negative-Declaration documents, Notice of Intent, and Notice of Completion forms were submitted to the State Clearinghouse on February 1st, which started a 30-day public comment period on the Agency’s Water Quality Certification process at the State Water Resources Control Board. Subsequently, at the request of the California Department of Fish & Game, Mr. Glaze authorized a two-week extension on the comment period. Now that the comment period is over, comments were received from three agencies: Department of Water Resources, Department of Fish & Game, and State Water Contractors/Metropolitan Water District.

The comments will be reviewed to determine if the record of the Agency’s environmental review covers the issues raised by the comments. A determination will be made as to whether the comments support a fair argument of a significant impact and, if so, a formal response to the comments will be prepared.

Once this analysis by staff and consultants is complete, a recommendation will be made to the Agency’s Board of Directors regarding adoption of the Mitigated Negative Declaration that was initially proposed.

Surplus Water Agreements

An application for surplus water has been received from and approved for Pacific Coast Producers (from the Palermo Canal). This is a long-term surplus-water customer and the

agreement is a carbon copy of previous years. It has been approved in conformance with Policy #480.

DIRECTORS' REPORTS

Director Edwards expressed his congratulations to employees Guy Mastelotto and Nick Brandt on their 25-year employment anniversary. He also reported the death of Charmaine Ricketts, wife of the late Virgil Ricketts, former SFWPA Director.

Director Hunter reported on her recent visit with retired SFWPA employee, Norm Williams, now living in Washington state; and, on a telephone call she received from Ms. Evinger, a resident of property adjacent to the Sunny Slope Ditch who is complaining that the Agency's ditch-maintenance efforts are reducing the amount of water seeping/leaking from the ditch onto her property and negatively impacting wildlife habitat.

Director Lodigiani complimented improvements made recently to the Lawson Ditch in the vicinity of Patenaude Court.

President Cecchi reported that he attended the recent dinner meeting of the Oroville Economic Development Corporation and listened to a report from Steve Jernigan, Mayor of Oroville, about how the current economy has put development in the community on hold.

STRATEGIC TEN-YEAR FINANCIAL PLAN FOR 2011-2020

Mr. Wong reported that the Board's Finance Committee (Directors Edwards and Cecchi) met with him and Mr. Glaze on Thursday, March 11, 2010. Projected revenues and expenses through the year 2020 were discussed. Directors reviewed the Projections for the South Feather Power Project Joint Facilities Fund and the General Fund that were developed at that meeting, submitted as a 2011-2020 Strategic Financial Plan.

The Finance Committee, along with Mr. Wong and Mr. Glaze, recommended that the Board conceptually approve the 2011-2020 Strategic Financial Plan, including the proposed modifications to potable water rates in 2012, 2014 and 2017, annual contributions of \$1,000,000 per year towards the Other Post Employment Benefits (OPEB) liabilities beginning in 2015, and authorization to proceed with discussions to issue bonds to assist with financing the expansion of the Miners Ranch Treatment Plant.

By way of background, Mr. Wong explained that the 2010 Budget set forth the following four funds:

Fund 1 – General Fund;
Fund 7 – SFPP Joint Facilities Fund;
Fund 12 – MRTP System Capacity Fund; and,
Fund 51 – SFWPA Retiree Benefits Fund (OPEB).

One of the major underlying issues associated with making financial projections is the revenue that will be available for Fund 7, the SFPP Joint Facilities Fund. Generation and power prices for the South Feather Power Project (SFPP) have been tracked since the summer of 2009, and with these calculations, revenue to the Fund is projected to be about \$1,800,000 per month. The 2005 Agreement with the North Yuba Water District (NYWD) provides first for the payment of normal operating and maintenance expenses for the project, repayment of re-licensing expenses incurred by SFWPA, payment of a minimal annual amount to SFWPA and NYWD, the creation of a 15% working capital reserve, and the creation of a \$15,000,000 contingency reserve. Once these obligations are taken care of, then the remaining funds, or net power revenues, are distributed equally between the Agency and NYWD.

With that as a starting point, Financial Projections for the SFPP Joint Facilities Fund and the General Fund through the year 2020 were created. The Projections indicate a healthy financial picture for the Agency through 2015. Highlights incorporated into these projections for the next five years include the following:

- 1.) With the PG&E agreement approved last month to assist with paying for the dam-crest-modification projects, it appears that net power revenues will be available as soon as the 2012 year. The Agreement provides for the analysis and distribution of funds to occur on

or before March 31 of each year for the prior calendar year. Therefore, the 2012 distribution will be the result of 2011 activity.

- 2.) No funds from water transfers are included in the estimates.
- 3.) Current Consumption rates for potable water are \$0.64 per unit for the first 100 units (10,000 cubic feet) and \$0.25 per unit after the first 100 units (over 10,000 cubic feet). The following rate adjustments are proposed and have been incorporated into the Projections provided to Directors for review. Each adjustment reduces General Fund revenues by approximately \$110,000 to \$180,000 per year, or an estimated \$465,000 per year after the three adjustments are in effect.

	First	After First
Per Unit Chg	100 Units	100 Units
Current	\$0.64	\$0.25
2012	\$0.53	\$0.28
2014	\$0.42	\$0.31
2017	\$0.35	\$0.35

- 4.) Financing for the MRTP expansion is included at a total amount of \$18,000,000 with an interest rate of 4.75% over a 20-year maturity schedule and repayment beginning in 2014.
- 5.) Annual \$1,000,000 contributions for Other Post-Employment Benefits (OPEB) are scheduled to begin in the 2015 year. Repayment to PG&E for 60% of the costs associated with the dam-crest-modification projects, an estimated \$12,000,000, will also occur in 2015.

The combination of repayment to PG&E for the dam-crest-modification projects costs, the debt service for the MRTP expansion, and the annual contributions for OPEB taking place in the 2014-2015 period cause the 2016-2020 period to be more fragile financially, although the projections continue to be positive.

It was the consensus of the Board that this item will be placed on the agenda of the next regular monthly meeting for further discussion and approval consideration.

RECESS (called at 3:47 p.m.)

CLOSED SESSION (convened at 3:55 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.

Conference with Legal Counsel – Government Code §54956.9 (one potential case).

OPEN SESSION (convened at 4:04 p.m.)

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

ADJOURNMENT

President Cecchi adjourned the meeting at 4:04 p.m.

Michael C. Glaze, Secretary

Louis F. Cecchi, President