

**MINUTES OF THE BOARD OF DIRECTORS
MESA CONSOLIDATED WATER DISTRICT
1965 Placentia Avenue, Costa Mesa, CA
Tuesday, November 10, 2009
7:00 p.m. Regular Board Meeting**

CALL TO ORDER

The meeting of the Board of Directors was called to order on November 10, 2009 at 7:03 p.m. by President Dewane at the District Office Boardroom, located at 1965 Placentia Avenue, Costa Mesa, California.

PLEDGE OF ALLEGIANCE

Director Atkinson led the Pledge of Allegiance.

ROLL CALL

Directors Present

Shawn Dewane, President
Fred R. Bockmiller, First Vice President
James F. Atkinson, Vice President
Jim Fidler, Vice President
Trudy Ohlig-Hall, Vice President

Directors Absent

None

Staff Present

Paul E. Shoenberger, P.E., General Manager
Victoria L. Beatley, Financial Services Manager/Treasurer
Robert R. McVicker, District Engineer
Jerry Vilander, Water Operations Manager
Barry Carlson, Conservation/Customer Service Coordinator
Denise Garcia, Executive Assistant
Rob Anslow, Attorney, Bowie, Arneson, Wiles & Giannone

Others Present

Scott Maloni, Poseidon Resources
John Lovelin, Poseidon Resources
Josie McKinley, Poseidon Resources
Jim Fitzpatrick, Mesa Customer
Seymour Slaucer, Mesa Customer
Robin Leffler, Mesa Customer
David Stiller, Mesa Customer
Lori Hoskins, Mesa Customer
Laura Reprenis, Mesa Customer
Terry Arnold, Mesa Customer
Arlene Jones, Mesa Customer

PUBLIC COMMENTS

President Dewane invited members of the public to address the Board of Directors (Board) on matters that were not on the agenda. No comments were made on items not on the agenda. President Dewane proceeded with the meeting.

ITEMS TO BE ADDED, WITHDRAWN, OR REORDERED ON THE AGENDA

General Manager Shoenberger offered that it was not necessary to hold a Closed Session because there is no new information regarding the Closed Session topic.

There were no meetings to be added to Item B of the agenda.

I. CONSENT CALENDAR ITEMS:

All matters on the Consent Calendar will be approved by one motion unless a Board member, staff, or a member of the public requests a separate action.

Mr. Fitzpatrick pulled Item F. and Director Ohlig-Hall pulled Item C.3. There were no objections.

- A. Approved minutes of regular Board meeting of October 27, 2009.
- B. Approve attendance considerations (additions, changes, deletions).
 - 1. Grant Funding Meetings; Washington, D.C.; November 16 – 17, 2009.
 - 2. Preventing Workplace Harassment Workshop, Costa Mesa, CA; November 19, 2009.
- C. Board Schedule:
 - 1. Tentative Meeting Topics
 - 2. Conference, Seminars, and Meetings
 - 3. Board Calendar
- D. Receive the September 30, 2009 Treasurer's Report on Investments.
- E. Approve one-time compensation of vacation hours to management employees for additional duties.
- F. Approve staff to pursue landscape design proposals for the Colored Water Treatment Facility.

MOTION 2009-96

Motion by Director Bockmiller, seconded by Director Atkinson, to approve Items A., B., C.1 and 2, D., and E. of the Consent Calendar. Motion passed 5-0.

Item C. 3. - Board Schedule, Board Calendar

Director Ohlig-Hall commented that the District has the 50th Anniversary Ad Hoc Committee meeting scheduled for November 12, 2009 at 10:30 a.m. which is not on the calendar.

General Manager Shoenberger noted that November 12, 2009 meeting was originally schedule for November 17, 2009.

Director Ohlig-Hall asked if the agenda for the November 20, 2009 Special Executive Committee was released for review. President Dewane commented that the meeting was scheduled in anticipation of a topic; however, it did not look as if the meeting would be necessary. Director Ohlig-Hall noted that if the topic was the Mesa's Strategic Planning, then the topic should be discussed before the full Board.

She noted this subject is too important not to have all Board members present for all discussions.

MOTION 2009-97

Motion by Director Ohlig-Hall, seconded by Director Fisler, to approve Item C. 3 of the Consent Calendar. Motion passed 5-0.

Item F. - Approve staff to pursue landscape design proposals for the Colored Water Treatment Facility (CWTF).

President Dewane recognized Mr. Jim Fitzpatrick.

Mr. Fitzpatrick thanked the General Manager for his initiative to improve the landscaping at the CWTF. He noted this facility is an important focal point for the community and the landscaping will improve its appearance. General Manager Shoenberger commented that this project addresses the lack of landscaping for the area within the walls.

MOTION 2009-98

Motion by Director Atkinson, seconded by Director Ohlig-Hall, to approve Item F of the Consent Calendar. Motion passed 5-0.

