

NEVADA IRRIGATION DISTRICT
BOARD OF DIRECTORS / JOINT POWERS AUTHORITY

MINUTES

January 22, 2014

The Board of Directors of the Nevada Irrigation District and the Nevada Irrigation District Joint Powers Authority convened in regular session at the District's main office located at 1036 W. Main Street, Grass Valley, on the 22nd day of January 2014 at 9:00 a.m.

Present were John H. Drew, President (Division II); W. Scott Miller, Vice-President (Division III); Jim Bachman (Division IV) and Nick Wilcox (Division V), Directors.

Director Nancy Weber (Division I) was absent.

Staff members present included Remleh Scherzinger, General Manager; Tim Crough, Assistant General Manager; Jim Malberg, Finance Manager; Gary King, Engineering Manager; Chip Close, Operations Manager; Keane Sommers, Hydroelectric Manager; Peggy Davidson, Recreation Manager; Brian Powell, Maintenance Manager; Jeff Meith, District Counsel; and Lisa Francis Tassone, Board Secretary.

MINUTES – January 8, 2014 Regular Meeting

Director Miller made a motion to approve the Minutes of the Board of Directors' regular meeting of January 8, 2014 as submitted. Director Wilcox seconded the motion.

Motion passed on the following roll call vote:

Weber, Division I	Absent
Drew, Division II	Aye
Miller, Division III	Aye
Bachman, Division IV	Aye
Wilcox, Division V	Aye

WARRANTS

Director Miller made a motion to approve the following warrants: Yuba-Bear Revolving Fund Nos. 26091 through 26128, inclusive; General Fund Revolving Account Nos. 63704 through 63842, inclusive; Recreation Fund Nos. 4213 through 4227, inclusive; and Payroll Direct Deposit and Warrant Nos. 70547 through 70714, inclusive. Director Wilcox seconded the motion.

Motion passed on the following roll call vote:

Weber, Division I	Absent
Drew, Division II	Aye
Miller, Division III	Aye
Bachman, Division IV	Aye
Wilcox, Division V	Aye

LOMA RICA HYDROELECTRIC FACILITY – WaterSMART Application (Res. No. 2014-03)

Director Miller made a motion to adopt Resolution No. 2014-03 (To Seek Bureau of Reclamation WaterSMART Grant Funding for the Loma Rica Hydroelectric Facility). Director Wilcox seconded the motion.

Motion passed on the following roll call vote:

Weber, Division I	Absent
Drew, Division II	Aye
Miller, Division III	Aye
Bachman, Division IV	Aye
Wilcox, Division V	Aye

DUTCH FLAT NO. 2 FLUME MONITORING PROJECT – Award of Contract

Director Miller made a motion to award sole source contract to Sierra Controls, LLC in the amount of \$112,522.45, and to authorize the General Manager to execute the necessary documents. Director Wilcox seconded the motion.

Motion passed on the following roll call vote:

Weber, Division I	Absent
Drew, Division II	Aye
Miller, Division III	Aye
Bachman, Division IV	Aye
Wilcox, Division V	Aye

DISTRICT TRAINING/SEMINARS – Operator Training

Director Miller made a motion to approve expenditure of \$33,000, plus meals, books, lodging, parking for two Hydroelectric Division employees to attend

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Operator Training School at the Pacific Gas & Electric Company's training facility in San Ramon, CA. Director Wilcox seconded the motion.

Motion passed on the following roll call vote:

Weber, Division I	Absent
Drew, Division II	Aye
Miller, Division III	Aye
Bachman, Division IV	Aye
Wilcox, Division V	Aye

WATER SERVICE RULES AND REGULATIONS – Service Outlets

Director Wilcox stated that he will need to recuse himself from voting on this matter because he has a private pipeline and this policy affects the way he operates that pipeline.

Director Miller made a motion to approve additions to Sections 5.04 and 5.06 of the District's Water Service Rules and Regulations pertaining to Service Outlets. Director Bachman seconded the motion.

Motion passed on the following roll call vote:

Weber, Division I	Absent
Drew, Division II	Aye
Miller, Division III	Aye
Bachman, Division IV	Aye
Wilcox, Division V	Abstain

NEWTOWN CANAL REHABILITATION PROJECT – Easement Acquisition

Matthew Crowe, Senior Right-of-Way Agent, stated that Staff is requesting the Board to consider authorizing the General Manager to issue a Notice of Intent (NOI) to property owners for Assessor's Parcel Nos. 04-131-31 and 04-131-42. The Project was approved by the Board in October 2010, and easement acquisitions were identified effecting seven parcels along the route. The Right-of-Way Staff has followed the typical and obligatory practices in pursuing acquisitions of the subject easements, including independent appraisals and presenting offers in July 2013. Staff has met with and corresponded with the property owners and has responded to the owners' concerns. Ample time has elapsed for the property owners to consider the District's offers and subsequent responses. Although Staff remains open to hear and address property owners' comments and concerns, the subject acquisitions have not progressed towards closure. Given the District's intent to construct the Project in the Fall of 2014, the time for acquisition is growing short. Should a Resolution of Necessity or ensuing actions be deemed necessary and appropriate, Staff is concerned about delays that procedural timelines may cause. He wishes to stress that this item does not commit the District to any certain course of action, but enables the General Manager to provide the subject

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property owners with proper notice that such an item may be presented to the Board at an upcoming meeting.

