



SOUTH FEATHER WATER & POWER

TO: Board of Directors

FROM: Michael Glaze, General Manager

DATE: November 14, 2005

RE: General Information (regarding matters not scheduled on the agenda)
11/22/05 Board of Directors Meeting

Forbestown Pipeline Project – Yuba County Water District

At its meeting on November 10, the YCWD Board of Directors voted 3-2 to abandon the Forbestown Pipeline Project and walk away from the \$4.2 million Proposition 13 grant that DWR approved in 2003.

One of the components of our May 2005 agreement with Yuba County Water District (Part VI, ¶ 5) was the cooperative effort with YCWD to seek DWR approval to modify YCWD's Forbestown Pipeline Project from the original grant-approved design. The agreement described the proposed modifications as follows:

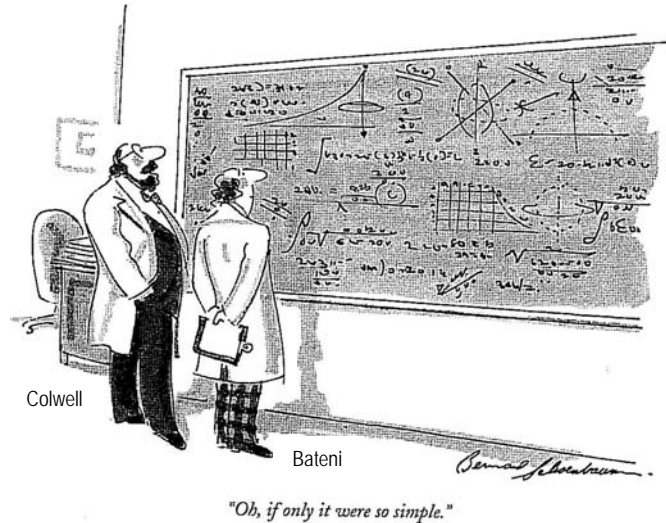
...(a) increase the capacity of the new pipeline so that it can serve all of YCWD's anticipated demands for water from the pipeline and an additional 11 cubic feet per second to be delivered to SFWPA at Gauge WD-6; (b) change the proposed pipeline's alignment so that it will be within the existing alignment of the portion of the Forbestown Ditch that will be replaced by the pipeline; (c) change the type of pipe material to be used from ductile iron to C-900 high pressure PVC or to some other material that is acceptable to the Parties and DWR; and (d) have the construction work done by SFWPA by force account at a cost not to exceed the portion of the \$4,211,400.00 grant that is not needed for all other project costs. SFWPA and YCWD each will pay 50 percent of all additional costs (including but not limited to engineering, DWR-negotiation and CEQA costs, but not including construction costs) associated with obtaining these modifications to YCWD's Forbestown Pipeline Project.

Naser Bateni of the Bookman-Edmonston engineering firm assisted YCWD in acquiring the Proposition 13 grant and designing the 3.5-mile pipeline project. It is estimated that between \$200,000 and \$300,000 was spent developing the project, with YCWD still obligated to repay \$117,000 of that amount. Mr. Bateni estimated earlier this year that another \$50,000 would be needed to study the feasibility of securing DWR's approval for the modifications described above. Per the agreement, SFWPA would have borne half that cost.

On November 3, 2005 I sent a letter to YCWD expressing concern about proceeding with the \$50,000 feasibility study, and identified three issues that caused me to doubt our ability to achieve the goals outlined in Paragraph 5, excerpted above.

1. Mr. Bateni recently advised that DWR would require competitive bidding for construction of the project. Our original assumption that South Feather Water and Power Agency could do this work by force account is, therefore, no longer viable. The Agency is not a licensed contractor, it is not prepared to proceed on the basis of a detailed fixed price bid, and use of its force account to do the work on a time and material basis was one of the significant economic factors in making this project feasible.

2. Another assumption in the agreement was that changing the project's pipe material from ductile iron to C-900 PVC pipe would result in a cost savings that would fund a portion of the proposed project modifications, in addition to the use of South Feather's force account. Recent weather catastrophes along the Gulf coast have increased the demand and, thus, the price of PVC so that it now has a cost equal to or greater than that of ductile iron.



