

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

Tuesday, November 22, 2005, 2:00 PM,
Agency Conference Room, 2310 Oro Quincy Hwy. Oroville, California

DIRECTORS PRESENT: Jean Brown; Lou Cecchi; Jim Edwards; Dee Hunter; Vivian Meyer.

DIRECTORS ABSENT: None.

STAFF PRESENT: Michael Glaze, General Manager/Secretary;
Jennifer Jellison, Finance Division Manager;
Kathy Petersen, Power Division Manager;
Matt Colwell, Water Division Manager;
Jeff Meith, Legal Counsel.

OTHERS PRESENT: Maurice Martinez; Richard Mullins; Daniel David; Michael Evans.

CALL TO ORDER

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

APPROVAL OF MINUTES

Maurice Martinez asked that the first sentence in the second paragraph under PUBLIC PARTICIPATION be changed as follows: "Maurice Martinez ~~complained~~ expressed concern that the warrant list now being provided for Board review did not contain enough information."

Director Vivian Meyer asked that the last sentence of that same paragraph be changed as follows: "None of the directors ~~expressed an interest in receiving~~ requested the more detailed printout." She then asked Finance Division Manager Jennifer Jellison to begin providing her the more detailed printout.

M/S/C (Cecchi/Edwards) approving the Minutes of the Regular Meeting of October 25, 2005 with the requested revisions.

APPROVAL OF WARRANTS

M/S/C (Cecchi/Brown) approving: the total Water Division expenditures for the month of October 2005 in the amount of \$379,891.11 - Warrants #20490 through #20541; and, the total Power Division expenditures for the month of October 2005 in the amount of \$369,992.42 - Warrants #61778 through #61832.

ABANDONMENT OF EASEMENT (APN 035-130-185, 186, 187 and 188)

Mr. Glaze presented the Board with a request from Daniel David that the Agency abandon its interest in any easements affecting his property at the north end of Farley Street in the vicinity of Las Plumas High School. He affirmed that the Agency maintains no irrigation or domestic water

facilities across Mr. David's property and that granting the request will not impair the Agency's future operations.

Mr. David and Mr. Evans were present and affirmed the request for abandonment of the easement.

M/S/C (Brown/Edwards) adopting Resolution 05-11-3 to quitclaim all of the Agency's rights, title and interests in easements and reservations across property owned by Daniel David and Sandra Wong (APN 035-130-185, 186, 187 and 188).

PUBLIC PARTICIPATION

Richard Mullins stated that he was unable to find information regarding FERC relicensing of the South Feather Power Project at the Agency's web site. Kathy Petersen provided him with information about accessing ProjectNet, the dedicated web site for relicensing documents.

FINANCE DIVISION MANAGER'S REPORT

The Board reviewed a written report by Jennifer Jellison, Finance Division Manager.

South Fork Relicensing Consulting Services

The Board was provided the Monthly Activity Report from Devine, Tarbell and Associates, Inc. (DTA) for the period of October 1 through October 31, 2005.

Sly Creek Power Project 2004 Bond Refunding

Ms. Jellison advised the Board that SFWPA and PG&E have been working together to resolve discrepancies in the Sly Creek Power Project trustee accounts maintained by Bank of New York (BNY). Several discrepancies were discovered in the way funds in the accounts were managed versus what is described in the 2004 bond indenture. A detailed list of findings was sent along with proposed corrective actions to BNY at the end of October. Ms. Jellison and Accounting Specialist Pat Sands from the Agency, Kevin Goishi and Tom Prindiville of PG&E, and Frank Soriano of Sutter Securities traveled to Los Angeles on November 16, 2005 in order to meet with the Account Trustee at BNY. All account corrections were agreed upon and will be transacted by the end of December resulting in an additional \$23,486 in proceeds coming to the Agency. She complimented Pat Sands for working extremely hard on this project.

Sexual Harassment Training

On November 3, 2005, Ms. Jellison conducted the mandatory on-site sexual harassment training for all managers and supervisors. The Water Division and Power Division staff were combined into a single training session with a total of 11 employees in attendance. This fulfills the bi-annual training requirement through 2007.

