

ATTACHMENT D.

**CATAWBA-WATEREE
WATER MANAGEMENT GROUP**

BYLAWS

December 6, 2007

ATTACHMENT D.

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**CATAWBA-WATEREE
WATER MANAGEMENT GROUP (WMG)
BYLAWS
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**CATAWBA-WATEREE
WATER MANAGEMENT GROUP (WMG)**

BYLAWS

1. BACKGROUND

Duke Energy Carolinas, LLC (Duke or Licensee) operates the Catawba-Wateree Hydroelectric Project (FERC Project No. 2232) (Project) under a license from the Federal Energy Regulatory Commission (FERC). The license expires in August 2008. As of the effective date of these Bylaws, the Project includes eleven reservoirs and thirteen powerhouses on the Catawba and Wateree Rivers in North Carolina and South Carolina. Duke filed an Application for a New License with the FERC on August 29, 2006.

The FERC license application review process can take two years or more and includes the preparation of an Environmental Assessment (EA) or Environmental Impact Statement (EIS) by the FERC in accordance with the requirements of the National Environmental Policy Act (NEPA). New licenses may be issued for 30 to 50-year terms.

Beginning in June 2003, more than 160 stakeholders joined an extensive relicensing process that developed a comprehensive agreement addressing the continued operation of the Project. Early in the relicensing process these stakeholders identified and discussed nearly 2,100 interests in the Project. These interests were combined and summarized into 225 Composite Interest Statements. The stakeholders used these Interest Statements as the basis for identifying and evaluating development and non-development alternatives and recommended an acceptable balance of measures to meet the Interests. The balance was captured in the Comprehensive Relicensing Agreement (CRA, Agreement, or Final Agreement) dated August 29, 2006 and submitted to the FERC on August 29, 2006 and a subsequent revision to the CRA dated December 22, 2006 and submitted to the FERC on December 28, 2006. Provisions of the CRA were incorporated into the Application for New License.

During the term of the New License, the demands on both the basin's water supply and the Project's storage capability are anticipated to increase significantly and approach or exceed the storage limits that the Project can provide during certain drought situations. A group of voluntary members that identifies, encourages, funds and helps to implement water resource improvements and conservation, and to improve water use efficiency is described in Appendix N of the CRA.

Specifically, in its Section 5.0 and Appendix N, the CRA called for the establishment of the Catawba-Wateree Water Management Group (WMG or Group) and defines its purposes, objectives, and membership structure.

2. DEFINITIONS

Except as noted below, the definitions in the CRA's Appendix E, dated December 22, 2006, apply also to these Bylaws.

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(a) Agreement, Final Agreement, CRA or Comprehensive Relicensing Agreement – the Comprehensive Relicensing Agreement, including the Recitals, Resource Agreements, General Agreements and Procedures, and all Appendices, originally dated August 12, 2006 and filed with the FERC along with the Project’s Application for a New License on August 29, 2006, or its latest revision modified in accordance with its procedures.

(b) Project – the Catawba-Wateree Project, a hydroelectric project located on the Catawba and Wateree Rivers and their tributaries in North Carolina and South Carolina, including any future changes made to the Project in accordance with applicable law. As of the effective date of these Bylaws, the Project consists of eleven hydroelectric developments, each having a reservoir formed by one or more dams and one or more hydroelectric stations. The Project is operated pursuant to a license issued by FERC (FERC Project No. 2232).

(c) Consensus – a WMG decision made by unanimous vote in favor of a proposed action by the Member Representatives present and voting at a meeting at which a quorum exists. A Member Representative who is present and either abstains or does not vote is not calculated in the vote tally.

(d) Majority Vote (or Simple Majority) – a WMG decision made by vote in favor of a proposed action by more than half of the Member Representatives present and voting in favor of the action at a meeting at which a quorum exists. Unless otherwise specified herein, all actions by the Member Representatives shall be taken by majority vote. A Member Representative who is present and either abstains or does not vote is not calculated in the vote tally.

(e) Super Majority Vote – a WMG decision made by vote in favor of a proposed action by two-thirds or more of the Member Representatives present and voting at a meeting at which a quorum exists. A Member Representative who is present and either abstains or does not vote is not calculated in the vote tally.

(f) Eligible Participant – the Licensee of the Project and any public water supplier with installed water withdrawal capacity of one hundred thousand gallons per day or more within one or more of the Project’s reservoirs and/or regulated river reaches.

(g) Member in Good Standing – a WMG Member that is (a) current in paying its dues, subject to any applicable grace period, (b) in substantial compliance with any FERC orders affecting the Project and applicable Licensee easements and permits, and (c) engaged in good faith in fulfilling the purpose and objectives of the Agreement, all as more particularly described in Sections 9.1, 9.2 and 9.3 of these Bylaws.

(h) Large WMG Member – an Eligible Participant that is admitted as a Member on the date of formation of the WMG or later elected to membership with a minimum installed water withdrawal capacity of one million gallons per day within one or more of the Project’s reservoirs and/or regulated river reaches.

(i) Small WMG Member – an Eligible Participant, other than the Licensee, admitted as a Member with a minimum installed water withdrawal capacity of one hundred thousand gallons per day but less than one million gallons per day within one or more of the Project’s reservoirs and/or regulated river reaches.

(j) Member, WMG Member and Group Member – each Large WMG Member and Small WMG Member.

3. PURPOSES AND OBJECTIVES OF THE WATER MANAGEMENT GROUP

The Water Management Group will identify, fund, and manage projects that will help to ecologically preserve, extend, and enhance the capabilities of the Catawba and Wateree Rivers to provide water resources for human needs (water supply, power production, industry, agriculture, and commerce). The Group will strive to improve coordination of efforts and the pooling of resources to accomplish its objectives.

The Group's objectives include, but are not limited to, the following:

- Promote water resource conservation;
- Prepare for and manage drought impacts;
- Promote improvement of water quality;
- Address intake and storage security;
- Promote best management practices (BMP) for water management; and
- Ensure there continues to be available water supply to support human needs for water.

