

**Memorandum
Office of Jenine Windeshausen
Treasurer-Tax Collector**



To: The Board of Supervisors
From: Jenine Windeshausen, Treasurer-Tax Collector
Date: March 21, 2006
Subject: Middle Fork Project Financing

Action Requested:

- 1) Hear a presentation on the Middle Fork American River Hydroelectric Project (MFP), Federal Energy Regulatory Commission (FERC) Licensing Process, Financing and Due Diligence effort.
- 2) Pass a resolution approving the Treasurer's purchase of a bond to be issued by the Middle Fork Project Finance Authority (Authority), which matures in April of 2036, in an amount not to exceed \$100 million, pursuant to Government Code Section 53601.
- 3) Pass a resolution approving, in substantive form, the County's Letter of Representations related to the issuance of a bond by the Middle Fork Project Finance Authority and authorizing the County Executive to execute the County's Letter of Representations in final form.

Background:

The MFP FERC license-financing plan involves the issuance of a bond by the MFP Finance Authority and the purchase of the bond by the County Treasurer as an investment in the Treasurer's Investment Pool.

The total amount of the bond to be authorized will be \$100 million with an initial amount of \$60 million anticipated funding. The amounts to be funded are for expenses of licensing costs, interest costs and for expenses associated with possible additions, improvements and betterments.

Government Code section 53601 requires that the Board of Supervisors approve the Treasurer's purchase of any investment that matures in excess of five years from time of purchase. While it is anticipated that the bond will be retired early, the ultimate stated maturity on the Authority bond is 2036.

Legal documents have been developed and reviewed by legal counsel to protect the interests of all parties, including the County, Placer County Water Agency (PCWA), the Authority, and the Treasurer and her depositors. The County is being asked to execute a Letter of Representations to confirm its interests in the MFP and to confirm the delegations of authority from the Board of Supervisors to the Middle Fork Project Finance Authority, as well as the conveyance of certain rights including the rights to future revenues of the MFP to the Middle Fork Project Finance Authority, and to make representations, warranties and covenants necessary to secure the debt.

Development of financing terms and due diligence have been two major aspects of the MFP financing effort. The MFP is a sound and secure project. The challenges of financing the relicensing lie in addressing the funds needed to pay relicensing costs prior to termination of the contract with PG&E in February 2013.

The terms of the proposed Authority bond have been structured to accommodate and provide flexibility to the Authority in consideration of the cash flow required and available revenues generated by the MFP, and other considerations including:

- There are no revenues available from the MFP until at least March of 2013, due to the existing power purchase contract with PG&E.

- PCWA estimates the cost of relicensing to be approximately \$32 million between now and 2013, not including interest costs estimated to be approximately \$15 million.
- Revenue generation is dependant upon a number of variables, several of which can be highly volatile. Variables include annual weather conditions (rainfall and snow pack), gas prices, system outages and failures, and regulatory constraints on operations.
- The establishment of operational reserves needed to financially respond in a timely manner to possible system failures and outages, and to provide for certain additions, improvements and betterments that may be required.
- Peaks in energy revenue volatility may create opportunities to prepay debt.
- Financing terms that do not encumber future energy production create optimal flexibility to negotiate future energy contracts.

These considerations had great bearing in structuring the terms of the proposed bond issue. Additionally, it is worth noting that the amount of the bond and the level of annual debt service proposed for this bond financing are projected to be below the levels of debt historically supported by the system.

Extensive and rigorous due diligence has taken place over the past year to assess the risks of the proposed financing and to ensure that the terms created to accommodate the financing could be supported by MFP energy revenues. This due diligence effort has included both a fiscal and a physical evaluation of the MFP. The due diligence effort included analysis of hydro (weather) conditions, power prices, regulatory constraints, and system outages and failures. The findings of this due diligence effort are that the MFP has been well maintained and is currently in good operating condition. The fiscal evaluation reveals that while very volatile, the revenues can easily support the amount of the bond and the annual debt service that are being considered and that the overall terms of the bond aptly accommodate the financing.

