FORMAL BOARD OF DIRECTORS’ MEETING

The mission of the San Diego County Water Authority is to provide a safe and reliable supply of water to its member agencies serving the San Diego region.

October 28, 2010

3:00 p.m.

1. Call to Order.

2. Salute to the flag.

3. Roll call, determination of quorum.
   3-A Report on proxies received.

4. Additions to agenda.  (Government code Sec. 54954.2(b)).

5. Approve the minutes of the Formal Board of Directors’ meeting of September 23, 2010.

6. Opportunity for members of the public who wish to address the Board on matters within the Board’s jurisdiction.

7. PRESENTATIONS & PUBLIC HEARINGS

8. REPORTS BY CHAIRS
   8-A Chairs report:

   8-B Report by Committee Chairs
   Legislation, Conservation and Outreach Committee Director Dailey
   Administrative and Finance Committee Director K. Williams
   Water Planning Committee Director Saunders
   Engineering and Operations Committee Director Arant
   Imported Water Committee Director McMillan
9. **CONSENT CALENDAR**

9- 1. Treasurer’s report.
   Staff recommendation: Note and file the monthly Treasurer’s report.

9- 2. Establish 2011 Board meeting dates.
   Combine the November and December Board meeting dates to December 8, 2011, and approve the 2011 Board meeting dates calendar.

9- 3. Amend Ordinance 2010-02 to correct an error in the allocation of the Storage, Customer Service, and Readiness-to-Serve charges to member agencies.
   Adopt Ordinance 2010-__ an Ordinance of the Board of Directors of the San Diego County Water Authority amending Ordinance 2010-02 to correct the allocation of the storage, customer service and readiness-to-serve charges.

9- 4. Approve the selection of Montague DeRose and Associates, LLC to provide financial advisory services.
   Authorize the General Manager to award a multi-year professional services contract to Montague DeRose and Associates, LLC for a base amount not-to-exceed $350,000 for the three-year period from November 1, 2010 to October 31, 2013. The contract has two one-year renewal options.

9- 5. Notice of Completion for the Mission Trails Pipeline Tunnel project.
   Authorize the General Manager to accept the Mission Trails Pipeline Tunnel project as complete, record the Notice of Completion, and release funds held in retention to L.H. Woods and Sons, Inc. following the expiration of the Notice of Completion period.

10. **ACTION / DISCUSSION**

10-1. Approve the Audit Committee’s recommendation of Mayer Hoffman McCann P.C. as independent auditor for a five-year period covering both the financial audits of FY2011-FY2016 and Agreed Upon Procedures services.
   Audit Committee Recommendation: Approve the selection of MHM as the Water Authority’s and QSA JPA’s independent auditor, and to authorize the General Manager to enter into an agreement with MHM, for independent audits and agreed upon procedures services for a five-year period from June 1, 2011 through May 31, 2016, for a not-to-exceed amount of $613,200. (Action)
11. CLOSED SESSION(S)

11-A CLOSED SESSION:
Conference with Legal Counsel – Potential Litigation
Government Code §54956.9(b) – San Vicente Pipeline Mortar Lining Claim

11-B CLOSED SESSION:
Conference with Legal Counsel – Initiation of Litigation
Government Code §54956.9(c)
Metropolitan Water District Notice of Intention to Enforce Rate Structure Integrity Clause

11-C CLOSED SESSION:
Conference with Legal Counsel – Initiation of Litigation
Government Code §54956.9(c) – One Case

11-D CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(a) – SDCWA v Metropolitan Water District of Southern California; Case No. BS126888 (transferred to San Francisco)

12. Action following Closed Session

13. SPECIAL REPORTS
13-A GENERAL MANAGER’S REPORT – Ms. Stapleton
13-B GENERAL COUNSEL’S REPORT – Mr. Hentschke
13-C SANDAG REPORT – Director Muir
   SANDAG Subcommittee: Borders/Regional Planning Committee – Director Saxod
13-D AB 1234 Compliance Reports – Directors

14. OTHER COMMUNICATIONS

15. ADJOURNMENT

NOTE: The agendas for the Formal Board meeting and the meetings of the Standing Committees held on the day of the regular Board meeting are considered a single agenda. All information or possible action items on the agenda of committees or the Board may be deliberated by and become subject to consideration and action by the Board.

Doria F. Lore
Clerk of the Board
MINUTES OF THE FORMAL BOARD OF DIRECTORS’ MEETING  
SEPTEMBER 23, 2010

ADMINISTRATIVE AND FINANCE
CALL TO ORDER/ROLL CALL
Chair K. Williams called the Administrative and Finance Committee meeting to order at 9:01 a.m. Committee members present were Chair K. Williams, Vice Chairs Hogan and Price, Directors Bond, Dion, Smith, Steiner, and Wight. Committee members absent were Directors Bowersox, Hilliker, Lewis, Pocklington, Smith, H. Williams, and Wornham. At that time, there was a quorum of the Committee. Also present were Directors Boyle, Dailey, Hannan, Knutson, Lewinger, Linden, McIntosh, Petty, Saxod, and Tu. Staff present was General Counsel Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, Director of Finance/Treasurer Sandler, Director of Human Resources Leone, and Director of Administrative Services Young.

ADDITIONS TO AGENDA
There were no additions to the agenda.

PUBLIC COMMENT
There were no members of the public who wished to speak.

CHAIR’S REPORT
There was no Chair’s report.

DIRECTORS’ COMMENTS
There were no Directors’ comments.

I. CONSENT CALENDAR
   1. Treasurer’s report.
      Staff recommendation: Note and file monthly Treasurer’s report.

Vice Chair Price moved, seconded by Director Wight, and the motion passed unanimously to approve the consent calendar.

II. ACTION/DISCUSSION
There were no action/discussion items.
III. INFORMATION

The following items were noted and filed:
1. Controller’s report on monthly financial statements.
2. Board calendar.

IV. CLOSED SESSION
There were no closed session items.

V. ADJOURNMENT
There being no further business to come before the Administrative and Finance Committee, Chair Williams adjourned the meeting at 9:03 a.m.

IMPORTED WATER COMMITTEE
CALL TO ORDER/ROLL CALL
Vice Chair Tu called the Imported Water Committee meeting to order at 9:05 a.m. Committee members present were Directors Blackburn, Bond, Boyle, Heidel, Knutson, Lewinger, Linden, McIntosh, Petty, Price, Saxod, and Wight. Chair McMillan and Director Croucher were absent. Also present were Directors Dailey, Dion, Hannan, Hogan, Jungreis, Lewis, Pocklington, Smith, Steiner, and K. Williams. At that time, there was a quorum of the full Board, and the meeting was conducted as a meeting of the Board, however, only committee members participated in the vote. Staff present included General Manager Stapleton, General Counsel Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, Colorado River Program Director Razak, Metropolitan Water District Chief Chen, and others.

