

Minutes
CHINO BASIN WATERMASTER
WATERMASTER BOARD MEETING

November 18, 2010

The Watermaster Board Meeting was held at the offices of the Chino Basin Watermaster, 9641 San Bernardino Road, Rancho Cucamonga, CA, on November 18, 2010 at 11:00 a.m.

WATERMASTER BOARD MEMBERS PRESENT

Michael Camacho, Chair
Bob Kuhn
Robert Young
Kevin Sage
Tom Haughey
Geoffrey Vanden Heuvel
Jeff Pierson

Inland Empire Utilities Agency
Three Valleys Municipal Water District
Fontana Water Company
Vulcan Materials Company
City of Chino
Agricultural Pool
Agricultural Pool

WATERMASTER BOARD MEMBERS ABSENT

Ken Willis
Charles Field
Michael Whitehead
Bob Bowcock
Paul Hofer

West End Consolidated Water Company
Western Municipal Water District
Fontana Water Company
Vulcan Materials Company
Agricultural Pool

Watermaster Staff Present

Kenneth R. Manning
Joe Joswiak
Danielle Maurizio
Ben Pak
Sherri Lynne Molino

Chief Executive Officer
Chief Financial Officer
Senior Engineer
Senior Project Engineer
Recording Secretary

Watermaster Consultants Present

Scott Slater
Andy Malone

Brownstein, Hyatt, Farber & Schreck
Wildermuth Environmental, Inc.

Others Present Who Signed In

Marty Zvirbulis
David DeJesus
Josh Swift
Mark Kinsey
Dave Crosley
Mohamed El-Amamy
Ben Lewis
Steven G. Lee
Raul Garibay
Eunice Ulloa
Sheri Rojo

Cucamonga Valley Water District
Three Valleys Municipal Water District
Fontana Union Water Company
Monte Vista Water District
City of Chino
City of Ontario
Golden State Water Company
Reid & Hellyer for the Agricultural Pool
City of Pomona
Chino Basin Water Conservation District
Visitor for Fontana Water Company

Chair Camacho called the Watermaster Board meeting to order at 11:01 a.m.

PLEDGE OF ALLEGIANCE

PUBLIC COMMENTS

No Public Comments

AGENDA - ADDITIONS/REORDER

There were no additions or reorders made to the agenda.

I. CONSENT CALENDAR

A. MINUTES

1. Minutes of the Watermaster Board Meeting held October 28, 2010

B. FINANCIAL REPORTS

1. Cash Disbursements for the month of September 2010
2. Watermaster Visa Check Detail for the month of September 2010
3. Combining Schedule for the Period September 1, 2009 through September 30, 2010
4. Treasurer's Report of Financial Affairs for the Period September 1, 2010 through September 30, 2010
5. Budget vs. Actual July 2010 through September 2010

Motion by Kuhn, second by Haughey, and by unanimous vote

Moved to approve Consent Calendar items A through B, as presented

II. BUSINESS ITEMS

A. CHINO BASIN WATERMASTER ANNUAL AUDIT FY 2009/2010 – JUNE 30, 2010

Counsel Slater stated this is a yearly item for Watermaster's annual audit which is performed by an outside auditing firm, Mayer Hoffman McCann. Mr. Ken Al-Imam, the representative from the auditing firm Mayer Hoffman McCann, gave a presentation for the Watermaster Audit for Fiscal Years 2009/2010 ending June 30, 2010. Mr. Al-Imam described in detail the objectives and the procedures of the audit, noting that there are some limitations to the audit process. The auditing firm's opinion that the financial statements are fairly stated has been issued. Mr. Al-Imam concluded his presentation, asking if there were any questions. Mr. Kuhn asked for clarification on certain points made during the presentation. Clarification was provided by Mr. Al-Imam and Mr. Manning.

Motion by Haughey, second by Kuhn, and by unanimous vote

Moved to receive and file the Chino Basin Watermaster Annual Audit FY 2009/2010 – June 30, 2010, as presented

B. FINANCIAL ANALYSIS

Mr. Manning commented that over the past 12 months certain issues have come up for Watermaster that have caused parties to request more detail than in the past on the financial accounting. Watermaster has developed a detailed process of reporting on specific projects as it relates to the budget, providing a quarterly report to the parties. Mr. Joswiak presented the July 1, 2010 through September 30, 2010 report. Mr. Joswiak stated that previous reports that were provided compared the year-to-date numbers to the year-end budget, looking at 25% actual compared to 100% of the budget, making it difficult to determine where Watermaster would be at year-end. Mr. Joswiak presented a three section report, comparing 25% of the year-to-date actual to 25% of the year-to-date budget and commenting that projections will be more accurate as to where Watermaster will be at year end. Mr. Joswiak explained the budget numbers in detail. Mr. Manning commented that Watermaster is not requesting any changes to the budget, waiting for the second quarter to develop before making any adjustments. Mr. Kuhn commented on the Chino Airport Plume being over budget; inquiring if that is something that needs to be dealt with at the Board level and increased. Mr. Manning noted that this will be coming back in February with the second quarter of this report more detail will be provided on the categories needed to be adjusted. Mr. Pierson stated that providing this level of detail is a step in the right direction and provided comment on possible additions to the report.

