

**MINUTES OF A REGULAR MEETING
OF THE BOARD OF COMMISSIONERS
VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
June 17, 2010**

CALL TO ORDER: Chair Thurston Smith called the meeting to order at 7:35 a.m. on June 17, 2010 in Room 146 at the VVWRA Administrative Offices, located at 15776 Main Street, Suite 3, Hesperia, California, with the following members present:

**TOWN OF APPLE VALLEY
HESPERIA WATER DISTRICT
CITY OF VICTORVILLE
ORO GRANDE (CSA 42) AND
SPRING VALLEY LAKE (CSA 64)**

**Bob Sagona
Thurston Smith
Rudy Cabriales
Jeff Rigney**

VVWRA Staff and Legal Counsel:

**Logan Olds, General Manager
Piero Dallarda, Legal Counsel (BB&K)
Chris Anthony, Construction Project Manager
Robert Coromina, Network Supervisor
Chieko Keagy, Accounting Technician
Linda Ellsworth, Management Technician to GM**

**Patricia Johnson, Secretary to the GM and Board
Gilbert Perez, Director of Operations
Melanie Mendez, Accounting Supervisor
Angela Valles, Director of Admin. Services
Marce Delaney, Pretreatment Supervisor**

Others Present:

**Sean McGlade, City of Victorville
Kevin Smith, Town of Apple Valley
David Mueller, High Desert Politics.com
Arun Sharma, UTS Bioenergy
Juan Josse, HDR Engineering
Anthony Magnuco, VVC Student
Pat Shields, VVC Student**

**Amer Jakher, City of Victorville
Jim Cox, City of Victorville
Brian Johnson, City of Hesperia
Ryan Orr, Passantino Andersen Communications
Caren Patterson, VVC Student
Carolyn Meyers, VVC Student
Ken Smith, VVC Student**

CALL TO ORDER

PUBLIC COMMENTS – CLOSED SESSION AGENDA

Chair Smith asked if there were any comments from the public regarding any item on the Closed Session agenda. Hearing no comments, he called for a motion to enter into Closed Session.

CLOSED SESSION

Commissioner Cabriales made a motion to enter into Closed Session at 7:35 a.m., which was seconded by Commissioner Sagona and approved by unanimous voice vote.

REPORT FROM CLOSED SESSION

Piero Dallarda announced that there were items to report from Closed Session. The Commission met in Closed Session under Government Code Section 54956.8 dealing with the acquisition of property easements for APN 0415-011-05 and APN 0415-262-01. As a result of the Closed Session, the Commission has authorized the General Manager to make an offer for an easement on APN 0415-011-05 in the sum of \$8,800.00 and for a temporary construction easement for APN 0415-262-01 in the sum of \$3,200.00.

CALL TO ORDER & PLEDGE OF ALLEGIANCE

REGULAR SESSION

Chair Smith called the Regular Meeting to order at 9:05 a.m.

PUBLIC COMMENTS – REGULAR SESSION AGENDA

ANNOUNCEMENTS AND CORRESPONDENCE:

4. Possible conflict of interest issues

Manager Olds reported that he was not aware of any possible conflict of interest issues on the agenda.

5. Staff Introductions

- **Chieko Keagy, Accounting Supervisor**

Manager Olds said he would like to introduce VVWRA's new Accounting Supervisor, Chieko Keagy, who was hired on May 19, 2010. She is an active Certified Public Accountant who obtained a Bachelor of Science in Business Administration from Cal Poly Pomona and an Associate of Arts degree from Riverside Community College. Prior to coming to VVWRA, Chieko was employed for 20 years including two years with Teaman Ramirez and Smith CPAs. Chieko was born in Japan and now resides in Riverside with her husband, Richard. They have one daughter, Lisa, who is married to Andy. When not at work, Chieko enjoys gardening. Manager Olds asked the Commissioners to please welcome Chieko to VVWRA.

- **Melanie Mendez, Accounting Technician**

Manager Olds said he would like to re-introduce Melanie Mendez, who was first introduced to the Board in September 2009 as VVWRA's Interim Accounting Supervisor. Melanie has accepted a permanent position at VVWRA and will now serve as an Accounting Technician to replace Tacey Barclay, who

retired on June 11 with 24 years of service. Manager Olds said there is now more consistency in our financial reports and he thanked Melanie for the hard work she has done.

CONSENT CALENDAR:

6. **Approve the May 2010 Cash Disbursements Register (No. 0510)**
7. **Approve the Minutes of the May 3, 2010 Special Meeting and the May 20, 2010 Regular Meeting Adjourned/Continued to May 27, 2010**

Commissioner Sagona made a motion to approve the consent calendar, which was seconded by Commissioner Rigney and approved by unanimous voice vote.