2006 Water Division Budget

All managers have submitted their 2006 Water Division Budget request forms for review. At the request of the managers, separate departments are being created for each manager's expenses to provide them with the ability to monitor their individual spending on a real-time basis in 2006.

Financial Analysis Update

Spending requests are continuing to be closely monitored and scrutinized. As of October, the year-to-date domestic and irrigation water revenue is 92.4% of what it was in October 2004. This is a slight improvement over the Water Division's year-to-date position in September.

The 2005 year-end projection for the Water Division is that total operating revenues will be approximately 85% of the budgeted amount. This projection excludes the sale of the ID1 reservoir site on Riverview Drive and all water-system contributions made in 2005. The 2005 year-end expenses are also projected to be below the total budgeted amount. Water Division expenses are expected to be at approximately 91% of the budgeted total.

Standard & Poors Affirms Rating

Ms. Jellison has been responding to requests for information from a Standard & Poors rating analyst over the past several weeks. This culminated in a conference call between the rating analyst, Ms. Jellison and General Manager Glaze on October 18 during which the analyst investigated the Agency's failure in 2004 to comply with the 2003 Solar Project Certificates of Participation bond covenant requiring a 1.25 income/expense ratio for the Water Division. During the conference call, Mr. Glaze explained to the analyst the Board's action at the end of 2004 to impose the temporary State Budget Bailout Surcharge to offset property-tax revenue lost after the passage of Proposition 1A (the primary reason why the equity-to-debt ratio was not achieved in 2004). Several days after the conference call, the analyst reported that the Agency's BBB rating had been affirmed by Standard & Poors.

WATER DIVISION MANAGER'S REPORT

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

Distribution Operations

Mr. Colwell reported that Water Division staff recently completed two major projects that significantly improved water storage, quality, and distribution. The application of a rubberized coating on the inside of the newly expanded clear-well storage facility has been successfully completed to preserve the concrete and to maintain water quality. This project has increased storage of finished water at MRTP by as much as 300,000 gallons. Mr. Colwell complimented the efforts of all staff involved, and specifically recognized the planning and safety efforts of Jim Coffelt and Tom Venus. He said that their conscientiousness to details made the project run smoothly and in a safe manner.

Water Division staff also installed the valving system to the 1 MG Kelly Ridge tank's new 12-inch outlet/inlet. This additional capacity will reduce flow constrictions experienced at the 1 MGT facilities and improve water distribution in the high demand periods (summer).

New Services and Leaks

In the month of October, ten new meters and backflow devices were installed. Eleven service line leaks (no mainline leaks) were repaired.

Water Treatment Operations

Solar Plant Production

The October MRTP energy demand exceeded the solar plant production by 40,870 KWH.

Water Plant Production

MRTP production (system demand) for October is below average for the recent 5-year period. The 2005 cumulative production through October is 88% of average. Bacteriological requirements were met for the Miners Ranch Treatment Plant, Bangor Treatment Plant, Sly Creek and Strawberry Campground.

POWER DIVISION MANAGER'S REPORT

The Board reviewed a written report by Power Division Manager Kathryn Petersen.

Operations

The Storage and Generation Report and Forbestown Precipitation Report for October were reviewed.

The fish-water release has been adjusted at all reservoirs to the winter levels of 5 cfs (except at Slate Creek, where the release is 10 cfs year-round).

Maintenance Projects

Forbestown Powerhouse Outage

The Forbestown Powerhouse annual outage was completed November 10. Failure of the pressure relief valve to operate properly on testing caused extension of the outage by two weeks. The crew tore the PRV down and rebuilt it, and it now works smoothly. However, problems with the wicket gates are still occurring. These will be pulled for machining during the extended six-week outage starting February 6, 2006. PG&E's Technical and Engineering Services group set up instrumentation to help evaluate some of the problems with the wicket-gate squeeze that occurs on unit shutdown. Those results should help pinpoint where to focus attention during the next outage.

Woodleaf Slide Repair

Neil's Controlled Blasting mobilized on November 9 and has installed their safety barriers and storm water pollution prevention measures. They have removed the rock fences and vegetation above the slide area and have scaled a significant amount of the rock. The protective netting is in place, and the first drain hole will be drilled November 18. The piezometer hole (160 feet deep) will be drilled and the instruments installed during Thanksgiving week.