4. PURPOSES OF THE BYLAWS

The purposes of these Bylaws are to define and govern the WMG's decision making processes, define the membership and membership representation, define the method of election and powers of the Board of Directors, describe how the Group and the projects undertaken by the Group will be managed and funded, and describe the need for the WMG to communicate with the Members.

5. WMG MEMBERSHIP

WMG Membership

Group membership is voluntary and, subject to the terms and conditions of these Bylaws, will include only Eligible Participants.

Based on June 1, 2006 installed water withdrawal capacity information, the following Eligible Participants are eligible to join the WMG as Large WMG Members:

- City of Belmont, NC
- City of Camden, SC

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- City of Charlotte, NC
- Chester Metropolitan District
- Duke Energy Carolinas, LLC (Licensee)
- City of Gastonia, NC
- Town of Granite Falls, NC
- City of Hickory, NC
- City of Lenoir, NC
- Lincoln County, NC
- Town of Longview, NC
- Lugoff-Elgin Water Authority
- Town of Mooresville, NC
- City of Morganton, NC
- City of Mount Holly, NC
- City of Rock Hill, SC
- City of Statesville, NC
- Catawba River Water Treatment Plant (Lancaster County Water and Sewer District, SC, and Union County, NC)
- Town of Valdese, NC

WMG Member Terms, Representation, Officers and Directors

Members

General. Each Large WMG Member will be represented by one person identified by that Member (each, a “Member Representative”). Each Large WMG Member will also designate an alternate representative to attend meetings in the event that the Member Representative cannot attend (each, an “Alternate”). The Alternates are also encouraged to attend all WMG meetings.

All Small WMG Members from North Carolina will be represented by one person (a “Member Representative”) and all Small WMG Members from South Carolina will be represented by one person (a “Member Representative”). Each such Member Representative shall be elected by the Member Representatives of the Large WMG Members. Member

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Representatives of the Large WMG Members will also elect one alternate representative from each State (each, an “Alternate”) to attend meetings when the applicable Member Representative of the Small WMG Members cannot attend. The Alternates also are encouraged to attend all WMG meetings. If any Member Representative or Alternate of the Small WMG Members is no longer able or willing to serve, he shall so inform the Chair in writing, including email, prior to the WMG’s next scheduled meeting. The Member Representatives of Large WMG Members will elect a successor Member Representative or Alternate to represent the Small WMG Members at the next WMG Member meeting.

If any Member wishes to change its Member Representative or Alternate, it must do so by informing the Chair in writing, including email, prior to the WMG’s next scheduled meeting. Each Alternate shall have the power to act as and on behalf of the applicable Member Representative in such Member Representative’s absence, as if such Alternate were the Member Representative. Any reference to Member Representative in these Bylaws shall be construed to include an Alternate acting on behalf of a Member Representative if such Member Representative is not serving or acting in that capacity, except as otherwise expressly provided herein.

Meetings. An annual meeting of the Members shall be held in November or December, on such date and at such location determined by the Chair. Additional meetings of the Members may be called by the Chair, or the Vice Chair and Secretary/Treasurer, or 25 percent of the Members. Notice of any meeting of the Members shall be given at least five business days prior to the meeting; provided, however, that notice delivered by United States mail must be given at least seven business days prior to the meeting. Such notice will be delivered personally or sent by mail, facsimile transmission or electronic mail to each Member Representative and Alternate at his address as shown by the records of the corporation. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail in a sealed envelope so addressed with postage thereon prepaid. If sent by facsimile transmission or electronic mail, such notice shall be deemed delivered when confirmation of delivery to the designated number or mailbox is received. Such notice shall specify the purpose for which the meeting is called. Members at the close of business on the business day preceding the day on which notice is given are entitled to notice of the meeting.

Quorum, Voting. A majority of the Member Representatives shall constitute a quorum for the transaction of business at any meeting of the Members. Once a Member Representative is present for any purpose at a meeting, the Member Representative is deemed present for quorum purposes for the remainder of the meeting. A quorum, once established, will not be broken by the departure from the meeting of a Member Representative. Member Representatives and Alternates may participate, which participation includes without limitation voting, in meetings by any means of communication by which all participants may simultaneously hear each other during the meeting. A Member Representative participating in a meeting by this means is deemed to be present in person at the meeting. No proxy voting shall be permitted. The Member Representatives may meet in executive session. Action taken by the Member Representatives without a meeting is nevertheless Member action if written consent to the action in question is approved by all of the Member Representatives, such approval may be evidenced by signature or electronic indicia of assent, and filed with the minutes of the proceedings of the Members, whether done before or after the action so taken.

Officers and Directors

General; Election; Removal; Vacancy. At the first official meeting of the Members and then each year at the annual meeting of the Members, the Members will elect, pursuant to Section 9 of these Bylaws, a Chair, Vice Chair, and Secretary/Treasurer (collectively, the “Officers”) and two persons to serve as at-large members of the Board of Directors (the “At-Large Directors”), each of whom will serve for the following calendar year. So long as there is at least one Member with a water intake facility in North Carolina and at least one Member with a water intake facility in South Carolina, one of the At-Large Directors must be a Member Representative (or Alternate, if there are fewer than five Members) of a Member with a water intake facility in North Carolina and one of the At-Large Directors must be a Member Representative (or Alternate, if there are fewer than five Members) of a Member with a water intake facility in South Carolina. The Officers, together with the At-Large Directors, shall constitute the Board of Directors of the corporation. The Member Representatives may remove any Officer or At-Large Director at any time pursuant to Section 9 of these Bylaws. A vacancy occurring among the Officers or the At-Large Directors may be filled by the Member Representatives pursuant to Section 9 of these Bylaws.

