

John Lloyd
EVMWD - Director Division 5
31315 Chaney St.
Lake Elsinore, CA 92530
May 26, 2009

Riverside County Grand Jury
P.O. Box 829
Riverside, CA 92502

Prior to the May 14th board meeting of the Elsinore Valley Municipal Water District the board was presented, three days prior to the meeting, with a proposed statement created by the LEAPS Committee, regarding their response to your concerns and recommendations.

In reviewing their response I typed up a statement addressing the areas of concern I had with their response. I read that statement in the May 14th meeting, but without any further discussion the other four board members voted to accept the statement produced by the LEAPS committee in its entirety.

The minutes for the meeting included the response to you by title only and stated my response was on file at the district office with no mention of its content. From this I have concluded the correct forum for publishing my comments, for the community to review, is alongside the comments of the other four board members on your web site.

The vast majority of my attached statement was read at the May 14th board meeting. I have expanded on some statements for clarity and modified sentence structure but in all there are few changes.

To match the structure of how the LEAPS committee formed their response to your concerns and recommendations I have divided your statement into multiple sections. For each section I have added the LEAPS committee's response and then my own response as well. This should clarify each area of concern and this format makes the entire issue easier to understand.

Please contact me if you have any questions regarding my response.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Lloyd', written in a cursive style.

John E. Lloyd

Director Lloyd's Response to LEAPS Committee Response to Grand Jury Report

Finding 1:

Grand Jury Statement 1A:

In 1997 the EVMWD issues a Request For Proposal (RFP) seeking a company to lead the project in development and financing. Only one bidder, a newly formed company incorporated in Nevada, responded.

LEAPS Sub-Committee Response 1A:

The Report states that "Only one bidder...responded" to the RFP released by the District. The District, however, received four responses through the RFP process, one of which was from The Hydro Company, Inc. ("Nevada Hydro").

Director Lloyd's Comments to LEAPS Committee Response 1A:

I believe the statement made by the LEAPS Committee is semantics and not to the core of the issue. The concern implied by the Grand Jury was that only one organization actually bid on the project. If the LEAPS Committee has four responses, from separate bidders agreeing to take on the entire project, the LEAPS Sub-Committee should provide copies of those four bids with its response.

Grand Jury Statement 1B:

This company, called Nevada-Hydro, then became licensed to operate in California as The Nevada Hydro Corporation (Nevada-Hydro). On May 15, 1997, the EVMWD entered into a Development Agreement with Nevada-Hydro, a company lacking history, experience and financing.

LEAPS Sub-Committee Response 1B:

The Report states that The Nevada Hydro Company, Inc. ("Nevada Hydro") was "lacking history, experience, and financing" at the time that the 1997 Development Agreement was executed. This statement is true insofar as Nevada Hydro was a company formed specifically for the LEAPS Project and concurrently with the

execution of the Development Agreement, such that it was not a longstanding entity at the time the Agreement was executed. However, the founding members of Nevada Hydro came from three companies and a law firm and were working on other water projects in the area, such that the group had the experience necessary to carry the Project forward. Finally, and regarding financing, it is generally accepted in the industry to raise capital as each phase of a project is brought forward, rather than to have full financing at the outset of the development period. (See also Response to Finding 2, below)

Director Lloyd's Comments to LEAPS Committee Response 1B:

In the response regarding the lack of "History, Experience and Financing" I believe the Grand Jury has reason for concern. If the district received only one bid on a budgeted capital project and it came from a startup corporation with limited finances the Administrative Code requires we go out for bid again with a better scope of work, at minimum we would meet with the parties that we had expected to bid, but had chose not to bid, to understand their concerns on the project.

Grand Jury Statement 1C:

Contrary to standard business practice, the Development Agreement had no end date. The President of Nevada-Hydro, the President of the EVMWD Board, and legal counsel for EVMWD, signed this Development Agreement. No follow-up meetings were held with solicited bidders to determine the reason for the no-bid response.

