



**MINUTES OF THE SPECIAL BOARD OF DIRECTORS' MEETING
November 8, 2012**

1. Call to order.

Chair Wornham called the meeting to order at 1:35 p.m.

2. Roll call.

Directors present were Arant, Bailey, Barnum, Bond, Brady, Croucher, Dailey, Dion, Douglas, Hilliker, Knutson, Lamb, Lewinger, Linden, Madaffer, Miller, Morrison, Mudd, Price, Sanford, Saunders, Saxod, Smith, Steiner, Topolovac, Tu, Watton, Weston, Wight, Williams, Wilson, and Wornham. Directors absent were Boyle, Hogan, Pocklington, Simpson, and Representative Slater-Price.

Staff present included General Manager Stapleton, General Counsel Hentschke, Deputy General Managers Belock and Kerl, Director of Water Resources Weinberg, Water Resources Manager Yamada and Financial Planning Manager Shank. David Moore, Managing Director of Clean Energy Capital was also present.

2-A Report on proxies received. There were no proxies received.

Chair Wornham welcomed Jim Madaffer to the Board of Directors

3. Public Comment.

Chair Wornham announced the public speakers had requested to speak after the presentations.

4. Workshop on issues related to the Carlsbad Desalination Project.

Chair Wornham announced the items would be presented in the following order: 4-B, then 4-C, followed by 4-A.

4-B Forecasting electricity prices for desalination.

Mr. Weinberg introduced Dr. Moore who began the presentation. He reviewed the projected electricity price and the impact on water unit price.

There was one public speaker that wished to speak at this time:

1. Jerry Sanders, Mayor of San Diego spoke in favor of the project. He stated the project was vital to the San Diego region to sustain the economy and the quality of life.

4-C Response to previous Board member questions regarding pricing and terms in the proposed Water Purchase Agreement.

Dr. Moore returned and provided a detailed review of unit price cost components. This included debt service charge, equity return charge, pipeline installment payments and fixed and variable operating and electricity charges. He explained the bond interest rate assumptions and stated the final interest rate would not be known until the financial closing.

Mr. Yamada then spoke about the non-electricity Operating and Maintenance costs. He covered the fixed operator compensation including labor, maintenance, membrane and filter replacement, operator fees, insurance and bond. The total for this would be \$11,871,000. The total fixed non-operator costs were \$7,326,000 including lease payments, owner insurance, mitigation/monitoring, property taxes, administrative costs, and debt fees. The variable operating costs included chemical dosing of raw water, pre-treatment cleaning and disposal of solids and operator fee totaled \$4,848,000.

Mr. Yamada then responded to questions Board members had asked about the consequences of delaying the decision on the Water Purchase Agreement at prior meetings. The lease was executed in 2003 and had been amended ten times and NRG was considering other redevelopment options. Further extension would be required if the Water Purchase Agreement was not approved in November of 2012.

Kiewit-Shea Desalination construction bid was submitted in 2010 and there was a risk of losing key members of the project management team to other projects. The pricing commitment would expire on December 31, 2012, and would then need to be re-costed. IDE bid was submitted in 2008 and the pricing commitment would expire on December 31, 2012. There were financing concerns as the current market conditions were favorable for issuance of "BBB" municipal bonds, interest rates remain at historical lows, credit spreads (between AAA and BBB) are tight, and market conditions could change abruptly, especially with regard to credit spreads.

Director Watton requested a copy of the lease, and a complete listing of investors.

4-A Continuation of discussion on rate structure alternatives.

Mr. Weinberg announced this item was a continuation from several other Board meeting and a follow up from information sent to the member agencies and the Board. He reviewed the High/Low all-in Treated Water Rate Projection – February 2011, revised projections with no change in Desal assumptions, revised projections with new Desal assumptions, February 2011 High/Low vs. Desal High/Low and finally Illustrative Smoothed High/Low Rate ramp.

Mr. Weinberg stated the next step was to begin the Cost of Service study. There would be two steps in this process, an analysis of the 2014 rates and the allocation of the desalination costs. The consultant would begin work in December of 2012. The process would be interactive with member agencies from January to April of 2013 and the Cost of Service Study would be complete

May of 2013. The allocation of desalination cost and potential fixed charge modifications to rate structure would be concurrent with the 2014 Cost of Service study. There would be a member agency workgroup established in winter of 2013 for technical discussions. The workgroup would report to the Administrative and Finance Committee and return to the Board with technical recommendations. It was estimated it would be a six to nine month process consistent with the 2015 rate setting process.

Director Arant expressed concern and stated he had sent a letter to the member agencies and Board of Directors. Director Wilson stated he too would be submitting a letter and was concerned about the cost allocation.

Additional Public Comments were taken at this time:

2. Livia Borak from the Coast Law Group spoke in opposition to the project. She stated the Water Purchase Agreement should not be approved until after the Cost of Service study is completed.
3. Clif Williams a resident from the city of San Diego spoke in support of the project. He stated we need the supply to ensure water security for the region.

5. Adjournment.

There being no further business to come before the Board, Chair Wornham adjourned the meeting at 4:20 p.m.

Thomas V. Wornham, Chair