DEPARTMENT OF WATER RESOURCES
CENTRAL RECORDS
SATELLITE #5
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STATE OF CALIFORNIA

THE RESOURCES AGENCY OF CALIFORNIA

DEPARTMENT OF WATER RESOURCES

FILE 1325431
ITEM # 1
Crestline Lake Arrowhead
DATE 6/20/63

WATER SUPPLY CONTRACT

BETWEEN

THE STATE OF CALIFORNIA

DEPARTMENT OF WATER RESOURCES

AND

CRESTLINE–LAKE ARROWHEAD WATER AGENCY.

June 22, 1963

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STATE OF CALIFORNIA

DEPARTMENT OF WATER RESOURCES

CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE–LAKE ARROWHEAD WATER AGENCY
FOR A WATER SUPPLY

THIS CONTRACT, made this 22nd day of June 1963 pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline – Lake Arrowhead Water Agency,

a public agency in the State of California, duly organized, existing, and acting pursuant to the laws thereof with its principal place of business in Crestline, California, herein referred to as the "Agency".

WITNESSETH, That:

WHEREAS, the State is authorized to construct and operate facilities for the storage and conveyance of water, certain of which facilities will make water available to the Agency; and

WHEREAS, funds will be provided under the California Water Resources Development Bond Act for the construction of said facilities; and

WHEREAS, the Agency is desirous of obtaining a supply of water from the State;

NOW THEREFORE, it is mutually agreed as follows:

A. INTRODUCTORY PROVISIONS

1. DEFINITIONS

When used in this contract, the following terms shall have the meanings hereinafter set forth:

(a) Bond Act

"Bond Act" shall mean the California Water Resources Development Bond Act, comprising Chapter 8 (commencing at Section 12930) of Part 6 of Division 6 of the Water Code.

(b) System

"System" shall mean the State Water Resources Development System as defined in Section 12931 of the Water Code.

(c) Delta

"Delta" shall mean the Sacramento-San Joaquin Delta as defined in Section 12220 of the Water Code on November 8, 1960.

(d) Contractor

"Contractor" shall mean any entity contracting with the State for a dependable supply of water made available by the System, except such water as is made available by the facilities specified in Section 12934(d)(6) of the Water Code.

(e) Project Facilities

"Project facilities" shall mean those facilities of the System which will, in whole or in part, serve the purposes of this contract by conserving water and making it available for use in and above the Delta and for export from the Delta, and by conveying water to the Agency. Said project facilities shall consist specifically of "project conservation facilities" and "project transportation facilities", as hereinafter defined.

(f) Project Conservation Facilities

"Project conservation facilities" shall mean such project facilities as are presently included, or as may be added in the future, under (g) and (h) below.

(g) Initial Project Conservation Facilities

"Initial project conservation facilities" shall mean the following project facilities specified in Section 12934(d) of the Water Code:

(1) All those facilities specified in subparagraph (1) thereof.

(2) Those facilities specified in subparagraph (3) thereof to the extent that they serve the purposes of water conservation in the Delta, water supply in the Delta, and transfer of water across the Delta.

(3) A reservoir near Los Banos in Merced County as specified in subparagraph (2) thereof.

(4) The reach of the San Joaquin Valley-Southern California Aqueduct extending from the Delta to a reservoir near Los Banos in Merced County, to the extent required for water conservation through conveyance of water diverted from the Delta to offstream storage in said reservoir as determined by the State.

(5) Those facilities specified in subparagraph (5) thereof which are incidental to the facilities included under (1), (2), (3), and (4) above.

(6) Those facilities specified in subparagraph (7) thereof which are necessary and appurtenant to the facilities included under (1), (2), (3), (4), and (5) above.

(h) Additional Project Conservation Facilities

"Additional project conservation facilities" shall mean those project facilities provided for in Section 12938 of the Water Code which will serve the purpose of preventing any reduction in the minimum project yield, as hereinafter defined.

(i) Project Transportation Facilities

"Project transportation facilities" shall mean those project facilities:

(1) Specified in Water Code Section 12934(d)(2) which are described in Table H of this contract;

(2) Specified in Water Code Section 12934(d)(5) which are incidental to the facilities included under (1) above;

(3) Specified in Water Code Section 12934(d)(7) which are necessary and appurtenant to the facilities included under (1) and (2) above.

(j) Project Water

"Project water" shall mean water made available for delivery to the contractors by project conservation facilities and the transportation facilities included in the System.

(k) Minimum Project Yield

"Minimum project yield" shall mean the dependable annual supply of project water to be made available, estimated to be 4,000,000 acre-feet per year, said amount to be determined by the State on the basis of coordinated operation studies of initial project conservation facilities and additional project conservation facilities, which studies shall be based upon:

(1) The estimated relative proportion of d[illegible] for agricultural use to deliveries for mu[illegible] use for the year 1990, and the characteri[illegible]c distributions of demands for these two uses throughout the year.

(2) An allowable reduction in the agricultural use portion of the minimum project yield, due to drought, of not to exceed fifty percent (50%) in any one year, nor a total of one hundred percent (100%) of one year's supply in any series of seven consecutive years.

(3) Agreements now in effect or as hereafter amended or supplemented between the State and the United States and others regarding the diversion or utilization of waters of the Delta or streams tributary thereto.

(l) Annual Entitlement

"Annual entitlement" shall mean the amount of project water to be made available to a contractor during the respective year, at the delivery structures provided for such contractor, under the terms of its contract with the State.

(m) Maximum Annual Entitlement

"Maximum annual entitlement" shall mean the maximum amount of project water to be made available to a contractor in any one year, at the delivery structures provided for such contractor, under the terms of its contract with the State.

(n) Supplemental Conservation Facilities

"Supplemental conservation facilities" shall mean those facilities provided for in Section 12938 of the Water Code which will serve the purpose of supplying water in addition to the minimum project yield, and for meeting local needs.

(o) Supplemental Water

"Supplemental water" shall mean water made available by supplemental conservation facilities, in excess of the minimum project yield.

(p) Year

"Year" shall mean the 12-month period from January 1 through December 31, both dates inclusive.

(q) Year of Initial Water Delivery

"Year of initial water delivery" shall mean the year when project water will first be available for delivery to a contractor pursuant to its contract with the State.

(r) Project Interest Rate

"Project interest rate" shall mean the weighted average of the interest rates paid by the State on bonds issued under the Bond Act without regard to any premiums received on the sale thereof. Until bonds are issued and sold under the Bond Act, the project interest rate shall be four percent (4%) per annum, and after said bonds have been issued said rate shall be computed as a decimal fraction to five places.

(s) Capital Costs

"Capital costs" shall mean all costs incurred subsequent to authorization of a facility for construction by the Legislature or by administrative action pursuant to Section 11290 of the Water Code and to the Bond Act, including those so incurred prior to the beginning of the project repayment period as herein defined and any accrued unpaid interest charges thereon at the rates specified herein, which are properly chargeable to the construction of and the furnishing of equipment for the facilities of the System, including the costs of surveys, engineering studies, exploratory work, designs, preparation of construction plans and specifications, acquisition of lands, easements and rights-of-way, relocation work, and essential administrative work in connection therewith, all as shown upon the official records of the Department of Water Resources.

(t) Project Repayment Period

"Project repayment period" shall mean that period of years commencing on January 1, 1961, and extending until all bonds secured by the pledge of revenues provided for by the Bond Act have been repaid.

(u) Municipal Use

"Municipal use" shall mean all those uses of water common to the municipal water supply of a city, town, or other similar population group, including uses for domestic purposes, uses for the purposes of commerce, trade or industry, and any other use incidental thereto for any beneficial purpose.

(v) Manufacturing Use

"Manufacturing use" shall mean any use of water primarily in the production of finished goods for market.