Environmental:

This action is exempt from CEQA pursuant to CEQA Guidelines Section 15061(b)(3).

Conclusion:

While providing flexibility of financing terms to accommodate the cash flow needed to finance the FERC license process, the Treasury depositors will be compensated with market rates of return based on the soundness of the MFP. There is a high degree of confidence that the amount of the bond proposed is sufficient to fund the relicensing process and that the bond will be repaid timely. The proposed debt is fair and reasonable.

Attachments:

- Summary of Financing Terms
- Results of Modeling: Cash Flows to Debt Service
- Resolution Approving Treasurer's Purchase of the Authority Bond Maturing in Excess of Five Years
- Resolution Approving the County's Letter of Representation in Substantive Form and Authorizing Execution by the County Executive Officer
- MFP Presentation
- Legal Documents in Substantial Form
 - Bond Purchase Contract
 - Form of Bond
 - Placer County Letter of Representations
 - Placer County Water Agency Letter of Representations

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**Summary of Terms
For the Middle Fork Project Finance Authority
Financing of FERC Relicensing Costs**

Amounts Financed:

- Total authorization is for \$100 million.
- Initial amount is for \$60 million.
- Anticipated pro-forma of amount to be financed is based on \$47 million.
 - Estimated Relicensing Costs: \$32 million.
 - Estimated capitalized interest: \$15 million.
 - Estimated total debt service paid at 2036 \$87.15 million.

Terms to Maturity:

- April 2006 to April 2015
 - The Authority will draw funds quarterly based on an approved Annual Budget and an approved Expenditure Draw Schedule.
 - Interest will be paid quarterly. The draws will include the amount necessary to pay interest on balance to date. Such draws will be added to the principal amount.
 - Anticipated interest amounts converted to principal begins at approximately \$70,000 and escalates to approximately \$652,000 in 2015.
 - Total interest converted to principal at 2015 equals approximately \$15 million.
 - The bond will be fully amortized in April 2015 to give the Authority a two-year cushion from the expected date of the new license to establish reserves.
- April 2015 to April 2036
 - The total amount drawn up to April 2015, including amounts drawn to pay interest will be amortized for 21 years, resulting in debt service (principal and interest) of approximately \$4.15 million annually to be paid in semiannual installments.
 - Total debt service at maturity (2036) is approximately \$87.15 million.

Interest Rate:

- The interest rate prior to 2015 will be variable and will reset each quarter based on the yield of the US Treasury maturing on February 15, 2036, plus 1% (5.72% as of March 13, 2006).
- The interest rate after 2015 will be fixed at the current yield of the US Treasury maturing on February 15, 2036, plus 1%.
- The interest rate reflects the Treasurer's bond commitment through the final maturity.

Security and Sources of Payment:

First: The revenues of the project are the sources of repayment of the bonds.

Second: Other available funds of the JPA, including reserves.

Third: Any amounts that may be advanced by the County and PCWA.

Fourth: Amounts received upon disposition of project facilities.



**Summary of Terms
For the Middle Fork Project Finance Authority
Financing of FERC Relicensing Costs
- continued -**

Delinquency and Default:

Due to the volatility of revenues, the terms allow for a delinquency period of two years, consisting of four debt service payment dates. After two years of delinquency, the Authority will be in default if debt service payments are not brought current.

As a remedy to default the Bondholder may require the Authority to engage a Qualified Consultant, at the Authority's expense, to make recommendations with respect to the operation of the Project in order to increase or stabilize Revenues and/or decrease Maintenance and Operation Costs and may require the Authority and the Agency to implement such recommendations.

A change in the JPA membership also constitutes a default of the bonds. Since the JPA is the borrower a change in membership is a change in the borrower.