LEAPS Sub-Committee Response 1C:

The Report states that "Contrary to standard business practice, the Development Agreement had no end date." It is true that the Development Agreement did not include a specific calendar date as the end-date. However, Paragraph 4.4 of the Development Agreement did provide specific factual occurrences that would result in the termination of the Development Agreement, including default by a party, denial of the FERC license application, Nevada Hydro's transfer of its interest in LEAPS Project, or the end of the line of the Project. These termination events were appropriate given that the District was unable to predict by what specific calendar date the FERC process would conclude. Because the District was seeking permitting services rather than entering into a public works contract, the procedures followed

by the District were appropriate and consistent with public agency contracting practices.

The Report states that “No follow-up meetings were held with solicited bidders to determine the reasons for the no-bid response.” The District did not solicit responses from particular companies, accordingly there were no “no-bid responses.” Instead, the District invited responses by publishing the RFP in The Engineering News-Record where qualified firms were likely to see it. As noted above, there were four responses to those RFP publications.

Director Lloyd’s Comments to LEAPS Committee Response 1C:

The concern of the Grand Jury that the contract has no end date has been a concern of many in the community. To sign a contract with a start-up corporation without either an end date, scheduled review dates or other trigger statements to require review of the project is wrong. Verbiage should have been included that requires verification over time that the company we are under contract with is acting in the best interest of the District and they have been able to obtain adequate financing to properly support the project.

Finding 2:

Grand Jury Statement 2A:

The Development Agreement, signed May 15, 1997, stated on page 2, paragraph 1.4: (In the following quote, FERC refers to Federal Energy Regulatory Commission.) “The Company will provide all necessary funding and will pay all expenses and costs to complete and submit the FERC license application to obtain the FERC license and to obtain related entitlements.” Anticipating repayment from Nevada-Hydro, the EVMWD has spent approximately four million dollars in support of LEAPS.

The Development Agreement outlines payment to EVMWD on page 3, paragraph 3.0. It details full repayment plus interest; however, there are disclaimers to the repayment found in the Development Agreement on page 3, paragraph 3.1 which states: “... the successful closing of all financing and/or equity contribution required to construct and operate the project and solely contingent upon such successful closing, the company will pay, within (30) days thereafter, District as follows, which amounts, unless otherwise agreed herein, shall comprise the sole consideration to

which District is entitled herein.” In essence, this three-man company must acquire financing for an estimated 1.3 billion dollars from outside sources and complete the entire LEAPS project before it is obligated to repay the EVMWD for its expenditures.

LEAPS Sub-Committee Response 2A:

The Report states that Nevada Hydro “must acquire financing for an estimated 1.3 billion dollars from outside sources and complete the entire LEAPS Project before it is obligated to repay the [District] for its expenditures.” Paragraph 3.1 of the Development Agreement, however, states that Nevada Hydro must reimburse the District upon “successful closing of all financing and/or equity contribution required to construct and operate the Project.” Accordingly, it is the financing of the Project, not the Project’s completion, that would trigger any reimbursement obligation. Additionally, and as a practical matter, it is the understanding that Nevada Hydro has raised capital from time to time – for example, from Enron, Siemens, and Morgan Stanley – as was needed to carry the Project forward in the permitting process.

Director Lloyd’s Comments to LEAPS Committee Response 2A:

The LEAPS Committee doesn’t address the main concern of the Grand Jury regarding the funding of the project. While it is correctly pointed out that the project itself isn’t required to be completed prior to repayment of District funds expended, they do have to acquire full project funding for construction and operation of the project prior to any repayment. Expenditures in excess of at least four million dollars by the District, in the hopes that a start-up corporation with limited finances would eventually repay them is in my opinion what the Grand Jury wanted addressed.

Grand Jury Statement 2B:

FERC approved only the TE/VS transmission line portion of the application, potentially leaving EVMWD and its pump/storage plan out of the picture. Nevada-Hydro’s explanation was that this was merely a postponement and not a rejection. The credibility of this position was challenged when Nevada-Hydro’s requested California Public Utilities Commission (CPUC) authorization to be the sole and lead agency on the transmission line. The CPUC controls only transmission lines in California.