PUBLIC HEARING:

8. **Review and Adoption of FY 2010-2011 Budget**

Piero Dallarda said he just asked the Board's Clerk if a notice of the Public Hearing was properly posted and she has indicated that it was so the Public Hearing may be opened at this time.

Chair Smith opened the Public Hearing at 9:09 a.m. and announced that no Speaker Requests cards were received. Hearing no comments from the public, the Public Hearing was closed at 9:10 a.m.

REPORTS & PRESENTATIONS:

9. **Presentation: FY2010-11 Budget:** Manager Olds said the budget provided as Item 9 in the agenda package has been revised once again. What we were trying to do is to get as much information out as quickly as we could. The Finance Committee met yesterday and reviewed another version, which is provided in your handout folders. The majority of changes have related to how the information looks as it is presented. Also there was a request to include an appendix with the flow diversion and without the flow diversion to show how the numbers would look on a number of the schedules. We have also been working through the new software program. He said it is his recommendation today that Item 11 be tabled. What we want to do is distribute the latest version and schedule the review and adoption of the budget to occur at the June 29 Regular Meeting. The reason for this recommendation is because of the formative style changes made to the budget. We do not want the public to think that we substantially changed anything and we also want to make sure there is enough time for the Commissioners to review the revised budget before the June 29 meeting.

At this time, Angela provided a review of the proposed FY 2010-2011 budget. She reported that the budget provided under Item 11 was revised to incorporate recommended changes from the Finance Committee and that all schedules have been broken out between Operations, Maintenance and Administration as requested by the Finance Committee.

Commissioner Sagona said it appears that \$170 million will be required to expand the treatment plant with subregionals through an SRF loan. The budget is up \$34.7 million over the previous year and those projects account for that. The projects are not mandatory, but they are necessary.

Manager Olds said for the flow diversion, there are four different ways you can calculate fees. The assumption was made that if there is a flow diversion, each member agency would bear that expense equally. That is how those numbers are then derived.

Piero reported that he was just advised by the Board's Clerk that there are some noticing requirements for your Public Hearing to adopt the budget. He said you are required to give notice of a Public Hearing 10 days before the Public Hearing. We are OK on time because there are 12 days before the meeting on June 29. However, he just learned from Ms. Johnson that the local newspaper would require 14 days for the publication of the public notice. As a result of that, he would suggest to the Commissioners that the Public Hearing be reopened and that it be continued to the next regular Board meeting on June 29 so the Commissioners will be able to adopt the budget if they so choose. You have the time to post a public notice, but the newspaper requires several additional days to publish a legal advertisement. Piero said a motion is not necessary to reopen the Public Hearing and continue it to June 29.

At the advisement of legal counsel, Chair Smith reopened the Public Hearing and announced that the Public Hearing will be continued until the June 29, 2010 Board meeting. It was the consensus of the Board that Item 11 will also be continued until June 29, 2010.

ACTION & DISCUSSION ITEMS:

10. Status of the Final Version of the Amended and Restated Joint Powers Agreement: Chair Smith announced that there has been no update on this item.

11. Resolution 2010-11: Approve and Adopt FY 2010-11 Budget:

It was the consensus of the Board to continue Item 11 to the next Board meeting.

12. Resolution 2010-9: Approve FY 2010-11 Holiday Calendar: Manager Olds reported that the approval of a Holiday Calendar by Board Resolution is something we do every year. Holidays for the upcoming year are allocated each year during each budget process. Commissioner Sagona asked if the proposed holidays are the same as those approved in prior years. Manager Olds confirmed that the holidays are the same and it is the standard procedure to put this before the Commissioners for approval.

Commissioner Sagona made a motion to approve the FY 2010-11 Holiday Calendar under Resolution 2010-9, which was seconded by Commissioner Cabriales and approved by unanimous voice vote.

13. Recommendation to Approve Power Purchase Agreement with UTS Bioenergy: Manager Olds reported that as the conversation progressed at the last Board meeting, a presentation was given

and it was the desire of the Commissioners to move forward and finalize the document. The final document has been distributed to the member agencies and to the Commissioners. He said what he would like to do is comment on why we are discussing this and then move forward and answer any questions of the audience and the Commissioner. Going back to 2006 when we had three dead digesters and the plant was operating with any number of issues, we had 10 temporary staff working full-time to assist operations at that time. Since that time, we have improved our operations a great deal and were just awarded the second best treatment plant for our category of our size in the State of California.