Prepayment:

- The Authority may prepay the debt at any time without penalty with 30 days notice.
- After 2013, for every dollar of net energy revenues split between the County and PCWA, a dollar must be paid to prepay the bond.

Draws prior to 2013:

- All draws, interest rate resets, interest payments will be quarterly, on the first day of the calendar quarter or the following business day.
- Draws must be on a Draw Requisition, 30 days prior to draw, certifying that the purposes of the draw are as approved in the budget and expenditure draw schedule.
- Draws cannot be for more than the amount specified in the Expenditure Draw Schedule.

Results of Modeling Cash Flows to Debt Service

The revenue per Mega Watt hour, expressed in 2005 dollars range from \$30.56 to \$56.01 with a mean of \$43.42.

Confidence in the ability of the JPA to fully fund a \$30 million reserve fund is:
85.3% by 2015; and
98.6% by 2018.

Confidence in the ability of the JPA to avoid any need for additional financing after the conversion date in 2015 is over 99.9%.

Confidence in the ability of the JPA to limit its borrowing to \$60 million is 99.9%.

Confidence in the ability of the JPA to avoid any delinquencies in the debt is 98.4%.

Confidence in the ability of the JPA to avoid any defaults in the debt is 99.5%.

Confidence in the ability of the JPA to pay off the debt after funding the reserve is evaluated as:
62.4% by 2017;
95.5% by 2020; and
99.5% by 2025.

In every case that was evaluated, the debt instrument was fully paid and retired before the end of its nominal term.

BEFORE THE BOARD OF SUPERVISORS COUNTY OF PLACER, STATE OF CALIFORNIA

In the matter of:

Resolution No. _____

Approving, in substantive form, the County's Letter of Representations related to the issuance of debt by the Middle Fork Project Finance Authority and authorizing the County Executive Office to execute the County's Letter of Representations in final form.

The following Resolution was duly passed by the Board of Supervisors of the County of Placer at a regular meeting held, March 21, 2006, by the following vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

Chairman of the Board of Supervisors

Attest:
Clerk of the Board

**THE BOARD OF SUPERVISORS OF THE COUNTY OF PLACER, STATE OF
CALIFORNIA, DOES HEREBY ORDAIN THAT:**

WHEREAS, in 1957, the Placer County Water Agency was created under the control of the Board of Supervisors by an act of the State Legislature, and

WHEREAS, the Board of Supervisors acting in their capacity as the Board of Directors of the Placer County Water Agency placed a bond measure on the ballot to finance construction of the Middle Fork American River Hydroelectric Project through the issuance of \$140 million in revenue bonds in 1961, and

WHEREAS, the voters approved the revenue bond measure by a 25 to 1 margin, and

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WHEREAS, in 1963 construction began on Middle Fork American River Hydroelectric Project, under the direction of the Board of Supervisors acting in their capacity as the Board of Directors of the Placer County Water Agency, and

WHEREAS, the MFP was completed and placed into operation under a license issued by the Federal Energy Regulatory Commission in 1967, by the Board of Supervisors acting in their capacity as the Placer County Water Agency Board of Directors, and

WHEREAS, the Placer County Water Agency Act was amended to add section 81-7.3 which states in part that "No contract for the sale of electrical energy shall be executed, nor shall any revenues received pursuant to any contract for the sale of electrical energy entered into after January 1, 1975, be spent, unless previously approved by the board of supervisors of the county.", and

WHEREAS, the Federal Energy Regulatory Commission license granted in 1967 will expire in 2013, and

WHEREAS, the cost to obtain a new license in 2013 is estimated to be approximately \$32 million, and

WHEREAS it is the intent of the County in partnership with Placer County Water Agency, to successfully relicense the Middle Fork American River Project for the benefit of the people of Placer County to ensure reliable water and energy supplies with stewardship of recreational and watershed resources in partnership with stakeholders, and