Director Wilcox asked Mr. Crowe to review what the concerns are of the subject property owners.

Mr. Crowe explained that Staff is not prepared at this point to hold a hearing on this matter. The purpose at this time is to authorize a NOI be issued for a hearing that would be scheduled at a later date.

Director Miller stated that he seems to remember that Staff's recommendation was to install the pipeline in the road. He has always and will continue to support Staff with this recommendation. He asked if it would be necessary to issue a NOI for eminent domain proceedings if the District were to install the pipeline in the road.

Mr. Crowe stated that this would be a different project, and analysis of the right-of-ways would be necessary.

Director Miller would advocate placing the pipeline in the road, rather than entering into eminent domain proceedings.

President Drew stated that some property owners were opposed to the original alignment. Discussions ensued about installing the pipeline in the road, and the property owners were concerned that there would not be enough water left in the existing Canal. Staff has returned to the original alignment for the Project. This Project has been "lingering on the horizon" and needs to be addressed. The water supply that comes down through that area ends up serving thousands of people.

Director Wilcox stated that it is his recollection that this is the third iteration of this Project and this alignment would be the path of least resistance. Out of deference for the majority of property owners, the District has chosen this path, and the Project needs to be completed.

President Drew pointed out that changing the plan for projects costs thousands of dollars and these costs are reflected in water rates. Too many delays cost too much money.

Patricia Dunne, property owner, stated that she has addressed a number of her concerns with Staff, and as of yet, none of these concerns has been reasonably answered. She is not opposed to the Project, but she is opposed to how it will be constructed. She has asked for details regarding drainage issues. She has owned this property for close to 20 years. In the 20 years that she owned the property, the District has maintained the ditch probably twice, maybe three times. The water running through her property has undermined a structure on her property. This concerns her because when she bought the property, part of the reason for buying it was due to the ditch running through the property. The ditch also maintains her ponds. At the moment, she is worried that if the District installs the pipeline, this will "really mess up the whole

property” and will take away from her property. She also has tenants residing on the property. She cannot see either of her tenants living there during the construction period. Her main issue is the drainage. It has always been there, and until that is addressed, she cannot move forward and sign an offer. She would like to see a better scope of the work and the details, and how the drainage issues will be addressed, and the structure on the property repaired. If the Project is not addressed properly, there will be flooding at her house.

Ms. Dunne asked why the District has not serviced the ditch, especially since the water supply goes to thousands of people. She has photographs of the water on her property that she would like the Board to review.

President Drew asked Ms. Dunne to submit the photographs to the Board Secretary so that they can be distributed to the Board of Directors. *Note: The photographs were not submitted to the Board Secretary.*

Director Wilcox stated that the parties need to resolve the issues as quickly as possible so that this Project can be completed.

Director Wilcox made a motion to authorize the General Manager to issue a Notice of Intent (NOI) to consider commencement of eminent domain proceedings for Assessor’s Parcel Nos. 04-131-31 and 04-131-42 within the Newtown Canal Rehabilitation Project. Director Bachman seconded the motion.

Motion passed on the following roll call vote:

Weber, Division I	Absent
Drew, Division II	Aye
Miller, Division III	No
Bachman, Division IV	Aye
Wilcox, Division V	Aye

HYDROELECTRIC INTERNAL COMPLIANCE PROGRAM (Res. No. 2014-04)

Keane Sommers, Hydroelectric Manager, introduced Mark Myers of GridSME. Mr. Myers stated that he has been working with the District’s Hydroelectric Division Staff for the past six months in preparing to register as a North American Electric Reliability Corporation (NERC) compliant entity.

President Drew asked Mr. Myers if the new standards and compliance programs can be considered unfunded mandates.

Mr. Myers responded affirmatively.

Mr. Myers provided the following presentation:

Energy Industry Environment:

- Industry has emerged into a period of increasing security risks

- Cyber Attacks
- Advanced Persistent Threats
- Federal Standards Developed to Manage Risks Associated with:
 - Industry Response to Blackouts
 - Reliability Standards
 - Market Structures
 - Grid Management
 - New Technologies
 - Cyber Threats

Regulations Seek to Fill Real Need:

- 1965 – Northeast US and Canada Blackout
- 1968 – NERC formed
- 1997 – New York City Blackout and the Blue Ribbon Panel was established
- 2003 – The Great Northeast Blackout
- 2007 through 2008 – Federal Energy Regulatory Commission (FERC) approves penalty authority in two orders: 693 and 706

Critical Infrastructure:

- Defined by Homeland Security, Critical Infrastructure has 16 Sectors including:
 - Water / Wastewater
 - Energy
- The energy sector now has mandatory Cyber Security Standards (first Sector to have such standards) that are reinforced by fines with a potential amount of \$1 million per violation, per day
- Over 100 Reliability Standards and Hundreds of Requirements and Sub-Requirements

Violations:

- Violations can incur significant fines, up to \$1 million per violation per day (This regulation has a bite!)
- Some of the largest single Critical Infrastructure Protection (CIP) Penalties nationally include:

Compliance Year	Amount of Fine
2012	\$950,000
2012	\$725,000
2012	\$200,000
2013	\$350,000
2013	\$291,000

FERC Order 693 (Operations):

- Made into Law the registration of all Qualified Entities
- Enforced Standards on Operations and Maintenance processes
- Over 400 requirements

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FERC Order 706 (Critical Infrastructure Protection):

- Creates a framework that serves as a **minimum** level of protection for the cyber systems that support the reliability of the Bulk Electric System (power grid)
- Cyber and Physical Security controls contained in 11 standards
- Over 140 requirements and sub-requirements
- Documentation and precision incredibly important

High Rate of Change of CIP:

- July 2007 – Version 1 becomes enforceable
- September 2009 – Version 2 approved
- March 2010 – Version 3 approved
- April 2012 – FERC approves Version 4, but does not like it
- April 2013 – CIP 5 Notice of Proposed Rulemaking (NOPR) – Proposes to approve Version 5, skip Version 4 with plans to shore it up
- November 2013 – FERC approves CIP Version 5 (effective April 2016)

Rate of Change is Increasing:

- When your ability to manage change is outpaced by change you will find yourself in Deep Yogurt. ~ John Zachman
- Management Response: Efficient designed and pragmatic business processes are the antidote to rapid change.

Major Risk Options Include:

- Avoid Risk:
 - Not a real option
- Transfer Risk
 - Insurance policies are not written
 - PG&E assuming some of NID risk as the acting Generator Operator (GOP) through services provided in the Power Purchase Agreement
- Manage Risk
 - Create process which leaves very little residual risk

Why is this important to the District?

- Nevada Irrigation District needs to have policies and procedures in place to be compliant
- Needs to produce evidence for an audit
- Needs to ensure the safety and security of personnel and assets
- It is prudent to reduce the risk exposure to NID
- It is the law

To be successful, NID will need to:

- Develop Policies and Procedures which meet Compliance
- Implement the Policies and Procedures
- Monitor progress and changes

Internal Compliance Program:

- Modeled after the FERC Owners Dam Safety Program

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- Resolution by the Board
 - o Approves Internal Compliance Program
 - o Adopts Policy regarding ICP
- Policy
 - o Delegates authority for implementation to General Manager
 - o Establishes the Reliability Oversight Compliance Committee (ROCC)
 - o Authorizes the General Manager to modify the ICP as necessary
- Foundation for management to assess reliability and compliance risk
- Framework to administer additional compliance practices and procedures
- Ensures that it is the responsibility of all NID staff to maintain compliance with the Reliability Standards
- Provides the General Manager with the authority to administer all aspects of compliance
- Provides an organizational structure to meet NERC compliance obligations
- Provides a reporting structure back to the Board to monitor progress
- Establishes a culture of compliance

Mr. Myers commended Mr. Sommers and the Hydroelectric Division Staff for the work they have done during the past six months on developing the ICP document.

Director Wilcox stated that the concept is fine; however, the devil is in the details. He asked what the capital outlay will need to be in order to bring the District into compliance.

Mr. Sommers stated that this year, he has \$400,000 budgeted for a power system stabilizer at the Chicago Park Powerhouse. This may not be needed in 2014, so these funds could be used for the ICP. Additional manpower is needed that would come as a result of the regulations. There is no black and white answer, and this matter will need to be dealt with on an annual basis.

Mr. Myers stated that he has provided proposals to Staff in order to get the District through 2014. The goal is to try to keep the District's compliance footprint as small as possible.

Director Wilcox stated that there is a balance: there is a cost in achieving compliance, and there is a significant cost in not achieving compliance and being found in violation.

Mr. Myers stated that in addition to penalties being imposed, the District will need to correct the mitigation issues. This is where the real cost adds up and could easily triple the initial cost of the penalty.

Director Miller made a motion to adopt Resolution No. 2014-04 (Establishing Administrative Policy for the Hydroelectric Internal Compliance Program). Director Wilcox seconded the motion.

Motion passed on the following roll call vote:

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Weber, Division I	Absent
Drew, Division II	Aye
Miller, Division III	Aye
Bachman, Division IV	Aye
Wilcox, Division V	Aye

HYDROELECTRIC SYSTEMS TECHNICIAN I/II – Additional Position

Keane Sommers, Hydroelectric Manager, provided the following presentation:

Background:

- Department currently employs two Hydroelectric System Technicians:
 - One Technician specializes in Telecommunications
 - One Technician specializes in Electro-Mechanical
- Zero Redundancy
- Historically, PG&E provided support
 - Estimated cost under current agreement is \$225 to \$250 per hour
 - NID is lowest priority
- Administrative Practices Committee is recommending an additional Technician

Responsibilities of Technician with Electro-Mechanical Expertise:

- Front line for power generation compliance and documentation
- Key position for troubleshooting, repairing and maintaining hydroelectric protection systems, control systems, auxiliary systems and associated equipment
- Required responder in order to facilitate returning hydro facilities back on line following a protection system action
- Requires high voltage expertise that is not available through other District Staff

Current Workload:

- Current Electro-Mechanical Technician averaged 216 hours of overtime annually from 2010 to 2013
- Estimated deferred maintained or contracted hours during the same period:

Task	Hours
Drawing updates	40
Project review	120
General powerhouse switchboard maintenance	120
Breaker maintenance	80
Transformer maintenance	40
Training	80
Project development	240
Inspections	80
Miscellaneous equipment	240
Work tags	240
Total Deferred or Contracted Projects Maintenance	1,280

Projected Future Workload:

- The addition of the Combie and Scotts Flat Powerhouses to the Hydroelectric Department
- Regulatory compliance
- Planned special projects
- The assumed 2016 addition of the Deer Creek Powerhouse
- Construction of a new plant at Loma Rica in 2017

TASK	2014	2015	2016	2017
Scotts Flat relays/maintenance	80	80	80	80
Combie North relays/maintenance	80	80	80	80
Combie South relays/maintenance	120	120	120	120
Deer Creek relays/maintenance			160	160
Future PH relays/maintenance				40
Compliance reviews	210	210	240	300
Bowman Switchboard	160	400		
Chicago Park Switchboard		160	400	
Rollins Switchboard			160	400
Scotts Flat Switchboard/RTU		80	160	
Combie North RTU			40	80
Combie South Switchboard/RTU				80
Total	650	1,130	1,440	1,340

Estimated Total Workload:

- Estimate only includes hours for a Technician with Electro-Mechanical expertise
- Plan is to support other electrical needs with Water Division Electricians

	2014	2015	2016	2017
Total estimated workload excluding vacation, sick leave, and holidays	3,714	4,194	4,504	4,404
Total estimated full time equivalent employees	2.1	2.4	2.5	2.5

Director Miller suggested that if Mr. Sommers is able to find two viable candidates, he might bring this matter to the Board for consideration, since this position will be so difficult to fill.

Director Wilcox asked if the District will be in danger of being considered out of compliance if the position is not filled.

Mr. Sommers stated that if the position is not filled, he will have to prioritize compliance rated work as 'High' to ensure the District is in compliance. What will suffer is the reliability of the powerhouses, and there will be more downtime.

Director Wilcox stated that downtime translates directly into lost revenue.

Rem Scherzinger, General Manager, pointed out that the District would also have to utilize outside sources to complete the work, in addition to paying overtime to existing employees.

Budget Impact of Hiring Technician:

- Salary and benefits: \$125,000
- Vehicle and tools: \$65,000
 - A vehicle may be available from the pool in which case a vehicle will not be purchased in 2014

Budget Impact of Not Hiring a Technician:

- Estimated lost revenue from a 23 hour outage at larger plants in various months (includes CAISO fees):

Month	Chicago Park	Rollins	Dutch Flat No. 2
July	\$67,500	\$45,300	\$48,000
August	\$76,600	\$47,400	\$50,700
September	\$61,700	\$39,600	\$42,000

- Potential cost of using a PG&E employee to offset workload: \$374,000
- Cross training of existing employees is estimated to cost \$50,000 to \$75,000, and will take several years
 - Does not address new compliance requirements, special projects, deferred maintenance or added workload
 - No clear way to address work while training occurs

Director Miller emphasized that cross training should occur within the Hydroelectric Division.

Mr. Sommers concurred.

Director Wilcox made a motion to approve addition of one Hydroelectric Systems Technician to the Hydroelectric Department, and approved associated budget amendment. Director Miller seconded the motion.

Motion passed on the following roll call vote:

Weber, Division I	Absent
Drew, Division II	Aye
Miller, Division III	Aye
Bachman, Division IV	Aye
Wilcox, Division V	Aye

WATER STORAGE UPDATE / DRY YEAR PLANNING – Drought Contingency Plan

Chip Close, Operations Manager, stated that in light of the critically dry weather pattern, as well as the fact that the Governor has declared the State of California in a drought, Staff has embarked on efforts to take actions to conserve as much water as possible for

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the coming summer months. Many of the actions being proposed have been pulled from various stages of the District's Drought Contingency Plan, and can be implemented immediately.

Sue Sindt, Operations Administrator, provided the following presentation:

Reservoir Storage as of January 15, 2014:

- 146,010 Acre Feet which is:
 - 91 percent of average
 - 58 percent of capacity

Bowman Precipitation as of January 15, 2014:

- 8.95 inches which is 29 percent of average (*Worst year on record to date*)

Snow Pack:

- Central Sierra 16 percent of January 1; 8 percent of April 1
- Local Snotel sites on January 18 = 1.2 inches of Snow Water Equivalent (SWE); 3 percent of April 1
- February 1 Average is 21.75 inches SWE; 63 percent of April 1
- NID will conduct first snow surveys on February 1

Pacific Gas & Electric (PG&E) Water:

- Storage approximately 82 percent of average
- Only releases are for consumptive demand and instream flow requirements
- Minimal power generation
- Weekly water management meetings
- Possible reduction in allocation

Ms. Sindt displayed a map that demonstrates the National Oceanic and Atmospheric Administration's (NOAA) weather forecast for February, March and April as being below normal.

The Drought Monitor indicates that as of January 7, 2014, 27.59 percent of the State was in D3-D4 conditions. Currently, 62.71 percent of the State is in D3-D4 conditions.

Are we Doomed?