Little Grass Valley Spillway Repair and Staff Gauge Installation

Now that the Forbestown outage is finally complete, the crew has been hurrying to complete maintenance projects at Little Grass Valley before snow season begins. They made repairs to the broken concrete in the spillway, serviced the Howell-Bunger valve in the valve chamber, and installed new staff gauges that will be easier to read and access during inclement weather.

General Information

DSOD Inspection

The California Division of Safety of Dams inspected all nine dams on November 9 and 10. They were pleased with the level of ongoing maintenance and monitoring. They were especially complimentary of the effort by Water Division crews to remove the vegetation from Lake Wyandotte Dam. There is still some follow-up work needed to make sure all of the outlets valves are operable during the next year. DSOD also requested that divers inspect the downstream toe and apron of Forbestown Diversion Dam.

Emergency Action Plan Distribution

The "new and improved" revised EAP binders were distributed to the federal, state and local emergency response agencies on November 1. These provide information to be used in the event of failures or emergencies at Little Grass Valley, Sly Creek, Lost Creek and Miners Ranch dams. An intra-Agency training session was held on the new EAP responsibilities for managers and supervisors on November 2. The "Tabletop" and "Functional" exercises have been tentatively scheduled with the Butte County Office of Emergency Services for February 7 and April 12, 2006, respectively.

GENERAL MANAGER'S REPORT

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

Forbestown Pipeline Project – Yuba County Water District

Manager Glaze reported that the YCWD Board of Directors recently voted to abandon the Forbestown Pipeline Project and abandon the \$4.2 million Proposition 13 grant that DWR approved in 2003.

Relicensing Update

On November 10, Jim Lynch (DTA), Scott Wilcox (Stillwater Sciences), Power Division Manager Kathy Petersen and General Manager Glaze conducted a workshop for relicensing participants for the purpose of establishing a general approach to discuss and develop resource-management measures. Participants were advised that the Agency's goal is 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. Participants were advised that at a June 2006 workshop the Agency will state to the best of its ability each measure agreed to, and each of those measures will be included in the July DLA as "Licensee Proposed Measures." Measures that are 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 will participate in each workgroup and provide administrative assistance as needed. Each workgroup will review the appropriate resource report(s) issued, 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.

DIRECTORS' REPORTS

Director Edwards requested a letter of commendation be sent to Jim Coffelt and Tom Venus regarding their planning and safety efforts on the clear well coating project recently at Miners Ranch Treatment Plant (as reported earlier by Water Division Manager Matt Colwell).

Director Meyer requested a letter of commendation be written to Finance Division Manager Jennifer Jellison for her efforts resolving discrepancies in the trustee accounts maintained by Bank of New York for the Sly Creek Power Project 2004 Bond Refunding.

ACCEPTANCE OF FACILITIES – FOOTHILL ESTATES SUBDIVISION

Manager Glaze reported that Malamar Construction (Malcolm Hall) has completed construction of the water system for Foothill Estates Subdivision. In conformance with the Agency's Rules and

Regulations, Part A, Section 4E, they have offered to convey and transfer the water distribution facilities to the Agency and have provided a one-year maintenance bond in the amount of \$11,240 (25% of water system construction cost).

M/S/C (Cecchi/Meyer) adopting Resolution 05-11-1 to accept the water distribution facilities installed by Malamar Construction within Foothill Estates Subdivision into the Agency's maintained system.

COOPERATIVE ENVIRONMENTAL REVIEW AGREEMENT

The Board reviewed a final draft of an agreement involving the County of Butte, Butte LAFCo, SFWPA, Lake Oroville Area Public Utility District, and Thermalito Irrigation District. The agreement, if approved by all the parties, would specify the process by which the California Environmental Quality Act (CEQA) requirements would be accomplished for land developments that involve approvals by the County, LAFCo and one or more special districts providing water and/or sewer service. It would allow developers to have their projects assessed for feasibility by the County prior to annexing to one of the special districts, with the County assuming the role of lead agency for CEQA purposes, special districts being able to process annexation applications after the environmental work is complete, and the County being able to process the development application in conjunction with LAFCo's annexation(s) processing.