ADDITIONS TO AGENDA
There were no additions to the agenda.

PUBLIC COMMENT
There were no public comments.

CHAIR’S REPORT
Vice Chair Tu stated that binational discussions were now focused on the possibility of storing up to 40,000 af of water for Mexico in U.S. reservoirs this year, to assist Mexico with managing its water supply after the April earthquake damaged the infrastructure in the region. She said an upcoming MWD-sponsored Colorado River inspection trip was available for directors to attend.

4-A Director’s comments.
There were no Director’s comments.
I. CONSENT CALENDAR
   There were no items on the consent calendar.

II ACTION/DISCUSSION
   1. Metropolitan Water District Issues and Activities update.
      1-A Metropolitan Water District’s Delegates report.

      The delegates reported on discussions and actions taken at the recent MWD board meetings.

   2. Colorado River Programs.
      2-A Colorado River Board representative’s report.

      Director Knutson reported that due to the capacities of Lake Mead at 39 percent and Lake Powell at 63 percent an equalization of the basins would be initiated in April 2011. He stated that the elevation of Lake Mead was nearing the trigger point at which shortages would be enacted on the lower Colorado River, with Arizona taking shortages followed by Nevada. He also discussed IID’s plans to release surplus water to the Salton Sea.

III. INFORMATION

   1. Presentation on Colorado River source water quality.

      Ms. Razak provided an update on Colorado River water quality issues and discussed excess salinity and the status of remediation efforts on the River.

      Following her presentation, directors asked questions and made comments.

   2. Update on the Little Hoover Commission’s Report on Statewide Water Management

      Senior Water Resources Specialist Espe reviewed the Little Hoover Commission’s Report on Statewide Water Management, discussing the background and the three main recommendations, including the divesting of the State Water Project from the Department of Water Resources to a separate, new operating entity, the “California Water Authority”. She stated that the recommendations would be considered for implementation by the state legislature.

      Following her presentation, directors asked questions and made comments.

      The following item was noted and filed:
      1. Metropolitan Water District program report.
The Committee went into closed session at 10:23 a.m.

IV. CLOSED SESSION

1. CLOSED SESSION:
   Conference with Legal Counsel – Potential Litigation
   Governance Code §54956.9(b)
   Metropolitan Water District Notice of Intention to Enforce Rate Structure
   Integrity Clause

2. CLOSED SESSION:
   Conference with Legal Counsel – Existing Litigation
   Government Code §54956.9(a) – SDCWA v Metropolitan Water District of
   Southern California; LASC Case No. BS126888

   Mr. Hentschke stated that the committee unanimously authorized filing a request for
   mediation pursuant to the Rate Structure Integrity clauses in the conservation and local resource
   funding contracts for which Metropolitan had given or may give a notice of intent to terminate.

V. ADJOURNMENT

   There being no further business to come before the Imported Water Committee, Vice
   Chair Tu adjourned the meeting at 10:36 a.m.

ENGINEERING AND OPERATIONS COMMITTEE

CALL TO ORDER/ROLL CALL

   Vice Chair Smith called the Engineering and Operations Committee to order at 10:42
   a.m. Committee members present were Vice Chair Smith, Directors Hannan, Hogan, Jungreis,
   Knutson, McIntosh, Mudd, Pocklington, and Wornham. Absent were Chair Arant and Directors
   Bowersox, Morrison, and Saunders. At that time there was a quorum of the Committee. Other
   Board members present were Directors Bond, Dailey, Dion, Heidel, Lewinger, Lewis, Petty,
   Price, and Saxod.

   Staff present was General Manager Stapleton, General Counsel Hentschke, Deputy
   General Managers Kerl and Belock, Assistant General Manager Cushman, Director of
   Engineering Stift, Acting Director of Right of Way Busch, Director of Operations and
   Maintenance Eaton, Operations and Maintenance Manager Stine and Engineering Manager
   Bousquet.

ADDITIONS TO AGENDA

   There were no additions to the agenda.

PUBLIC COMMENT

   There were no members of the public who wished to address the Committee.
CHAIR’S REPORT
Vice Chair Smith provided a report on the special Engineering and Operations Committee meeting held on September 9th, 2010 regarding the San Vicente Pipeline and Lake Hodges projects.

I. CONSENT CALENDAR
1. Construction contract with Southcoast Heating & Air Conditioning LP for installation of a heating, ventilation, and air conditioning system for the Escondido Operations Center.
   Staff recommendation: Authorize the General Manager to award a construction contract to Southcoast Heating & Air Conditioning LP in the amount of $280,465 for installation of a heating, ventilation, and air conditioning system for the Escondido Operations Center.

2. Change Orders to Archer Western for the ESP-Lake Hodges Pump Station and Inlet/Outlet Structure project.
   Staff recommendation: Accept Archer Western Change Orders 38 through 40 for $247,082; and authorize the General Manager to execute change orders for an amount not-to-exceed $925,000 for additional lining of the Lake Hodges to Olivenhain Pipeline surge shaft and modifications to the Olivenhain Reservoir trashrack, increasing the contract amount to $74,598,148.

II. ACTION/DISCUSSION
There were no Action/Discussion agenda items.

III. INFORMATION
There were no Information agenda items.

IV. CLOSED SESSION
1. CLOSED SESSION:
   Conference with Legal Counsel – Potential Litigation
   Government Code §54956.9(b) - San Vicente Pipeline Mortar Lining Claim

2. CLOSED SESSION:
   Conference with Legal Counsel – Potential Litigation
   Government Code §54956.9(b)(c) – MWH Contract Performance Disputes

   Mr. Hentschke stated no Closed Session was needed for item 1 and took the Committee into Closed Session for item 2 at 10:45 a.m.

   The Committee reconvened at 11:12 a.m. Mr. Hentschke stated there was no reportable action taken during Closed Session.
V. ADJOURNMENT

There being no further business to come before the Engineering and Operations Committee, Vice Chair Smith adjourned the meeting at 11:13 a.m.

LEGISLATION, CONSERVATION AND OUTREACH COMMITTEE

CALL TO ORDER/ROLL CALL

Chair Dailey called the Legislation, Conservation and Outreach Committee to order at 1:01 p.m. Committee members present were Chair Dailey, Vice Chairs Morrison and Saxod, and Directors Blackburn, Dion, Hilliker, Jungreis, Mudd, Muir, Tu, H. Williams, and K. Williams. Committee members absent were Directors Arant, Croucher and Watton. At that time, there was a quorum of the Board, and the meeting was conducted as a meeting of the Board; however, only committee members participated in the vote. Also present were Directors Boyle, Hannan, Heidel, Hogan, Knutson, Lewinger, Lewis, Linden, McIntosh, Petty, Pocklington, Saunders, and Smith.