Manager Olds said the reason why we are considering the fuel cell project is that we have two waste gas burners behind our digesters that are burning 24 hours a day. That is methane gas that can be used for other reasons. He said since he has been at VVWRA, the Commissioners have rightly kept a very close eye on costs and have continued to want to improve the efficiency of the facility. Right now, our old blower engines work on a mixture of 50 percent natural gas and 50 percent methane that we produce onsite. Our new engines can only run on 100 percent natural gas due to how they were constructed. We moved forward with a project to install a gas scrubbing system so that we could reuse 100 percent of the gas that we are generating onsite in our existing blower engines. The problem is that we are producing so much gas that we would still be flaring it and get no benefit from it. As the Commissioners are aware, Personnel costs are always the number one expense. At a treatment plant, the number two expense is utilities and the number three expense is chemicals.

Manager Olds said Amy is here today from Southern California Edison (SCE), who has the task of telling him what their new rates will be based on their projections and we are looking at an increase of 4.2 percent increase this year. We are not yet certain what the rate will be next year or the year after. As the Commissioners are aware, there are a number of regulatory requirements that have been imposed upon VVWRA. Namely, reducing nitrogen and eliminating the production of disinfection byproducts such as Trihalomethanes. All of these elements increase the consumption of natural gas and electricity at our facility. In attempting to be a good steward of the public resources in which we are entrusted, we started identifying ways that we could offset that expense by utilizing the methane that we produce onsite. Thus, the fuel cell concept was born. We have been working on this concept for quite some time now. The first presentation was given to the Commissioners in January or February of this year, followed by the presentation given in May. Since then, a meeting was held with the Engineering & Operations Committee during which several questions were raised. To wrap up, the purpose of this is to provide knowledge of what our fees are going to be in the future and providing some stability to that as well as turning what is currently a waste product at the treatment plant into something that either generates revenue or at least reduces our fixed costs which in this case, the fixed cost being electricity. Manager Olds said Phase II of the project is that we have two internal combustion engine (ICE) driven generators onsite. We recently built two new beautiful digesters of approximately one million gallons capacity each. They are only requiring about 50 percent of their capacity right now to meet our needs. That unused 50 percent represents fixed costs that your member agencies are paying for without receiving any benefit. Manager Olds said what he would like to do is acquire additional sources of high strength waste and we would have the ability through another program that SCE kindly offers to actually produce electricity with those ICE-driven generators and sell it back to SCE.

Manager Olds said he would be glad to answer any questions and he announced that Juan Josse of HDR Engineering and Arun Sharma of UTS Bioenergy were also present to answer questions. Commissioner Cabriales said he met yesterday with Victorville staff and they still have questions and would like to look at this further. This has been done in foreign countries, but this is UTS's first project in the United States. Manager Olds said UTS has done various types of projects. He asked Arun Sharma to address Commissioner Cabriales' comments. Arun said UTS is the largest biogas fuel producer in the world. These projects are not new and there are plenty of references available. Today, there are 15 facilities operating in California of the same size, but it is under a different financing mechanism. No one has done this type of agreement before in the state of California or any other state. This would be the first in the United States. Manager Olds said those 15 projects that are similar were self-financed. VVWRA is not the position to self-finance the purchase and acquisition of these facilities, unless the Commissioners would like to spend \$6 to \$8 million. Chair Smith said he would like to receive a list of the 15 projects in California so he can find out how they are running. He said if we do not go forward today, we have another two weeks to review this.

Piero said he would like to make it clear that before the project can go forward, there are a couple of things that have to occur. First we would have to go through a CEQA review process, which will not take long because either this project would qualify as an exemption or addendum to your Phase IIIA Expansion project. The other process you have to go through is that the Commission will have to make certain findings regarding public bidding. There is a special statute that was enacted by the legislature to allow projects to move forward without having to go out for public bid. However, the statute requires you make certain findings. Today you are not signing a contract and approving the project, but you are discussing the terms themselves. Manager Olds said we still have to hold a Public Hearing for the CEQA process. We are prepared to do that at the next meeting.