Duties; Qualifications. The Chair will serve as the administrative officer of the WMG and, in respect of both the Membership and the Board of Directors, will establish meeting schedules, call for special meetings, establish the meeting agendas, and either preside or appoint the person to preside at the meetings. The Vice Chair will perform the Chair’s responsibilities when the Chair is unable to do so. The Secretary/Treasurer will secure meeting locations, announce or provide notice of meetings, compile and distribute meeting summaries and action items, keep the official membership roles, serve as corresponding secretary for the WMG, maintain or oversee the WMG’s financial records, and provide regular financial reports to the Members. Each Officer and At-Large Director shall be a Member Representative. Alternates are not eligible to serve as Officers or At-Large Directors. Notwithstanding the foregoing, if at any time the WMG shall have fewer than five Members but more than two Members, Alternates shall be eligible to serve as Officers and At-Large Directors. Further notwithstanding the foregoing, if at any time the WMG shall have two or fewer Members, the WMG shall have no At-Large Directors, Alternates shall be eligible to serve as Officers, and the offices of Vice Chair and Secretary/Treasurer may be held by the same person.

Meetings. Meetings of the Board of Directors shall be called by the Chair or any two Officers and/or At-Large Directors. Notice of any meeting of the Board of Directors shall be given at least five business days prior to the meeting; provided, however, that notice delivered by United States mail must be given at least seven business days prior to the meeting. Such notice will be delivered personally or sent by mail, facsimile transmission or electronic mail to each Director at his address as shown by the records of the corporation. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail in a sealed envelope so addressed with postage thereon prepaid. If sent by facsimile transmission or electronic mail, such notice shall be deemed delivered when confirmation of delivery to the designated number or mailbox is received. Such notice shall specify the purpose for which the meeting is called.

Quorum, Voting. A majority of the members of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. Directors may

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participate, which participation includes without limitation voting, in meetings by any means of communication by which all Directors may simultaneously hear each other during the meeting. A Director participating in a meeting by this means is deemed to be present in person at the meeting. No proxy voting shall be permitted. The Board of Directors may meet in executive session, provided that the Member Representatives shall have the right to observe any such executive session. Action taken by the Board of Directors without a meeting is nevertheless Board action if written consent to the action in question is approved by each member of the Board of Directors, such approval may be evidenced by signature or electronic indicia of assent, and filed with the minutes of the proceedings of the Board of Directors, whether done before or after the action so taken.

Amendment or Repeal of Bylaws or Articles of Incorporation

Except as provided in the CRA, these Bylaws or the Group's Articles of Incorporation may be amended or repealed and new bylaws or amended articles of incorporation may be adopted by the Members pursuant to Section 9 of these Bylaws, provided that at least ten days' written notice is given of intention to alter, amend, repeal or adopt new bylaws or articles of incorporation at such meeting and that such notice includes a copy of the proposed amendment.

6. MEMBERSHIP PROCEDURES

Membership Additions

An Eligible Participant that initially chooses not to become a Member may join the Group on any anniversary of the Group's initial dues contribution date (i.e., each January 31st) by paying the current year's dues plus dues for the previous years (four total years maximum) from the later of the following dates: 1) the date it became an Eligible Participant or 2) January 2009. A water withdrawer which after the Group's formation becomes an Eligible Participant may join the Group by contributing its current year's dues, or a pro-rata amount if joining sometime after the dues payment date anniversary. The Members shall determine whether such prospective Member is an Eligible Participant and will have the ability to meet the requirements of a Member in Good Standing. Additional membership requirements will be decided by the Member Representatives pursuant to Section 9 of these Bylaws.

Member Resignation

Any Member may choose to resign from the Group for any reason and may do so at any time. However, no dues refunds will be made. Any Member that resigns agrees to inform the WMG Chair and the Licensee in writing of its decision in a timely manner.

Member Expulsion

A Member that fails to make its scheduled dues contribution within ninety days following each anniversary of the Group's initial dues payment date (i.e., each January 31st) is automatically expelled from the Group on May 2 unless the WMG Secretary/Treasurer receives a timely, written request from the Member explaining the extenuating circumstances that justify the extension of time, and the Board of Directors decides in a vote occurring before the automatic expulsion date, to permit up to an additional 90-day grace period but not extending

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beyond July 31. In addition, upon a vote of two-thirds of the members of the Board of Directors present at a meeting with a quorum that any Member has ceased to be a Member in Good Standing in respect to clause (b) and/or clause (c) of the definition of Member in Good Standing set forth herein, such Member will be expelled from the Group.

Resigned Member Reinstatement

Any Member that has resigned may rejoin the Group on each anniversary of the Group's initial dues payment date (i.e., each January 31st) by contributing the current year's dues plus the dues for each year since its resignation up to three years (four total years maximum) plus any dues owed when it resigned, provided that reinstatement is approved by the Members pursuant to Section 9 of these Bylaws upon a determination that such Member will meet the requirements of a Member in Good Standing.

Expelled Member Reinstatement

Any Member that has been expelled may rejoin the Group on each anniversary of the Group's initial dues payment date (i.e., each January 31st) by contributing the current year's dues plus the dues for each year since its expulsion up to four years (five total years maximum) since its expulsion plus any dues owed when expelled, provided that reinstatement is approved by the Members pursuant to Section 9 of these Bylaws upon a determination that such Member will meet the requirements of a Member in Good Standing.

7. RESPONSIBILITIES OF WMG MEMBER REPRESENTATIVES

WMG Member Representatives and Alternates are expected to stay informed about and to represent their organization's interests. Each Member Representative or, when applicable, his Alternate, is expected to attend and fully participate in WMG meetings and calls.

Member Representatives and Alternates are expected to read appropriate materials and arrive at all meetings prepared to work and are responsible for being authorized to represent their respective Member's interests. Materials presented for discussion should be distributed at least five business days in advance of a meeting or longer, as practical.

Member Representatives and Alternates are expected to read, fully understand, and conduct themselves in accordance with these Bylaws, the Conflict of Interest Policy, and any other policies and procedures adopted by the Members.