WHEREAS the Board of Supervisors has entered into a joint powers authority agreement with the Board of Directors of the Placer County Water Agency establishing the Middle Fork Project Finance Authority for the purpose of financing the relicensing costs among other purposes as specified in the Middle Fork Project Authority joint powers agreement, and

WHEREAS, the Middle Fork Project Finance Authority proposes to issue a bond in an amount not to exceed \$100 million, maturing April of 2036, to be purchased by the County Treasurer under Government Code Section 53601, and

WHEREAS, certain legal documents have been developed and reviewed by legal counsel to protect the interests of all parties, including the County, Placer County Water Agency, the Middle Fork Project Finance Authority, and the Treasurer and her depositors, and

WHEREAS, those legal documents are the Bond Purchase Contract, the Bond, the Placer County Water Agency Letter of Representation and the County Letter of Representation, and

WHEREAS, the County is being asked to execute a Letter of Representations to confirm its interests in the Middle Fork American River Hydroelectric Project and to confirm the delegations of authority from the Board of Supervisors to the Middle Fork Project Finance Authority, as well as the conveyance of certain rights including the rights to future revenues of the Middle Fork American River Hydroelectric Project to the Middle Fork Project Finance Authority, and to make representations, warranties and covenants necessary to secure the debt, and

WHEREAS, the County Letter of Representations is attached in Exhibit 1 in substantial form,

THEREFORE BE IT RESOLVED that the Board of Supervisors authorizes the County Executive Officer, or his designee, to execute a County Letter of Representations in substantially the same form as attached Exhibit 1, and to execute such other documents and take such other actions as may be reasonable and appropriate to accomplish the financing described in this Resolution.

EXHIBIT 1

LETTER OF REPRESENTATIONS OF
THE COUNTY OF PLACER

March 29, 2006

Ms. Jenine Windeshausen
Placer County Treasurer
2976 Richardson Drive
Auburn, CA 95603

Re: Middle Fork Project Finance Authority Revenue Bond, Series 2006

Dear Ms. Windeshausen:

We have delivered this letter to you in connection with your execution of a Bond Purchase Contract (the "Bond Purchase Contract"), dated March 29, 2006, pursuant to which the Middle Fork Project Finance Authority (the "Authority") has agreed to sell the above-referenced bond (the "Bond") to you, as Bondholder, which Bond will be held as an investment in the Placer County Treasurer's Investment Pool in which are invested the funds of a number of public agencies, including school districts and special districts, serving the residents of Placer County.

The County has read and is familiar with the terms of the Bond Purchase Contract and, unless otherwise defined in this letter, capitalized terms used herein which are defined in this Bond Purchase Contract shall have the respective meanings therein specified.

In order to induce you to enter into this Bond Purchase Contract, and to purchase the Bond as therein contemplated, and to provide assurances to the investors in the Placer County Treasurer's Investment Pool, the undersigned, County of Placer (the "County"), hereby represents, warrants and covenants to you that:

(a) The County is a political subdivision of the State, and has full legal right, power and authority to (i) execute and deliver the JPA Agreement and this County Letter of Representations, and (ii) perform its obligations under the JPA Agreement and this County Letter of Representations;

(b) The County has duly adopted the County Resolutions, duly authorized and approved the execution and delivery of the JPA Agreement and this County Letter of Representations, duly authorized and approved the performance by the County of its obligations contained in, and the taking of any and all action as may be necessary to carry out, give effect to and consummate the transactions contemplated by, the JPA Agreement and this County Letter of Representations;

(c) The JPA Agreement and this County Letter of Representations have been duly executed and delivered by the County and the JPA Agreement and this County Letter of Representations constitute valid and binding obligations of the County, enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights generally and to general principles of equity;