Piero said this project is very unique. It is UTS who is spending the money upfront to set up the system. There is a take or pay provision, which is necessary for two reasons. One is that UTS needs it for their own purposes and the other is that they cannot qualify for the incentives that would allow this project to go forward unless that provision was there. To paraphrase this 48 page agreement, VVWRA is going to provide UTS with digester gas. If the digester gas is not of high enough quality or quantity required by the fuel cell to produce electricity, then VVWRA will have to provide natural gas. The fuel cell will produce the electricity and then VVWRA agrees to buy a certain amount of electricity pursuant to the schedule that is attached as Exhibit D of the agreement. The provider needs to have the assurance that whatever money they put in they will get back in the form of payments for electricity. You will be agreeing to take a certain amount of electricity and if you do not take it and use it for any reason, you still have to pay for it and that is your responsibility. Piero said Exhibit B specifies the type of quality and quantity of gas that VVWRA would provide. If you do not meet that, then you would have to supplement with natural gas. You have to trust staff that the quality and quantity of the digester gas will probably meet the requirements of the UTS system.

Manager Olds said this is why we do cogeneration currently. The heat that is generated from the combustion inside our blower engine is re-circulated back to our digester. Digesters do not operate unless they are kept at very specific temperatures. The natural gas that we are purchasing plus the biogas that we are generating when fired, produces heat as a byproduct. That heat, through a series of heat exchangers, is then returned to the digesters. Chair Smith said section 5.2.4 says the Provider will

retain all tax credits. Piero said all the carbon credits go to the provider who owns and operates the system for VVWRA. VVWRA does not own and operate the system. You are leasing your property and entering into a power purchase agreement. That is part of financial consideration that allows UTS to go forward with this agreement so that VVWRA does not have to put any money down.

Piero said back in the 2000's he represented a lot of entities that had a lot of utility credits. That was a crazy market. Trying to determine the dollar value of it was very hard because it would spike and then go down depending on what was happening in the market and he does not think it would be easy today to predict. Manager Olds said from a negotiations perspective, when this project was first introduced in February we were looking at a Capital cost of over \$2 million to implement this. That element is now gone. In the previous agreement it was a 50-50 share between those tax credits, with UTS administering the tax credits. Currently, we do not have the staff or expertise to track that market. As Piero mentioned, there is a great degree of volatility with those credits. No one knows what the values are because it is highly politically driven. To account for that, let's assume it will take the politicians who are representing those interests five years for that market to establish itself. Another five years in which to say OK the market is stabilized and we know it has X amount of value. The agreement before you has a condition wherein after 10 years we can purchase the fuel cell system for \$2.5 million. The intention then is that once that market has stabilized it may very well be worth our trouble, our time, and our expense to purchase this project to gain access to those investment tax credits and carry the project forward ourselves. It is too volatile now and it is his understanding that the value of these tax credits to UTS may be a few tens of thousands of dollars. Arun said it is less than one half cent per kilowatt hour.

Commissioner Rigney said if you would list out the benefits to VVWRA it might be of help to the Commissioners. Manager Olds said a chart was presented at the last meeting, but he could develop a bulleted list of the project benefits. One of the great elements of this Power Purchase Agreement is the fact that any electricity we purchase over 900 kilowatts is then discounted. UTS Bioenergy is willing to drop their price an additional one cent per kilowatt hour and, although that may not seem significant, when we are using one megawatt per day of power that penny adds up quickly. The chart that was shown represents the potential savings to VVWRA. If we are looking at a four percent evaluation at 900 kilowatts, VVWRA would save \$3.4 million over the term of the agreement. If we were to use 1.1 megawatts, we would actually save over \$8 million over the term of the agreement. We want to present a consistent pricing scheme so that we know what we are going to face. Also, to reuse a resource that is currently considered a waste product at our facility.

Piero said as part of the findings that you have to make for the public bidding issues, Government Code Sections 4217.10 through 18 mention projects like this along with the findings. Manager Olds said we want to understand what the concerns are regarding the terms of the agreement because we still have a few steps to go through which will occur at the at the July 15 Board meeting. Piero said your General Manager is telling you that all concerns regarding the agreement terms need to be listed so they can be addressed. The Board will not be asked to sign this agreement until July 15 so that we can address all concerns and complete the CEQA process. Mr. Sharma's timeframe to apply for a grant is July 15. Chair Smith said if we go forward, we cannot get out of the agreement as easily as UTS. Piero said there is a termination provision in the agreement that sets forth the conditions that VVWRA can walk away without penalty. If five years from now VVWRA decides they do not want to do this and wanted to get out of the agreement, you would probably be subject to a penalty. There is a formula for the

termination value. Manager Olds said the only time a liability is triggered on VVWRA's side is if for some reason we choose that we do not want the fuel cell any longer. Manager Olds said there are questions from the audience.