(w) Agricultural Use

"Agricultural use" shall mean any use of water primarily in the production of plant crops or livestock for market, including any use incidental thereto for domestic or stock-watering purposes.

(x) Subject to Approval by the State

"Subject to approval by the State" shall mean subject to the determination and judgment of the State as to acceptability.

(y) Area of Origin Statutes

"Area of origin statutes" shall mean Sections 10505 and 11460 through 11463 of the Water Code as now existing or hereafter amended.

2. TERM OF CONTRACT

This contract shall become effective on the date first above written and shall remain in effect throughout the project repayment period, or for seventy-five (75) years, whichever period is longer.

3. VALIDATION

Within one (1) year after the effective date of this contract, the Agency shall submit this contract to a court of competent jurisdiction for determination of its validity by a proceeding in mandamus or other appropriate proceeding or action, which proceeding or action shall be diligently prosecuted to final decree or judgment. In the event that this contract is determined to be invalid by such final decree or judgment, the State shall make all reasonable efforts to obtain validating legislation at the next session of the Legislature empowered to consider such legislation, and within six (6) months after the close of such session, if such legislation shall have been enacted, the Agency shall submit this contract to a court of competent jurisdiction for redetermination of its validity by appropriate proceeding or action, which proceeding or action shall be diligently prosecuted to final decree or judgment.

4. OPTION FOR CONTINUED SERVICE

By written notice to the State at least six (6) months prior to the expiration of the term of this contract, the Agency may elect to receive continued service after expiration of said term under the following conditions unless otherwise agreed to:

(1) Service of water in annual amounts up to and including the Agency's maximum annual entitlement hereunder.

(2) Service of water at no greater cost to the Agency than would have been the case had this contract continued in effect.

(3) Service of water under the same physical conditions of service, including time, place, amount and rate of delivery, as are provided for hereunder.

(4) Retention of the same chemical quality objective provision as is set forth herein.

(5) Retention of the same options to utilize the project transportation facilities as are provided for in Articles 18(b) and 18(c), to the extent such options are then applicable.

Other terms and conditions of the continued service shall be reasonable and equitable and shall be mutually agreed upon. In the event that said terms and condi-

tions provide for continued service for a limited number of years only, the Agency shall have the same option to receive continued service here provided for upon the expiration of that and each succeeding period of continued service.

5. PLEDGE OF REVENUES

This contract is entered into for the direct benefit of the holders and owners of all general obligation bonds issued under the Bond Act, and the income and revenues derived from this contract are pledged to the purposes and in the priority set forth in that act.

B. WATER SERVICE PROVISIONS

6. ANNUAL ENTITLEMENTS

(a) Year of Initial Water Delivery

The year of initial water delivery to the Agency is presently estimated to be 1972. To the extent practicable, the State shall notify the Agency of any change in this estimate.

(b) Agency's Annual Entitlements to Water

Commencing with the year of initial water delivery to the Agency, the State each year shall make available for delivery to the Agency the amounts of project water designated in Table A of this contract, which amounts are referred to in this contract as the Agency's annual entitlements.

(c) Obligation of State to Complete Facilities

Subject to the availability of funds, the State shall make all reasonable efforts consistent with sound fiscal policies, reasonable construction schedules, and proper operating procedures to complete the project facilities necessary for delivery of project water to the Agency in such manner and at such times that said delivery can commence in or before the year specified in subdivision (a) of this article, and continue in the amounts designated in Table A of this contract.

7. CHANGES IN ANNUAL ENTITLEMENTS; MAXIMUM ANNUAL ENTITLEMENT

(a) Changes in Annual Entitlements

The Agency may, at any time or times during the term of this contract, by timely written notice furnished to the State, request that project water be made available to it thereafter in annual amounts greater or less than the annual entitlements designated in Table A of this contract. Subject to approval by the State of any such request, the State's construction schedule shall be adjusted to the extent necessary to satisfy the request, and the requested increases or decreases in said annual entitlements shall be incorporated in said Table A by amendment thereof: *Provided,* That no such change shall be approved if in the judgment of the State it would impair the financial feasibility of the project facilities.

(b) Maximum Annual Entitlement of Agency

The maximum amount of project water to be made available to the Agency in any one year under this contract shall be that specified in Table A of this contract and in said table designated as the Agency's "Maximum Annual Entitlement." In no event shall such maximum amount of project water to be made available to the Agency be increased over this amount, except as is otherwise provided in this contract.

8. OPTION TO INCREASE MAXIMUM ANNUAL ENTITLEMENT

In the event that the maximum annual entitlements under all contracts executed by the State on or before December 31, 1963, do not aggregate the amount of the minimum project yield as herein defined, the State shall immediately notify the Agency and all other contractors, and the Agency may elect to become entitled to the uncontracted for portion of the minimum project yield in or up to an amount which bears the same ratio to such uncontracted for portion as the Agency's maximum annual entitlement bears to the total of the maximum annual entitlements of all contractors as of that date: *Provided,* That such option may be exercised only to the extent that the water involved can be put to beneficial use within a reasonable period of time. Such option shall become effective on the date that the Agency receives said notice from the State and shall remain in effect through September 30, 1964. If the full amount of such uncontracted for portion of the minimum project yield is not preempted by the Agency under this option and by other contractors through the exercise of similar options on or before September 30, 1964, the Agency may request that it become entitled to any amount of such water not so preempted. Such request shall be subject to approval by the State and shall be considered in the light of all similar requests from other contractors. The State shall approve such request only to the extent that the water involved can be put to beneficial use within a reasonable period of time. Upon the exercise of such option or upon the approval of such request the Agency's maximum annual entitlement in Table A of this contract shall be increased by the amount of the additional entitlement thereby obtained by amendment of that table, and the Agency shall become obligated and hereby agrees to pay to the State a proportionate share of the costs attributable to such increase in accordance with cost allocation principles and procedures set forth in this contract. The service of and payment for said increased entitlement shall in all respects be subject to the terms and conditions of this contract.

9. DELIVERY POINTS

Project water made available to the Agency pursuant to Article 6 shall be delivered to the Agency by the State at the delivery structures established in accordance with Article 10.

10. DELIVERY STRUCTURES

(a) Determination of Size and Location of Delivery Structures

Project water made available to the Agency pursuant to this contract shall be delivered to the Agency at such locations and times and through delivery structures of such capacities as are requested by the Agency and approved by the State.

(b) Agency Requests as to Initial Delivery Structures

Pursuant to subdivision (a) of this article, the Agency shall furnish to the State on or before ..... July 31, 1963 ....., its written requests as to:

(1) The location of delivery structures for delivery of project water to it.

(2) The time at which project water is first to be delivered through each such delivery structure.

(3) The maximum instantaneous flow capacity in cubic feet per second to be provided in each such delivery structure.

(4) The maximum amount of water in acre-feet to be delivered in any one month through each such delivery structure.

(5) The total combined maximum instantaneous flow capacity in cubic feet per second to be provided by all such delivery structures.

(6) The total maximum amount of water in acre-feet to be delivered in any one month through all such delivery structures.

(c) Requests by Agency for Additional Delivery Structures

From time to time the Agency may request delivery structures in addition to those requested pursuant to subdivision (b) of this article.

(d) Agency to Advance Funds for Delivery Structures

The Agency shall pay all of the costs of delivery structures for the delivery of project water to it, and shall deposit with the State, prior to the commencement of construction of any such delivery structure, an amount of money estimated by the State to be sufficient to cover the costs thereof.