LEAPS Sub-Committee Response 2B:

The Report states that “FERC approved only the TE/VS transmission portion of the application. [and] Nevada Hydro’s explanation was that this was merely a postponement and not a rejection.” In fact, and although a Final Environmental Impact Statement has been prepared, FERC has not approved for construction any portion of the Project. In fact, FERC’s jurisdiction over approval of the LEAPS Project is limited to the hydroelectric facility and ancillary structures, so it does not appear that FERC could separate the pumped storage and transmission aspects of the Project even if so desired. FERC has, however, considered whether it is appropriate for the Project to be included in the rate-base structure for California. On March 24, 2008, FERC issued its Order on Rate Incentives and Compliance Filings, which states that FERC is “approving incentives for Nevada Hydro’s proposed TE/VS Interconnect.” The FERC Order also states that the “pumped hydro storage facility may not be ... functionalized as transmission for rate recovery purposes.”

Director Lloyd’s Comments to LEAPS Committee Response 2B:

Again I see this response as semantics and misleading. While FERC has not approved any portion of the project for construction, that was not what the Grand Jury stated. What was stated was: “FERC approved only the TE/VS transmission portion of the application”. This is true. FERC denied rate basing for the pumped storage portion of the project but accepted rate basing for the lines portion of the project. This means the pumped storage portion of the project must maintain itself as a merchant plant, or better stated, the plant must be able to support itself through the sale of the power it generates.

Regarding the CPUC and the “Lines Only Project” the CPUC has recently cancelled the license request for lack of progress.

Grand Jury Statement 2C:

There have been three separate reports, which were compiled by outside consultants and paid for by EVMWD. Two by Economic Insight Inc. entitled “An Economic Evaluation of the LEAPS Project” dated January 17, 2006, and February 7, 2006. The executive summary begins by noting that Nevada-Hydro made mistakes

in analyzing potential revenue by over valuing the differential between off-peak and on-peak energy. Nevada-Hydro provided a spreadsheet dated July 20, 2005, utilizing peak pricing of sixty-five dollars per megawatt hour (MWh) and twenty-five dollars per non-peak MWh. These values were valid ten years ago when there was escalation in pricing caused by deregulation. They are no longer valid as there is an insignificant difference between peak and non-peak pricing. Essentially, the report concludes that LEAPS is not economically viable. It also states: "... of the thousands of pages submitted only ten are devoted to economics." The third report entitled "A Preliminary Economic Assessment and Strategic Review of the LEAPS Project" by SHIR Consultants Inc. dated April 2008 also indicated that the project is "not economically viable."

LEAPS Sub-Committee Response 2C:

The Report lists the dates, titles, and authors of three financial reports, but incorrectly states the title and date of the February 2006 report and the authors and the date of the third report. For clarity, the three reports are as follows:

- "An Economic Evaluation of the LEAPS Project" (dated January 17, 2006) by Economic Insight, Inc.
- "An Economic Evaluation of the LEAPS Project and Associated Transmission" (dated February 6, 2006) by Economic Insight, Inc.
- "A Preliminary Economic Assessment and Strategic Review of the LEAPS Project" (dated April 12, 2007) by Shir Power Engineering Consultants, Inc. and Economic Insight, Inc.

The Report states that these three reports concluded that the LEAPS Project is not economically viable. This summary statement, however, draws conclusions from reports which draw their own conclusions. The primary conclusions of the January 17th report are:

- Nevada Hydro "overlooked the opportunities for selling into the California Independent System Operator's (Cal ISO's) balancing and ancillary (A/S) market."
- "Since the base case annual revenue is less than that assumed Nevada Hydro it is important to explore other alternatives, even if they are not well defined at this time."

- A “trend that could improve LEAPS economics is the growth of intermittent energy sources – solar, wind, and tidal power, to name three.”
- “When revenue and cost factors are considered we conclude that the LEAPS project is not viable at this time.”