- Stage I – Normal = 233,000 Acre Feet available April 1
- Estimated April 1 Storage = 138,800 Acre Feet
- Deficit to fill from runoff and PG&E water = 94,200 Acre Feet
- Average February through July runoff = 181,300 Acre Feet
- Need an above average period, but not an above average year
- Potential Water Right curtailment

Mr. Close provided the following presentation:

Actions Taken to Date:

- Minimal releases from storage

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- Coordination with PG&E and Placer County Water Agency (PCWA)
- Request for 20 percent voluntary reduction
- Public messaging
- Redirected flushing crew to patrol canals
- Municipal customers have been informed

Actions Requested Today:

- Place a freeze on new and/or additional winter water sales
- Convene Drought Hardship Committee
- Limit Fire Department drills and flow testing at hydrants
- Require treated water large landscape users to reduce by 20 percent
- Maintain a minimum carryover storage of 78,000 acre feet

Potential Future Actions if Dry Weather Pattern Persists:

- Declare no available surplus water
- Place freeze on new or increased summer agriculture water
- Begin Proposition 218 process for purchased rate
- Establish a list of acceptable water use
- Continue to utilize media outlets to inform both agriculture and treated water customer base
- Set up informational drought web page

Timeline for Potential Future Actions:

- February 11 – Water and Hydroelectric Operations (WHO) Committee update and recommendations to the Board
- February 12 – Board of Directors' meeting
- February 14 – Agriculture customer request for changes
- February 26 – Board making possible declaration
- February 28 – Agriculture customer applications
- March and April – Mobilize crews to re-orifice boxes if necessary

Director Wilcox stated that since he is a member of the WHO Committee, he will serve on the Drought Hardship Committee. He asked, hypothetically, that if agriculture customers are cut back by 50 percent, if they can be granted a relief for this reduction by the Drought Hardship Committee. Further, if the water that will bring these customers back to full allocation comes from purchased water, will these customers have to pay more for additional water.

Mr. Close stated that the additional rate has not yet been studied to this level of detail. However, he can say that if there is a customer benefitting solely from this purchased water, they should pay the additional rate.

Director Wilcox stated that the work for the Drought Hardship Committee will be easier because, if customers that address the Committee request additional water, the Committee can potentially make that water available, but the customer will need to pay the cost for the additional water.

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President Drew pointed out that one of the overarching concerns is that if there is continued reduced water availability, there will be significant reductions in revenue. The District's costs will be equal or greater to provide less water.

Mr. Scherzinger explained that he estimates that reduced water sales will amount to \$6 million. Further, there will be reduced hydroelectric sales (for those units not under the Power Purchase Agreement).

Director Miller made a motion to authorize the General Manager to implement portions of the Drought Contingency Plan. Director Wilcox seconded the motion.

Motion passed on the following roll call vote:

Weber, Division I	Absent
Drew, Division II	Aye
Miller, Division III	Aye
Bachman, Division IV	Aye
Wilcox, Division V	Aye

The actions placed into effect are as follows:

- Place a freeze on new and/or additional winter water sales
- Convene Drought Hardship Committee
- Limit Fire Department drills and flow testing at hydrants
- Require treated water large landscape users to reduce to 20 percent

RESERVE FUND BALANCES

Jim Malberg, Finance Manager/Treasurer, stated that he would like to discuss the current state of the District's reserve fund balances. In 2009, the District changed some of the reserves and tried to delineate the history of these changes as the Water Rate Study was conducted. Some of the insurance reserves were combined, and hydroelectric reserves were established. Last year, as the District entered into the Power Purchase Agreement with Pacific Gas & Electric Company (PG&E), there was discussion about reshaping some of the reserves, specifically the Operations, Repair and Replacement Reserve (ORRR). The operating reserve was defined as six months of a three year operations average. When he performs this calculation, he comes up with approximately \$13.4 million. Currently, there is just under \$16.5 million in the ORRR. What Staff would like to do is earmark under the Reserve Policy, the \$13.4 million as six months of operating reserve.

As a result of the current water situation and the reduced revenues, Mr. Malberg would like to earmark \$2 million of the remaining \$3 million and place this in the Rate Stabilization Reserve. This will allow the District to manage reduced revenues without having to review water rates.

Mr. Malberg addressed the District Financed Waterline Extension Projects that will increase the budget in the amount of \$894,000 (E. Hacienda and Caroline / Winter Moon Way Projects).

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Mr. Malberg stated that there is \$9.1 million in the Treated Water Expansion Reserve (Capacity Fees). He reminded the Board that there is approximately \$2.2 million set aside for the Banner-Taylor Reservoir Restoration Project. There is approximately \$6.9 million remaining in the Treated Water Expansion Reserve.

Under the Hydroelectric Reserve, there is now approximately \$10 million. He expects that after the books are closed for 2013, the balance will be in the \$11.5 million range, and he will be back before the Board for direction in setting up operating and capital reserves for the Hydroelectric Division.

Director Miller asked if funds have been set aside for the Backbone Extension Program (BEP).

Mr. Malberg stated that there is no reserve for the BEP, but funds have been included in the 2014 Budget for BEP Projects.

