

MINUTES
SPECIAL MEETING OF THE
BOARD OF DIRECTORS
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
JANUARY 6, 2003

45122 The Board of Directors of The Metropolitan Water District of Southern California met in Special Meeting in the Board Room located in the building at 700 North Alameda Street in the City of Los Angeles, State of California, on Monday, January 6, 2003.

Chairman Pace called the Meeting to order at 10:53 a.m.

45123 The Pledge of Allegiance to the Flag was given, led by Director James M. Rez.

45124 Secretary Hansen called the roll. Those answering present were: Directors Abdo, Bakall, Ball, Bannister, Blake, Brick, Brown, Coughran, De Jesus, Edwards, Foley, Hansen, Herman, Kwan, Lewis, Loveland, Luddy, Mejia, Morse, Murph, Murray, Mylne, Owen, Pace, Parker, Peterson, Rez, Stanton, and Wright.

Those not answering were: Directors Ashley, Castro, Dentler, Fellow, Grandsen, Harris, Morris, and Troxel.

The Chair declared a quorum present.

45125 The Chair announced that this is a Special Meeting of the Board and discussion, comments, and actions are necessarily confined to the items listed on the Board agenda.

45126 Chairman Pace invited members of the public to address the Board on matters within the Board's jurisdiction.

David Czamanske of the Sierra Club commended Chief Executive Officer Gastelum for declining to sign the complex Quantification Settlement Agreement (QSA) and related agreements advanced by Imperial Irrigation District (IID) at the very last moment at the end of the year. He commented on IID's water wastage and the fact that nothing concrete has been done by any of the regulatory agencies to control that wastage. Mr. Czamanske asked that all agencies involved in the QSA continue with their negotiations, and not to let the matter of IID's water wastage be swept aside. He requested that Metropolitan continue to promote other means of water supply needs, such as water conservation, water recycling, etc.

45127 Chief Executive Officer Gastelum gave a brief report on the negotiations with the four agencies involved in the QSA to meet the deadline of December 31, 2002 for its execution. He stated that all the agencies worked through the holidays up to December 31 but were not able to reach a final agreement, with the IID board approving an agreement with additional demands at the last minute, which the other agencies could not review in time before the deadline date. Mr. Gastelum stated that staff would give a further report, and he commended Vice President of Colorado River Resources Underwood and General Counsel Kightlinger for their efforts, working long hours through the holidays, to try and bring the QSA to a closure.

Chief Executive Officer Gastelum also informed the Board that staff would give an update on Metropolitan's water supply resources for the coming year, looking out to 2004 and possibly beyond. He said that staff continues to believe that there are adequate supplies to meet all needs and that Metropolitan is in a position to wait for a QSA that is both reasonable and feasible.

Vice President of Colorado River Resources Underwood stated that although the QSA was not approved by all the agencies involved on December 31, a lot of effort went into the negotiations and they accomplished many things that were thought by some to be impossible. He felt very optimistic that there would be a QSA in the very near future. Mr. Underwood stated that the Board had approved the revised terms to the QSA on December 10, 2002, and Metropolitan, Coachella Valley Water District, and San Diego County Water Authority had approved the

QSA in that form. However, IID did not take that up, but only considered the environmental document, which they voted not to move forward with. Discussions have continued with IID to identify their additional concerns since everyone thought they had an agreement through the Hertzberg process on October 15, 2002. IID has supplied the negotiating teams with a list of about ten or 15 items of their concerns, which were eventually narrowed down to four issues.

With the aid of slides, Vice President Underwood gave a presentation of the current status of the QSA. He showed the New IID Demands, as follows:

- \$150 million State loan guarantee
- \$200 million of Proposition 50 funds
- Compensation for flows to Salton Sea
- Habitat Conservation Plan "best efforts" and assurances

Mr. Underwood stated that the first two items could not be guaranteed before December 31, 2002. He continued to explain the differences in IID demands and how the Department of the Interior (Interior) viewed them as "off ramps" which were not agreeable to Interior.

Mr. Underwood also presented information on (1) the Interim Surplus Guidelines and the effect of the guidelines without the QSA; and (2) the 2003 approved water orders without the QSA.