(d) The County is not in breach of or default under any applicable law or administrative regulation of the State, the United States of America, or of any department, division, agency or instrumentality of either thereof, or any applicable court or administrative decree or order or any loan agreement, note, resolution, certificate, contract, agreement or other instrument to which the County is a party or is otherwise subject, which breach or default could materially adversely affect the ability of the County to perform its obligations under this County Letter of Representations; the execution and delivery of the JPA Agreement, this County Letter of Representations and the other instruments contemplated by any of such documents to which the County is or will be a party and compliance with the provisions of each thereof will not conflict with or constitute a breach of or default under any applicable law or administrative regulation of the State, the United States of America, or of any department, division, agency or instrumentality of either thereof, or any applicable court or administrative decree or order or any loan agreement, note, resolution, certificate, contract, agreement or other instrument to which the County is a party or is otherwise subject or bound;

(e) All approvals, consents, authorizations, elections and orders of or filings or registrations with any governmental authority, board, agency or commission having jurisdiction that would constitute a condition precedent to the performance by the County of its obligations under the JPA Agreement and this County Letter of Representations have been obtained and are in full force and effect;

(f) The County is in compliance, in all material respects, with the County Resolutions, the JPA Agreement and this County Letter of Representations;

(g) No litigation is pending in any court or before any tribunal or administrative agency or, to the knowledge of the County, threatened in any way affecting the existence of the County or the titles of the members of its Board of Supervisors or officers of the County to their respective offices, or seeking to restrain or enjoin the issuance, sale or delivery of the Bond, the pledge of Revenues and other amounts to secure the Bond or the application of the proceeds of the Bond or in any way contesting or affecting the validity or enforceability of the JPA Agreement and this County Letter of Representations or the powers of the County or its authority to perform its duties under the JPA Agreement and this County Letter of Representations;

(h) All of the information provided by the County to the Bondholder in connection with the negotiation of the terms and the execution and delivery of the Bond Purchase Contract is true, correct and complete in all material respects;

(i) The JPA Agreement is effective to convey the County's interest in the electric power and related revenues of the Project to the Authority;

(j) By entering into the JPA Agreement and establishing the Authority, the County has satisfied the requirements of the PCWA Act respecting the approval of the expenditure of Revenues;

(k) The County will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be kept, observed and performed by it contained in all contracts affecting or involving the Project to the extent that the County is a party thereto;

(l) Promptly upon learning of such occurrence, the County shall provide written notice to Bondholder of the occurrence of any of the following:

(1) Discovery that a representation or warranty made by the County in this County Letter of Representations is inaccurate in any material respect;

(2) Any material breach by the County under the JPA Agreement or the County Letter of Representations; or

(3) The filing of any claim or suit, or the threat of any litigation, or the commencing of any administrative proceedings against the Authority, the County or the Agency respecting the Bond, the JPA Agreement or this County Letter of Representations;

(m) The County will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Bondholder of the rights and benefits provided to it herein; and

(n) Any certificate signed by the Chair or the Vice-Chair of the Board of Supervisors of the County or the County Executive Officer of the County, or any other authorized representative of the County shall be deemed a representation and warranty by the County to the Bondholder as to the statements made therein.

The words "hereby," "herein," "hereto," "herewith," "hereunder" and other words of similar import refer to this County Letter of Representations as a whole and not to any particular paragraph hereof.

Whenever either the Bondholder or the County is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Bondholder or the County, and all agreements and covenants required hereby to be performed by or on behalf of the Bondholder or the County with respect to the Project shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Except as provided in the preceding paragraph, nothing contained herein, express or implied, is intended to give to any person other than the Bondholder and the Bondholder's assigns any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the County shall be for the sole and exclusive benefit of the Bondholder and the Bondholder's assigns.

The Bond Purchase Contract and this County Letter of Representations constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, between the Bondholder and the County with respect to the subject matter hereof.

Bondholder's approval of any matter in connection with this Bond Purchase Contract and the Bond is for the sole purpose of protecting the security and rights of the Bondholder. No such approval will result in a waiver of any default of the County. In no event may Bondholder's approval be a representation of any kind with regard to the matter being approved.