Staff present was General Manager Stapleton, General Counsel Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, Director of Public Affairs Foster, Water Conservation Program Executive Rose, and Public Affairs Representative Otero.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

There were no members of the public who wished to address the Legislative, Conservation and Outreach Committee.

CHAIR’S REPORT

Chair Dailey reminded all Directors to have their photograph taken in the Training Room and stated that the photographer would be available until 4:30 p.m.

On September 14, 2010, staff conducted a workshop with the General Managers at the request of the Board to review the Blueprint for Water Conservation in view of today’s conditions and to find ways to leverage partnerships to improve regional conservation efforts. Staff would report findings to the Board at the December 9, 2010, meeting.

Chair Dailey announced that Water Lites, the exhibit sponsored by the Water Authority at the 2009 San Diego Spring Home and Garden Show, won an Honor Award from the American Society of Landscape Architects, San Diego Chapter.

Chair Dailey reminded the Board to watch “Liquid Assets: The Big Business of Water,” on CNBC on Thursday, September 30, 2010, at 6 p.m. and 10 p.m.
DIRECTORS’ COMMENTS
There were no Directors’ comments.

I. CONSENT CALENDAR
There were no Consent Calendar items.

II. ACTION/DISCUSSION
1. Legislative issues.
   1-A Report by Carpi and Clay.

   Mr. Clay reported on issues in Sacramento and stated that Mr. Carpi’s report on Washington, D.C., issues was in the packet.

III. INFORMATION
1. Website redevelopment preview presentation.

   Ms. Otero provided a presentation including website background, website goals, needs assessment, current design, new design with highlights, and progress status. Ms. Otero stated that the redeveloped website would launch in mid-October, and staff would return to the Board in October to walk them through the live website.


   There was no report by Director Bowersox.


   Director Hilliker reported that the Committee was provided with seven new irrigation technology presentations by members of the Conservation Action Committee.

4. Quarterly report on Public Affairs outreach activities.

   Chair Dailey suggested the Board review Page 138 of the Board packet for dates of upcoming MWD trips and invite guests to attend.

The following items were received and filed:

5. Status report on legislation and legislative positions.

IV. ADJOURNMENT
There being no further business to come before the Legislation, Conservation and Outreach Committee, Chair Dailey adjourned the meeting at 1:29 p.m.
WATER PLANNING COMMITTEE
CALL TO ORDER/ROLL CALL
Chair Saunders called the Water Planning Committee to order at 1:34 p.m. Committee members present were Chair Saunders, Vice Chair Petty and Directors Boyle, Dailey, Hannan, Lewis, Linden and Muir. Directors Lewinger and Watton were absent. Directors Steiner, Heidel and McMillan arrived at 1:40 p.m., 1:50 p.m. and 2:03 p.m. respectively. Also present were Directors Blackburn, Dion, Hilliker, Hogan, Jungreis, Knutson, McIntosh, Morrison, Mudd, Pocklington, Saxod, Smith, Tu, Wight, H. Williams, K. Williams and Wornham. At that time, there was a quorum of the Board and the meeting was conducted as a meeting of the Board; however, only committee members participated in the vote.

Staff present was General Manager Stapleton, General Counsel Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, Director of Water Resources Weinberg, Water Resources Managers Purcell, Roy and Yamada and Senior Water Resources Specialist Tegio.

ADDITIONS TO AGENDA
There were no additions to the agenda.

PUBLIC COMMENT
There were no members of the public who wished to address the Committee.

CHAIR’S REPORT
Chair Saunders reported briefly on the 2012 Master Facilities Plan as one of the Water Planning Committee’s goals, focusing on optimizing water storage, treatment and conveyance. He added that a Request for Proposals (RFP) had been issued, and over the proceeding two months, staff would review the proposals and recommend award of a contract at the December meeting.

DIRECTORS’ COMMENTS
There were no Directors’ comments.

I. CONSENT CALENDAR
There were no Consent Calendar items.

II. ACTION/DISCUSSION
1. PUBLIC HEARING: Mitigated Negative Declaration (MND) for the Pipelines 3 and 4 Relining Project-Pipeline 4: State Route 52 to Lake Murray and Pipeline 3: 30-inch Interconnect to Lake Murray Control Valve.

Chair Saunders opened the public hearing at 1:40 p.m. Mr. Tegio presented information on the project. There were no members of the public who wished to comment. Before closing the public hearing at 1:52 p.m., Chair Saunders stated that written comments would be received as late as 5:00 p.m., October 2, 2010.
2. **Authorize submittal of Proposition 84 integrated regional water management planning grant application.**
   Staff recommendation: Adopt Resolution No. 2010-____ authorizing the General Manager to submit a Proposition 84 integrated regional water management planning grant application.

   Ms. Roy presented information on the grant application. Director Steiner moved, Vice Chair Petty seconded, and the motion passed unanimously to submit the Proposition 84 integrated regional water management planning grant application.

3. **Add funding to the FY 2011 Water Resources Budget for legal and technical services for the preparation and negotiation of a potential Water Purchase Agreement with Poseidon Resources (Channelside) for desalinated seawater from the Carlsbad Desalination Project and amend the Professional Services Agreement with Clean Energy Capital.**
   Staff recommendation:
   (a) Approve the second amendment to the Professional Services Agreement with Clean Energy Capital and increase the not-to-exceed amount from $149,500 to $299,500 for financial and economic analysis related to the preparation and negotiation of a Water Purchase Agreement with Poseidon Resources (Channelside).
   (b) Add $500,000 from FY 2011 operating reserves to the Water Resources Department FY 2011 budget for specialized legal and financial expertise to support the negotiating team in the development of a Water Purchase Agreement.

   Mr. Weinberg presented information on the background, work accomplished and next steps regarding negotiating the draft Water Purchase Agreement (WPA) with Poseidon Resources. Director Petty moved, Director Dailey seconded, and the motion passed unanimously to approve staff recommendation.

III. **INFORMATION**

1. **Presentation on the unit cost of new local water supply alternatives.**

   Mr. Yamada presented a comprehensive report on the unit cost of a variety of components of local water supply alternatives, as well as cost scenarios on imported water supply for 2010 and 2020. Following clarifying questions and appreciation for the significant effort put into the report, staff was directed to translate it into end-user friendly information for subsequent review by the board.

   Upon hearing no objection, Chair Saunders asked for the following item to be moved to the next committee meeting.