The primary conclusions of the February 6th report are:

- “Although the chances of obtaining a long-term contract with a large capacity payment are close to zero, there are important marketing opportunities in the Cal ISO’s [ancillary services] market.”
- “Nevada Hydro projects no revenue from [ancillary services] sales that we have concluded would be LEAPS’ primary source of income.”
- A “trend that could improve LEAPS economics is the growth of intermittent energy sources – solar, wind, and tidal power, to name three.
- “When revenue and cost factors are considered, we conclude that the LEAP project, as a merchant plant, is not viable at this time. The primary problem is the low differential between off-peak energy prices and on-peak energy prices.”

The primary conclusions of the April 12th report are:

- The report “offer[s] a review of project benefits that have yet to be quantified or are qualitative. These include: Operational Benefits ... Environmental Benefits ... Lake Elsinore Water Quality Benefit ... [and] Forest Firefighting Benefit.”
- “Our preliminary benefit assessment of the LEAPS project is based on existing economic studies covering the quantified benefits of the project.”
- “Revenue sources from commercial operation simply do not reflect the full benefits of the LEAPS pumped storage project.”
- “Although there is less demand for electricity storage between night and day, there is increased demand for grid balancing – a task perfectly suited for hydroelectric pumped storage plants.”
- “A careful study of benefits based on less conservative assumptions and the assignment of some value to benefits not yet quantified should demonstrate a viable project.”

Director Lloyd's Comments to LEAPS Committee Response 2C:

Regarding the Grand Jury's concerns on the Van Vactor Reports from 2006 and the Shir Power Report from 2007, I don't believe pulling three positive statements from the report answers the questions posed. The verbiage of the conclusions is to focus the District in a shotgun effect on ways to try and make the project become viable, the statements in the report discuss possible benefits to be promoted when applying for rate basing, which FERC has denied for the pumped storage project. These two reports stated very frankly in their summary that the project, as described, was not financially viable.

The Grand Jury correctly stated that FERC approved of only the power line project as being accepted for Rate Basing. This means the pumped storage project must be able to operate as a merchant plant. The February 6th report concludes the LEAPS Project is not viable as a merchant plant.

The LEAPS Committee only addresses this major issue with a statement that "...benefits not yet quantified..." from the April 12th 2007 Shir Report should demonstrate a viable project. Spending millions of dollars on a project, supported only by the hope of later defining some type of future financial support is not sensible.

The Shir Report is based on a report performed for CAISO. In contacting CAISO they stated the report in question was never completed, was based in part on incomplete reports and as such they did not ever accept the first report themselves.

Since the first two reports show the project was not financially viable, and they were in existence for over a year unrefuted, the unaddressed concern is, why was there never any consideration of stepping away from the project during that time. Why instead did the District spend money on a LEAPS Public Relations campaign that's stated goal was to update the community on the project and clear up misconceptions regarding financial viability, yet failed to mention the issues brought up in the reports?

Grand Jury Statement 2D:

Investigation revealed that some board members and members of the public were deliberately excluded from knowledge of the reports for more than two years. In April 2008, an EVMWD Board Member released one of the reports to the media, forcing EVMWD to release the remaining reports. The board and/or management knew years earlier that LEAPS was not financially viable using a market-based approach; however, they proceeded in spite of this knowledge.

LEAPS Sub-Committee Response 2D:

The Report states that "some board members" were deliberately excluded from knowledge of the reports for more than two years. There was no deliberate act taken to deny Directors access to the financial reports. To the contrary, these reports were available upon request to any Director.

The Report states that the Director was "forced" to publicly release the three financial reports. This is incorrect. After one of the reports was made public, the District's Board of Directors decided to formally waive the privilege over all three reports and release them to the public, so that the public would have a full and complete picture of all the financial analysis available.

The Report states that the District knew "that LEAPS was not financially viable using a market-based approach". This statement is true insofar as it is limited to the sale of electricity on a market-based approach. However, and as quoted above, the April 12th financial report concluded that "Revenue sources from commercial operation simply do not reflect the full benefits of the LEAPS pumped storage project." Ultimately, the April 12th report concluded that "A careful study of the benefits on less conservative assumptions and the assignment of some value to benefits not yet quantified should demonstrate a viable project."