Group Members are expected to make good-faith efforts to design, maintain, and operate their new or expanded systems consistently with best management practices.

8. WMG ACTIVITIES

The Group's principal activities will include:

- Identifying projects that further the Group's objectives;
- Overseeing a Water Management Fund to help implement these projects;

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- Developing and maintaining a running five-year plan of projects, an annual funding budget, and a Member contribution schedule to fund approved projects;
- Managing its projects through appropriate contractual agreements;
- Conducting periodic studies of safe-yield capacity related to public water supply;
- Coordinating with appropriate resource agencies and other interested parties, including the Drought Management Advisory Group (DMAG), when the Low Inflow Protocol is reviewed; and
- Providing periodic reports and status updates to Members.

9. DECISIONS

The vote of each Member Representative will be counted equally. If a Member is not current in paying its dues, but is within the allowed grace period and therefore has not been expelled from the Group, then the vote of such Member's Member Representative will be counted. All decisions made pursuant to this Section 9 shall be made in accordance with the Group's Conflict of Interest Policy.

Decisions Requiring Consensus

Decisions requiring Consensus will be:

- Establishing or changing the Fund's annual target amount (if Consensus cannot be reached, the Fund's annual target amount will be the previous year's amount);
- Establishing or changing the allocation basis and timing of dues contributions (if Consensus cannot be reached, the allocation basis and timing of dues contributions will be the same as in the previous year);
- Amending or repealing a provision of these Bylaws or the Articles of Incorporation that involves matters that require a Consensus vote; and
- Dissolving the Group.

Decisions Not Requiring Consensus

The WMG will make numerous decisions not related to topics in the previous subsection. While it will always be the goal for the WMG to make all decisions by Consensus, the following provisions describe the decision process if Consensus cannot be reasonably reached. Specific topics requiring either Super Majority or Majority Votes are noted below.

Super Majority Decisions

A Super Majority Vote will be required for the following decisions:

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- Determining resigned and expelled Member reinstatement;
- Determining Eligible Participants and the admission of new Members;
- Determining credits that should be applied to any Member's annual dues payments;
- Amending these Bylaws, the Articles of Incorporation or the Conflict of Interest Policy, except matters that require a Consensus vote; and
- Removing a WMG Officer or At-Large Director from his position prior to the expiration of his elected term.

Majority and Other Decisions

A Majority Vote will be required for the following decisions:

- Approving or revising the five-year project list;
- Approving a project for funding;
- Approving a Member to handle contract management for a particular project;
- Approving recommendations to the Member that will handle contract management for contractor selection and contract conditions for performing projects;
- Approving WMG governance and administrative procedures (e.g., fund management, contracting and project management, project evaluation criteria);
- Electing WMG Officers and At-Large Directors to normal terms or to complete terms of vacant positions; and
- Making all other decisions not requiring a Consensus or Super Majority Vote.

Many decisions will not require "voting" but will be discussed and made informally, subject to the requirements of the Conflict of Interest Policy. If votes are required for decisions on topics not identified earlier in this Section, then such decisions will be made by a Majority Vote.

Consideration of Members in Good Standing

A Member is presumed to be a Member in Good Standing until a Member fails to pay dues, subject to any applicable grace period, as set forth herein or it is determined by the Board of Directors that a Member has ceased to be in good standing in respect to clause (b) and/or clause (c) of the definition of Member in Good Standing set forth herein. Such determination may be made upon the advice of legal counsel and/or other professional advisers.

The following provides criteria for determining whether or not an entity is a Member in Good Standing:

9.1 Current in paying its dues to the Water Management Group:

(a) Due Date – All dues are to be paid by the Member to the WMG Secretary/Treasurer (or designee) via check or to the institution handling the WMG Fund account via wire transfer by January 31 of each year, with the inaugural payments due by January 31, 2008 for the Licensee and by January 31, 2009 for all other WMG Members.

(b) Notifications and Recordkeeping

(i) Billing – The WMG Secretary/Treasurer (or designee) will ensure that a reminder is sent to each WMG Member on or about November 1 of each year that identifies January 31 as the due date and shows the amount that is due.

(ii) Receipts – The WMG Secretary/Treasurer (or designee) or the institution handling the WMG Fund account will send each Member a receipt for its dues payment.

(iii) Default – The WMG Secretary/Treasurer (or designee) will also send a written notification via certified mail to any WMG Member which defaults on its dues (as noted below) and is therefore no longer a Member in Good Standing.

(iv) Payment Recordkeeping – The WMG Secretary/Treasurer (or designee) will maintain an auditable trail of each Member's payment record to verify the number of years each Member paid its dues in the month of January, within the 90-day automatic grace period and within any longer grace period as approved by the WMG.

(c) Grace Periods

(i) Automatic 90-Day Grace Period – Except for the inaugural payments in 2008 for the Licensee and 2009 for all other Members, each Member is afforded an automatic 90-day grace period for paying its dues (i.e., until May 2). There will be no grace period for the inaugural payments.

(ii) Grace Period Extension – Any Member may request and the Board of Directors may grant additional grace period time for extenuating circumstances, but the total grace period time (including the automatic 90-day grace period) may not extend beyond July 31. Such requests must be made in writing by the Member and must be received by the WMG Secretary/Treasurer by April 1 and the Board of Directors must conduct a vote on or before May 2.

(iii) January Payment is Expected – Since the lack of available funding can seriously impact the WMG's ability to carry out its mission, all Members should make every reasonable effort to pay their dues in full each year in the month of January and should avoid repeat use of the 90-day automatic grace period. Partial payments will not be accepted. The Board of Directors should also strongly consider repeat use of the 90-day automatic grace period as potential grounds for denial of requests to extend the grace period beyond the automatic 90 days. The WMG may also consider adding a late charge for Members that repeatedly fail to pay their dues in January.