3. One of the most troubling issues identified by Mr. Bateni was that the grant specified its funds could not be used for a project that would have an agriculture-benefit component. If the new pipeline were to be used for the conveyance of ag water, DWR would have to enforce a deduction against the grant in some proportion relative to the facility's use for agricultural customers. All of South Feather's 11 cfs is for agricultural use, and a substantial portion of the unaccounted-for water this project would retain would be used to relieve the demand by Yuba County Water District's ag customers as well. That would undercut much of the \$4.2 million and force a large portion of the project to be funded from some other yet-unknown source.

I'm sure YCWD's Board considered these issues, together with others unique to their district, before deciding to terminate the project altogether. I believe they made a difficult, but correct choice.

Relicensing Update

On November 10, Jim Lynch (DTA), Scott Wilcox (Stillwater Sciences), Kathy Petersen and I conducted a workshop for relicensing participants for the purpose of establishing a general approach to discuss and develop resource-management measures. We advised the attending participants that it is our goal to agree on as many resource-management measures as possible with as many relicensing participants as possible for inclusion in the Agency's July 2006 Draft License Application (DLA). The measures will be drafted by workgroups in FERC-license condition format. We advised that at a June 2006 workshop we would state to the best of our ability each measure we agree with, and will include each of those measures

in the July DLA as "Licensee Proposed Measures." We also advised that measures we do not included, as well as other measures, may be proposed by parties that comment on the DLA and/or be filed with FERC at a later date.

The general process for developing the resource-management measures will be to form four workgroups of relicensing participants: 1) Cultural; 2) Non-flow Recreation/Land Use/Aesthetics; 3) Botanical/Wildlife; and 4) Flow-related. Agency staff and consultants, representing the Licensee, will participate in each workgroup and provide administrative assistance as needed. Each workgroup will review the appropriate resource report(s) we will issue, identify potential Project impacts, and discuss measures to mitigate the impact or that could provide substantial enhancement and could reasonably be accommodated by the Project. Each resource management measure will be drafted in the FERC style so that the measure can be included directly in a new license.

An overview of the Relicensing Schedule through March 2007, when the Agency will file its application, is as follows.

- January – February 2006: Cultural, Non-flow Recreation/Land Use/Aesthetics, and Botanical/Wildlife Workgroups complete majority of their work.
- March – June 2006: Flow-related Workgroup complete its work. Other workgroups continue working if needed.
- June 29 and 30, 2006: General Meeting to discuss all measures developed to date and Licensee to state to the best of its ability which measures will be included in July DLA.
- June – July 2006: Licensee prepares and distributes DLA.
- August-October 2006: Relicensing Participants review and provide Licensee written comments on DLA. Workgroups continue to meet if reasonable progress is being made.
- November 2006: Licensee review and respond to comments on DLA. Workgroups continue to meet if reasonable progress is being made.
- December 2006: Licensee hold meeting(s) to discuss recommendations made in comments on DLA that Licensee does not plan to adopt in application. Workgroups continue to meet if reasonable progress is being made.
- January – March 2007: Licensee prepares and files application with FERC.

Configuration of Workgroups

- Cultural Workgroup – It is anticipated that this workgroup will be composed of the Licensee, SHPO, Forest Service and tribe representatives (closed to the general public since confidential information will be discussed). However, each relicensing participant including the Forest Service, SHPO and tribes, must determine if it wishes to participate in this workgroup.
- Non-flow Recreation/Land Use/Aesthetics Workgroup – It is anticipated that this workgroup will be

composed primarily of the Licensee and Forest Service (and Eric Petlock of AW who asked to be included) since most Project recreation facilities are on National Forest System Land.

Botanical/Wildlife Workshop – It is anticipated that this workgroup will be composed of the Licensee, Forest Service, USFWS, SWRCB, CDFG and any other interested relicensing participants.

Flow-related Resources – It is anticipated that this workgroup will be composed of the Licensee, Forest Service, USFWS, NOAA Fisheries Service, SWRCB, CDFG and any other interested relicensing participants.