Amer Jakher said the City of Victorville has a long list of concerns. We have checked with our consultants and he will go through some of the concerns. Some of the issues we have go back to the buyout clause. After 10 years, they will allow us to buy it for \$2.5 million. In this agreement, the total cost to UTS is about \$1 million after tax credits. Yet, in 10 years we would be able to buy it for \$2.5 million. The liability for providing the biogas is VVWRA's or we must give them natural gas. The fuel cell technology does work. The problem is that fuel cells can go down and if the fuel cell goes down there is no provision for the system going down.

Amer said we are locking ourselves into a contract to purchase way more energy than we need. The Edison rate has gone up two percent, but we are locking ourselves into a three percent increase. We would prefer that the agreement is modified so that UTS owns the gas scrubbing system. The buyout provision for the 10 year buyout should be based on the fair market value of that depreciated facility. We do not know how they came up with \$2.5 million dollars. There are other companies that have been in these systems. We have not gone out and asked for bids from other fuel cell providers. We do not have to do that but why not?

Amer said one thing that really disturbs us is that there is no financial or technical analysis of this proposal. HDR has done some work on this, but they are a partner with UTS. There is no technical analysis that says the specs are fine, the gas is coming out of the utility and the scrubbers are putting in real work. We do have concerns and we do have time. We would like to table this for another month or two and work with VVWRA to come up with a much better power purchase agreement that doesn't tie VVWRA's hands for the next 20 years. It is a lot of risk. We were able to calculate \$3.4 million investment and UTS will net \$12 million in benefit.

Manager Olds said Amer brings up very good points and he would like to address them. We are willing to go through and address each of them. Some of those elements have been looked at. One of the key issues relates of course to the gas scrubbing system and the quality of it. As was mentioned by Amer, we originally looked at this for our own purposes for replacing natural gas consumption at our facility. If we give them the gas scrubbing system and we could certainly do that element, should we then also give them the digesters because we operate the digesters that produce the gas? What about the treatment plant because ultimately it is how well our operations and maintenance staff function to control those pieces of equipment to make sure we get the solids to the digesters. So how far back do you want to go in the food chain to provide that level of risk security? As it relates to the gas scrubbing system, we are already going to have a third party provider who will operate and maintain that system to make sure that it meets those specifications as part of this contract. We need to make sure the gas goes to our blower engines. So do we create a situation then where we are responsible solely for creating the solids through efficient operations that go to the digesters, operating the digesters, and then that the gas produced from the digesters goes to the gas scrubbing system? The same thought process could say what would happen if our operations staff simply doesn't care and decides that we are going to operate our primary clarifiers inefficiently, not operate our aeration basins as well, and any number of issues.

Manager Olds said he takes issue with the scrubbing system because the way it works now, we have clear division of rights. We produce the gas that goes to them and they produce the electricity. What happens if they screw up the gas scrubbing system and we have to start purchasing natural gas for our blowers? It is all about where you want to accept the risk. Plus, with that type of an agreement we would have to have another agreement saying that UTS has to supply a certain quality of gas to VVWRA's blowers and it becomes more convoluted. The attempt here was to provide a clear division of responsibility that states who is responsible for what. The gas scrubbing system was originally intended as part of our overall efficiency project and is included in the Phase IIIA Expansion project for the State Revolving Fund (SRF) loan. Am I now going to be required to go back and extract that element from the SRF loan and renegotiate with the State? It just becomes messy. The key reason why he suggested included the gas scrubbing system on our side of the fence has to do with that division of rights and where do you cut the cord.

Manager Olds said Amer is correct. Those are different elements that we have looked at. He also has concerns about having a third party, but until we get some clear direction from the Board as far as if the Board is agrees in general with the terms that have now been formally presented to the member agencies can we do that. Manager Olds said that is why Amy of Southern California Edison (SCE) is here today because they have very graciously offered to review the public documents and see what those elements are. We did at one time talk about tying the price of electricity to the SCE rate. The difficulty though in negotiating that is that he would like to maximize the cost savings to VVWRA. What is interesting though is that as a public agency with public dollars there is a high level of risk aversion. If the Board is not quite as interested in maximizing the potential revenue increase, then we could re-look at tying the price of electricity to the SCE rate.