Motion by Vanden Heuvel, second by Haughey, and by unanimous vote

Moved to receive and file the First Quarter Actual vs. Budget Report for the period July 1 2010 through September 30, 2010, as presented

C. LAND SUBSIDENCE COMMITTEE

Mr. Manning stated Watermaster has been working for many years with the MZ1 Technical Committee and during the course of work in that zone, that committee has expanded the knowledge base of the Chino Basin Watermaster; giving all a better understanding of what might be occurring in other parts of the basin as well. Mr. Manning stated the MZ1 Technical Committee is not comfortable in talking about developing strategies because they have basin wide implications. The MZ1 Committee strongly believes that other basin partners need to be involved in the decision making process and have now requested the MZ1 Technical Committee be broadened to a basin wide committee and be open to all parties. Mr. Manning stated Mr. Malone is here today to discuss or explain any questions since he is the lead engineer on the MZ1 Technical Committee. Mr. Manning stated all Pools and the Advisory Committee have approved this item unanimously. Mr. Vanden Heuvel inquired about when the subsidence issue first emerged as a point of concern amongst the parties. Mr. Vanden Heuvel stated he recalls that the City of Chino took some kind of legal action against Chino Hills, and inquired if that legal action has been terminated or is there still something happening with this case. Counsel Slater stated there was a general overlay of no material physical injury which was contained in the Peace Agreement. There is also a specific reservation of rights and remedies under the Judgment that pertains to each individual producer's right to chase another in the event they don't like something related to an operation of a well. The Chino lawsuit arose in connection with an effort by the City of Chino Hills to expand its production facilities and then to secure an easement from the City of Chino to connect the production facility within its property. The City of Chino brought an action under the Judgment and requested the court to provide relief. That was held in abeyance while there was the formation of the MZ1 Committee and that action has never been fully dismissed or terminated. Mr. Vanden Heuvel stated the MZ1 group and Watermaster are one of our finest pieces of work. Mr. Vanden Heuvel offered comment and concerns regarding this matter. Mr. Manning stated this is a proposal from the MZ1 Technical Committee and offered comments on the benefits from some committee members. Mr. Malone stated he does not believe there will be any dilution of effort in MZ1; there is a written plan and an ongoing program. The discussions at the MZ1 meetings have included a great deal of subsidence education and the stakeholders in this committee now are well educated on the process, the monitoring technologies, and the solutions. They explicitly want to share that information with others that might have similar problems that are a threat, or that might be occurring in the near future. Mr. Malone stated he felt that by opening this committee up to everyone, the committee is committed to helping other partners in the basin to address this potential problem in the future. Mr. Malone noted all parties fund the land subsidence monitoring program so having this committee meet in a more open forum is a good idea so that all can have input on the expenses and projects. Mr. Manning offered closing comments.

Motion by Vanden Heuvel, second by Haughey and by unanimous vote

Moved to rename the MZ1 Committee to the Land Subsidence Committee and open the meetings to all Watermaster parties, as presented

D. LOCATION OF WELL I-17

Mr. Manning stated as part of the process for working with the CDA parties and the expansion parties Watermaster is committed to working with them as a partnership as they move through the decision making process about where well sites are going to be located and whether those locations meet the requirement to address hydraulic control. Mr. Manning stated as sites are being proposed, Watermaster is providing them with a Material Physical Injury analysis for those wells; well locations for I-16 and I-18 were previously approved through the Watermaster process. Mr. Manning stated well I-16 have been dug, I-18 will be worked on shortly, and well I-17 has been identified. Watermaster, through Wildermuth Environmental, has done a material