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(d) Method of Determining Default – A Member is automatically in default of this dues payment requirement and deemed no longer a Member in Good Standing if:

(i) Normal Condition – The Member’s valid check or wire transfer for the full dues amount is not received by the WMG Secretary/Treasurer (or designee) for checks or the institution handling the WMG Fund account for wire transfers by 5:00 pm on May 2. If May 2 falls on a weekend or federally recognized holiday, the due date will be 5:00 pm on the first business day following May 2.

(ii) Extenuating Circumstances – The Member’s valid check or wire transfer for the full dues amount is not received by the WMG Secretary/Treasurer (or designee) for checks or the institution handling the WMG Fund account for wire transfers by 5:00 pm on the last day of the WMG-approved grace period (but not later than July 31). If the required payment date (e.g., July 31) falls on a weekend or federally recognized holiday, the due date will be 5:00 pm on the first business day following the required payment date.

9.2 Substantial compliance with any FERC orders affecting the Project and applicable Licensee easements and permits:

(a) Situations Considered Substantial Non-Compliance – FERC orders, easements and permits contain many conditions with varying levels of significance. For the purposes of determining Members in Good Standing of the WMG, the following situations are considered substantial non-compliance:

(i) Unauthorized Construction, Excavation or Shoreline Stabilization – Construction, excavation or shoreline stabilization within the FERC Project Boundary that is related to a water intake facility and that was either (a) not approved by the Licensee or (b) constructed in a manner significantly different from the facilities approved by the Licensee. Of particular concern is construction that would render an intake facility capable of exceeding the maximum instantaneous withdrawal rate that was approved by the Licensee, that could limit the usable storage of a reservoir beyond the existing usable storage, or that could invalidate the environmental analysis that was done to consider intake approval (e.g., using a larger intake screen spacing compared to the final lake use permit application).

(ii) Exceeding Approved Withdrawal Rates – Withdrawing more water than was approved by the FERC order and/or the Licensee easement or permit, including any maximum instantaneous withdrawal rate limits or any maximum average annual withdrawal rate limits.

(iii) Operation Without Valid Approval from the Licensee – Withdrawing water from the FERC Project Boundary without written approval from the Licensee or after the applicable Licensee easement or permit has expired or has been terminated.

(iv) Lack of a Basic Water Conservation Program – Failing to show a good faith effort to meet the water conservation measures (e.g., Low Inflow Protocol) specified in the easement or permit (see Section 9.3 below for more details).

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(v) Other – Other situations as determined by the WMG.

(b) Method of Determining Default

(i) Written Complaint – Any WMG Member may file a complaint with the WMG Secretary/Treasurer that another Member is not in substantial compliance with the applicable FERC orders or Licensee easements or permits. Any such complaint must be in writing and must include a description of the substantial non-compliance. The written complaint must also be copied to the Licensee and the Member accused of substantial non-compliance.

(ii) Curing the Non-Compliance – Within 60 days following receipt of the written complaint, the Member accused of substantial non-compliance and the Licensee will meet, develop and implement any mutually agreeable written plans to cure the substantial non-compliance.

(iii) WMG Board Voting – Between 61 days and 90 days following receipt by the WMG Secretary/Treasurer of a written complaint, the Board of Directors will meet to discuss the situation and allow the complaining Member, the Licensee and the accused Member to explain their respective positions. At this meeting, the Board of Directors will vote in accordance with these Bylaws and determine if the accused Member's actions are or are not considered substantially non-compliant for the purposes of WMG membership. The Board of Directors may choose to cancel or table the vote only if the alleged substantial non-compliance has been fully corrected to the mutual satisfaction of the complaining Member, the Licensee and the accused Member or if the complaining Member, the Licensee and the accused Member have agreed to a written plan to fully correct the alleged substantial non-compliance.

(iv) Legal Proceedings – Legal proceedings involving the Licensee and the accused WMG Member may also occur to address the alleged substantial non-compliance situation (as well as any other alleged non-compliances), and such legal proceedings can take a year or more to be processed. Situations (a)(i) – (iv) listed above can be objectively measured and therefore, the Board of Directors need not wait until the legal proceeding has been fully processed to move ahead and make its decision. Also, even if the WMG determines that it does not consider the situation as substantially non-compliant for the purposes of WMG membership, the legal proceedings may continue. The outcome of the legal proceedings will not invalidate or supersede action by the Board of Directors.

9.3 Good Faith in Fulfilling the Purposes and Objectives of the CRA:

(a) Situations Considered Other Than Good Faith Compliance – The CRA addresses a number of different topics; however, the topic of greatest significance to the Members is the Low Inflow Protocol (LIP). The LIP provides coordination for the response by Members and others to drought situations. The following situations related to the LIP are the only bases for determining that a Member is not in good standing for failure to be engaged in good faith in fulfilling the purposes and objectives of the CRA:

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(i) Inadequate DMAG Participation – Member has failed to attend two consecutive meetings of the Catawba-Wateree Drought Management Advisory Group (DMAG). Participation via conference call counts as attending the meeting for meetings where a conference call option is provided. For recordkeeping, it is each Member's obligation to ensure that the DMAG Chair includes the Member on the applicable meeting attendance list.

(ii) Lack of a Basic Drought Response Program – Member has failed to ensure that the necessary local ordinances and written drought response plans are in place and revised as needed to allow full implementation of the LIP.

(iii) Failure to Report Water Use – Member does not provide the appropriately certified written annual water withdrawal and return summary to the Licensee by at least March 31 of each year.

(iv) Lack of a Good-Faith Effort to Implement the LIP – Member has no documentation that its applicable actions have been taken during any of the LIP Stages 1-4; namely, notifying customers (via direct mail, public service announcements, news releases, Web site postings or combinations of the same) of the drought condition and requesting or requiring (depending on the LIP Stage) that its customers restrict water use, enforcing water use restrictions if in an LIP Stage that requires enforcing restrictions and providing the DMAG with a status update at the specified times the DMAG determines that an update is needed.

