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April 3, 2014

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Re: Cleanup and Abatement Order R9-2012-0024

Dear Chairman Morales, Regional Board Members, and Mr. Gibson:

This letter concerns the current status of the North Sediment Remediation Area ("North Yard") related to the Cleanup and Abatement Order ("CAO") No. R9-2012-002, and the parties' progress in meeting the CAO's requirements at the Shipyard Sediment Site. As stated in the CAO, and more recently in the March 19, 2014 Executive Officer's Report, a significant amount



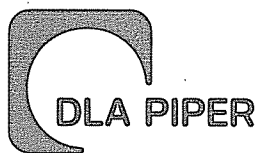
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of North Yard dredging will occur in the upcoming years—up to 105,800 cubic yards within the approximately 10.2 acre offshore area. The North Yard remedial project is substantial, and the dredged area is more than double that of the South Sediment Remedial Area (“South Yard”). Additionally, given BAE Systems’ small operational footprint, this dredging is anticipated to have a significant effect on the ongoing operations within the site.

BAE Systems San Diego Ship Repair (“BAE Systems”) has taken the lead on implementing the CAO, including all preparatory work necessary for remediating the site. To prepare for the significant project ahead, BAE Systems has commenced the necessary engineering and permitting activities to ensure CAO compliance. BAE Systems has created and solely paid for the North Remedial Trust Fund (“Trust Fund”) to assist in the administration of the preparatory and remedial acts that will be undertaken in the North. BAE Systems has proposed modifications to the cleanup design, and submitted analyses to the San Diego Regional Water Quality Control Board (“Water Board”) concerning its proposed changes in design. See Trustee Letter & Memorandum, dated February 25, 2013, as referenced in the March 19, 2014 Executive Officer’s Report, at 7-8. Following the Water Board’s review and approval of these changes, BAE Systems will work with the U.S. Army Corps of Engineers and the Port District on modification of their respective permits. To date, BAE Systems has spent approximately \$650,000 towards the Remedial Action Plan’s design, engineering, and permitting costs to enable the North Yard parties to timely satisfy the CAO’s requirements. BAE Systems has paid all of the costs associated with the Trust Fund. In total, BAE Systems has incurred in excess of \$6 million toward the site. Notwithstanding its contribution to date, BAE Systems, as the party who is overseeing the remedial efforts in the North Yard, continues to lead the effort on what will likely constitute a \$50 million cleanup.

In recognition of the mounting cost of the North Yard preparatory costs and, more importantly future remediation costs, BAE Systems has been vigorously seeking settlement agreements in the federal litigation with other North Yard dischargers to allocate financial responsibility. BAE Systems reached tentative settlement agreements with San Diego Gas & Electric (“SDG&E”) and the U.S. Navy. These settlements were presented to the Court through the good faith settlement process, and are contingent on the Court’s approval. BAE Systems and the Port District are in settlement discussions and hope to reach a settlement in the near term.

But not all North Yard dischargers share BAE Systems’ objectives to timely remediate the North Yard or to pay its fair share. In the federal litigation, certain parties’ objectives are directly

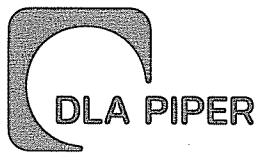


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contrary: pay nothing, block settlements, and insist on continued litigation. Both Campbell Industries ("Campbell") and the City of San Diego ("City") fit into this category. BAE Systems is particularly troubled that the City, rather than supporting settlements (and provide any financial contribution to BAE Systems) has, in fact, actively sought to derail BAE Systems' efforts by opposing its good faith settlement motion as well as the good faith settlement motions of SDG&E and the U.S. Navy. Adoption of these good faith settlement motions by the Court is necessary for finalizing those settlements and subsequent payment into the Trust.

To defend its unwarranted attacks on the parties' settlements, the City has stated that conduct in the federal litigation is unrelated to compliance with the Water Board action, and that "the Dischargers' obligation to comply with the CAO is completely independent of any developments in the federal litigation involving the same parties." (Letter from B. Ledger, dated 3/27/14.) The City, however, is also a "discharger." It must comply with the CAO and fund the North Yard remediation. But the City has refused to contribute any funding to the preparatory activities while BAE Systems shoulders the North Yard costs alone. During City Council meetings and through direct correspondence, BAE Systems has repeatedly sought City funding for the North Yard; the City, however, ignores BAE Systems' requests. The City must follow its own counsel, and fund.

Although it should not, BAE Systems is concerned that the City and Campbell will succeed—that settlements will be thwarted, that parties will refuse to pay, and that future investigatory and remedial efforts will halt. Continued delay has and will continue to cause a commensurate delay in the completion of the remedial efforts, potentially past the completion date defined in the CAO. In this circumstance, BAE Systems requests that the Water Board take what action it can to require Campbell and, most importantly, the City, to fund their fair share of costs. BAE Systems cannot and will not undertake exclusive funding of remedial activities in the North Yard. Until such time as the good faith settlement motions are approved, and the City executes a settlement agreement or agrees to fund its fair share of the remedial costs, implementation of the cleanup is in jeopardy. If the good faith settlement motions are derailed and/or the City refuses to execute a settlement agreement and/or fund remedial efforts, BAE Systems requests

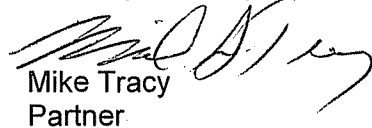


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that when this body decides what enforcement actions to take against the North dischargers, the Water Board considers closely the two parties that have prevented remedial activities from commencing: the City and Campbell.

Sincerely,

DLA Piper LLP (US)

A handwritten signature in black ink, appearing to read 'Mike Tracy', written over the typed name and title.

Mike Tracy
Partner

Admitted to practice in California

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