



IRVINE RANCH WATER DISTRICT

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July 20, 2016

Mr. Mike Markus, P.E.
General Manager
Orange County Water District
18700 Ward Street
Fountain Valley, CA 92708

Subject: Working Together to Seek Mutually Acceptable Solutions

Mike:

Irvine Ranch Water District (IRWD) received the July 5, 2016 letter from the Orange County Water District (OCWD) Board President Cathy Green, and appreciates the decision by the OCWD Board of Directors to reconsider the revised Tolling Agreement at tonight's scheduled OCWD Board Meeting. The purpose of this letter is to:

1. Reiterate IRWD's objective associated with executing a tolling agreement with OCWD;
2. To review the history of the development of the Tolling Agreement and opportunities for the OCWD Board to consider the agreement; and
3. To express our desire that tonight the OCWD Board will approve entering into the Tolling Agreement with IRWD.

Objective of the Tolling Agreement:

The objective of the Tolling Agreement is to establish a collaborative framework through which OCWD and IRWD can evaluate and seek solutions to the issues raised by IRWD that are associated with OCWD's exclusion of recycled water as a supplemental source when establishing IRWD's annual Basin Production Percentage (BPP) and related Basin Equity Assessment charges. Such an approach would give our agencies time to present and evaluate our respective positions on the issues and to seek solutions outside of an expensive and lengthy litigation process. It would also provide the opportunity to engage the Groundwater Producers in open discussions related to the resolution of the issues.

History of Tolling Agreement:

Though this issue has been known by both agencies for many years, IRWD's letter of protest dated April 20, 2016 was intended to engage OCWD in a process to seek resolutions to the issues, while still protecting the rights of IRWD's customers. The approach we suggested initially was to do this without litigation and under the mutually beneficial protections of a Tolling Agreement. IRWD's efforts associated with the execution of a Tolling Agreement, along with other key decision points, are summarized in a timeline attached as Exhibit "A".

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Please note that the assertion made by certain groundwater producer agencies that a tolling agreement would preclude open discussions with any interested producer agencies is false, and the confusion and delay created by these statements essentially forced IRWD to file its claim against OCWD to protect the rights of the IRWD customers.

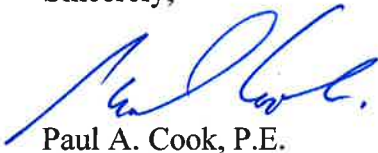
Request for OCWD Action:

As described in IRWD's previous letters, OCWD and IRWD have a long history of working together, openly and cooperatively, to resolve complex issues. Even though IRWD has filed and served a petition and complaint against OCWD, there is still an opportunity for our respective agencies to execute the Tolling Agreement. The revised Tolling Agreement, approved by the IRWD Board on June 27, 2016 and sent to OCWD on June 29, 2016, was updated to reflect the changed condition of the complaint having been served.

Should the OCWD Board again reject the opportunity to work together under the allowed protection of the Tolling Agreement, IRWD remains open to a constructive settlement dialogue. Such litigation settlement dialogue may not offer the opportunity to engage the Groundwater Producers in open discussions. For this reason, we believe that the execution of the Tolling Agreement is the preferred approach.

If you have any questions, please do not hesitate to contact me at (949)-453-5590.

Sincerely,

A handwritten signature in blue ink, appearing to read "Paul A. Cook".

Paul A. Cook, P.E.
General Manager

Exhibit "A" – History of Efforts Associated with Executing a Tolling Agreement between
OCWD and IRWD

EXHIBIT "A"

History of Efforts Associated with Executing a Tolling Agreement
Between OCWD and IRWD

Date	Agency Action
April 20, 2016	IRWD submitted a formal letter of protest to OCWD addressing OCWD's exclusion of recycled water as a supplemental source when establishing the amount of groundwater that IRWD can produce within the BPP and establishing IRWD's BEA charges.
After April 20 and before May 25, 2016	<p>IRWD and OCWD staff and legal counsel worked jointly to prepare a Tolling Agreement that would:</p> <ul style="list-style-type: none"> • Provide time to present and evaluate our respective positions; • Establish a collaborative process to resolve the issues; and • Protect the rights of both agencies.
May 25, 2016	IRWD submitted a letter to OCWD's Board President asking the OCWD Board to consider entering into the Tolling Agreement that was jointly prepared by both IRWD and OCWD.
June 1, 2016	The OCWD Board rejected entering into the Tolling Agreement.
June 15, 2016	The OCWD Board decided to reconsider the Tolling Agreement at a meeting sometime in July 2016.
June 17, 2016	IRWD filed a Petition for Writ of Mandate and Complaint for Reverse Declaratory Relief with the Superior Court of the State of California for the County of Orange.
June 29, 2016	<p>IRWD submitted a letter to OCWD's Board President conveying an updated version of the Tolling Agreement that:</p> <ul style="list-style-type: none"> • Reflects that IRWD has already filed the lawsuit; and • Upon execution of the Tolling Agreement that IRWD would file a request of dismissal of the case without prejudice to re-filing the case if the parties do not reach a resolution. <p>The letter further stated that in order to maintain the ability to initiate discussions between IRWD and OCWD without litigation in process, IRWD requested that the Tolling Agreement be considered by the OCWD Board prior to the July 7, 2016 deadline imposed by applicable law for IRWD to serve the complaint and summons. IRWD further stated that if service were to occur that IRWD would remain open to a constructive settlement dialogue.</p>
July 6, 2016	OCWD Board meeting. OCWD Board did not consider the revised Tolling Agreement.
July 7, 2016	IRWD served the complaint and summons to OCWD and published a notice of the summons in the Orange County Register.
July 20, 2016	The OCWD will consider approving the execution of the Tolling Agreement at its scheduled Board meeting.