(b) Method of Determining Default

(i) Written Complaint – Any WMG Member may file a complaint with the WMG Secretary/Treasurer that another Member is not in substantial compliance with the LIP. Any such complaint must be in writing and must include a description of the substantial non-compliance. The written complaint must also be copied to the Licensee and the Member accused of substantial non-compliance.

(ii) Curing the Non-Compliance – Within 10 days following receipt of the written complaint, the Member accused of substantial non-compliance and the Licensee will meet, develop and implement any mutually agreeable written plans to cure the substantial non-compliance.

(iii) WMG Board Voting – Between 11 days and 30 days following receipt by the WMG Secretary/Treasurer of a written complaint, the Board of Directors will meet to discuss the situation and allow the complaining Member, the Licensee and the accused Member to explain their respective positions. At this meeting, the Board of Directors will vote in accordance with these Bylaws and determine if the accused Member's actions are or are not considered substantially non-compliant for the purposes of WMG membership. The Board of Directors may choose to cancel or table the vote only if the alleged substantial non-compliance has been fully corrected to the mutual satisfaction of the complaining Member, the Licensee and the accused Member or if the complaining

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Member, the Licensee and the accused Member have agreed to a written plan to fully correct the alleged substantial non-compliance.

(iv) Legal Proceedings – For situations where the LIP is a condition of a Licensee easement or permit, legal proceedings involving the Licensee and the accused WMG Member may also occur to address the alleged substantial non-compliance situation (as well as any other alleged non-compliances), and such legal proceedings can take a year or more to be processed. Situations (a)(i) – (iv) listed above can be objectively measured and, therefore, the Board of Directors need not wait until the legal proceeding has been fully processed to move ahead and make its decision. Also, even if the Board of Directors determines that it does not consider the situation as substantially non-compliant for the purposes of WMG membership, the legal proceedings may continue. The outcome of the legal proceedings will not invalidate or supersede action by the Board of Directors.

It is understood that decisions about whether or not a Member is in full compliance or decisions about any mitigation or remedies for not being in full compliance or about schedules for achieving compliance are not determinations that will be considered by or made by the Group.

9.4 Dispute Resolution

Except as otherwise specifically provided in these Bylaws, disputes among Members arising under or related to these Bylaws (each, a “Dispute”) shall be resolved as follows.

(a) Consultation

(i) Any Member alleging a Dispute shall notify the Board of Directors. Within five days of receiving such notice, the Board of Directors shall notify all Members and shall give at least 15 days’ notice of a meeting to be held for the purpose of resolving the Dispute. The Member alleging a Dispute, the Member against which the Dispute is alleged, and each Member whose Member Representative attends such meeting or notifies all other Members of the Member’s interest in the resolution of the alleged Dispute shall be considered to be an Interested Party. The meeting notice shall describe the Dispute and shall provide the time, date and location of the meeting. All Members agree to engage in good-faith negotiations to resolve the Dispute for a period of 45 days (“Consultation Period”) from the date of notice provided by the Member to the Board of Directors alleging a Dispute in an effort to resolve the Dispute; except that, in emergency situations beyond the reasonable control of the Interested Party seeking relief, or if required to preclude the running of any applicable limitations period which cannot be effectively tolled by agreement of the Members, an Interested Party may, for good cause, seek relief prior to the expiration of the 45-day period.

(ii) The Interested Parties may, by unanimous agreement, extend the Consultation Period up to an additional 75 days. The Interested Parties may employ a mediator at any time. To the extent permitted by law, the Members shall consider any

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applicable limitations period, whether arising by statute, regulation, contract, or otherwise to be tolled during the Consultation Period. No Member shall raise as a defense to any action, whether judicial or administrative, the running of any period of limitation, so long as the action was filed within the limitations period plus the Consultation Period.

(iii) The Consultation Period ends when the times described above expire or when all Interested Parties indicate that consultation is no longer useful, whichever is sooner.

(b) Consensus – Upon resolution of a Dispute, by agreement or otherwise, the Interested Parties shall notify all Members of the resolution. A resolution based on consensus shall have the unanimous support of all Interested Parties and no opposition from any other Member.

(c) Remedies – If, after the expiration of the Consultation Period and any extension, the Interested Parties have not reached consensus, or in the event of noncompliance for which a schedule to cure the noncompliance has been established by the Interested Parties, the alleged offending Member has not cured the failure within the time established, any Interested Party may seek resolution, by any available means; provided, however, that any Interested Party may file such action sooner if required in order to preclude the running of any applicable limitations period which cannot be effectively tolled by agreement of the Members.

(d) Mediation Services

(i) Any Interested Party may propose the use of a professional mediator to facilitate dispute resolution. To initiate professional mediation, an Interested Party shall notify all Members and shall convene a meeting not sooner than 15 days nor more than 30 days following notice. Such notice shall state the date, time, and location of the initial meeting to consider mediation. At that initial meeting all Members in attendance shall determine their interest in mediation. Mediation is purely voluntary, and no Member shall be compelled against its will to participate in mediation.

(ii) Those Members agreeing to mediation shall execute a contractually binding agreement with a professional mediator, and such agreement shall determine both how the mediating Members will share the cost of mediation and the schedule to undertake and complete mediation. No Member that chooses not to participate in mediation shall be responsible for any costs related to mediation. No mediated resolution shall modify these Bylaws.

10. MISCELLANEOUS PROVISIONS

Coordinating with Other Entities

The Group will establish approaches to coordinate projects and water supply study updates with resource agencies as appropriate. The Group will establish approaches to get input from other interested entities such as non-Member water intake owners, the Drought Management Advisory Group, non-governmental organizations, customers and local residents.

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Self Assessment

At the end of the first five full calendar years after the Group is formed and every five calendar years thereafter, the Group will conduct a brief written assessment of its accomplishments in the previous five years. The assessment will include evaluations on how efficient and effective the Group has been in fulfilling its purposes as stated herein.