Chief Executive Officer Gastelum then called on Vice President of Water Transfers and Exchanges Man to give the report on the water supply outlook. Ms. Man gave a brief review on (1) the water supply status as of January 1, 2003; (2) the expected scenarios of meeting demands and use of storage accounts in 2003; and (3) the expected scenario of meeting demands in 2004.

Vice President Man then summarized the water supply reliability outlook that over the next few years Metropolitan will:

- Meet firm demands
- Meet expected replenishment needs

- Meet expected agricultural needs
- Maintain reservoir storage within its service area
- Provide a long-term resources plan

Director Bannister withdrew from the Meeting at 11:35 a.m.

Discussions took place on the reliability of water supply beyond the year 2005, surplus water, conservation, growth projections, urgency of the QSA, Salton Sea, Palo Verde water, shutdown of the aqueduct, and the Hayfield project. A request was made for a breakdown of the costs relating to the various scenarios in meeting the demands as presented.

Directors Coughran and Herman withdrew from the Meeting at 12:00 p.m.

Director Foley withdrew from the Meeting at 12:07 p.m.

Director Ball withdrew from the Meeting at 12:15 p.m.

Regarding the QSA matter, the Board directed staff to continue discussions of Metropolitan's position on the QSA with the Secretary of the Interior, Imperial Irrigation District, Coachella Valley Water District, and San Diego County Water Authority. However, staff should make no agreements beyond what the Board authorized at its meeting of December 10, 2002, when the Board reviewed the QSA in detail.

Chairman Pace stated that Metropolitan and its member agencies have done a tremendous job of continuing to provide Southern California with a safe, reliable and affordable water supply for the foreseeable future; and although the suspension of the Interim Surplus Guidelines results in a serious situation, there is clearly no emergency due to Metropolitan's foresight and planning.

45128 Chairman Pace referred to his letter signed on January 6, 2003, describing the proposed new committee restructuring. The Chair stated that after receiving comments from other Directors on how to strengthen the committee structure and reinvigorate the Executive Committee, he has made the following changes, to be effective January 1, 2003, which

changes were approved by the Executive Committee on December 19, 2002:

1. Dissolve the Special Committee on Diamond Valley Recreation and assign the current responsibilities and oversight to the Asset, Real Estate and Infrastructure Policy Committee.
2. Dissolve the Subcommittee on Rules and Ethics into the Executive Committee, giving the Executive Committee the oversight and responsibility of reviewing and approving Board and committee agendas and the scheduling of Board and committee meetings.
3. Formally establish the Subcommittee on Ethics, focusing on the policies and procedures regarding Metropolitan's ethics program.
4. Create the Special Committee on Water Education to provide oversight and policy development for the management and implementation of Metropolitan's education programs.
5. Create a new Desalination Subcommittee to provide oversight and policy development for seawater desalination and its development in Metropolitan's service area.
6. Update the memberships of the committees by appointing new officers of the Board, chairs, vice chairs and members of the committees.

The new committees are as follows:

Standing Committees

Executive Committee
Asset, Real Estate and Infrastructure Policy Committee
Budget, Finance and Investment Committee
Communications, Outreach and Legislation Committee
Engineering and Operations Committee
Legal, Claims and Personnel Committee
Water Planning, Quality and Resources Committee

Special- and Sub- Committees

Audit Subcommittee
 Desalination Subcommittee
 Ethics Subcommittee
 Nominating Committee
 Special Committee on Water Education
 Subcommittee on SWRCB Phase 8 Settlement Discussions

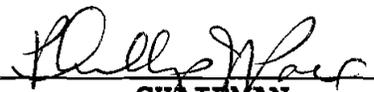
Director Murph moved, seconded by Director Wright and carried, that the Board adopt the California Environmental Quality Act determination and approve the revised committee structure as approved by the Executive Committee on December 19, 2002, as set forth in the letter signed by the Chairman of the Board on January 6, 2003. The Administrative Code will be amended accordingly and brought to the Board at a later date for ratification.

45129 Chairman Pace announced that his activity report would be taken up at the January 14, 2003 Board Meeting.

45130 Chairman Pace advised the Board that additional information on the QSA and the continued negotiations will be reported on as new information is received. The projections as to the costs of all the programs that have been discussed will also be submitted to the Board.

45131 There being no objection, the Chair adjourned the Meeting at 12:35 p.m.


 SECRETARY


 CHAIRMAN