Rem Scherzinger, General Manager, pointed out that as part of the District's commitment to rate customers, the District is proposing to separate the Rate Stabilization Fund from the ORRR. This is the first step on making good on the District's promise of reviewing the rates on an annual basis and determining what adjustments can be made if there is sufficient revenue.

Director Wilcox stated that the E. Hacienda Waterline Extension Project has a high percentage of parcel participation. He asked if the money is returned to the appropriate reserve fund when the property owners pay back the money to the District for this Project, in order to perpetuate other waterline extension projects.

Mr. Malberg stated that there are a couple of funding sources for waterline extension projects, and those monies are financed. The cash is coming from the Community Investment Program, the Treated Water Expansion Reserve and a Capital Reserve. As those monies are paid back, they are returned to the respective Program/Reserves.

Mr. Malberg stated that the Treated Water Expansion Reserve is paying for the over-sizing of the pipeline beyond 8 inches in diameter.

Mr. Malberg stated that the property owners are financing the capacity fee that they are responsible for to connect to the service. Additional revenue is received by the District as services come on-line.

Mr. Malberg stated that he would like to set up deferred revenue accounts so that it shows money flowing out, and the revenue coming in to the appropriate sources.

Director Miller asked what a reduction of 1 percent in the 2015 water rate increase would equate to (from six percent to five percent).

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Mr. Malberg stated that a one percent reduction would amount to approximately \$200,000 less revenue.

Director Wilcox referenced the spreadsheet depicting the history of reserve balances and questioned the amount of \$7.2 million in the Debt Service Reserve in 2013. He noticed that future years (2014 through 2108) have a balance of \$150,000 year, and asked why the balance for 2013 is so high.

Mr. Malberg explained that a debt service payment was made on January 1, 2014, and this should have been removed from the reserve balance for 2013.

Meeting recessed at 10:50 a.m. and reconvened at 10:57 a.m.

E. HACIENDA PIPELINE PROJECT – Funding Agreements and Budget Amendment

Jim Malberg, Finance Manager/Treasurer, stated that the E. Hacienda Pipeline Project is a District Financed Waterline Extension Project (DFWLE). The Project impacts 34 parcels. Currently, there are 31 parcels that are participating, and the property owners have executed Funding Agreements. This a good Project with great participation. The Project has four funding sources:

- 1) Community Investment Program – estimated at \$16,260 to pay for the startup costs and the fire hydrants
- 2) Capacity Fees – estimated at \$676,143 to pay for the up-sizing from 8 inches in diameter to 12 inches as part of the Capacity Fee Study
- 3) Reimbursement for Participating Parcels – estimated at \$492,558 for the 31 participating parcels; they will reimburse the District over a 20 year period through the DFWLE Program.
- 4) District contribution of funds for non-participating parcels – estimated at \$47,667 for the three non-participating parcels (per policy, if one of these parcels connects to the pipeline, the property owner pays a lump sum at the time of connection plus increased construction costs from the time of construction).

President Drew asked if there is future consideration to connect the main ending (at the upper end of the Project).

Gary King, Engineering Manager, stated that the Project has been designed and survey work has been done to the end of Pioneer Way at Salt Creek. The Project will be bid in two phases. The first phase is the E. Hacienda Pipeline Project, and the second phase is what is known as the Pioneer Way Project. Meetings are being held with the property owners, and if this group is not happy with the cost, the Project may continue as a Backbone Extension Program (BEP) Project.

Director Wilcox asked if the BEP Project for the Pioneer Way property owners can be converted to a Waterline Extension Project in the future.

Mr. King stated that if the property owners do not participate in a Waterline Extension Program, they will be required to pay a lump sum cost at the time of connection.

Director Wilcox asked if the property owners in the Pioneer Way area understand that they are coming up upon a critical decision point.

Shannon Matteoni, Business Development Coordinator, explained that the representative of the property owners at the north end of Pioneer Way is aware of the per parcel costs. A neighborhood meeting has not yet been set up with the neighboring seven or eight parcels. A discussion has been had with the representative about the BEP. The property owners do understand that there is an important decision to be made.

Director Miller made a motion to approve Funding Agreements with property owners for Assessor Parcel Nos. 11-700-05 (Anderson), 11-700-09 (Anderson), 21-710-21 (Boykin), 11-700-14 (Camerer), 21-700-26 (Capen), 11-700-03 (Chiappari), 21-710-14 (Curtis), 11-700-18 (Desler), 21-700-08 (Hemings), 21-710-13 (Hoekstra), 21-720-32 (Hughey), 11-700-15 (Huiskens), 11-700-16 (Jaksch), 11-700-13 (Koerber), 21-700-22 (Krage), 21-700-16 (Krieg), 21-710-19 (Lampson), 21-710-20 (Lampson), 21-720-28 (Mace), 21-700-18 (Martinson), 21-700-09 (McLaughlin), 21-700-32 (McLaughlin), 11-700-10 (Molina), 11-700-07 (Pascua), 11-700-01 (Poppleton), 21-700-25 (Redmond), 11-700-12 (Riley), 11-700-17 (Schrank), 21-700-15 (Wilson), 21-710-22 (Young), and Budget Amendment in the amount of \$1,240,982 for the E. Hacienda Pipeline Project. Director Bachman seconded the motion.