II. PRESENTATION AND DISCUSSION ITEMS:

A. HUNTINGTON BEACH DESALTER:

General Manager Shoenberger noted that Mesa's Boards, past and present have supported local reliable water sources. In the '70s, Mesa imported 100 percent of its potable water. Since then, Mesa has invested in groundwater wells, a recycled water system that brings water to Mesa, built the Colored Water Treatment Facility and a developed robust conservation program. These projects and programs have made Mesa one of the most reliable and cost effective water districts in Orange County. At its public meeting in July, the Board voted to support the Huntington Beach Desalination Facility for many of the same reasons and it will be local and reliable. Poseidon Resources was asked to provide the Board with an update on the project. Many of the local homeowners associations in the area were invited. Scott Maloni, Vice President of Poseidon Resources, was introduced and proceeded with the update.

Mr. Maloni introduced John Lovelin, Vice President of Poseidon Resources who was present.

Mr. Maloni commented that Poseidon Resources is a privately held company specializing in the financing and development of water infrastructure projects with a specialty in seawater desalination. The company is headquartered in Stamford, Connecticut with offices in San Diego, Huntington Beach, and San Jose. The company privately funded one of the largest (at the time) waste water treatment plants in Cranston Rhode Island. In partnership with PenMix, financed and developed half a

dozen water treatment projects in Mexico and permitting the first large scale seawater desalination plant in Carlsbad, California. He reported that the Metropolitan Water District of Southern California (MWD) approved a financial incentive program for public agency customers clearing the way to finance the Carlsbad project. Poseidon is breaking ground this week and expects to complete financing by the end of the year with full-scale construction to begin after the first of the year 2010.

Desalination is a mature technology with over 8,000 seawater desalination plants operating around the world. Reverse osmosis is considered to be the technology of choice. About 10 billion gallons per day of drinking water are produced from the desalination plants. In the period of time it has taken Poseidon to permit the two facilities in California, Australia has brought on-line plants that produce four times the capacity of the planned Carlsbad and Huntington Beach facilities.

In California, the State Water Plan Update has identified the need for 500,000 acre feet of seawater desalination by 2030. To produce that amount of water, eight more projects are needed to meet the capacity requirements. In MWD's service area, alone it would be 150,000 acre feet a year of desalinated water. Local and regional water agencies are adopting seawater desalination as part of their water management plans to diversify water supplies.

The following proposed plants in California are either in the feasibility or in environmental review stage: San Francisco Bay Regional Desalination Plant, Low Energy Application of Desalination Project – a project located at the C&H Sugar facility in Crockett. Marin Desalination Plant, and Santa Cruz Desalination Project (pilot).

In the past, seawater desalination has not been cost effective against traditional water supplies. There was a change with the lower cost of the technology, improved technology for the membranes, and a higher cost for the traditional water supplies.

The goal for the Huntington Beach Plant is to be on-line and producing water by 2013. The permitting process began in 1998. The following permits have been issued and a certified Environmental Energy Report (EIR) received by the City of Huntington Beach:

- A Conditional Use Permit
- A Coastal Development Permit
- A National Pollutant Discharge Elimination System (NPDES) Storm Water permit from the Santa Ana Regional Water Control Board
- Conceptual Water Drinking Permit from the State

All local permits and approvals have been obtained. There are two permitting hurdles to overcome, which are at the state level: One from the State Lands Commission and the other from California Coastal Commission. Both permits are expected in 2010.

Regional Benefits: Diversify water supplies, locally controlled, drought proof. Mr. Maloni continued with a description of how the plant will operate. He noted that water will be diverted from the Huntington Beach Power Plant after it has gone through the power plants cooling system. About 100 million gallons per day of water will be diverted to the desalination plant for processing. It takes two gallons of seawater to

make one gallon of potable water. The byproduct of the process is seawater with twice the amount of salt content. Normally, seawater is three parts salt; the desalination byproduct is six parts salt. The discharge from the desalination process is reintroduced into the discharge pipe from the power plant.

In the process, a working group was formed consisting of 21 water agencies and municipalities that have signed or are in the process of signing the Memorandum of Understanding (MOU). The MOU lays out the terms for negotiating a water purchase agreement. An estimated dozen agencies have issued Letters of Intent, with many identifying a quantity of water. It is the plan to turn the letters of intent into executed water purchase agreements the beginning of next year.

Energy consumption:

Mr. Maloni commented on the energy consumption to produce desalinated seawater. He noted it takes about 3,100 kilowatt hours to import an acre foot of water and about 4,100 kilowatt hours to produce an acre foot of desalinated water. Their goal is to be carbon neutral.

Director Bockmiller asked about the construction of the pipeline.

Mr. Maloni introduced Josie McKinley, Director/Project Development of Poseidon, who explained the pipeline. She reported that eight miles of pipeline need to be constructed to interface with the regional pipeline distribution system. Ms. McKinley explained the proposed route of the pipeline. She reviewed the various route options. The connection once it crosses the Santa Ana River to the OC 44 connection will take about six months.

Director Ohlig-Hall commented on how important it is to keep Mesa's public informed.

RECESS

President Dewane declared a recess at 8:25 p.m. The Board reconvened at 8:38 p.m.