All written notices to be given by the County under the terms of the Bond Purchase Contract shall be given by mail to the party entitled thereto at its address set forth below, or at such other address as the County may provide to the Bondholder in writing from time to time, namely:

County of Placer
175 Fulweiler Avenue
Auburn, CA 95603
Attention: County Executive Officer

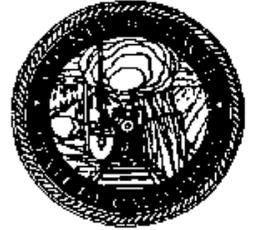
It is agreed and acknowledged by the County that the provisions of the Bond Purchase Contract and this County Letter of Representations have been arrived at through negotiation and that each of the parties has had a full and fair opportunity to review the provisions of the Bond Purchase Contract and this County Letter of Representations and to have such provisions reviewed by legal counsel. Therefore, any rule of construction that any ambiguities are to be resolved against the drafting party shall not apply in construing or interpreting the Bond Purchase Contract and this County Letter of Representations.

This County Letter of Representations shall be in full force and effect from the date hereof until such time as the Bond shall have been fully paid.

COUNTY OF PLACER

By: _____

**Before the Board of Supervisors
County of Placer, State of California**



Resolution No: _____

In the matter of: Approving the Treasurer's purchase of a bond to be issued by the Middle Fork Project Finance Authority, which matures in April 2036, in an amount not to exceed \$100 million, pursuant to Government Code Section 53601.

The following Resolution was duly passed by the Board of Supervisors of the County of Placer at a regular meeting held March 21, 2006 by the following vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

Chairman, Board of Supervisors

Attest:
Clerk of said Board

WHEREAS, in 1957, the Placer County Water Agency was created under the control of the Board of Supervisors by an act of the State Legislature, and

WHEREAS, the Board of Supervisors acting in their capacity as the Board of Directors of the Placer County Water Agency placed a bond measure on the ballot to finance construction of the Middle Fork American River Hydroelectric Project through the issuance of \$140 million in revenue bonds in 1961, and

WHEREAS, the voters approved the revenue bond measure by a 25 to 1 margin, and

WHEREAS, in 1963 construction began on Middle Fork American River Hydroelectric Project, under the direction of the Board of Supervisors acting in their capacity as the Board of Directors of the Placer County Water Agency, and

WHEREAS, the MFP was completed and placed into operation under a license issued by the Federal Energy Regulatory Commission in 1967, by the Board of Supervisors acting in their capacity as the Placer County Water Agency Board of Directors, and

WHEREAS, the Placer County Water Agency Act was amended to add section 81-7.3 which states in part that "No contract for the sale of electrical energy shall be executed, nor shall any revenues received pursuant to any contract for the sale of electrical energy entered into after January 1, 1975, be spent, unless previously approved by the board of supervisors of the county.", and

WHEREAS, the Federal Energy Regulatory Commission license granted in 1967 will expire in 2013, and

WHEREAS, the cost to obtain a new license in 2013 is estimated to be approximately \$32 million, and