2. **Presentation on Fiscal Year 2011 Municipal and Industrial supply allocation targets and delivery tracking.**
The following item was received and filed:


IV. CLOSED SESSION
There were no Closed Session items.

IV. ADJOURNMENT
There being no further business to come before the Water Planning Committee, Chair Saunders adjourned the meeting at 3:11 p.m.

FORMAL BOARD OF DIRECTORS’ MEETING OF SEPTEMBER 23, 2010

1. CALL TO ORDER Chair Lewis called the Formal Board of Directors’ meeting to order at 3:20 p.m.

2. SALUTE TO THE FLAG Director Linden led the salute to the flag.

3. ROLL CALL, DETERMINATION OF QUORUM Secretary Wornham called the roll. Directors present were Blackburn, Dailey, Dion, Hannan, Heidel, Hilliker, Hogan, Knutson, Lewis, Linden, McIntosh, Wight, H. Williams, and Wornham. Directors absent were Arant, Bond, Bowersox, Boyle, Croucher, Jungreis, Lewinger, Price, Watton, K. Williams and Representative Slater-Price.

3-A Report on proxies received. Director Knutson was the proxy for Director Arant, Director Hogan for Director Bond, Director Dailey for Director Bowersox, Director Muir for Directors Croucher and Watton, Director Petty for Lewinger.

4. ADDITIONS TO AGENDA There were no additions to the agenda.

5. APPROVAL OF MINUTES Director Smith moved, Director Dion seconded, and the motion carried at 90.56% of the vote to approve the minutes of the Formal Board of Directors’ meeting of August 26, 2010.

6. OPPORTUNITY FOR MEMBERS OF THE PUBLIC WHO WISH TO ADDRESS THE BOARD ON MATTERS WITHIN THE BOARD’S JURISDICTION Dr. John Hunter with the Citizens for All-American Canal Safety spoke regarding his safety concerns. Ms. Laura Hunter with the Citizens for All-American Canal Safety also spoke regarding safety.

7. PRESENTATIONS AND PUBLIC HEARINGS 7-A Presentation of Directors’ service certificates.
Formal Board
Agenda Item Number 5
September 23, 2010


Chair Lewis presented service certificates to the following Directors: Bond, Hilliker, Knutson, Lewis, Linden, McMillan, Smith, K. Williams, and noted Director K. Williams had been reappointed.

8.  REPORTS BY CHAIRS
8-A Chairs report: There was no Chair’s report.

8-B Report by Committee Chairs.
   Administrative and Finance Committee. Director Hogan reviewed the committee meeting and actions taken.
   Imported Water Committee. Director Tu reviewed the meeting and stated no actions were taken.
   Engineering and Operations Committee. Director Smith reviewed the meeting and the actions taken.
   Legislation, Conservation and Outreach Committee. Director Dailey reviewed the meeting and stated no actions were taken.
   Water Planning Committee. Director Saunders reviewed the meeting and the actions taken.

9.  CONSENT CALENDAR
Director Mudd moved, Director Smith seconded, and the motion carried at 90.56% of the vote to approve the consent calendar. Directors voting no or abstaining are listed under the item number.

9-1. Treasurer’s report.
The Board noted and filed the monthly Treasurer’s report.

9-2. Construction contract with Southcoast Heating & Air Conditioning LP for installation of a heating, ventilation, and air conditioning system for the Escondido Operations Center.
The Board authorized the General Manager to award a construction contract to Southcoast Heating & Air Conditioning LP in the amount of $280,465 for installation of a heating, ventilation, and air conditioning system for the Escondido Operations Center.
9-3. **Change Orders to Archer Western for the ESP-Lake Hodges Pump Station and Inlet/Outlet Structure project.**
The Board accepted Archer Western Change Orders 38 through 40 for $247,082; and authorized the General Manager to execute change orders for an amount not-to-exceed $925,000 for additional lining of the Lake Hodges to Olivenhain Pipeline surge shaft and modifications to the Olivenhain Reservoir trashrack, increasing the contract amount to $74,598,148.

9-4. **Authorize submittal of Proposition 84 integrated regional water management planning grant application.**
The Board adopted **Resolution No. 2010-17** authorizing the General Manager to submit a Proposition 84 integrated regional water management planning grant application.

9-5. **Add funding to the FY 2011 Water Resources Budget for legal and technical services for the preparation and negotiation of a potential Water Purchase Agreement with Poseidon Resources (Channelside) for desalinated seawater from the Carlsbad Desalination Project and amend the Professional Services Agreement with Clean Energy Capital.**
The Board approved the second amendment to the Professional Services Agreement with Clean Energy Capital and increased the not-to-exceed amount from $149,500 to $299,500 for financial and economic analysis related to the preparation and negotiation of a Water Purchase Agreement with Poseidon Resources (Channelside). The Board added $500,000 from FY 2011 operating reserves to the Water Resources Department FY 2011 budget for specialized legal and financial expertise to support the negotiating team in the development of a Water Purchase Agreement.

10. **ACTION/DISCUSSION**
**Election of Board Officers for October 1, 2010 – September 30, 2012.**
The following Board members were nominated:
   - Chair: Mike Hogan
   - Vice Chair: Tom Wornham
   - Secretary: Richard Smith

Director Muir moved, Director Petty seconded and the motion carried at 90.56% of the vote to elect the nominated Board Officers for the October 1, 2010 – September 30, 2012 term.

Chair Lewis thanked the Delta Group, MWD Delegates and the Committee Chairs for their hard work during his term.
11. CLOSED SESSION(S).

11-A CLOSED SESSION:
Conference with Legal Counsel – Potential Litigation
Government Code §54956.9(b)
Metropolitan Water District Notice of Intention to Enforce Rate Structure Integrity Clause

11-B CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(a) – SDCWA v Metropolitan Water District of Southern California;
LASC Case No. BS126888

11-C CLOSED SESSION:
Conference with Legal Counsel – Potential Litigation
Government Code §54956.9(b) - San Vicente Pipeline Mortar Lining Claim

11-D CLOSED SESSION:
Conference with Legal Counsel – Potential Litigation
Government Code §54956.9(b)(c) – MWH Contract PerformanceDisputes

12. Action following Closed Session.
Mr. Hentschke announced action was needed regarding item 11-A.

Director Dailey moved, Director Tu seconded, and the Board unanimously authorized filing a request for mediation pursuant to the Rate Structure Integrity clauses in the conservation and local resource funding contracts for which Metropolitan had given or may give a notice of intent to terminate. The percentage of the passing vote was 90.56%.