President Dewane opened the meeting to the public.

Seymour Slaucer, Costa Mesa resident, Tanager Drive, Mr. Slaucer spoke regarding the impact of the project on property values, way of living and general impact on the City of Costa Mesa. If desalinated water is achieving parity with non-desalinated water, why are subsidies so important to the project? There are various other tax incentives, bond financing which indicate to me that desalination projects are not up to speed relative to being cost effective.

Director Atkinson commented the State has been facing a continuing drought for several years and the State needs to find alternate sources of water. Desalination is one of the choices. Another example of an alternate water source is the Orange County Water District's facility which takes water from the Orange County Sanitation District, purifies it and uses it to recharge the underground water basin. At this time, the treated water cannot be introduced into the potable water system; however, it eventually

enters the system through the pumping system. The issue is the shortage of water and developing alternate water sources.

Robin Leffler, Costa Mesa resident, noted that the EIR ended at the river and did not address any of Costa Mesa's needs or impacts. There has been no EIR for the City of Costa Mesa. She also asked if greenhouse credits would be purchased. Mr. Maloni responded yes.

Ms. Leffler asked if during the course of construction of the pipeline a homeowners property is damaged, what will Poseidon do to repair the damage to the owner's property.

Attorney Anslow responded that the general precept of California law is that if action is taken that damages property, the entity causing the damage is liable for the repair to the property. He noted that his assumption is that contractors, who will be doing the work, will be required to carry the appropriate amount of liability insurance which is called all risk insurance. The contractor will carry a bond as part of security for the protection of the project. There will also be a protection with the liability clause for the District in any agreement between the District and Poseidon Resources. Mesa has a standard Best Rating Guide minimum of A+ and 9 strength rating from the insurers the District insures through.

Director Bockmiller clarified Ms. Leffler's concerns relative to long-term impacts that may occur following construction of the pipeline.

Attorney Anslow responded that the standard insurance is per occurrence insurance. This means the insurance covers any event or occurrence that occurs during a stated period of time, usually a one year term. The damage doesn't have to manifest during that one-year term, but rather it is proven to result from occurrences that occur within that one-year period. The contractor's liability expires when the statute of limitations expires. The range is from two to ten years.

Director Bockmiller noted that the proposed pipe would replace an existing pipe that is about 40/50 years old. This existing pipe will have to be replaced at some point in the near future. This means the inconveniences that would occur for the homeowners will have to be faced at some point. Either at the time Poseidon puts in the new pipeline or when Mesa replaces the existing pipeline.

Ms. Leffler asked if the Letter of Intent (LOI) is a legally binding instrument.

Attorney Anslow responded that the LOI has certain basic elements and performance requirements, but does not require any specific expenditure of funds and it can be terminated at the discretion of either party.

Ms. Leffler commented that some of the ratepayers believe that the best deal is a no deal. Would the District be open to listening to their side of the story?

President Dewane commented the Board is elected by the ratepayers and would be interested in hearing all opinions and positions.

Ms. Leffler asked if the pipeline that Mesa would eventually replace be the same size as the one proposed by Poseidon. Would it be a 48" pipe or the 24" pipe that is already there?

Director Bockmiller responded that Mesa would replace in kind. The larger pipe would be for the Poseidon project and to meet their transmission requirements.

Mr. Maloni clarified a question on the kilowatt-hours and he noted that the 4,100 kilowatt hours included transportation.

General Manger Shoenberger asked Poseidon to provide clarification regarding the EIR and its inclusion or exclusion of the pipeline beyond the river.

David Stiller, Mesa customer, noted that he served on the City of Costa Mesa's Transportation Commission, which no longer exists. He also served several years on the Parks and Recreation Commission. Mr. Stiller commented on the status of the reservoirs which are below 60 percent capacity. What happens if the money dries up in the middle of the pipeline project? Will there be a performance bond required of the contractor?

Attorney Anslow responded that the pipeline contractor(s) will be required to obtain a performance bond.

Mr. Stiller asked, "What studies have been done for Poseidon by any transportation or traffic experts to determine what the 200 feet increments of piping will do to the traffic on the streets?"

Ms. McKinley responded that Carollo Engineers evaluated the pipeline route, widths of the trenching requirements and determined there would be one lane open on the smaller streets and two to three lanes open on the larger street. In addition, the plan has to be permitted to make sure the traffic control plan will work for the District.

Director Bockmiller commented that there is a pipeline replacement project currently in process on University Drive in front of UCI. It is an example of where a pipeline is being replaced on a busy four-lane high velocity street. It is an Irvine Ranch Water District project. The contractor places trench plates over certain sections. They are building in 100 feet or longer lengths depending upon the type of trench they are digging and whether they are near or away from an intersection. The traffic has been managed very effectively.

Mr. Stiller asked, "What study has been done regarding the impact on safety vehicles?"

President Dewane commented these types of questions would come up in the permitting phase.

Mr. Stiller asked, "If the pipeline is replaced, would there be an interruption of service to any District customers?"