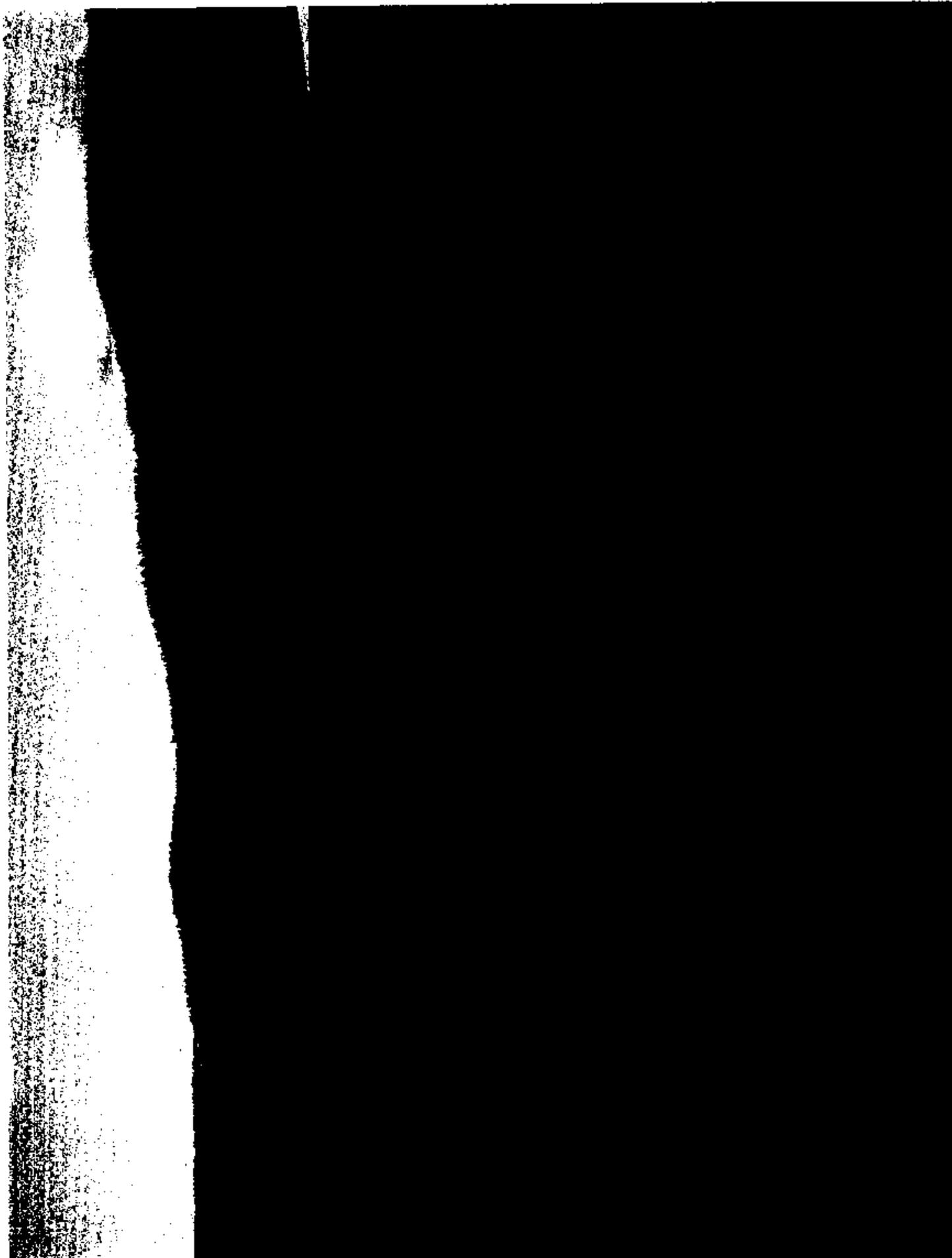
WHEREAS it is the intent of the County in partnership with Placer County Water Agency, to successfully relicense the Middle Fork American River Project for the benefit of the people of Placer County to ensure reliable water and energy supplies with stewardship of recreational and watershed resources in partnership with stakeholders, and

WHEREAS the Board of Supervisors has entered into a joint powers authority agreement with the Board of Directors of the Placer County Water Agency establishing the Middle Fork Project Finance Authority for the purpose of financing the relicensing costs among other purposes as specified in the Middle Fork Project Finance Authority joint powers authority agreement, and

WHEREAS, the Middle Fork Project Finance Authority proposes to issue a bond in an amount not to exceed \$100 million, maturing April of 2036, to be purchased by the County Treasurer under Government Code Section 53601, and

WHEREAS, Government Code Section 53601 requires the Board of Supervisors grant express permission for the County Treasurer to purchase an investment maturing in excess of five years at the time of purchase,

THEREFORE BE IT RESOLVED that the Board of Supervisors hereby grants express permission for the County Treasurer to purchase a bond to be issued by the Middle Fork Project Finance Authority which matures in April of 2036, in an amount not to exceed \$100 million.