11. MEASUREMENT OF WATER DELIVERED

(a) Measurement by State

The State shall measure all project water delivered to the Agency and shall keep and maintain accurate and complete records thereof. For this purpose, the State shall install, operate, and maintain at all delivery structures for delivery of project water to the Agency such measuring devices and equipment as are satisfactory and acceptable to both parties. Said devices and equipment shall be examined, tested, and serviced regularly to insure their accuracy. At any time or times, the Agency or any other contractor may inspect such measuring devices and equipment, and the measurements and records taken therefrom.

(b) Agency to Advance Funds for Measuring Devices

The Agency shall pay all of the costs of acquiring and installing the measuring devices and equipment provided for in subdivision (a) of this article, and shall deposit with the State, prior to such acquisition and installation, an amount of money estimated by the State to be sufficient to cover such costs.

12. DELIVERY SCHEDULES

(a) Procedure for Determining Water Delivery Schedule

The amounts, times, and rates of delivery of project water to the Agency during any year shall be in accordance with a water delivery schedule for that year, such schedule to be determined in the following manner:

(1) On or before October 1 of each year, the Agency shall submit in writing to the State a preliminary water delivery schedule, subject to the provisions of this article and Articles 6(b), 7(b), 10 and 17, indicating the amounts of water desired by the Agency during each month of the succeeding five (5) years.

(2) Upon receipt of a preliminary schedule the State shall review it and, after consultation with the Agency, shall make such modifications in it as are necessary to insure that the amounts, times, and rates of delivery to the Agency will be consistent with the State's overall delivery ability, considering the then current delivery schedules of all contractors. On or before December 1 of each year, the State shall determine and furnish to the Agency the water delivery schedule for the next succeeding year which shall show the amounts of water to be delivered to the Agency during each month of that year.

(3) A water delivery schedule may be amended by the State upon the Agency's written request. Proposed amendments shall be submitted by the Agency within a reasonable time before the desired change is to become effective, and shall be subject to review and modification by the State in like manner as the schedule itself.

(b) Limit on Peak Deliveries of Water

In no event shall the State contract to deliver to any contractor from the project transportation facili-

ties downstream from Pumping Plant VI (Tehachapi Pumping Plant) in any one month of any year a total amount of project water greater than eleven percent (11%) of such contractor's annual entitlement for that year; or to deliver to any contractor from the project transportation facilities upstream from said Pumping Plant VI in any one month of any year a total amount of project water greater than the sum of eighteen percent (18%) of that portion of such contractor's annual entitlement for that year to be put to agricultural use, as determined by the State, and eleven percent (11%) of that portion of such contractor's annual entitlement for that year to be put to municipal use, as determined by the State: *Provided*, That if the State delivers project water to any contractor through delivery structures both downstream and upstream from said Pumping Plant VI, the foregoing limitations shall be based on an appropriate apportionment of such contractor's annual entitlement for the respective year to the respective portions of such contractor's service area to which delivery is made from the project transportation facilities downstream from said Pumping Plant VI and from the project transportation facilities upstream therefrom: *Provided further*, That the percentages set forth hereinabove may be revised for a particular contractor by amendment of this subdivision after submission to the State of that contractor's requests with respect to maximum monthly deliveries, such revision being subject to approval by the State and subject to advancement to the State by the contractor of funds sufficient to cover any additional costs of the project transportation facilities occasioned thereby, the amount of such funds to be determined pursuant to Article 24(d).

(c) Limit on Rate of Delivery to Agency

In no event shall the State be obligated to deliver water to the Agency through all delivery structures at a total combined instantaneous rate of flow exceeding .....9..... cubic feet per second, except as this rate of flow may be revised by amendment of this article after submission to the State of the Agency's requests with respect to maximum flow capacities to be provided in said delivery structures, pursuant to Article 10.

(d) Delivery of Water Not Delivered in Accordance With Schedule

If in any year the State, as a result of causes beyond its control, is unable to deliver any portion of the Agency's annual entitlement for such year under Table A of this contract as provided for in the delivery schedule established for that year, the Agency may elect to receive the amount of water which otherwise would have been delivered to it during such period at other times during the year or succeeding years, to the extent that such water is then available and such election is consistent with the State's overall delivery ability, considering the then current delivery schedules of all contractors.

13. RESPONSIBILITIES FOR DELIVERY AND DISTRIBUTION OF WATER

(a) State Not Liable for Operation Beyond Delivery Structures

Neither the State nor any of its officers, agents, or employees shall be liable for the control, carriage, handling, use, disposal, or distribution of project water supplied to the Agency after such water has passed the delivery structures established in accordance with Article 10; nor for claim of damage of any nature whatsoever, including but not limited to property damage, personal injury or death, arising out of or connected with the control, carriage, handling, use, disposal or distribution of such water beyond said delivery structures; and the Agency shall indemnify and hold harmless the State and its officers, agents, and employees from any such damages or claims of damages.

(b) Agency Not Liable for Operation Upstream From Delivery Structures

Neither the Agency nor any of its officers, agents, or employees shall be liable for the control, carriage, handling, use, disposal, or distribution of project water before such water has passed the delivery structures established in accordance with Article 10; nor for claim of damage of any nature whatsoever, including but not limited to property damage, personal injury or death, arising out of or connected with the control, carriage, handling, use, disposal, or distribution of such water before it has passed said delivery structures.

14. CURTAILMENT OF DELIVERY FOR MAINTENANCE PURPOSES

(a) State May Curtail Deliveries

The State may temporarily discontinue or reduce the delivery of project water to the Agency hereunder for the purposes of necessary investigation, inspection, maintenance, repair, or replacement of any of the project facilities necessary for the delivery of project water to the Agency. The State shall notify the Agency as far in advance as possible of any such discontinuance or reduction, except in cases of emergency, in which case notice need not be given.

(b) Agency May Receive Later Delivery of Water Not Delivered

In the event of any discontinuance or reduction of delivery of project water pursuant to subdivision (a) of this article, the Agency may elect to receive the amount of water which otherwise would have been delivered to it during such period under the water delivery schedule for that year at other times during the year or succeeding years to the extent that such water is then available and such election is consistent with the State's overall delivery ability, considering the then current delivery schedules of all contractors.

15. AREA SERVED BY AGENCY

(a) State Approval of Sale of Water by Agency Outside Boundaries

Project water delivered to the Agency pursuant to this contract shall not be sold or otherwise disposed of by the Agency for use outside the Agency without the prior written consent of the State.

(b) State Approval of Change in Boundaries or Organization of Agency

While this contract is in effect no change shall be made in the Agency either by inclusion or exclusion of lands, by partial or total consolidation or merger with another district, by proceedings to dissolve, or otherwise, except with the prior written consent of the State or except by act of the Legislature.

(c) Map of Agency

The Agency shall provide the State with a map satisfactory to the State indicating the major existing distribution facilities and the boundaries of the Agency at the time the contract is signed and supplementary maps whenever a boundary change is made.

16. CONTINUITY AND DEPENDABILITY OF WATER SUPPLY

(a) Limit on Total of all Maximum Annual Entitlements

The Agency's maximum annual entitlement hereunder, together with the maximum annual entitlements of all other contractors, shall aggregate no more than the minimum project yield as defined herein and in no event more than 4,000,000 acre-feet of project water.

(b) State to Perfect Water Rights

The State shall make all reasonable efforts to perfect and protect water rights necessary for the System and for the satisfaction of water supply commitments under this contract.

(c) State to Report on Ability to Meet Future Water Demands

Commencing within two (2) years from the year of initial project water delivery to the Agency, the State shall submit to the agency at not more than five-year intervals a report on the State's ability to meet future demands for project water and for supplemental water, and on the State's plans for constructing additional project conservation facilities and supplemental conservation facilities. Such reports shall include all estimates, projections, and other data which the State deems relevant thereto.