Manager Olds said from what he is hearing today, his impression is that the Board is saying that there are still certain pieces and parts that contain too much risk and would like us to take a look at. He asked Juan Josse if he would like to comment on Amer's comment about the applicability of the gas scrubbing system for the fuel cell. The gas scrubbing system was chosen six to eight months before the fuel cell concept arose. Juan said when we specified the gas treatment system with the blowers in mind, it was preselected and specified to remove hydrogen sulfide and to compress and remove the moisture necessary to remove all the siloxanes in order to meet the specifications for a lean-burn engine. That is the system that was specified and a price was negotiated with the supplier. Then later when the fuel cell concept was discussed, we asked ESC, the equipment supplier, what the cost implications would be and what design modifications would be desired. They said in terms of Capital cost, there would not be significant cost implications and no more than a five or ten percent difference. Arun said the cost information that Amer provided is probably based on inaccurate information. It would not cost UTS \$1.5 million it would cost \$10 million. Manager Olds said this is a PPA because we are not putting cash up front. One of the elements of the PPA and as far as the service agreement with the provider, they are on the hook to replace the stacks when they go bad. Manager Olds asked Arun what the cost of the stack replacement was. Arun said that would be \$2 to \$3 million. Manager Olds said if we use the low value of \$2 million it is estimated that during the first ten years, those stacks will be replaced twice. The way these agreements worked previously is that that they charged an O & M fee that did not include stack replacements. Now the stack replacement cost is wrapped into the O & M fee and it is based on the cost per kilowatt hour. One of the difficulties we faced in February was that it was for the full 1.4

megawatts. FCE has now determined that they are willing to reduce that cost so that it is only based on the amount that we consume.

Manager Olds said VVWA has been very forthcoming with the City of Victorville and Amer and the city's consultant in providing every single bit of information that we have developed. If statements are going to be made that the cost implications are going to be significantly different than we are purporting, he would request that the information be provided to VVWRA in the same level of openness that we have shown Victorville's consultant. Manager Olds said he is assuming that Amer is talking about numbers that have been generated by Mr. Viejo who has been retained by the city. If so, he assumes that VVWRA will be receiving that information very shortly with the exact numbers so that we can then compare apples to apples. Manager Olds asked Amer if that is correct. Amer said yes. Manager Olds said we look forward to the opportunity of taking a look at those numbers and if there is room for negotiation where I can get Arun to drop his prices even further based on the numbers that are provided by Victorville, then you can bet I will pursue it.

Chair Smith said if we can get Amy of SCE to guarantee a flat rate for .08 cents per kilowatt hour for the next 10 years then we have a deal. Amy said that is not going to happen. She said she is not a tax credits expert. Feasibility studies have been done and we will provide a proposal and say this is what we will save you. Amy said she will forward VVWRA's proposal and then come back and say this is what we deem possible. She said this will be done through the Public Utilities Commission -- not through SCE. Manager Olds said it is great that SCE is willing to assist us, which is quite a change from 2003/2004 when these concepts were originally proposed. Commissioners Cabriales and Sagona were on this Board when that was occurring and that project had to be abandoned. SCE and the other power providers have changed their business model to allow these types of self-generation projects. He would also think that the credibility level of SCE would be high because they are the ones to lose under this agreement. Amy said it is sustainability.

Chair Smith asked if this item can be placed on the June 29 agenda for discussion and said then we would still have a backstop of July 15. Manager Olds said yes. He said he would like to clarify the protocol that was determined today so that he can follow it step by step. He said he would like to clarify that the terms are OK in general and we will work with SCE for the evaluation, we will receive the comments from the City of Victorville and respond to those comments, and then we will report back to the Board on June 29. At the same time, we will be doing our CEQA addendum. Manager Olds asked if that was correct. Chair Smith said that was correct.

14. Recommendation to Approve Algae Evaluation by MicroBio: Manager Olds said it was requested by the County some time ago to investigate the potential of increasing methane production in our digesters by using algae. He said he has done a great deal of research on this topic and it leaves him very uncomfortable. Currently, there is some ongoing work between several organizations including Old Dominion University that desire to work with VVWRA as well as another private entity to develop some type of agreement. He said he is not comfortable enough to believe that is the right thing to forward on to the Board to recommend. He said after some searching, he found a consulting group that he felt provided the most neutral and unbiased approach. One that may actually say this is not a good idea. During that process, he identified MicroBio Engineering. John Benemen has been doing this for several decades and they were willing to cut their price in half to \$5,000. Manager Olds said he

recommends to the Board that we determine at this time whether or not the technology is there and if this is something that we should pursue or should not pursue. Manager Olds said because the digesters are sitting there underutilized, he would like to use them. We produce algae in the ponds now and if there is a way that we can increase methane production, he would like to have that evaluated. However, he is not necessarily convinced with the technologies that are out there that it is viable at this time. So he would prefer to have an evaluation done before moving forward with a scaled up project.