physical injury analysis; well I-17 shows no material physical injury as long as it is pumped through the upper zone. Mr. Manning stated there are three additional wells that are being reviewed which are I-19, I-20, and I-21 and those run right along Kimball and staff is working with the county using airport land for those; these three wells will also go through the Watermaster process probably in the next few months. Mr. Manning stated staff is asking for the approval of the well location for I-17 and noted this is coming to this committee with all Pool and Advisory Committee unanimous approval. Mr. Manning stated the motions were conditioned upon subject to screening in accordance with Watermaster criteria which is the shallow zone. Mr. Vanden Heuvel noted that he does not recall every approving a well location and it is not a good precedent; the motion should be to approve a resolution that if you put the well in this spot it meets the criteria. Mr. Vanden Heuvel stated the approval of an actual well location is one step too far. There is autonomy of the members of the Judgment with regards to their authority and ultimate responsibility with regards to where they decide to put wells; Watermaster has its responsibility to insure there is no material physical injury. In this case, one of the criteria that is important to Watermaster is to make sure there is no material physical injury by pumping from the shallow aquifer and then because other policy objectives with regards to Hydraulic Control, staff has offered up some relief from replenishment if they are put in certain locations and I don't have any problem stating that this location would meet the criteria that has been laid out; however, actually approving a well location is a dangerous precedent for Watermaster. Mr. Manning stated this Board had this discussion for wells I-16 and I-18 when they came up through the process. Mr. Manning noted this not a normal course of action taken by Watermaster in the past; however, with the extending set of circumstances with this refined look at the Chino Creek Well Field and its establishment of Hydraulic Control, understanding it's not the requirement of the Desalter Authority to create Hydraulic Control – only create Hydraulic Control if they are going to take advantage of the 400,000 acre-feet. They want to make sure they are working hand-in-hand with Watermaster in this development of a program so they don't make a decision that is contrary to our ability; this has been thoroughly discussed as part of the resolution development. Counsel Slater stated Watermaster has no general permitting authority under the Judgment; the specific locations of the wells are left to the producers who then have individual remedies against each other in the event that the operation of the wells creates problems. There are overarching responsibilities of Watermaster that devolve from the Peace Agreement which sits under the umbrella of the Judgment. When the approval of the Resolution was done there was verbatim reference to this item that was carried forward on the Resolution because there is somewhat a concern that Watermaster's approval was an intent to renegotiate an item that was under the Peace Agreement. It was noted that the Watermaster Board members and Watermaster staff stated that we are not renegotiating, we are going to do exactly what we agreed to do under the Peace Agreement and carry it forward. The obligation under the Peace II Agreement is pertinent to the court sign-off; the court has made 400,000 acre-feet available for a specific purpose, Watermaster is supposed to approve a project that is reasonably calculated to achieve a result. That was one purpose of the location. This is different from Watermaster's direct obligation. Counsel Slater read verbatim the provision of the Peace II Agreement that pertains to the Desalters. Counsel Slater stated he reads this to say a broad area has been identified within Peace II; you locate the wells there such that it would be reasonably calculated to achieve the objectives and that the specific location, they select, and then the Watermaster Board approves it – and that is what is being asked to do here. The design and construction shall be in accordance with the OBMP and subject to Watermaster approval; your approval should not be unreasonably withheld and should ensure the operation of the Desalters will implement the OBMP and not result in material physical injury to any party to the Judgment or the basin. This has been an item of lengthy discussion with the CDA. Counsel Slater stated with what has been stated he believes it is the Board's obligation to approve but did not select, they selected, and you are concluding that the selection of the location is consistent with your responsibilities under the Peace Agreement and nothing more. Mr. Vanden Heuvel stated he would move approval of this item; however, there is a discussion point. Mr. Vanden Heuvel requested Counsel Slater's colloquy be placed verbatim in the minutes. Mr. Vanden Heuvel requested counsel to clarify that the approval of these wells is specifically called for in the Peace Agreement and is not precedent setting for any other well that

any of our parties may wish to drill or site in the future. Counsel Slater stated it is the specific obligation devolves for with regard to only the Desalter wells as defined in the Peace Agreement and it does not set precedent for any other producer or well operation anywhere else in the basin. Chair Camacho acknowledged we are choosing a well location; we are merely approving the location that has already been chosen. Counsel Slater stated that is correct.

Motion by Vanden Heuvel, second by Kuhn, and by unanimous vote

Moved to approve the CDA location of well I-17 subject to screening in accordance with Watermaster criteria, as presented

III. REPORTS/UPDATES

A. WATERMASTER GENERAL LEGAL COUNSEL REPORT

1. Paragraph 31 Appeal

Counsel Slater stated there was a handout on the back table with regard to this item. Counsel Slater gave a summary of the handout document and offered history regarding this item. Counsel Slater noted staff is seeking a motion to support the paperwork filed with the court because it was time sensitive.

Motion by Kuhn, second by Vanden Heuvel, and by majority vote – Non-Agricultural Pool abstained

Moved to ratify the action taken, as presented

2. Resolution 2010-04

Counsel Slater stated Resolution 2010-04 was approved knowing there were further actions to be taken; 1) by the CDA to approve a suite of documents, and 2) regarding Metropolitan Municipal Water District (MWD) with regard to the LRP or other associated subsidy for the Desalters. Counsel Slater stated with regard to the CDA action; all of the underlying documents are in a scintilla of completion. The MWD is also requested that the CDA take that action as a predicate to its action the requested subsidy. MWD staff appears poised to support it and they are set on the \$139 price.