(d) Construction of Additional and Supplemental Conservation Facilities

Bond funds required to be expended for the construction of additional facilities of the System under the provisions of Section 12938 of the Water Code shall be expended only for construction of additional project conservation facilities as defined herein, and related, appurtenant facilities necessary and desirable to meet local needs: *Provided*, That if at any time after 1985 the State finds that a part or all of such bond funds are not then required for the above purpose, and will not be so required within the next succeeding ten (10) years, such bond funds may be used, to the extent permitted in the Bond Act, to construct supplemental conservation facilities as defined herein.

(e) Furnishing of Supplemental Water

In planning and designing supplemental conservation facilities the State shall give consideration to the requirements and demands for supplemental water of the Agency and others who have contracted for project water. Entitlements to supplemental water shall be obtained, and repayment therefor shall be arranged, in contracts separate from contracts for project water.

17. CONSTRUCTION OF PROJECT FACILITIES

(a) Determination of Aqueduct Capacities

Subject to the rights of the Agency under subdivision (b) of this article and the other provisions of this contract, the State shall provide in each aqueduct reach of the project transportation facilities such maximum monthly delivery capability for the transport and delivery of project water to the Agency as, in the judgment of the State, will best serve the interests of the Agency and all other contractors entitled to delivery of project water from or through said facilities: *Provided*, That within three (3) months after the effective date of this contract the Agency shall furnish to the State a written request specifying such maximum monthly delivery capabilities, and the State shall give full consideration to such request in planning and designing said facilities.

(b) Criteria for Determining Capacity of Transportation Facilities

Subject to Article 45, the State shall design and construct the project transportation facilities so as to provide in each reach thereof, including reservoirs, the capacity necessary to enable delivery of project water in each year to the Agency and to other contractors in the maximum monthly amounts and at the locations, times, and maximum rates specified or provided for in their respective contracts for such year, and shall include in each such reach such capacity as is economically justified in the judgment of the State to compensate for scheduled outages for purposes of necessary investigation, inspection, maintenance, repair or replacement of project facilities, and for losses of water due to evaporation, leakage, seepage, or other causes: *Provided*, That regulatory storage reservoirs included

in the project transportation facilities may be utilized in conjunction with conveyance capacity provided in said facilities for delivery to the Agency of the foregoing monthly amounts.

(c) Inspection of Project Plans and Specifications

The Agency shall have a reasonable opportunity to inspect and study the State's plans and specifications for all project facilities and may make comments and recommendations thereon to the State. Such privilege shall also extend to any plans and specifications in connection with the use by the State, in conjunction with the project facilities, of facilities owned by an entity other than the State. The State shall not enter into any such agreement which would impair the State's ability to perform fully its obligations under this contract.

(d) Restriction on Bond Sales

No bonds shall be sold nor funds expended under the authority of the Bond Act for the construction of any aqueduct or appurtenance thereto included in the System unless and until contracts are executed which will insure the recovery by the State of at least seventy-five percent (75%) of those capital costs of the particular aqueduct and any appurtenances thereto which shall be reimbursable by the contractors as determined by the State; nor shall any bonds be sold or funds expended under the authority of the Bond Act for the construction of any project conservation facility or supplemental conservation facility, unless and until contracts are executed which, together with estimated revenues from the sale or other disposal of electrical energy generated in connection with operation of project conservation facilities and supplemental conservation facilities, will insure the recovery by the State of at least seventy-five percent (75%) of those capital costs of the particular facility which shall be reimbursable by the contractors as determined by the State: *Provided*, That the foregoing limitations shall not apply with respect to: (1) surveys, engineering studies, exploratory work, designs, preparation of construction plans and specifications, acquisition of lands, easements and rights of way, relocation work, and essential administrative work in connection therewith; (2) construction for which appropriations had been made prior to approval of the Bond Act by the voters of the State of California; and (3) construction of facilities pursuant to an agreement between the State and the United States.

(e) Failure to Complete Facilities

In the event that the State fails or is unable to complete construction of any portion or portions of the project transportation facilities necessary to deliver water to the Agency as provided in this contract, and gives the Agency written notice thereof, or by reason of such failure or inability construction of said facilities has ceased for a period of two and one-half (2½) years, the Agency, if it be not then in default and without exclusion of such other rights as it may have under this contract, may exercise the following options:

(1) The Agency may provide funds to the State in such amounts and at such times as may be necessary to enable the State to complete construction of such incompleted portion or portions of the project transportation facilities to the extent necessary for the transport and delivery of water to the Agency as provided for in this contract: *Provided*, That the State shall be and remain the owner of such project transportation facilities or portions thereof constructed in whole or in part with funds provided by the Agency, and shall be and remain obligated to operate, maintain, repair and replace such facilities to the full extent contemplated in this contract: *Provided further*, That the amount of any funds so provided by the Agency shall be credited by the State against the Agency's payment obligation under the capital cost component of the Transportation Charge, but the Agency shall be and remain obligated to pay its share of any capital costs of the above-described facilities not paid for with such funds, together with its proportionate share of the operation, maintenance, power and replacement costs of such facilities.

(2) The Agency may at its own expense, and on a joint venture basis if such an arrangement is made with other contractors having similar options, connect to the project transportation facilities constructed by the State for the purpose of receiving project water to which it is entitled under this contract. In such event and notwithstanding any other provisions of this contract, the structures for delivery of project water to the Agency pursuant hereto shall thereafter be deemed to be located at such point of connection. Specific arrangements for acquiring, constructing, operating, maintaining and replacing the Agency's facilities at the point of connection thereof with the State's facilities shall be in accordance with terms and conditions mutually agreed upon by the parties: *Provided*, That the State shall be and remain the owner of all facilities constructed by it to said point of connection, and the Agency shall be and remain obligated to pay its proportionate share of the costs thereof.

18. SHORTAGE IN WATER SUPPLY

(a) Temporary Shortages; Delivery Priorities

In any year in which there may occur a shortage due to drought or other temporary cause in the supply of project water available for delivery to the contractors, with the result that such supply is less than the total of the annual entitlements of all contractors for that year, the State shall, before reducing deliveries

of project water to all contractors, reduce the delivery of project water to each contractor using such water for agricultural purposes by a percentage, not to exceed fifty percent (50%) in any one year or a total of one hundred percent (100%) in any series of seven consecutive years, of that portion of the contractor's annual entitlement for the respective year which is to be put to agricultural use as determined by the State: *Provided,* That such percentage shall be the same for all such contractors. The maximum total reduction in deliveries allowable under the above provision shall be made before any reduction is made in project water deliveries for other uses. Any necessary reduction in deliveries of project water beyond said maximum total reduction allowable under the foregoing provision shall be apportioned among all contractors irrespective of the uses to which such water is to be put. In such event, the State shall reduce deliveries to each contractor in an amount which bears the same proportion to the total amount of such necessary further reduction that the contractor's annual entitlement bears to the total of the annual entitlements of all contractors for that year, all as determined by the State: *Provided,* That the State may apportion on some other basis if such is required to meet minimum demands for domestic supply, fire protection, or sanitation during the year. The foregoing provisions of this subdivision shall be inoperative to the extent that a contractor's annual entitlement for the respective year reflects established rights under the area of origin statutes precluding a reduction in deliveries to such contractor.

(b) Permanent Shortage; Reduction of Entitlements

In the event that the State is unable to construct sufficient additional conservation facilities to prevent a reduction in the minimum project yield, or if for any other reason there is a reduction in the minimum project yield, which, notwithstanding preventive or remedial measures taken or to be taken by the State, threatens a permanent shortage in the supply of project water to be made available to the contractors:

(1) The annual entitlements and the maximum annual entitlements of all contractors, except to the extent such entitlements may reflect established rights under the area of origin statutes, shall, by amendment of Table A of this contract, be reduced proportionately by the State to the extent necessary so that the sum of the revised maximum annual entitlements of all contractors will then equal such reduced minimum project yield: *Provided,* That appropriate adjustment in the contractors' respective financial obligations to the State under the Transportation Charge shall be made in accordance with such reduced entitlements if such reductions have not been strictly proportionate throughout.