Commissioner Cabriales said if you are not convinced that it is the way to go using this process, then why are you recommending an evaluation. Manager Olds said that is a good question. What frustrates him is that we currently have two DAF's that are not being used – one for the primaries and one for the secondaries. He said we have north ponds that essentially have no value that are producing algae. All of the research he has reviewed basically states that if you have these things, then you have a viable project. On the political side, the County Supervisor has been interested in VVWRA's evaluation of this and a number of meetings have been held at VVWRA with people from around the world with the idea of pursuing this project. Manager Olds said he would like to take a serious look at this and have it evaluated for a low cost rather than move forward with something at a higher cost. It would provide him analysis in order to respond.

Chair Smith said VVWRA funded a project for the Lewis Center that is similar. Manager Olds said that is a completely separate issue. It was a floating island project that would provide us with nitrogen data. As the Commissioners are aware, we have a groundwater nitrate issue below our main facility and Lahontan has requested us to spend a lot of money to identify its boundaries and levels, etc. Just like with the TCE at George Air Force Base, Lahontan may want us to do something with those increased nitrogen levels in the groundwater. One of the potential ways to deal with that is through the floating islands project at the Lewis Center because they would be collecting nitrogen data for VVWRA to help us with that determination. Commissioner Rigney told Manager Olds that he appreciates putting the brakes on this project if he is not comfortable with it. Chair Smith said \$5,000 is cheap for an analysis. He asked Manager Olds if the money has been budgeted. Manager Olds said yes, and the evaluation will ensure that we know exactly what we are dealing with.

Chair Smith made a motion to approve the recommendation for an algae evaluation, which was seconded by Commissioner Rigney and approved by unanimous voice vote.

15. Letter of Request from the Federal Bureau of Prisons: Manager Olds reported that there has been a concern between the City of Victorville and the Federal Prison about what their billings are. Apparently what the Federal Prison wants to do is put the service out to bid and they have asked if they can contract directly with VVWRA. He reviewed the JPA and it has some interesting language about "such other public agencies as may hereafter be declared eligible by unanimous vote of existing members". The Federal Prison is a public agency, but it would require a unanimous vote of the Board. He said his Rule No. 4 is "Do not confuse managerial authority with governing authority" and this is a governing issue that he is passing onto the Board because he does not know what the Board wants him to do about this.

Piero said one thing to consider is that you can have an agreement with a non-member. To become a member of this JPA, all four member entities will have to agree to it. If the issue is whether you can

contract with someone to provide service, yes you can. Commissioner Smith said we could send them a bill for about \$40 million as a buy-in cost to become a member of the JPA. Commissioner Sagona said on the basis of the fact that the prison has a contract with the City of Victorville, who is a member of the JPA. This is strictly between the City of Victorville and the Prison. Manager Olds asked if it is the consensus of the Board to notify the prison that the Board discussed this matter and is not interested in providing direct sewer service to the prison. Commissioner Rigney asked Manager Olds to tell the Prison that the consensus was for the prison to work with the City of Victorville. Manager Olds said he will notify the prison of the Board's decision.

16. Recommendation to Approve Change in VVWRA Rules & Regulations RULE XII – Changes in Employment Status, Section 7. Layoff: Manager Olds reported that this item is being presented at the request of the Commissioners. Piero clarified that the approval of this recommendation would change and amend Rule XII – Changes in Employment Status, Section 7.

Chair Smith made a motion to approve the recommendation to change Rule XII – Changes in Employment Status, Section 7 - Layoff of the VVWRA Rules & Regulations, which was seconded by Commissioner Sagona and approved by unanimous voice vote.

17. Recommendation to Approve Wastewater Treatment Agreement Between the Adelanto Public Utility Authority and the Victor Valley Wastewater Reclamation Authority: Chair Smith asked Manager Olds if this agreement has gone before the Adelanto City Council. Manager Olds said yes. First of all, Adelanto has no capacity rights in the system whatsoever. They have not paid capacity fees. This is simply trying to do something right for a neighbor that is in trouble. This concept was put before the Board at the last meeting and then it went to the Adelanto City Council. It has been adopted by the Council and is now before the VVWRA Board again. The idea is that the existing agreement is null and void and they can no longer send secondary effluent to VVWRA. They would begin sending us raw effluent at a lower volume. They are currently sending us about 1.1 or 1.2 MGD and under this agreement they would be peaked out at 800,000 gallons of raw effluent. Adelanto would be charged the same fees that all of the member entities are charged that would include debt repayment on our existing State Revolving Fund loans for Capital improvements, O & M costs, R & R, etc. There will be no reduction in fees because they will no longer be reducing the organic strength of the flow that comes to VVWRA.