Director Lloyd's Comments to LEAPS Committee Response 2D:

The LEAPS Sub-Committee's response regarding excluding the Public and Board members from knowledge of the reports states the District did not hide the reports; but yet the long standing LEAPS committee never reported the existence of these reports to the Board or the community. How does one request a document that is

not known to exist? For a committee to expend funds to research data behind closed doors and then not report on it, effectively hides the information.

The LEAPS Sub-Committee had only the first two reports for data for over a year. Both of them clearly state the project is not financially viable. The April 12th report, which is mostly based on a report created by CAISO, but which was never accepted as factual by CAISO, recommends a series of possible benefits that could tip the scales towards rate basing as a way to possibly make the project viable. Rate basing was denied by FERC.

Grand Jury Statement 2E:

At a public meeting on June 20, 2007, Nevada-Hydro announced that Morgan-Stanley Commodities, a division of the investment firm of Morgan-Stanley, would serve as the principal investor for the LEAPS Project. The announcement did not immediately clarify that funding would cover only the TE/VS transmission line. This excluded the hydro pump/storage portion of LEAPS, thereby leaving EVMWD unsure of repayment. The 1997 Development Agreement requires reimbursement to EVMWD only when the entire project is fully completed.

LEAPS Sub-Committee Response 2E:

Regarding the Grand Jury's characterization of the District's June 20, 2007 meeting, a publicly noticed study session meeting was held by the District on June 20, 2008. Representatives of both Nevada Hydro and Morgan Stanley attended that meeting. During the public comment portion of the meeting, a representative of Morgan Stanley stated that Morgan Stanley was financially interested in the Project.

The Report states that "The 1997 Development Agreement requires reimbursement to [the District] only when the entire project is fully completed." As discussed above in Response to Finding 1, paragraph 3.1 of the Development Agreement states that Nevada Hydro must reimburse the District upon "successfully closing of all financing and/or equity contribution required to construct and operate the Project."

Director Lloyd's Comments to LEAPS Committee Response 2E:

The LEAPS Committees response to the Grand Jury's concerns that Morgan Stanley had showed interest in funding the lines project, while not having funding for the

pumped storage project, was misleading. The representative from Morgan Stanley was very clear that at the time of that meeting, that his company was only willing to fund the lines project. While the pumped storage project intrigued them, they did not have funding for it but hoped by funding the lines it would get the District a little closer to getting the project completed. Without funding for the pumped storage, the contract does not require repayment of expended funds to the District.

By reverting to semantics regarding reimbursement, the LEAPS Committee does not deny, nor does it even address the issue of the Grand jury's concern of the District never being repaid for its continuing investment in this project. **A non-budgeted, continuing investment, currently in excess of \$4M, with a start-up corporation having limited finances is a concern that should be addressed.**

Grand Jury Statement 2F:

Recognizing the financial vulnerability of the project, Nevada-Hydro requested that the approval for licensing be cost-based rather than market-based. California Independent System Operators (CAISO) stakeholders unanimously rejected this proposal. These stakeholders own the operation of the transmission lines.

LEAPS Sub-Committee Response 2F:

The Report states that, "Recognizing the financial vulnerability of the project, Nevada Hydro requested that the approval for licensing be cost-based rather than market-based." In fact, Nevada Hydro filed an application for cost/rate-based treatment with FERC on December 1, 2005 - more than 18 months prior to the June 2007 meeting.

The Report states that stakeholders which objected to rate-base treatment of the LEAPS Project "own the operation of the transmission lines." Those stakeholders (such as San Diego Gas & Electric and Southern California Edison) own the physical transmission lines, but the operation of those lines are fully managed by the California ISO and the use of the lines is dedicated to the benefit of the California energy grid.

Director Lloyd's Comments to LEAPS Committee Response 2F:

Again the LEAPS Committee has deferred to semantics. The statement made by the Grand Jury reflected the decision by CAISO to request that FERC deny the pumped

storage portion of the project from receiving rate basing. **FERC did indeed deny rate basing for the pumped storage portion of the project. All three financial reports previously discussed have stated without rate basing the pumped storage project is not financially viable.** Instead of addressing this important issue the LEAPS Committee has chosen to debate the date of filing of the application and the semantics of owning the power lines vs. managing them.