(2) The Agency, at its option, shall have the right to use any of the project transportation facilities which by reason of such reduction in the minimum project yield are not required for delivery of project water to the Agency, to transport water procured by it from any other source: *Provided,* That such use shall be within the limits of the capacities provided in the project transportation facilities for service to the Agency under this contract: *Provided further,* That except to the extent such limitation in Section 12931 of the Water Code be changed, the Agency shall not use the project transportation facilities under this option to transport water the right to which was secured by the Agency through eminent domain unless such use be approved by the Legislature by concurrent resolution with a majority of the members elected to each house voting in favor thereof.

(c) Permanent Shortage; Contracts for Areas-of-Origin

In the event that the State, because of the establishment by a party of a prior right to water under the provisions of Sections 11460 through 11463 of the Water Code, enters into a contract with such party for a dependable supply of project water, which contract will cause a permanent shortage in the supply of project water to be made available to the Agency hereunder:

(1) The State shall: (i) equitably redistribute the costs of all transportation facilities included in the System among all contractors for project water, taking into account the diminution of the supply to the Agency and other prior contractors and the payments theretofore made by the Agency and other prior contractors in accordance with the terms of their contracts, and (ii) revise the Agency's annual entitlements and maximum annual entitlement, by amendment of Table A of this contract, to correspond to the reduced supply of project water to be made available to the Agency: *Provided,* That such redistribution of costs of transportation facilities shall not be made until there has been reasonable opportunity for the Agency to exercise the option provided for in (2) below, and for other prior contractors to exercise similar options.

(2) The Agency, at its option, shall have the right to use any of the project transportation facilities which by reason of such permanent shortage in the supply of project water to be made available to the Agency are not required for delivery of project water to the Agency, to transport water procured by it from any other source: *Provided,* That such use shall be within the limits of the capacities provided in the project transportation facilities for service to the Agency under this contract: *Provided further,* That, except to the extent such limitation

in Section 12931 of the Water Code be changed, the Agency shall not use the project transportation facilities under this option to transport water the right to which was secured by the Agency through eminent domain unless such use be approved by the Legislature by concurrent resolution with a majority of the members elected to each house voting in favor thereof. This option shall terminate upon a redistribution of costs of transportation facilities by the State pursuant to (1) above. In the event that this option is exercised, the State shall take such fact into account in making such redistribution of costs, and shall offset such use as is made of the project transportation facilities pursuant thereto against any reduction in the Agency's payment obligation hereunder resulting from such redistribution of costs.

(d) Reinstatement of Entitlements

If after any revision of annual entitlements and maximum annual entitlements pursuant to subdivisions (b) or (c) of this article, circumstances arise which, in the judgment of the State, justify a revision upward of the same, the State shall, with the consent of the affected contractor, reinstate proportionately the previously reduced entitlements of such contractor to the extent deemed justified, and shall equitably redistribute the costs of the project transportation facilities if inequities would otherwise occur as a result of such reinstatement of entitlements.

(e) Advance Notice of Delivery Reductions

The State shall give the Agency written notice as far in advance as possible of any reduction in deliveries to it under subdivision (a) of this article and, to the extent possible, shall give the Agency written notice five (5) years in advance of any reduction in its annual entitlements and maximum annual entitlement under subdivisions (b) or (c) of this article. Reports submitted to the Agency pursuant to Article 16 (c) may constitute such notices.

(f) No Liability for Shortages

Neither the State nor any of its officers, agents, or employees shall be liable for any damage, direct or indirect, arising from shortages in the amount of water to be made available for delivery to the Agency under this contract caused by drought, operation of area of origin statutes, or any other cause beyond its control.

19. WATER QUALITY

(a) Table of Water Quality Objectives

It shall be the objective of the State and the State shall take all reasonable measures to make available, at all delivery structures for delivery of project water to the Agency, project water of such quality that the following constituents do not exceed the concentrations stated as follows:

Constituent	*Unit*	*Monthly Average*	*Average for any 10-year Period*	*Maximum*
Total Dissolved Solids	ppm.	440	220	----
Total Hardness	ppm.	180	110	----
Chlorides	ppm.	110	55	----
Sulfates	ppm.	110	20	----
Boron	ppm.	0.6	----	----
Sodium Percentage	%	50	40	----
Fluoride	ppm.	----	----	1.5
Lead	ppm.	----	----	0.1
Selenium	ppm.	----	----	0.05
Hexavalent Chromium	ppm.	----	----	0.05
Arsenic	ppm.	----	----	0.05
Iron and Manganese together	ppm.	----	----	0.3
Magnesium	ppm.	----	----	125
Copper	ppm.	----	----	3.0
Zinc	ppm.	----	----	15
Phenol	ppm.	----	----	0.001

(b) Records of Water Quality

The State shall regularly take samples of water at each delivery structure for delivery of project water to the Agency, and shall make chemical and physical analyses and tests of such samples. The State shall keep accurate and complete records of all such analyses and tests, which records shall be available for inspection by the Agency at any time or times.

(c) No Liability for Failure to Meet Quality Objectives

If through no negligence of the State or its officers, agents, or employees, the State is unable to attain the quality objectives set forth in subdivision (a) of this article, neither the State nor any of its officers, agents, or employees shall be liable in any manner whatsoever for such deviation from said quality objectives.

20. SUSPENSION OF SERVICE UPON DEFAULT

In the event of any default by the Agency in the payment of any money required to be paid to the State hereunder, the State may, upon not less than six months' notice to the Agency, suspend deliveries of water under this contract for so long as such default continues: *Provided,* That during such period the Agency shall remain obligated to make all payments required under this contract. Action taken pursuant to this article shall not deprive the State of or limit any remedy provided by this contract or by law for the recovery of money due or which may become due under this contract.

21. SALE OF SURPLUS WATER

If during any year the supply of project water, after appropriate allowance for holdover storage, exceeds the total of annual entitlements of all contractors for that year, the State shall offer to sell and deliver such

surplus water for periods expiring not later than the end of such year, without right of renewal, and in a manner and at prices which will return to the State the largest net revenues practicable, and at the minimum, revenues equal to the variable operation, maintenance and power costs incurred in such service of surplus water: *Provided*, That such service of surplus water shall not interfere with the delivery of their respective annual entitlement to those contractors which do not receive surplus water in such year: *Provided further*, That not until a contractor either pays or incurs a payment obligation for its annual entitlement in accordance with the payment provisions of its contract, shall surplus water be sold to such contractor at prices less than those which would result under the application of the payment provisions of its contract: *Provided further*, That if, in the judgment of the State, the annual entitlement of a contractor desiring to purchase surplus water is unrealistically low for the year in which such purchase is to be made, the State shall, for the purpose of pricing such water in accordance with the second proviso above, consider such annual entitlement to be an increased amount determined by the State to accurately correspond to such contractor's actual requirements for project water in that year. All net revenues from the service of surplus water shall be applied in such manner that all contractors which contribute to the payment of the costs of any System facilities by which surplus water was conserved and transported in connection with such service will receive credit for a share of such net revenues in the proportion that each such contractor contributes to payment of such costs. The service of surplus water shall, in every case, be subject to the paramount right and obligation of the State to discontinue the same, in whole or in part, when required for service of project water to contractors.