Commissioner Cabriales said it is good to be a good neighbor, but we should establish a policy to charge a fee of some sort to non-members. The Victorville Water District had such a policy. Manager Olds said he will talk to Reggie Lamson and see what type of policy he has and we will put this before the Board at some time in future for consideration. He said about three years ago we received a proposal from San Bernardino County to provide sewer service to a 20-acre parcel that was going to be developed for light industrial within CSA No. 70 and dump into our North Apple Valley Interceptor. Manager Olds said it is a very good idea to establish this type of policy for VVWRA. Commissioner Sagona said he can conceive of establishing such a policy in sight of this item because we are absent of ground rules for serving those outside the service area. Commissioner Cabriales said someday we are going to be asked to do this by outsiders and we should be ready. Chair Smith said we should look at this again via a status report.

Manager Olds announced that Mr. John Sponsler of the City of Adelanto is present in the audience. He suggested that a status report on the agreement be presented jointly to the Board on a quarterly basis by VVWRA and the City of Adelanto. Commissioner Sagona asked if we will move to approve this agreement. Chair Smith said either party can get out of the agreement with 10 days notice. We want to monitor this. Piero said there are two points that the Board needs to consider to make sure that everyone is clear. Section 9 of the agreement provides the termination provisions. If you look at section B, it provides that if VVWRA determines at its sole discretion that further acceptance of raw influent would be in violation of any environmental laws, permit requirements, administrative orders, etc. then those are the grounds that VVWRA can terminate the agreement. You cannot just say no just because. He said he wanted to make sure the Board is aware that there are grounds under which the agreement can be terminated. Now if Adelanto violates their side of the agreement in terms of what they said and what they do, then that is a different story.

Commissioner Sagona made a motion to approve a wastewater treatment agreement between the City of Adelanto and the VVWRA, which was seconded by Commissioner Cabriales and approved by unanimous voice vote.

STAFF/PROFESSIONAL SERVICES REPORTS:

Manager Olds said if the Commissioners have any questions regarding the staff and profession services reports he would be glad to answer them. He said he would like to point out that under item 19 a construction management status report is now included that relates to the various projects that are currently ongoing at the wastewater treatment plant.

18. Public Relations Update – May 2010: Accepted as submitted. Ryan Orr provided a summary of the public relations efforts performed during the month of May. Commissioner Cabriales asked Ryan what method he used to canvass the areas. Ryan said he walks up and knocks on the doors of the residents' homes. He said he will continue to canvass those areas and stay in touch with the residents. Chair Smith said there is one Apple Valley resident who is adamantly against a building a subregional in Apple Valley.

19. Construction Management Report – May 2010: Accepted as submitted

20. Financial and Investment Report – April 2010: Accepted as submitted

21. Operations and Maintenance Report/Performance Efficiencies – May 2010: Accepted as submitted

AGENDA ITEMS FOR FUTURE MEETINGS:

Presentation on Groundwater Investigation Project by Larry Walker Associates (July)

Update on GE/Zenon Agreement

Presentation: Sanitary Sewer Master Plan, Modeling and Condition Assessment – RBF

**Resolution 2010-2: Adopt a Sewer Master Plan, Modeling and Condition Assessment
Prepared by RBF Consulting dated August 2009 (August 2010)**

Resolution to Adopt Amended VVWRA Conflict of Interest Code (September)

Resolution to Amend and Adopt 2010 CEQA Guidelines (September)

Interceptor Connection Requirements and Enforcement and Industrial Pretreatment Program

Upper and Lower Narrows Sonar Investigation of Sewer Interceptor

NEXT BOARD MEETINGS:

Tuesday, June 29, 2010 – Regular Meeting of the Board of Commissioners

Thursday, July 15, 2010 - Regular Meeting of the Board of Commissioners

COMMISSIONER COMMENTS

Manager Olds said he is not certain if a Closed Session will be needed on June 29. He recommended that regular session be scheduled to begin at 9 a.m. on June 29 and then if a Closed Session is needed it can be held after regular session.

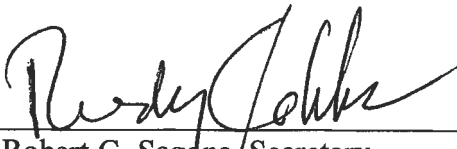
It was the consensus of the Commissioners that regular session of the June 29 Board meeting will begin at 9 a.m.

ADJOURNMENT

At 10:40 a.m., Commissioner Sagona made a motion to adjourn the regular meeting, which was seconded by Commissioner Rigney and approved by unanimous voice vote.

APPROVAL:

DATE: _____
Approved by VVWRA Board

BY: 
Robert G. Sagona, Secretary
VVWRA Board of Commissioners