13. SPECIAL REPORTS
13-A GENERAL MANAGER’S REPORT – Ms. Stapleton announced there was a card for Jim Bowersox in Board Chambers, the committee surveys would be distributed shortly, and the MWD Delegates would be reviewed at the December meeting.
13-B GENERAL COUNSEL’S REPORT – No report was given.
13-C SANDAG REPORT – No report was given.
SANDAG BORDERS/REGIONAL PLANNING COMMITTEE – Director Saxod No report was given.
13-D AB 1234 COMPLIANCE REPORTS – No reports were given.

14. OTHER COMMUNICATIONS - None.
15. **ADJOURNMENT**
   There being no further business to come before the Board, Chair Lewis adjourned the meeting at 3:50 p.m.

______________________________  ________________________________
Claude A. Lewis, Chair   Thomas V. Wornham, Secretary

______________________________
Doria F. Lore, Clerk of the Board
October 20, 2010

Attention: Board of Directors

Approve the Audit Committee’s recommendation of Mayer Hoffman McCann P.C. (MHM) as independent auditor for a five-year period covering both the financial audits of FY2011-FY2016 and Agreed Upon Procedures (AUP) services. (Action)

Audit Committee Recommendation
To approve the selection of MHM as the Water Authority’s and QSA JPA’s independent auditor, and to authorize the General Manager to enter into an agreement with MHM, for independent audits and agreed upon procedures (AUP) services for a five-year period from June 1, 2011 through May 31, 2016, for a not-to-exceed amount of $613,200.

Alternatives
Do not accept the Audit Committee’s recommendation and direct staff to enter into a contract with the second ranked firm of Lance, Soll & Lunghard, LLP.

Fiscal impact
Funds for financial audits and AUPs (i.e. Local Water Supply Development Incentives, Capacity Charges, IAC audits) for FY2012 and FY2013 will be requested during the next bi-annual budget process. Included in the not-to-exceed amount is $49,790 for QSA JPA audits, for which the Water Authority will be reimbursed.

Background
The Board approved the establishment of an Audit Committee in August 2009 driven by the desire to separate oversight responsibilities for the audit function from the Administrative and Finance Committee, which is responsible for oversight of financial policy such as budgeting, financing, rates and charges. One of the key roles of the Audit Committee includes the responsibility for recommending selection and providing oversight of the accounting firm assigned to perform the annual audit. This includes the Committee approving the Request for Proposals (RFP) for Audit Services before it is released and having the Committee Chair (or a designated representative) participate on the selection panel.

At its May 10, 2010 meeting the Audit Committee unanimously approved 1) the draft RFP for a five-year audit services contract, 2) allowing the current audit firm, Lance, Soll & Lunghard, LLP (LSL) to submit a response to the RFP, and 3) appointed Director Wight to serve on the selection panel.

LSL, the Water Authority’s current auditors, have performed the audits for the fiscal years ending 2006 through 2009, and are currently performing the audit for fiscal-year end 2010. Prior to LSL, Conrad and Associates, L.L.P. performed the audits for fiscal years ending 2000 through 2005. MHM acquired the former CPA practice of Conrad and Associates.
Previous Board Actions:

On September 9, 2010, the Audit Committee voted to approve the Selection Committee’s recommendation of MHM as independent auditor, and to recommend the selection to the full Board of Directors at its regular meeting in October, 2010.

On April 23, 2009 the Board authorized the General Manager to extend an existing professional services contract with Lance, Soll & Lunghard for a two-year period from June 1, 2009 through May 31, 2011, and to increase the contract by $294,800 for a not-to-exceed amount of $737,110 to provide the Water Authority and QSA JPA with independent audits and agreed-upon procedures and services.

On May 17, 2006 the Board awarded a Professional Services Contract to Lance, Soll & Lunghard, LLP for auditing and agreed-upon procedures services for a three-year period for a not-to-exceed amount of $442,310, with an option to extend two additional years.

Discussion

The Request for Proposals (RFP) for Audit Services was advertised and issued on June 8th with a Pre-proposal meeting held on June 21st. Thirty-six firms received notifications through their registration on the Network, the Water Authority’s collaborative online vendor registration system. In addition, the RFP was advertised in the Daily Transcript. Six firms submitted proposals by the deadline of July 12th. The responding firms included Brown Armstrong Accountancy Corporation; Caporicci & Larson, Inc.; Lance, Soll & Lunghard, LLP; Macias Gini & O’Connell, LLP; Mayer Hoffman McCann P.C.; and Sotomayor & Associates, LLP.

On July 22, 2010 the San Diego County Water Authority completed the evaluation of proposals which had been received in response to the RFP for Audit Services. Respondents were evaluated using selection criteria, which included qualifications and experience of their staff, enterprise fund audit experience, audit plan and approach, continuity of staff and commitment, Single Audit experience, experience with AUPs, and municipal bond and official statement review experience.

Based on staff’s evaluations and ratings of the proposals, a short-list of three firms was developed and interviews were conducted on Friday, July 30th. The three firms interviewed included our current auditor Lance, Soll & Lunghard, LLP (LSL); Macias Gini & O’Connell, LLP (MGO); and Mayer Hoffman McCann P.C. (MHM). The interview panel and Auditor Selection Committee included four CPA’s: Director Wight, Audit Committee Member; and staff included Controller Wade; and Accounting Supervisors Cerezo and Lopez.

After the evaluation of the RFP’s and the completion of oral interviews, the Auditor Selection Committee recommended the selection of (MHM) to provide independent audit services and agreed-upon procedures services for fiscal-year ends 2011 through 2016. MHM is a public accounting firm with 33 offices throughout the United States that direct the resources of approximately 2,000 accounting and audit professionals. In California, MHM has offices in Los Angeles, Oxnard, Bakersfield, Irvine, San Diego and San Jose with more than 400 accounting and audit professionals. The Irvine office of MHM specializes in governmental accounting and auditing and has extensive experience and technical training in governmental accounting.
In addition, Mr. Ken Al-Imam, the engagement contact and project manager, has 27 years of local government auditing experience which includes a significant amount of experience with Water Districts and the San Diego County Water Authority. Mr. Al-Imam is a past Chairman of the state-wide “Governmental Accounting and Auditing Committee” for the California Society of Certified Public Accountants and served from 1996-2001 as Chairman of the Governmental Accounting and Auditing Committee for Long Beach-Orange County Chapter of the California Society of CPA’s. Mr. Al-Imam is also an active member and past president of CCMA (California Committee on Municipal Accounting). He has made presentations in public hearings before the Governmental Accounting Standards Board (GASB) and has been part of the committee contributing to the past two GASB No. 34 implementation guides. He has been a technical reviewer under the CSMFO (California Society of Municipal Finance Officers) Award Program for excellence in Financial Reporting for the past 16 years.