M/S/C (Edwards/Meyer) approving the Master Cooperative Environmental Review Agreement between the County of Butte, Butte LAFCo, Lake Oroville Area Public Utility District, South Feather Water and Power Agency and Thermalito Irrigation District.

POWER DIVISION 2006 BUDGETS

The Board reviewed the proposed 2006 Power Division budget, an early draft of which was presented to and approved by the Hydro Committee last April, and was included with Ms. Petersen's staff report at that time. It was subsequently reviewed by PG&E who objected to the original request for the PMF modifications to Sly Creek, Lost Creek and Ponderosa Dams because of their sizeable cost, and because PG&E and the Agency are nearing the end of the power-purchase contract. PG&E agreed, however, to fund enough of the engineering work to keep the project moving forward while negotiations proceed as to how the costs of the project will be funded. PG&E has approved the proposed 2006 budget as revised and now presented.

The 2006 budget request for the South Feather Power Project is \$5,507,000, which is \$16,754,000 less than the draft budget presented to the Board April. The significant change is the removal of most of the budget request related to the modifications to the dams. The microwave upgrade to digital (\$2,000,000 request) has also been deferred until 2007.

The 2006 budget for the Sly Creek Power Project is \$481,000, being \$115,000 less than the April draft. The initial plan was to send the pole pieces out for repairs and realign them at the time of reinstallation. However, they were determined to be in good enough condition that such work will not be warranted. Installation of an oil-vapor recovery system is planned for the unit. No other significant work is planned for this next year.

The amounts projected in April for 2007-2008 have not been revised. Work on the next budget cycle will begin early next year, with the proposed 2007 budget presented to the Hydro Committee in April 2006.

M/S/C (Edwards/Cecchi) approving the 2006 South Feather Power Project and Sly Creek Power Project budgets in the amount of \$5,507,000 and \$481,000, respectively; and, appropriation of funds of the Additions and Betterments in said budgets.

ABANDONMENT OF EASEMENT (APN 036-012-021)

Mr. Glaze presented the Board with a request from Shirley Houston that the Agency abandon its interest in any easements affecting her property on the east side of Oro-Bangor Highway. He affirmed that the Agency maintains no irrigation or domestic water facilities across Mrs. Houston's property and that granting the request will not impair the Agency's future operations.

M/S/C (Cecchi/Meyer) adopting Resolution 05-11-2 to quitclaim all of the Agency's rights, title and interests in easements and reservations across property owned by John and Shirley Houston (APN 036-012-021).

CLOSED SESSION (convened by President Hunter at 2:57 p.m.)

Conference with Labor Negotiator (Govt. Code §54957.6)
Negotiator: Michael Glaze, General Manager
Employee Units: Water Treatment and Distribution

Conference with Real Property Negotiator (Govt. Code §54956.9)
Property: Surplus Water
Negotiation Party: Municipal Water District of Orange County
Under Negotiation: Price, quantity, refill requirements, conditions for transfer and terms of payment.

Public Employee Performance Evaluation – General Manager (Govt. Code §54957)

OPEN SESSION

The open session was reconvened at 3:47 p.m. President Hunter stated that the Agency's real property and labor negotiator was advised.

AMENDMENT OF MOU – CLERICAL & SUPPORT EMPLOYEES UNIT

M/S/C (Cecchi/Edwards) approving the tentative agreement with representatives of SEIU Local 1292 for the Clerical and Support Employees Unit, being amendments and additions to Articles 10 and 17 of the MOU to provide opportunity for a 9-80s work schedule, in conclusion of annual negotiations for 2006.

AGENCY SHOP – WATER TREATMENT & DISTRIBUTION EMPLOYEES UNIT

M/S/C (Cecchi/Meyer) approving the petition signed by a majority of employees in the Water Treatment and Distribution Employees Unit for an agency shop agreement with IBEW Local 1245, subject to and approving amendments of and additions to the Statement of Purpose and Article 2 of the MOU with IBEW Local 1245 to specify the provisions for said agency shop agreement.

ADJOURNMENT

The meeting was adjourned at 3:50 p.m.

Michael C. Glaze, Secretary

Dee Hunter, President