Service Life

The Water Management Group will continue to exist as long as it has one or more Members in Good Standing and provided that the Group does not vote to dissolve. Members shall not be required to participate in the Group upon the expiration of the New License (including any extension periods of the New License as may be granted by the FERC through annual licenses); provided, however, that some or all of the Members may elect to continue the Group following such expiration.

11. MANAGEMENT

Management

The Officers shall manage the day-to-day operations of the Group personally or by engaging the services of other persons or entities. In so doing, the Group will seek to minimize the administrative cost to be covered by the Fund. No compensation shall be paid to the Officers or the At-Large Directors for their service as such.

Dues Collection

The Secretary/Treasurer or designee will collect dues based on the annual contribution schedule. Monies collected and interest thereon will be held in a Water Management Fund account.

Distributions and Project Management

Each WMG project may be managed by an appropriate Group Member under that Member's existing contracting and management vehicles. The WMG may fund such projects by providing grants to Members from the Water Management Fund, provided that any such grants to Members shall be made in accordance with applicable laws and regulations, including without limitation procurement laws and regulations. In some cases, such as funds to the USGS to install and/or maintain gages, the grant may be made directly to the ultimate recipient. It is anticipated that most grants will be made for hiring contractors, but may also be provided to a Member project manager for in-house completion of the work. Grants may be paid out in installments (e.g., monthly), lump sum, or as appropriate to the project. Notwithstanding the forgoing, any grants or other payments will be made pursuant to the Group's Conflict of Interest Policy. Any contracts will be awarded pursuant to such procurement policy that may be adopted by the Member Representatives.

The Member project manager will be approved by vote of the Member Representatives in accordance with the Conflict of Interest Policy and will be selected based on such factors as

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interest, capability, geographical location relative to the project, size of the effort, and providing project management opportunities to all WMG Members.

At a minimum, contracts for vendors will include the following:

- A detailed scope-of-work statement;
- Schedules for completion of work and disbursement of funds;
- The funding requirement necessary and available to accomplish the scope of work;
- A per-year not-to-exceed requirement that is consistent with the portion of the existing Water Management Fund appropriated to that project for the current year; and
- Procedures and conditions for amending, modifying, or terminating the contract.

The Member project manager will provide opportunities for the WMG to shape the scope of work and provide advice and counsel on proposals received and vendor selection. The Member project manager will provide regular status reports to the WMG at its meetings and/or by other means as appropriate.

Annual Report

Prior to April 1 of each year, the Board of Directors will provide to the Members an accounting of the funds expended during the previous calendar year.

12. WATER MANAGEMENT FUND DUES

12.1 Basis for Dues

The Fund's dues will be apportioned on each Member's gross withdrawals (mgd) for the basis calendar year plus a 20 percent surcharge for amounts transferred out of the Catawba-Watauga River basin to another river basin, except as provided in Section 12.4 below. If a Member's withdrawal is used only for cooling, then that Member's dues will be based on net withdrawal. However, certain "credits," as determined by a vote of the Group, may also be allowed. The dues structure is intended to discourage transferring water out of the current Catawba-Watauga River basin to other river basins without discouraging reuse of treated wastewater. The dues structure uses gross withdrawal amounts simply as a means to proportionately share the funding of project expenditures identified and approved by the Member Representatives.

12.2 Calculation of Dues

Each Member's annual dues will be calculated by the following approach, except as provided in Section 12.4 below. The Member's Apportioned Amount defined below will be recalculated every five years.

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$$\begin{aligned} \text{Member's Annual Dues (\$/yr)} = \\ \frac{\text{Total Funds Needed for Year to Support Group's Approved Project List}}{\text{X [Member's Apportioned Amount]}} \end{aligned}$$

where:

$$\begin{aligned} \text{Member's Apportioned Amount} = \\ \frac{[(\text{Member's Gross Withdrawal or Net Cooling Withdrawal}) + (0.20 \times \text{Member's Wastewater Discharge Outside Basin})]}{[(\text{Group's Gross Withdrawal and Net Cooling Withdrawal}) + (0.20 \times \text{Group's Wastewater Discharge Outside Basin})]} \end{aligned}$$

Gross or Net Cooling Withdrawal = Annual Average Daily withdrawal for the basis calendar year from the Catawba-Wateree River Basin; and,

Wastewater Discharged Outside Basin = Annual Average Daily discharge for the basis calendar year of treated Catawba-Wateree River basin water that is discharged from wastewater treatment plants owned by the Group Member(s) and/or by others which purchase water from the Group Member and/or by others which provide wastewater treatment services for the Group Member(s) to other river basins outside of the Catawba-Wateree River basin.

Any treated wastewater that is re-used, whether such re-use takes place inside the Catawba-Wateree River basin or outside the Catawba-Wateree River basin, is excluded for the purpose of calculating dues.

12.3 First-Year Dues

The dues for the first year will not exceed the dollar amounts shown in Table A of the CRA's Appendix N. The proportionate shares of the dues shown in Table A were based on actual 2005 gross withdrawals (net withdrawals for Members whose water use was for cooling water) and wastewater treatment plant discharges. The proportionate shares for the first five years (2009-2013) will be based on these same 2005 withdrawals and discharges although the dues amounts may change depending on the Group's future decisions on total dues and the withdrawers that chose to participate in the Group.

12.4 Minimum Dues

The minimum dues of each WMG Member will be an amount calculated as set forth in Section 12.2 above based on a gross withdrawal of 1 mgd and no surcharge for interbasin transfer. In the event that there are two or more Small WMG Members from either North Carolina or South Carolina, the Small WMG Members from each State shall jointly pay the

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minimum dues, with each such Small WMG Member's share of the minimum dues being based on its proportion of the total, gross water withdrawals by Small WMG Members from the same State; provided that notwithstanding the foregoing provisions of this Section, a Small WMG Member shall pay the greater of the following amounts: its dues as calculated under Section 12.2 above or its proportionate share of the minimum dues as calculated under this Section.