Motion passed on the following roll call vote:

Weber, Division I	Absent
Drew, Division II	Aye
Miller, Division III	Aye
Bachman, Division IV	Aye
Wilcox, Division V	Aye

Tom Huiskens, property owner in the E. Hacienda area, stated that he has lived in this area for 23 years, and has been trying to obtain water for that same amount of time. He said that the last effort has been an absolute dream working with Ms. Matteoni and employees in the Engineering Department. Today is a big day for the property owners within the E. Hacienda Pipeline Project.

President Drew stated that these types of projects occur more often than most people would imagine, but very seldom do property owners come forward to express their appreciation. He thanked Mr. Huiskens for taking the time to attend the meeting to express his appreciation.

Mr. Huiskens also commended Tim Crough, Assistant General Manager, for all of the years he has worked with the property owners in the E. Hacienda area. Where these

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property owners are today, is due to the time and efforts put into the process over the years.

Director Miller complimented Mr. Huiskens for spearheading the neighboring property owners so that this Project could come to fruition.

CAROLINE / WINTER MOON WAY WATERLINE EXTENSION PROJECT – Funding Agreements and Budget Amendment

Jim Malberg, Finance Manager/Treasurer, stated that the Caroline / Winter Moon Way Waterline Extension Project is a District Financed Waterline Extension Project (DFWLE). The Project impacts 14 parcels. Currently, there are seven parcels that are participating, and the property owners have executed Funding Agreements.

The Project has four funding sources:

- 1) Community Investment Program – estimated at \$20,710 to pay for the startup costs and the fire hydrants
- 2) Reimbursement for Participating Parcels – estimated at \$176,524 for the seven participating parcels; they will reimburse the District over a 20 year period through the DFWLE Program.
- 3) District contribution of funds for non-participating parcels – estimated at \$176,524 for the seven non-participating parcels (per policy, if one of these parcels connects to the pipeline, the property owner pays a lump sum at the time of connection plus increased construction costs from the time of construction).

Mr. Malberg stated that there will be no up-sizing of pipe for this Project, so there is no withdraw from the Treated Water Expansion Reserve.

President Drew asked how water would be served to the parcel at the north-end of the Project.

Shannon Matteoni, Business Development Coordinator, explained that this parcel is one of the participating parcels and will be treated as a variance parcel. Two other variance parcels are also participating in the Project.

Director Wilcox stated that the E. Hacienda Pipeline Project had 31 parcels participating, which means that there is a relatively small withdrawal from reserves, and the District fronting very little money. The District is fronting much more money for the Caroline / Winter Moon Way Project. He is uncomfortable with this Project because the District is fronting so much money, and there is little chance that some of the non-participating parcels will connect in the future. He cannot approve this item.

Director Miller concurred, and expressed concern about the word ‘developer.’ In the past, the District has always been careful not to use the term developer for these neighborhood projects. He has learned that some of the variance parcels in this Project belong to the same property owner, and this lends itself to the term developer. The

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District will put “a dent” into the budget for these types of projects, if the funds are used for developer projects. He cannot support this item.

Ms. Matteoni explained that the term developer has loosely been used in this environment, because it is not a developer by definition. When a property owner is asking the District to extend water to a neighborhood, the property owner is not the developer, but the point of contact for that neighborhood, so this property owner is treated as a developer. For this project, the representative was struggling to achieve support from the neighbors. The representative asked if there are other options. Under the old District Financed Waterline Extension Program policy, the cost per parcel was approximately \$40,000. This was hard for the property owners to swallow. Now that the District’s policies are consistent with each other, a new model has been approved that allows neighborhoods to have treated water with at least 50 percent of the parcels in a neighborhood participating in the Project. One property owner owns three parcels. One parcel is developed, and the two remaining parcels are vacant.

Director Miller expressed concern about fronting money for vacant parcels.

Ms. Matteoni stated that when a vacant parcel obtains a building permit, the District will collect costs at the time connection is requested.

Director Miller stated that the District is speculating that the properties will be developed in the future. This might not be the case.

Chip Close, Operations Manager, stated that he hears what Director Miller is saying. He reiterated that although the District is fronting initial funds to install the pipeline, when a property owner wants to develop their property and connect to the pipeline, the property owner will pay the funds back to the District. If the property is not connected on day one of the installation of the pipeline, that property is receiving no benefit. He also pointed out that the funding for the E. Hacienda Pipeline Project and the Caroline / Winter Moon Way Waterline Extension Project are funded 100 percent by the District. Although there is a higher participation in the E. Hacienda Project, which is a great benefit to the District, initially, the costs are 100 percent borne by the District. The District will be compensated substantially from both Projects eventually.

Director Miller suggested that the Board revisit the 50 percent criteria, and suggested that this matter be taken back to Committee.

Director Wilcox stated that the property owners have the option to drill a well, and do not have to connect to the District’s system.

Ms. Matteoni concurred. She pointed out that this area, however, has low yielding wells.

Rem Scherzinger, General Manager, asked if the issues at hand are the number of parcels in a project, the 50 percent criteria, and property owners holding more than one parcel.

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Director Miller responded affirmatively.

Matter died for lack of a motion.

President Drew directed Staff to present this matter to the Administrative Practices Committee.