Presentation Outline

Middle Fork Project (MFP)

History of the MFP, Placer County Water Agency (Agency) and the County of Placer (County)

Federal Energy Regulatory Commission (FERC) Licensing Process

Financing the Relicensing

The Due Diligence Process

Next Steps

Agency/Project History

- 1957** "Placer County Water Agency Act" created PCWA through an act of the State legislature. The Agency was established under the control of the Board of Supervisors.
- 1961** The Board of Supervisors placed a bond measure on the ballot to finance construction of the MFP through the issuance of \$140 million in revenue bonds. The voters approved the measure by a 25 to 1 margin.
- 1963** Construction began on MFP, under the direction of the Board of Supervisors acting in their capacity as the PCWA Board.
- 1967** MFP was completed and placed into operation
- 1974** The "Agency Act" was amended to allow for its own independently elected Board. The amendment retained a long-term role in the MFP by the Board of Supervisors by requiring the approval of the Board of Supervisors for all power sale contracts and for the expenditure of power revenues after 2013.

1974 Amendment to the Placer County Water Agency Act

Section 81-7.3 Electrical energy; contracts for sale; expenditures; public hearings

"No contract for the sale of electrical energy shall be executed, nor shall any revenues received pursuant to any contract for the sale of electrical energy entered into after January 1, 1975, be spent, unless previously approved by the board of supervisors of the county. The board of supervisors may, in connection with any of the foregoing conduct public hearings. Such hearings shall be declared by a resolution specifying the purpose and the day, hour, and place where all interested persons may appear and be heard. Such resolution shall be published in the agency pursuant to Section 6063 of the Government Code in a newspaper of general circulation in the agency. The hearing may be adjourned from time to time at the discretion of the board of supervisors, and at its conclusion the board of supervisors shall declare its decision."

Recent Actions

January 10, 2006: The JPA agreement creating the Middle Fork Project Finance Authority was unanimously approved at a joint meeting of the Placer County Board of Supervisors and the Placer County Water Agency Board of Directors

February 28, 2006: The Board of the Middle Fork Project Finance Authority unanimously agreed to the terms of bond financing and directed that legal documents be returned to the Board for action and execution on March 27, 2006

Issues and Circumstances Concerning Licensing, Energy Contracts and Operations

The MFP is owned and operated by PCWA.

The current FERC license issued 1963 expires in February **2013**.

Revenue bonds issued to finance the MFP will mature in **2013**.

The 50-year power purchase contract with PG&E will expire in **2013**.

In exchange for all power produced until **2013**, PG&E agreed to pay all operations and maintenance costs (averaging \$5.5 million/year) and capital costs (averaging \$2.5 million/year) and to pay off the \$115 million debt (annual debt service of approx. \$4.8 million/year).

Staff of PCWA has operated the MFP effectively under the direction of PG&E for the past 40 years.

Per the Agency Act, the Board of Supervisors must approve energy contracts and the expenditure of power revenues after **2013**.

Factors Affecting Post-2013 Licensing Operations and Revenue Generation

Hydro volatility (variations in annual snow pack and rainfall)

Value of Power

- Price per megawatt hour in 1963 \$20 - \$30
- Price per megawatt hour today \$40 - \$60

Fluctuations in O & M and capital costs

- \$7 - \$10.5 million

Annual Debt Service on the Treasurer's bond of approximately \$4 - \$5 million, commencing in 2015

Cost of license conditions due to reduced generation flows through the system, typically 4% - 8% of gross revenues

Possible system outages and failures