MHM’s proposal price for auditing services and AUP services is competitive with the other firm’s cost proposals and is less than the previous five-year contract. Due to the special circumstances for this type of service, SCOOP outreach requirements were not applicable.

Prepared by: Cindy Navaroli, Interim Controller
Reviewed by: Eric L. Sandler, Director of Finance/Treasurer
Approved by: Maureen A. Stapleton, General Manager
October 20, 2010

Attention: Board of Directors

General Counsel’s Report – September/October 2010

Purpose
This report discusses certain legal matters receiving attention during the months of September/October 2010.

Significant Developments in Pending Litigation

QSA Litigation. On October 4, the Water Authority, Coachella Valley Water District, and Metropolitan Water District jointly filed their opening briefs on appeal. That same day the Imperial Irrigation District, and the State of California filed separate opening briefs. A joint opening brief by Vista Irrigation District and the City of Escondido was also filed on October 4. Respondents’ briefs are due on November 3.

MWD Rate Litigation. The case has been transferred to the San Francisco Superior Court. The parties are awaiting assignment of the case to a trial judge. In response to this lawsuit, Metropolitan notified the Water Authority of its intention to consider terminating certain incentive agreements pursuant to so-called Rate Structure Integrity provisions in those contracts. Metropolitan has also refused to execute certain other incentive agreements. At its meeting in September, the Water Authority board of directors authorized the General Manager to request mediation under the agreements. Metropolitan’s October 14 response to that request, as well as the Water Authority’s October 18 reply to Metropolitan’s response are attached to this memorandum. This matter is also the subject of a closed session in the Imported Water Committee.

Elder v. SDCWA. This is a new case filed in San Diego Superior Court by a property owner whose property is encumbered by a Water Authority easement. As part of the SR 52 to Lake Murray Relining Project, the Water Authority was required to reconfigure the easement to improve pipeline access by leveling a five-foot-wide path, installing retaining walls, and placing gravel on the pathway. The work required removal of landscaping and a fence that had been installed by the property owner. The property owner alleges that the Water Authority’s work exceeded its rights under the easement and also resulted in flooding of the owner’s property. The Water Authority has denied the owner’s claims. The case has been referred to the Water Authority’s insurance JPA and to Neal Meyers of Daley and Heft for defense.
Other Activities
On September 17, the General Counsel made a presentation to the City Attorney’s Department at the League of California Cities Annual Fall Conference regarding the 2009 comprehensive water legislation package. On September 24, the General Counsel made a presentation to the Western Water Law Conference in Seattle, Washington regarding the QSA litigation. The General Counsel also attended the ACWA Fall CLE Conference as vice-chair of ACWA’s Legal Affairs Committee.

Special Counsel Expenditures
Funds approved for payments to special counsel during September-October 2010 from the General Counsel’s Operating Budget totaled $38,507.67 for work related to the Metropolitan rate dispute and a personnel issue. In addition, $89,595.93 was approved for payment to special counsel from the Water Resources’ Operating Budget for work related to the proposed desalination project. CIP expenditures during September-October 2010 were $65,758.18 for work related to QSA, Rancho Penasquitos and Traylor-Shea Joint Venture. The combined payments for fiscal years 09/10 and 10/11 from the General Counsel’s Operating Budget for legal services are $2,143,494.80. The combined payments for fiscal years 09/10 and 10/11 from the CIP Budget for legal services are $1,753,084.34.

Prepared by: Daniel S. Hentschke

Attachment: Special Counsel Expenditure Report
<table>
<thead>
<tr>
<th>Special Counsel</th>
<th>Project</th>
<th>Total $ Expended FYs 08 &amp; 09 (Fees &amp; Costs)</th>
<th>GC OP Budget Invoices Approved for Pmnt. this Period</th>
<th>CIP Budget Invoices Approved for Pmnt. this Period</th>
<th>Total $ Expended FYs 10 &amp; 11 (Fees &amp; Costs)</th>
<th>Budget Allocation FYs 10 &amp; 11 for Legal Services $4,260,000.00</th>
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<tr>
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<td>QSA Litigation</td>
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<td><em>POWER v. IIID</em></td>
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<td><em>POWER III</em></td>
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<td>Drought Management Plan Transfer *</td>
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<td>$35,354.00 (CIP)</td>
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<td>Frank, Lynn S. (Mediator)</td>
<td>TOV WTP *</td>
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<td>$9,000.00 (CIP)</td>
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* Concluded matters or assignments.

1 POWER litigation costs charged to the CIP and reimbursable by DWR.
2 $150,000 has been allocated to MWD Programs and $150,000 has been allocated to Finance.
3 $10,000 transferred from HR budget to GC Budget for legal expenses in connection with a personnel issue.
<table>
<thead>
<tr>
<th>Special Counsel</th>
<th>Project</th>
<th>Total $ Expended FYs 08 &amp; 09 (Fees &amp; Costs)</th>
<th>GC OP Budget Invoices Approved for Payment this Period</th>
<th>CIP Budget Invoices Approved for Payment this Period</th>
<th>Total $ Expended FYs 10 &amp; 11 (Fees &amp; Costs)</th>
<th>Budget Allocation FYs 10 &amp; 11 for Legal Services $4,260,000.00²</th>
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<td>Hanson Bridgett</td>
<td>Employee Benefits *</td>
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<td>Moreno Lakeside Pipeline - Construction contract-Hartford v. SDCWA *</td>
<td>$98,367.45 (CIP)</td>
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<td>Adams Valves v. SDCWA *</td>
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<td>San Vicente Pump Station *</td>
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<td>San Vicente Dam Raise</td>
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<td>Shearman &amp; Sterling</td>
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<td>Townsend</td>
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<td>$65,758.18</td>
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<td>$1,753,084.34 (CIP)</td>
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</table>

* Concluded matters or assignments.

¹ Includes Bond Counsel Services for QSA issues, revenue debt, IRS audit and proposed desalination project.

² $150,000 has been allocated to MWD Programs and $150,000 has been allocated to Finance.

$10,000 transferred from HR budget to GC Budget for legal expenses in connection with a personnel issue.

³ Not included in totals, legal expenses related to proposed desalination project are coming out of Water Resources budget, not GC budget.

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Metropolitan’s October 14 Response to Request for Mediation
October 14, 2010

Maureen A. Stapleton
General Manager
San Diego County Water Authority
4677 Overland Avenue
San Diego, California 92123-1233

Dear Ms. Stapleton:

Re: Acknowledgement of Request for Mediation

Metropolitan acknowledges receipt of your request dated September 27, 2010 (see Attachment 1) for mediation of the Board of Directors’ possible termination of incentive agreements under the Rate Structure Integrity provisions in those contracts.