C. PAYMENT PROVISIONS

22. DELTA WATER CHARGE

(a) Payment of Reimbursable Costs of Project Conservation Facilities

The payments to be made by each contractor for project water shall include an annual charge designated as the Delta Water Charge. This charge, together with the total revenues derived during the project repayment period from the sale or other disposal of electrical energy generated in connection with operation of project conservation facilities, shall return to the State during the project repayment period all costs of the project conservation facilities including capital, operation, maintenance, power, and replacement costs, which are allocated to the purpose of water conservation in, above, and below the Delta pursuant to subdivision (e) of this article during the project repayment period. Wherever reference is made, in connection with the computation or determination of the Delta Water Charge, to the costs of any facility or facilities included in the System, such reference shall be only to those costs of such facility or facilities which are reimbursable by the contractors as determined by the State.

(b) Delta Water Rate Until 1970; Components of Rate Thereafter

For each contractor receiving project water in any year through December 31, 1969, the Delta Water Charge shall be the product of $3.50 and the contractor's annual entitlement to project water for the respective year. After that date, the Delta Water Charge shall consist and be the sum of the following components as these are computed in accordance with subdivisions (c) and (d) of this article: a capital cost component; a minimum operation, maintenance, power, and replacement component; and a variable operation, maintenance, power and replacement component.

(c) Computation of the Components of the Delta Water Rate

The capital cost, the minimum operation, maintenance, power, and replacement, and the variable operation, maintenance, power, and replacement components of the Delta Water Charge, together with that portion of the revenues derived during the project repayment period from the sale or other disposal of electrical energy generated in connection with operation of project conservation facilities which is allocated by the State to repayment of the respective category of costs, shall return to the State during the project repayment period, respectively, the following categories of the costs allocated to the purpose of water conservation in, above, and below the Delta pursuant to subdivision (e) of this article: (1) capital costs; (2) operation, maintenance, power, and replacement costs incurred irrespective of the amount of project water delivered to the contractors; and (3) operation, maintenance, power, and replacement costs incurred in an amount which is dependent upon and varies with the amount of project water delivered to the contractors: *Provided*, That each of the above categories of costs shall be inclusive of the appropriate costs properly chargeable to the generation and transmission of electrical energy in connection with operation of project conservation facilities. Each component of the Delta Water Charge shall be computed on the basis of a rate which, when charged during the project repayment period for each acre-foot of the sum of the yearly totals of annual entitlements of all contractors, will be sufficient, together with that portion of the revenues derived during the project repayment period from the sale or other disposal of electrical energy generated in connection with operation of project conservation facilities which is allo-

cated by the State to repayment of the respective category of costs, to return to the State during the project repayment period all costs included in the respective category of costs covered by that component. Each such rate shall be computed in accordance with the following formula:

$$\frac{(c_1 - r_1)(1 + i)^{-1} + (c_2 - r_2)(1 + i)^{-2} + \ldots + (c_n - r_n)(1 + i)^{-n}}{e_1(1 + i)^{-1} + e_2(1 + i)^{-2} + \ldots + e_n(1 + i)^{-n}}$$

Where:

i = The project interest rate.

c = The total costs included in the respective category of costs for the respective year of the project repayment period.

r = That portion of the revenues derived from the sale or other disposal of electrical energy allocated by the State to repayment of the costs included in the respective category for the respective year of the project repayment period.

1, 2, and n appearing below c and r = The respective year of the project repayment period for which costs are included in the respective category, n being the last year of the project repayment period.

e = With respect to the capital cost and minimum operation, maintenance, power, and replacement components, the total of annual entitlements to project water of all contractors for the respective year of the project repayment period.

e = With respect to the variable operation, maintenance, power, and replacement component, the total of the amounts of project water delivered to all contractors for the respective year of the expired portion of the project repayment period, together with the total of annual entitlements to project water of all contractors for the respective year of the unexpired portion of the project repayment period.

1, 2, and n appearing below e = The respective year of the project repayment period in which the annual entitlements or project water deliveries occur, n being the last year of the project repayment period.

n used as an exponent = The number of years in the project repayment period.

(d) Application of Component Rates

The capital cost and minimum operation, maintenance, power, and replacement components of the Delta Water Charge shall be the product of the appropriate rate computed under subdivision (c) of this article, and the contractor's annual entitlement to project water for the respective year. The variable operation, maintenance, power, and replacement component of the charge shall be the product of the appropriate rate computed under subdivision (c) of this article and the number of acre-feet of project water delivered to the contractor during the respective year: *Provided,* That when project water has been requested by a contractor and delivery thereof has been commenced by the State, and, through no fault of the State, such water is wasted as a result of failure or refusal by the contractor to accept delivery thereof, said variable component during such period shall be the product of said rate per acre-foot and the sum of the number of acre-feet of project water delivered to the contractor and the number of acre-feet wasted.

(e) Allocations to Project Purposes

Prior to the time that additional project conservation facilities or supplemental conservation facilities are constructed, the Delta Water Charge shall be determined on the basis of an allocation to project purposes, by the separable cost-remaining benefits method, of all projected costs of all those initial project conservation facilities located in and above the Delta, and upon an allocation to the purposes of water conservation and water transportation, by the proportionate use of facilities method, of all projected costs of the following project facilities located below the Delta: The aqueduct intake facilities at the Delta, Pumping Plant I (Delta Pumping Plant), the aqueduct from the Delta to San Luis Forebay, San Luis Forebay, and San Luis Reservoir: *Provided,* That all of the projected costs properly chargeable to the generation and transmission of electrical energy in connection with operation of project conservation facilities shall be allocated to the purpose of water conservation in, above, and below the Delta: *Provided further,* That allocations to purposes the costs of which are to be paid by the United States shall be as determined by the United States. Commencing in the year in which the State first incurs capital costs for construction of additional project conservation facilities, the Delta Water Charge shall be determined on the basis of the foregoing allocations and upon an allocation to project purposes, by the separable costs-remaining benefits method and subject to the foregoing provisos, of all projected costs of such additional project conservation facilities.

(f) Yearly Recomputation of Rates After 1970

The rates to be used in determining the components of the Delta Water Charge pursuant to subdivision (d) of this article and to become effective on January 1, 1970, shall be computed by the State in accordance with subdivision (c) of this article prior to that date. Such computation shall include an adjustment which shall account for the difference, if any, between revenues received by the State under the Delta Water Charge prior to January 1, 1970, and revenues which would have been received under the charge prior to that date had it been computed and charged in accordance with subdivisions (c) and (d) of this article. Upon such computation, a document establishing such rates shall be prepared by the State and attached to this contract as an amendment of this article. The State shall recompute such rates each year thereafter, and each such recomputation shall take account of and reflect increases or decreases from year to year in projected costs, outstanding reimbursable indebtedness of the State incurred to construct the project conservation facilities described in subdivision (e) of this article, annual entitlements, deliveries of project water, project interest rate, revenues from the sale or other disposal of electrical energy, and all other factors which are determinative of such rates. In addition, each such recomputation shall include an adjustment of the rates for succeeding years which shall account for the differences, if any, between projections of costs used by the State in determining said rates for all preceding years, and actual costs incurred by the State during such years. Upon each such recomputation, an appropriately revised copy of the document establishing such rates shall be prepared by the State and attached to this contract as an amendment of this article.