Grand Jury Statement 2G:

After more than two years of negotiations, EVMWD's effort to enter into a new formal contract with Nevada-Hydro to ensure repayment reached an impasse. Worst-case scenario would be that repayment will never be made, nor will the pump/storage portion of the project ever be built. EVMWD's legal counsel has verified this. In a letter dated July 7, 2006, a board member had inquired: "What happens if the project doesn't go? How is EVMWD going to get their money back from Nevada-Hydro?" The response from legal counsel was: "If the project does not come to fruition, the amount that has been recorded as a receivable will be written off the District's financials." A present board member estimated the current expenditures at four million dollars.

LEAPS Sub-Committee Response 2G:

No Response Listed

Director Lloyd's Comments to LEAPS Committee Response 2G:

The LEAPS Committee does not deny, nor does it even address the issue of the Grand jury's concern of the District never being repaid for its continuing investment in this project. A non-budgeted, continuing investment, currently in excess of \$4M, with a start-up corporation with limited finances is a concern that should be addressed.

Grand Jury Statement 2H:

At the August 26, 2008, board meeting, EVMWD voted (four to one) to investigate the legal complexities involved in removing itself from the LEAPS project. The investigation will be performed by EVMWDE's legal counsel and reported upon in closed session

LEAPS Sub-Committee Response 2H:

The Report states that the District's Board of Directors voted to investigate the legal complexities of the Project on August 26, 2008. This meeting actually occurred on June 26, 2008.

Director Lloyd's Comments to LEAPS Committee Response 2H:

The LEAPS Committee correctly dates the meeting in which the board voted 4-1 to investigate possible exit strategies as June 26th 2008. After nearly a year, there is no reportable information on this issue as it was moved to closed session.

Finding 3:

Grand Jury Statement 3A:

As a backup approach, EVMWD is justifying the virtues of using the pump/storage for a so-called "black start". During a wide-area power outage, the fossil fuel or nuclear power generators turn off and need electrical power to restart. In the absence of this grid power, a "black start" needs to be performed to reactivate the power grid because time is of the essence in re-establishing electrical power. One of the stated advantages of hydroelectric power, unlike gas turbines, is the ability to start quickly with very little power (just enough to pen the intake gates). This process would provide power online to start up the fossil fueled and/or nuclear operated stations. According the consulting reports, the LEAPS project, while not economically viable for continuous operation would provide such a quick start. According to outside experts, building the pumped storage portion solely for a "black start" is economically prohibitive in comparison to gas turbine generation

LEAPS Sub-Committee Response 3A:

The Report states that the District is looking at a black start benefit as a “backup approach” to the sale of power from the LEAPS Project. In actuality, the potential of black start benefits, as well as other benefits, have always been a part of the analysis of the Project potential benefits.

The Report states that the consultant reports concluded that the LEAPS Project was “not economically viable.” The conclusions of the consultant reports, however, were actually that the LEAPS Project may provide several benefits that have not yet been quantified. (Please see Response to Finding 2, above.)

The Report states that the consultant reports concluded that building the LEAPS Project “solely for a ‘black start’ is economically prohibitive in comparison to gas turbine generation.” Again, the reports concluded that there are many potential benefits from the LEAPS Project, but considering the “black start” benefit alone to the exclusion of other benefits would be more expensive than a gas turbine generation alternative. (Please see Response to Finding 2, above.)

Director Lloyd’s Comments to LEAPS Committee Response 3A:

The Grand Jury’s concern that the District was accounting the benefits of Black Start too highly was responded to by the LEAPS Committee as being considered incorrectly. The LEAPS Committee’s concern that black start potential must be considered with other forms of potential financial benefit did take place. The reports paid for by the LEAPS Committee in 2006 included “Black Start and many other forms of potential financial benefit, but still, the reports stated the project, as they reviewed it, was not financially viable.

To promote and pay millions of rate payer dollars on a project with “possible future benefits to the community” that might be paid for from “as yet unquantified financial benefits” obtained by a start-up corporation that has been unable to obtain complete project funding in over a decade of searching is a very real concern.