Our initial notice to the San Diego County Water Authority (Water Authority) dated August 25, 2010 (see Attachment 2) identifies the four existing agreements subject to termination. We have not received any statements from Ramona Municipal Water District (Ramona) or Rincon Del Diablo Municipal Water District (Rincon) regarding non-participation in the Water Authority’s recent litigation challenging Metropolitan’s rate structure (see Attachment 3 and Attachment 4). Therefore, the Enhanced Conservation Program agreement with Rincon and the Local Resources Program agreement with Ramona are now also part of the termination proceedings.

The agreements establish a process for mediation, not to exceed 90 days, by a neutral third party with expertise in finance and rate setting. If the parties cannot agree on selection of a mediator within 60 days of the request (November 26, 2010), the Board of Directors would make the selection based on a list of four candidates nominated by the Water Authority and Metropolitan.
Maureen A. Stapleton  
Page 2  
October 14, 2010  

In light of these short timeframes, we should try to select a mediator as soon as possible. Please forward a list of candidates; we will review that list and respond promptly.  

Sincerely,  

[Signature]  

Jeffrey Kightlinger  
General Manager  

JK/pv/tm  

cc: Board of Directors  
Executive Secretary  
General Manager, Ramona Municipal Water District  
General Manager, Rincon del Diablo Municipal Water District
September 27, 2010

Jeffrey Kightlinger, General Manager
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Request for Mediation

Dear Jeff:

The Water Authority hereby exercises its right to request mediation of disputes pursuant to the so-called Rate Structure Integrity clause of the agreements referenced in your letter of August 25, 2010, which was received by the Water Authority on August 30, 2010.

Sincerely,

[Signature]

Maureen A. Stapleton
General Manager

c: Board of Directors, SDCWA
Daniel S. Hentschke, General Counsel, SDCWA
Dawn Chin, Board Executive Secretary, MWD
August 25, 2010

Ms. Maureen A. Stapleton
General Manager
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

Dear Ms. Stapleton:

Notice of Intent to Initiate Process to Consider
Termination of Incentive Agreements with the Water Authority

The agreements listed below between Metropolitan and the San Diego County Water Authority (Water Authority) contain provisions allowing The Metropolitan Water District of Southern California (Metropolitan) to file a 90-day notice of intent to consider terminating agreements should the Water Authority file litigation challenging Metropolitan’s rate structure. In June 2010, the Water Authority initiated litigation challenging Metropolitan’s water rates and charges for fiscal year 2010/11. Consequently, Metropolitan’s Board of Directors at its August 17, 2010, meeting directed staff to initiate the process outlined in the rate structure integrity provisions.

<table>
<thead>
<tr>
<th>Incentive Program</th>
<th>Existing Agreement</th>
<th>Number</th>
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<tbody>
<tr>
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<td>Conservation</td>
<td>Regional Residential Program</td>
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<td>Enhanced Conservation</td>
<td>Landscape Auditor Interns</td>
<td>011-2006</td>
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<td>Enhanced Conservation</td>
<td>Smart Landscape Grant Program</td>
<td>024-2007</td>
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<tr>
<td>Conservation</td>
<td>Expansion</td>
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</table>

This letter is the official 90-day notice of Metropolitan’s intent to consider termination of the above listed agreements between Metropolitan and the Water Authority.

Within 30 days of receipt of this notice, the Water Authority has the right to request, in writing, mediation of the dispute by a neutral third party with expertise in finance and rate setting. The request for mediation would serve to stay the 90-day notice of intent to terminate, but for no more than 90 days beyond the filing of the notice of request for mediation. If the termination process advances, Metropolitan’s Board of Directors will ultimately make the decision on whether to terminate the agreements. Payment of the incentives for this program will continue pending the decision by the Board following the 90-day notice period.
Ms. Maureen A. Stapleton  
Page 2  
August 25, 2010  

Metropolitan’s Board of Directors also directed staff to defer execution of the following three agreements currently pending with the Water Authority, as termination proceedings would begin immediately upon execution:

<table>
<thead>
<tr>
<th>Incentive Program</th>
<th>Pending Agreement</th>
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<td>Innovative</td>
<td>Flow control valve research project</td>
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<td>Conservation</td>
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<tr>
<td>Seawater Desalination</td>
<td>Carlsbad Seawater Desalination Project</td>
<td>70025</td>
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</table>

If you have any questions, please contact me at (213) 217-6211 or via email at jkightlinger@mwddh2o.com.

Very truly yours,

[Signature]

Jeffrey Kightlinger  
General Manager

WAT:jc  
c:\a\v\c\2010\WAT_SDCWA Agreement Termination_Notice v3.doc

cc: Board of Directors  
    Executive Secretary
Office of the General Manager
August 25, 2010

Mr. Ralph McIntosh
General Manager
Ramona Municipal Water District
105 Earlam Street
Ramona, CA 92065-1599

Dear Mr. McIntosh:

Request Regarding Termination Process of the Local Resources Program Agreement No. 94278 for San Vicente Water Recycling Project

On August 9, 2009, The Metropolitan Water District of Southern California (Metropolitan) entered into Agreement No. 94278 with the San Diego County Water Authority and Ramona Municipal Water District (Ramona) for the San Vicente Water Recycling Project. Pursuant to Section 7.4 (Rate Structure Integrity) of the subject agreement, Metropolitan may terminate the subject agreement if Water Authority or Ramona file litigation to challenge Metropolitan’s existing rate structure. In June 2010, the Water Authority initiated litigation challenging Metropolitan’s water rates and charges for fiscal year 2010/11. Consequently, Metropolitan’s Board of Directors at its August 17, 2010, meeting directed staff to initiate the termination process outlined in the rate structure integrity provisions of the agreement.

Pursuant to Section 7.7 of the subject agreement, Metropolitan will not terminate the subject agreement if Ramona transmits written documentation to Metropolitan within 30 days of the date of this letter demonstrating that Ramona has not participated directly or indirectly in the filing or prosecution of any litigation or the drafting or advocacy of any legislation to challenge or modify Metropolitan’s existing rate structure, and indicates support for Metropolitan’s existing rate structure.

This letter is an official notice to Ramona of its opportunity to provide a letter to Metropolitan within 30 days of the date of this letter demonstrating that Ramona has not participated directly or indirectly in the filing or prosecution of any litigation or the drafting or advocacy of any legislation to challenge or modify Metropolitan’s existing rate structure, and indicates support for Metropolitan’s existing rate structure. If the termination process advances, Metropolitan’s Board of Directors will ultimately make the decision on whether to terminate the agreement.

If you have any questions, please contact me at (213) 217-6211 or via email at jkightlinger@mwdh2o.com.