(g) Supplemental Conservation Facilities

Upon the construction of supplemental conservation facilities, the Delta Water Charge shall be paid by all contractors for supplemental water, as well as by contractors for project water, and, together with revenues derived from the sale or other disposal of electrical energy generated in connection with operation of project conservation facilities and supplemental conservation facilities, shall return to the State, in addition to those costs of the project conservation facilities allocated to the purpose of water conservation in, above, and below the Delta pursuant to subdivision (e) of this article, all costs of such supplemental conservation facilities, including capital, operation, maintenance, power, and replacement costs, which are allocated to the purpose of water conservation in, above, and below the Delta pursuant hereto. Commencing in the year in which the State first incurs capital costs for construction of supplemental conservation facilities, the Delta Water Charge shall be determined on the basis of the allocations made pursuant to subdivision (e) of this article, and upon an allocation to project purposes, by the separable costs-remaining benefits method and subject to provisos corresponding to those contained in said subdivision (e), of all projected costs of such supplemental conservation facilities. Commencing in the same year, the computation of the rates to be used in determining the components of the Delta Water Charge shall include the annual entitlements to water under all contracts for supplemental water. If the repayment period of any bonds sold to construct supplemental conservation facilities extends beyond the project repayment period, the Delta Water Charge shall be determined and redetermined on the basis of such extended repayment period as the State determines to be appropriate.

23. TRANSPORTATION CHARGE

The payments to be made by each contractor entitled to delivery of project water from the project transportation facilities shall include an annual charge under the designation Transportation Charge. This charge shall return to the State during the project repayment period those costs of all project transportation facilities necessary to deliver project water to the contractor including capital, operation, maintenance, power, and replacement costs, which are allocated to the contractor during the project repayment period in accordance with the cost allocation principles and procedures herein after set forth. Wherever reference is made, in connection with the computation, determination, or payment of the Transportation Charge, to the costs of any facility or facilities included in the System, such reference shall be only to those costs of such facility or facilities which are reimbursable by the contractors as determined by the State. The Transportation Charge shall consist of a capital cost component; a minimum operation, maintenance, power, and replacement component; and a variable operation, maintenance, power, and replacement component, as these components are defined in and determined under Articles 24, 25, and 26, respectively. For the purpose of allocations of costs pursuant to said articles, the project transportation facilities shall be segregated into such aqueduct reaches as are determined by the State to be necessary for such allocations of costs. Subject to such modifications as are determined by the State to be required by reason of any request furnished by the Agency to the State pursuant to Article 17(a) of this contract, or by reason of contracts entered into by the State with other contractors, the aqueduct reaches of the project transportation facilities are established as set forth in Table I of this contract: *Provided*, That those costs of the aqueduct reaches from the Delta through the outlet of San Luis Reservoir which are allocated to the purpose of water conservation in, above, and below the Delta for the purpose of determining the Delta Water Charge, as hereinbefore set forth, shall not be included in the Transportation Charge.

24. TRANSPORTATION CHARGE—CAPITAL COST COMPONENT

(a) Method of Computation

The capital cost component of the Transportation Charge shall be sufficient to return to the State those capital costs of the project transportation facilities necessary to deliver water to the contractor which are allocated to the contractor pursuant to subdivision (b) of this article. The amount of this component shall be determined in two steps as follows: (1) an allocation of capital costs to the contractor, and (2) a computation of annual payment of such allocated capital costs and interest thereon, computed at the project interest rate and compounded annually, to be made by the contractor.

(b) Allocation of Capital Costs Among Contractors

In the first step, the total amount of capital costs of each aqueduct reach to be returned to the State shall be allocated among all contractors entitled to delivery of project water from or through the reach by the proportionate use of facilities method of cost allocation and in accordance with (1) and (2) below. The measure of the proportionate use of each contractor of each reach shall be the average of the following two ratios: (i) the ratio of the contractor's maximum annual entitlement to be delivered from or through the reach to the total of the maximum annual entitlements of all contractors to be delivered from or through the reach; and (ii) the ratio of the capacity provided in the reach for the transport and delivery of project water to the contractor to the total capacity provided in the reach for the transport and delivery of project water to all contractors served from or through the reach. Allocations of capital costs to the Agency pursuant hereto shall be on the basis of relevant values which will be set forth in Table B of this contract by the State as soon as designs and cost estimates are prepared by it subsequent to receipt of requests from the Agency as to the maximum monthly delivery capability to be provided in each aqueduct reach of the project transportation facilities for the transport and delivery of project water to the Agency, pursuant to Article 17(a): *Provided*, That these values shall be subject to redetermination by the State in accordance with Article 28: *Provided further*, That the principles and procedures set forth in this subdivision shall be controlling as to allocations of capital costs to the Agency.

(1) The total amount of capital costs allocated to a contractor shall be the sum of the products obtained when there is multiplied, for each aqueduct reach necessary to deliver water to the contractor, the total amount of the capital costs of the reach to be returned to the State under the Transportation Charge by the average of the two foregoing ratios for such reach as said average is set forth in the appropriate table included in its contract.

(2) In the event that excess capacity is provided in any aqueduct reach for the purpose of making project water available in the future to an agency or agencies with which the State has not executed contracts at the time of any allocation of costs pursuant to this subdivision, the prospective maximum annual entitlement or entitlements to be supplied by such excess capacity, as determined by the State, shall be deemed to be contracted for by said agency or agencies for the purpose of such allocation of costs, to the end that the capital costs of providing such excess capacity are not charged to any contractor entitled by virtue of an executed contract to the delivery of project water from or through that aqueduct reach at the time of such allocation. Where additional capacity is provided in any aqueduct reach to compensate for loss of water due to evaporation, leakage, seepage, or other causes, or to compensate for scheduled outages for purposes of necessary investigation, inspection, maintenance, repair or replacement of the facilities of the project facilities, then, for the purpose of any allocation of costs pursuant to this subdivision: (i) the maximum annual entitlement to be delivered from or through the reach of each contractor entitled to delivery of project water from or through the reach shall be increased by an amount which bears the same proportion to the maximum annual delivery capability provided by such additional capacity that the contractor's maximum annual entitlement to be delivered from or through the reach bears to the total of the maximum annual entitlements to be delivered from or through the reach under all contracts; and (ii) the capacity provided in the reach for each contractor entitled to delivery of project water from or through the reach shall be increased in the same proportion that the contractor's maximum annual entitlement to be delivered from or through the reach is increased pursuant to (i) above.

(3) The projected amounts of capital costs to be allocated annually to the Agency under the capital cost component of the Transportation Charge shall be determined by the State in accordance with the cost allocation principles and procedures set forth in this subdivision, which principles and procedures shall be controlling as to allocations of capital costs to the Agency. Such amounts will be set forth in Table C of this contract by the State as soon as designs and cost estimates are prepared by it subsequent to receipt of requests from the Agency as to the maximum monthly delivery capability to be

provided in each aqueduct reach for transport and delivery of project water to the Agency, pursuant to Article 17(a): *Provided*, That these amounts shall be subject to redetermination by the State in accordance with Article 28.

(c) Annual Payments of Allocated Capital Costs

In the second step, the Agency's annual payment of its allocated capital costs and interest thereon, computed at the project interest rate and compounded annually, shall be determined in accordance with a payment schedule established by the State and determined in accordance with the principles set forth in (1), (2), and (3) below, which principles shall be controlling as to the Agency's payment of its allocated capital costs. The Agency's payment schedule will be set forth in Table D of this contract by the State as soon as designs and cost estimates are prepared by it subsequent to receipt of requests from the Agency as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of project water to the Agency, pursuant to Article 17(a): *Provided*, That the amounts set forth in Table D shall be subject to redetermination by the State, pursuant to Article 28.

(1) The Agency's annual payment shall be the sum of the amounts due from the Agency on the Agency's allocated capital costs for the then current year and for each previous year where each such amount will pay, in not more than fifty (50) equal annual installments of principal and interest, the Agency's allocated capital costs for the respective year and interest thereon, computed at the project interest rate and compounded annually.

(2) The Agency may make payments at a more rapid rate if approved by the State.

(3) Such annual payments shall cease when all allocated capital costs and interest thereon, computed at the project interest rate and compounded annually, are repaid.