Grand Jury Recommendation 1

EVMWD must follow established contract policies and procedures, which require due diligence, in the selection of bidders in all future contracts. In addition, meeting with all solicited bidders should be mandatory.

LEAPS Sub-Committee Response to Recommendation 1

Report as to Recommendation 1: The Recommendation will not be fully implemented.

The District agrees with and will implement the Grand Jury's Recommendation insofar as the District has followed, and must continue to follow, public contracting laws and established contract policies and procedures. However, the remainder of the Recommendation would unreasonably expand the District's obligations beyond those required by the law. Under public contracting law, there is a difference between general services agreements and contracts for public works projects. Recommendation 1 does not acknowledge that difference and would require the District to follow the same procedures for "all future contracts." Additionally, the District cannot implement the Recommendation that "meeting with all solicited bidders should be mandatory." This Recommendation overlooks situations where, for example, bidders may not want to meet with the District such that the District would have to "force" a meeting; bidders may be located a great distance away such that significant travel costs would be incurred; or solicited bidders may not bid on the contract at all. Because the Recommendation would significantly expand the District's obligation in a manner that is not feasible and is inconsistent with what the law requires, the District will not implement all of Recommendation 1.

Director Lloyd's Comments to LEAPS Committee Response to Recommendation 1

No Additional Comment – My position on this has been stated in the preceding document.

Grand Jury Recommendation 2

The EVMWD Board of Directors should accept the results of the consultant reports, which conclude that the LEAPS project is not economically viable, especially the pumped storage portion.

LEAPS Sub-Committee Response to Recommendation 2

Reports as to Recommendation 2: The Recommendation will not be implemented.

As discussed under “Response to Finding 2,” above, the consultant reports do not flatly conclude “that the LEAPS Project is not economically viable, especially the pumped storage portion.” Instead, the consultant reports speak for themselves and reach a number of conclusions predicated on specific factual circumstances. As such, the District cannot implement Recommendation 2 because it does not acknowledge the limitations on the consultant reports and, thus, is unwarranted. However, the District’s Board of Directors will continue – as it has done in the past – to evaluate all information and options available with respect to the LEAPS Project. The District’s ongoing evaluation will include the consultant report and all other information available.

Director Lloyd’s Comments to LEAPS Committee Response to Recommendation 2

The LEAPS Committee’s refusal to acknowledge the limitations of financial viability, as stated in the reports comes as no surprise. The committee has shown predetermination and bias in favor of this project for many years. More than 50% of all costs incurred by the District on this project have occurred since the first Van Vactor report was received. The cost of the project has accelerated from \$2M in 10 years to over \$2M in last three years. After all this time and money Nevada Hydro still has not brought forth a contract with any finance company to provide funding for the project.

Grand Jury Recommendation 3

The EVMWD Board of Directors should make available to ratepayers an itemized accounting of the approximately four million dollars spent thus far on the LEAPS project, including direct and indirect expenses and pass-through expenses paid to legal counsel.

LEAPS Sub-Committee Response to Recommendation 3

Report as to Recommendation 3: The Recommendation has been implemented.

An accounting of LEAPS Project financials is currently available to the public. The District is a public agency and, as such, it maintains financial records that are open for public inspection and subject to disclosure under the Public Records Act. Receivables related to the LEAPS Project are part of those records and may be obtained and inspected upon request.

Director Lloyd's Comments to LEAPS Committee Response to Recommendation 3

The LEAPS Committee's definition of implementation of this recommendation is insufficient. The District should create a detailed report, as we do for budgeted capital projects, this report should itemize all expenditures for this project, their purpose, and to whom the funds were expended. We should post this information on the web site for easy access to the ratepayers.

In 2007 the Treasurer of the City of Lake Elsinore initiated his own audit of the LEAPS project. Even with his expertise, it took several months to obtain and tabulate all of the data and then his financials on the LEAPS project totaled to more than \$6 Million and he was unable to get specific detailed information as to what each purchase was for.

To require our constituents to resort to this level of investigation to find out where their money is being spent is in my opinion unacceptable.