12.5 Coordinating with Member Budgeting Cycles

The development of the annual dues contribution amounts and the timing of the actual dues contributions will be coordinated with Group Members' budgeting cycles.

12.6 Distribution of Remaining Water Management Fund upon the Group's Dissolution.

If the Water Management Group votes to dissolve or is otherwise dissolved by operation of law, then any money remaining in the Water Management Fund after all WMG expenses are paid will be distributed in accordance with the Articles of Incorporation.

13. PROJECT AND BUDGET DETERMINATIONS

Project Development

Member Representatives will collectively determine the projects to address the Group's purpose and objectives, the appropriate funding levels for the Group, and the required dues for each Member.

Planning Horizon

Each year the Group will develop a five-year project and funding plan and a current-year project implementation plan. The five-year budget and the dues contribution schedule should provide funds to support regular and ongoing projects as well as to accumulate money reserved for ad hoc projects that may require several years of accumulated funds to accomplish.

Project Recommendations

Project recommendations may be submitted by individual Group Members or solicited from interested third parties. Third parties may also present project recommendations to the Group for consideration.

Cost-Shared Funding

Special emphasis will be provided for projects that can take advantage of cost-shared funding to leverage the Fund's budgets.

Project Restrictions

The Group does not intend to take on debt or financial liabilities. Collectively, projects will be funded only to the levels that do not exceed the dues collected in any year plus money

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from previous year collections reserved for projects that may require several years of accumulated funds to accomplish. Multi-year project contracts will include a per-year not-to-exceed requirement that is consistent with the portion of the existing Water Management Fund appropriated to that project for the current year.

Contracts for the Group's provision of annual maintenance costs (e.g., for groundwater monitoring wells) will include a termination provision to ensure that no funding commitments exceed the Group's dues collections.

Funding will not be provided to support any withdrawer's project that is specifically required by permits or license conditions. However, projects for individual withdrawers that support the Group's larger objectives will be considered. For example, modifying an individual withdrawer's intake to allow it to operate at lower reservoir levels could add storage available to other Group Members. There is no obligation by the Group to participate in funding any improvement that benefits only one withdrawer. No funding will be provided to relieve any Member of its existing responsibilities or to shift costs to others.

The Group does not anticipate owning assets or funding projects that will generate assets for the Group.

14. PROJECT TYPES

The following are examples of the types of potential projects that would be consistent with the objectives of the Group:

Water Conservation

- Consumer education on water conservation and drought issues
- Coordination of public information and outreach
- Support for regional conservation programs

Drought Preparation and Management

- Installation and maintenance of streamflow and groundwater gages needed for drought monitoring
- Sharing information about local ordinances and plans consistent with the Low Inflow Protocol
- Coordinated, basin-wide public information and enforcement systems
- Active participation on the Drought Management Advisory Group
- Evaluation of inter-system connections that can be used during drought and low reservoir level conditions

Improved Water Quality

- Water quality monitoring and modeling
- Participation in sedimentation prevention and management
- Research and marketing related to water reuse

Sustained Suitability of Reservoirs for Water Supply

- Feasibility studies on improvements to reservoir safe yield, water conservation, and other areas of benefit to water withdrawers
- Funding for engineering studies (e.g., safe yield improvement feasibility studies)
- Evaluation of options to increase intakes' operating ranges relative to reservoir levels
- Participation in management/control of invasive species (fish, mussels, aquatic weeds, etc.) that threaten water intakes and/or the suitability of the reservoir for water supply use

Intake and Storage Security

- Identification of security vulnerabilities for intakes, water storage and quality, and remedial measures

Best Management Practices

- Identification and implementation of Best Management Practices (BMP), BMP audits, BMP training for Members and others
- Standards/protocol development of regular self-audits using consistent methods to identify real water losses
- Standards/protocol development of leak detection/prevention programs when trigger points are reached to reduce real water losses
- Progress toward per-capita water consumption goals

15. INDEMNIFICATION; INSURANCE

Any person who at any time serves or has served as an At-Large Director, Officer or employee of the corporation, or in such capacity at the request of the corporation for any other corporation, partnership, joint venture, trust or other enterprise, shall have a right to be indemnified by the corporation to the fullest extent permitted by law against (a) reasonable expenses, including attorneys' fees, actually and necessarily incurred by him in connection with any threatened, pending or completed action, suit or proceedings, whether civil, criminal, administrative or investigative, and whether or not brought by or on behalf of the corporation,

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seeking to hold him liable by reason of the fact that he is or was acting in such capacity, and (b) reasonable payments made by him in satisfaction of any judgment, money decree, fine, penalty or settlement for which he may have become liable in any such action, suit or proceeding.

The Board of Directors of the corporation shall take all such action as may be necessary and appropriate to authorize the corporation to pay the indemnification required by this provision, including without limitation, to the extent needed, making a good faith evaluation of the manner in which the claimant for indemnity acted and of the reasonable amount of indemnity due him.

Expenses incurred in defending a civil or criminal action, suit or proceeding shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding, as authorized by the Board of Directors in the specific case, upon receipt of an undertaking by or on behalf of the At-Large Director, Officer or employee to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized in this provision.

Any person who at any time after the adoption of this provision serves or has served in any of the aforesaid capacities for or on behalf of the corporation shall be deemed to be doing or to have done so in reliance upon, and as consideration for, the right of indemnification provided herein. Such right shall inure to the benefit of the legal representatives of any such person and shall not be exclusive of any other rights to which such person may be entitled apart from the provision of this provision.

In addition to the foregoing, the Board of Directors shall have the right and power to purchase and maintain insurance on behalf of any person who is or was an At-Large Director, Officer or employee of the corporation, or is or was serving at the request of the corporation as director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability.

The Member Representatives may by resolution authorize and direct the Officers to procure appropriate insurance coverage for the corporation, including without limitation directors and officers insurance.

Where appropriate herein, any word denoting or referring to one gender shall be deemed to include the other gender.