Director Wilcox stated that he would be willing to meet with Staff to be educated on all of the implications to the Waterline Extension programs.

DROUGHT - Meetings

Rem Scherzinger, General Manager, reported that the Placer County Water Agency, Pacific Gas & Electric Company and the District met last week to discuss methods of operation to work together through the drought period. Placer County Water Agency will be holding a public hearing on February 6, 2014 to discuss options for their Agency. They anticipate adopting a drought level and actions on February 20, 2014.

PACIFIC GAS & ELECTRIC COMPANY – Request for Temporary Variance

Rem Scherzinger, General Manager, reported that Pacific Gas & Electric Company (PG&E) has requested a temporary variance of license requirements in terms of releases at the Potter Valley Project at Eel River connecting to the Russian River system. They are asking for a target flow instead of a minimum flow requirement. The Friends of Eel River have filed an intervention.

LEGISLATIVE UPDATE

Rem Scherzinger, General Manager, reported that there was legislation to move the California Department of Public Health's water program to the State Water Resources Control Board. The Governor will make that effective July 1, 2014.

KNCO - Interview

Rem Scherzinger, General Manager, reported that on January 27, 2014, he will be interviewed by KNCO.

President Drew requested that Mr. Scherzinger obtain a tape of the interview.

ACKNOWLEDGMENT OF DISTRICT COUNSEL

Director Miller acknowledged Jeff Meith, District Counsel, for his counsel during the public hearing to consider water rates. An attorney in the audience by the name of Lorraine Reich questioned the District's process, and Mr. Meith professionally represented the District by stating that the District is following the law pursuant to the Proposition 218 process. Ms. Reich sent a letter acknowledging her error and apologized to Mr. Meith.

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Director Bachman complimented Mr. Meith on how he handled the matter during the public hearing.

Director Wilcox stated that he contacted Ms. Reich and thanked her personally for sending the letter of apology.

COST CUTTING MEASURES

Director Miller requested that Staff review several areas to cut costs and he provided specific areas to review:

- 1) Public relations
- 2) Eliminating all donations
- 3) Eliminating the use of Alhambra water

President Drew directed Staff to add a discussion matter on cost cutting measures to the Administrative Practices Committee's agenda.

SOUTH YUBA RIVER CITIZENS' LEAGUE (SYRCL) – Film Festival

Director Wilcox attended the SYRCL Film Festival and attended a workshop that discussed the Federal Energy Regulatory Commission (FERC) relicensing process. He shared that the participants in the workshop bragged about all of the "things" they are getting, but he pointed out that in the end, if the cost of the mitigation exceeds the value of the Project revenue, "we can just walk away from this, and you get nothing." He informed the participants that environmental demands "can be pushed too far."

PENN VALLEY TOWN HALL MEETING

Director Wilcox attended the Penn Valley Town Hall Meeting sponsored by the Penn Valley Chamber of Commerce. He reminded those in the audience that there has been no rain, and that they should stay tuned for news on this matter in the future.

CLOSED SESSION was declared at 11:37 a.m. pursuant to Government Code Section 54956.8 to confer with Real Property Negotiators Scherzinger, Malberg, Sommers, Sindt and/or Meith regarding price and terms of payment for acquisition and sale of rights in real property; properties subject to negotiations:

- South Yuba Canal, Chalk Bluff Canal, Deer Creek Powerhouse; flowage/wheeling rights in Drum Canal, Bear River Canal, Wise Canal, and South Canal (all owned by PG&E)
- Flowage Rights in Bowman-Spaulding Canal, Fall Creek Flume, Dutch Flat Flume, and Chicago Park Flume; right to storage in Rollins Reservoir (all owned by NID)

Persons with whom negotiations will be conducted: PG&E Management.

CLOSED SESSION was declared at 11:37 a.m. pursuant to Government Code Section 54957.6 to provide direction to the District's designated bargaining representatives – Scherzinger and/or District Counsel – regarding 2014 salary/benefit/working conditions.

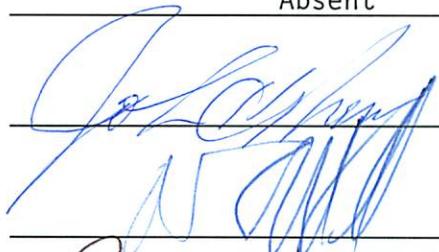
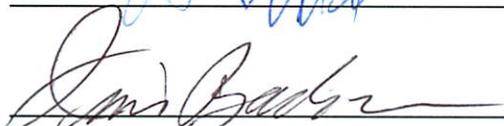
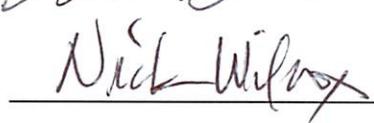
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MEETING RECONVENED in regular session at 12:12 p.m.

MEETING ADJOURNED at 12:12 p.m. to reconvene in regular session on February 12, 2014, at 9:00 a.m. at the District's main office located at 1036 W. Main Street, Grass Valley, California.


Board Secretary

Attest a true record of actions had and taken at the above and foregoing meeting our presence thereat and our consent thereto.

	Director Division I
Absent	
	Division II
	Division III
	Division IV
	Division V