3. Judgment Update

Counsel Slater stated the discussion of a single unit document has taken place during several meetings; staff and counsel were in the process of creating this document when the court said it wanted a restated Judgment filed. The courts view concurs with our own and staff and counsel are in the process of doing this task. Counsel Slater stated something will be available in December to go through the Watermaster process and for presentation to the court in January. A lengthy discussion regarding this matter ensued.

B. CEO/STAFF REPORT

1. Legislative Update

Mr. Manning stated there is a legislative handout on the back table which covers many of the current legislative issues in greater detail and does a good job of highlighting the issues. Mr. Manning reviewed a portion of the handout and discussed the budget which needs to be further reduced.

2. Recharge Update

Mr. Manning stated the most recent recharge update handout is available on the back table. Mr. Manning reviewed the spreadsheet in detail.

3. Cumulative Unmet Replenishment Obligation Update

Mr. Manning stated there has been a request that Watermaster include the CURO as part of its continued financial reports. Staff is working on that and it has not yet been decided where the best place is to put this information. The current CURO is 8,839.085 acre-feet and that is after it has been reduced by almost 12,064 acre-feet. A discussion regarding this item ensued.

4. Re-approval of the Chino Basin Watermaster Nine Member Board

Mr. Manning stated Watermaster staff has been approached by several Appropriators independently who have said, we are in favor of extending the nine member board the way it is. Mr. Manning referenced the draft pleading that is being handed out and stated this is a request for an extension of this board as it is today for another five years and with this board's concurrence, staff will put this through the Watermaster process for approval in December. This will come to this board on December 16, 2010, so that it will be included for the January 21, 2010, hearing date.

5. Agricultural Pool Request for Presentation of the ABGL Group on the Ontario Plume

Mr. Manning stated the Agricultural Pool took action in its recent Pool meeting during its closed session that the ABGL give a presentation regarding the Ontario Airport plume issue to the Watermaster Board during a closed session at the December 16, 2010 meeting. Once the times are set, staff will send out a notice for this special closed session. Mr. Vanden Heuvel stated the Agricultural Pool Board members were instructed by the Agricultural Pool to formally request a confidential session of the Watermaster Board for the purposes of receiving information with regards to the Ontario plume. Mr. Vanden Heuvel stated he hereby is making that formal request. Mr. Vanden Heuvel noted this information that is going to be provided is going to be valuable for the Watermaster Board to be exposed to and to digest; this will allow this Board to give better direction to our staff on how to deal with the future.

IV. INFORMATION

1. Cash Disbursements for October 2010

No comment was made regarding this item.

2. Newspaper Articles

No comment was made regarding this item.

V. BOARD MEMBER COMMENTS

Mr. Camacho made some inquiries as to Watermaster showing any actual full credit card numbers on financial reports/statements. Mr. Joswiak stated any and all credit card account numbers, if they are showing up on any documents, they will be promptly removed.

VI. OTHER BUSINESS

No comment was made regarding this item.

VII. FUTURE MEETINGS

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| * Thursday, November 18, 2010 | 11:00 a.m. | Watermaster Board Meeting @ CBWM |
| Thursday, December 2, 2010 | 1:00 p.m. | Appropriative Pool Meeting @ CBWM |
| Thursday, December 2, 2010 | 2:30 p.m. | Non-Agricultural Pool Conference Call Meeting |
| Thursday, December 9, 2010 | 9:00 a.m. | Agricultural Pool Meeting @ IEUA |
| Thursday, December 16, 2010 | 8:00 a.m. | IEUA DYY Meeting @ CBWM |
| Thursday, December 16, 2010 | 9:00 a.m. | Advisory Committee Meeting @ CBWM |
| * Thursday, December 16, 2010 | 11:00 a.m. | Watermaster Board Meeting @ CBWM |
| Thursday, January 6, 2011 | 1:00 p.m. | Annual Appropriative Pool Meeting @ CBWM |
| Thursday, January 6, 2011 | 2:30 p.m. | Annual Non-Agricultural Pool Meeting |
| Thursday, January 13, 2011 | 9:00 a.m. | Annual Agricultural Pool Meeting @ IEUA |
| Tuesday, January 18, 2011 | 9:00 a.m. | GRCC Committee Meeting @ CBWM |
| Thursday, January 20, 2011 | 8:00 a.m. | IEUA DYY Meeting @ CBWM |

Thursday, January 20, 2011 9:00 a.m. Annual Advisory Committee Meeting @ CBWM

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| Friday, January 21, 2011 | 10:30 a.m. | CBWM Court Hearing @ Chino Courthouse |
| Thursday, January 27, 2011 | 11:00 a.m. | Annual Watermaster Board Meeting @ CBWM |

*** Note: Date changes due to holiday schedules**

The Watermaster Board meeting was dismissed by Chair Camacho 12:23 p.m.

Secretary: _____

Minutes Approved: December 16, 2010