Very truly yours,

[Signature]

Jeffrey Kightlinger
General Manager
WAT:jc

700 N. Alameda Street, Los Angeles, California 90012 • Mailing Address: Box 54153, Los Angeles, California 90054-0153 • Telephone (213) 217-6000

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ATTACHMENT 3
Mr. Ralph McIntosh
Page 2
August 25, 2010

cc: Ms. Maureen A. Stapleton
    General Manager
    San Diego County Water Authority
    4677 Overland Avenue
    San Diego, CA 92123

    Board of Directors
    Executive Secretary
Office of the General Manager

August 25, 2010

Mr. Mitchell S. Dion
General Manager
Rincon del Diablo Municipal Water District
1920 North Iris Lane
Escondido, CA 92026

Dear Mr. Dion:

Request Regarding Termination Process of the Enhanced Conservation Program Agreement No. 012-2006

On August 9, 2009, The Metropolitan Water District of Southern California (Metropolitan) entered into Agreement No. 012-2006 with the San Diego County Water Authority to provide funding for a conservation program implemented by Rincon del Diablo Municipal Water District (Rincon). Pursuant to Section 8.4 (Rate Structure Integrity) of the subject agreement, Metropolitan may terminate the subject agreement if Water Authority files litigation to challenge Metropolitan’s existing rate structure. In June 2010, the Water Authority initiated litigation challenging Metropolitan’s water rates and charges for fiscal year 2010/11. Consequently, Metropolitan’s Board of Directors at its August 17, 2010, meeting directed staff to initiate the termination process outlined in the rate structure integrity provisions of the agreement.

Pursuant to Section 8.7 of the subject agreement, Metropolitan will not terminate the subject agreement if “Recipient” transmits written documentation to Metropolitan within 30 days of the date of this letter demonstrating that “Recipient” has not participated directly or indirectly in the filing or prosecution of any litigation or the drafting or advocacy of any legislation to challenge or modify Metropolitan’s existing rate structure, and indicates support for Metropolitan’s existing rate structure. Rincon is named as the recipient of funds in Exhibit A of the subject agreement.

This letter is an official notice to Rincon of its opportunity to provide a letter to Metropolitan within 30 days of the date of this letter demonstrating that Rincon has not participated directly or indirectly in the filing or prosecution of any litigation or the drafting or advocacy of any legislation to challenge or modify Metropolitan’s existing rate structure, and indicates support for Metropolitan’s existing rate structure. If the termination process advances, Metropolitan’s Board of Directors will ultimately make the decision on whether to terminate the agreement.

If you have any questions, please contact me at (213) 217-6211 or via email at jkightlinger@mwdh2o.com.

Very truly yours,

Jeffrey Kightlinger
General Manager

ATTACHMENT 4
Mr. Mitchell S. Dion
Page 2
August 25, 2010

cc: Ms. Maureen A. Stapleton
    General Manager
    San Diego County Water Authority
    4677 Overland Avenue
    San Diego, CA 92123

    Board of Directors
    Executive Secretary
Water Authority's October 18 Reply
To Metropolitan's Response
October 18, 2010

Jeffrey Kightlinger, General Manager
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Reply to October 14, 2010 letter regarding contract termination proceedings.

Dear Jeff,

This letter responds to your October 14, 2010 letter, which the Water Authority received by email on October 15. Regarding the mediation that the Water Authority has requested pursuant to the four agreements between the Water Authority and Metropolitan identified in Metropolitan’s notice of intent to terminate, the Water Authority will provide a list of proposed mediators within the next week. We look forward to working with you to retain a mutually acceptable mediator as quickly as possible.

Regarding the Enhanced Conservation Program Agreement with Rincon and the Local Resources Program agreement with Ramona, your letter incorrectly states that those agreements are now also part of the termination proceedings. Metropolitan has never given the required 90-day notice of its intent to terminate either of those agreements. On the contrary, Metropolitan merely gave Rincon and Ramona, respectively, notice of the opportunity to provide a letter to Metropolitan demonstrating their non-participation in the filing or prosecution of litigation, and indicating support for Metropolitan’s existing rate structure. Your October 14 letter does not provide the required notice of intent to terminate either of those agreements. In consequence, they are not part of any termination proceedings.

Also, we have not received answers to the questions we asked in our letter of Aug. 12, 2010. I have attached another copy and would appreciate receiving the answers.

Sincerely,

Maureen A. Stapleton
General Manager

cc: Water Authority Board of Directors
    Daniel S. Hentschke, General Counsel
    Mitch Dion, General Manager, Rincon del Diablo Municipal Water District
    Ralph McIntosh, General Manager, Ramona Municipal Water District

A public agency providing a safe and reliable water supply to the San Diego region
Aug. 12, 2010

Timothy Brick
Chairman
Board of Directors
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Board Agenda Item 8-9: "Rate Structure Integrity"

Dear Chairman Brick:

As stated in past correspondence, the San Diego County Water Authority believes that the so-called “rate structure integrity” provision in MWD incentive funding contracts is both bad public policy and legally unenforceable. The Water Authority has governmental responsibilities to protect our region’s water ratepayers and has declined to waive its rights or responsibilities in order to get back a share of the money it has paid to MWD through water rates to fund these incentive programs.

In its recently filed lawsuit, the Water Authority has questioned the propriety and legality of MWD's rate structure, including the manner in which it allocates the costs of water supply programs that are paid for, in part, by incentive payments. We ask that the board consider the following requests during its closed session meeting Tuesday to discuss San Diego’s incentive funding contracts.

1. I will recommend to my Board of Directors an agreement under which MWD suspends the payment of any incentive funding to the Water Authority during the pendency of the litigation provided that MWD agrees to suspend collection of Water Stewardship Rate revenues from the Water Authority during the same period.

2. The RSI policy and contract provisions do not state whether RSI funding will be restored retroactively in the event that the court finds in favor of the plaintiff challenging MWD’s rate structure. Please provide clarification of the board policy on this point.

3. Jeff Kightlinger informed us at the IRP Public Forum meeting in San Diego August 10 that the reason MWD does not require its member agencies to legally commit to pay for MWD projects and programs is because the board of directors will not agree to do so. The current IRP proposes spending billions of dollars, including

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substantial investments in member agency programs. The Water Authority is willing to contractually commit to pay for MWD projects and programs it wishes to purchase from MWD. We would like to know if the rest of the board will now consider adding this contractual requirement as part of its rate structure in order to fulfill the intended purpose of Rate Structure Integrity in a more comprehensive fashion.

We appreciate your consideration of these requests and look forward to receipt of your written responses.

Sincerely,

Claude A. Lewis
Chair
Board of Directors

cc: MWD Board of Directors
    San Diego County Water Authority Board of Directors