(d) Payment in Advance for Excess Peaking Capacity

In the event that any contractor, pursuant to Article 12(b), requests delivery capacity in any aqueduct reach which will permit maximum monthly deliveries to such contractor in excess of the percentage amounts specified in said Article 12(b) for the uses designated therein, such contractor shall furnish to the State, in advance of the construction of such aqueduct reach, funds sufficient to cover the costs of providing such excess capacity, which funds shall be in an amount which bears the same proportion to the total capital costs of such reach, including the costs of providing such excess capacity, as such excess capacity bears to the total capacity of such reach, including such excess capacity. For the purpose of any allocation of costs pursuant to subdivision (b) of this article, the total capital costs of such aqueduct reach shall be allocated among all contractors entitled to delivery of project water from or through the reach in the following manner:

(1) The costs which would have been incurred for such reach had no such excess capacity been provided shall be estimated by the State and allocated among all such contractors in the manner provided in said subdivision (b); and

(2) The amount of the difference between said estimated costs and the projected actual costs of such reach shall be allocated to the contractor or contractors for which such excess capacity is provided.

Where such excess capacity is provided for more than one contractor, the costs allocated to them under (2) above shall be further allocated between or among them in amounts which bear the same proportion to the total of said allocated costs as the amount of such excess capacity provided for the respective contractor bears to the total of such excess capacity provided in such reach. In the event that the funds advanced by a contractor pursuant to this subdivision are more or less than the costs so allocated to such contractor under (2) above, the account of such contractor shall be credited or debited accordingly.

(e) Costs Incurred Prior to Date of Contract

The Agency's allocated capital costs for the year preceding the year of initial payment of the capital component of the Transportation Charge, pursuant to subdivision (c) of this article, shall consist of the sum of the Agency's allocated capital costs for each year through such year preceding the year of initial payment, and interest thereon, computed at the project interest rate and compounded annually.

25. TRANSPORTATION CHARGE—MINIMUM OPERATION, MAINTENANCE, POWER, AND REPLACEMENT COMPONENT

(a) Method of Computation

The minimum operation, maintenance, power, and replacement component of the Transportation Charge shall return to the State those costs of the project transportation facilities necessary to deliver water to the contractor which constitute operation, maintenance, power, and replacement costs incurred irrespective of the amount of project water delivered to the contractor and which are allocated to the contractor pursuant to (b) below: *Provided*, That to the extent permitted by law, the State may establish reserve funds to meet anticipated minimum replacement costs; and deposits in such reserve funds by the State: (1) shall be made in such amounts that such reserve funds will be adequate to meet such anticipated costs as they are incurred, and (2) shall be deemed to be a part of the minimum replacement costs for the year in which such deposits are made.

(b) Allocation of Costs

The total projected minimum operation, maintenance, power, and replacement costs of each aqueduct reach of the project transportation facilities for the respective year shall be allocated among all contractors entitled to delivery of project water from said facilities by the proportionate use of facilities method of cost allocation, in the same manner and upon the same bases as are set forth for the allocation of capital costs in Article 24: *Provided*, That such minimum operation, maintenance, power, and replacement costs as are incurred generally for the project transportation facilities first shall be allocated to each aqueduct reach in an amount which bears the same proportion to the total amount of such general costs that the amount of the costs incurred directly for the reach bears to the total of all direct costs for all aqueduct reaches.

(c) Payment Table

The amount to be paid each year by the Agency under the minimum operation, maintenance, power, and replacement component of the Transportation Charge shall be determined in accordance with subdivision (b) of this article on the basis of the relevant values to be set forth for the respective aqueduct reaches in Table B of this contract: *Provided*, That these values shall be subject to redetermination by the State in accordance with Article 28. Such amounts and any interest thereon shall be set forth by the State in Table E of this contract as soon as designs and cost estimates have been prepared by it subsequent to receipt of requests from the Agency as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of project water to the Agency, pursuant to Article 17(a): *Provided*, That the amounts set forth in Table E shall be subject to redetermination by the State in accordance with Article 28.

26. TRANSPORTATION CHARGE—VARIABLE OPERATION, MAINTENANCE, POWER, AND REPLACEMENT COMPONENT

(a) Method of Computation

The variable operation, maintenance, power, and replacement component of the Transportation Charge shall return to the State those costs of the project transportation facilities necessary to deliver water to the contractor which constitute operation, maintenance, power, and replacement costs incurred in an amount which is dependent upon and varies with the amount of project water delivered to the contractor and which are allocated to the contractor pursuant to (1) and (2) below: *Provided*, That to the extent permitted by law, the State may establish reserve funds to meet anticipated variable replacement costs; and deposits in such reserve funds by the State: (1) shall be made in such amounts that such reserve funds will be adequate to meet such anticipated costs as they are incurred, and (2) shall be deemed to be a part of the variable replacement costs for the year in which such deposits are made. The amount of this component shall be determined as follows:

(1) There shall be computed for each aqueduct reach of the project transportation facilities a charge per acre-foot of water which will return to the State the total projected variable operation, maintenance, power, and replacement costs of the reach for the respective year. This computation shall be made by dividing said total by the number of acre-feet of project water estimated to be delivered from or through the reach to all contractors during the year.

(2) The amount of the variable component shall be the sum of the products obtained when the charges per acre-foot of water, determined under (1) above, for each aqueduct reach necessary to deliver water to the contractor are multiplied by the number of acre-feet of project water delivered to the contractor from or through that reach during the year: *Provided*, That when project water has been requested by a contractor and delivery thereof has been commenced by the State, and, through no fault of the State, such water is wasted as a result of failure or refusal by the contractor to accept delivery thereof, the amount of said variable component to be paid by such contractor during such period shall be the product of the above sum and the sum of the number of acre-feet of project water delivered to the contractor and the number of acre-feet wasted.

(b) Revenue From Aqueduct Power Recovery Plants

There shall be credited against the amount of the variable component to be paid by each contractor, as determined pursuant to subdivision (a) of this article, a portion of the projected net value of any power recovered during the respective year at project aqueduct power recovery plants located upstream on the particular aqueduct from the delivery structures for delivery of project water to the contractor. Such portion shall be in an amount which bears the same proportion to said projected net value that the number of acre-feet of project water delivered to the contractor through said plants during the year bears to the number of acre-feet of project water delivered to all contractors through said plants during the year.

(c) Payment Table

The amount to be paid each year by the Agency under the variable operation, maintenance, power, and

replacement component of the Transportation Charge shall be determined in accordance with subdivision (a) of this article for the respective aqueduct reaches in Table B of this contract. Such amounts and any interest thereon shall be set forth by the State in Table F of this contract as soon as designs and cost estimates are prepared by it subsequent to receipt of requests from the Agency as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of project water to the Agency, pursuant to Article 17(a): *Provided*, That the amounts set forth in Table F shall be subject to redetermination by the State in accordance with Article 28.

27. TRANSPORTATION CHARGE—PAYMENT SCHEDULE

The amounts to be paid by the Agency for each year of the project repayment period under the capital cost and minimum operation, maintenance, power, and replacement components of the Transportation Charge, and under the variable operation, maintenance, power, and replacement component of said charge on the basis of then estimated deliveries, shall be set forth by the State in Table G of this contract as soon as designs and cost estimates have been prepared by it subsequent to receipt of requests from the Agency as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of project water to the Agency, pursuant to Article 17(a). Table G of this contract shall constitute a summation of Tables D, E, and F of this contract: *Provided*, That each of the amounts set forth in Table G shall be subject to redetermination by the State in accordance with Article 28: *Provided further*, That the principles and procedures set forth in Articles 24, 25, and 26 shall be controlling as to such amounts. Such amounts shall be paid by the Agency in accordance with the provisions of Article 29.

28. TRANSPORTATION CHARGE—REDETERMINATION

The State shall redetermine the values and amounts set forth in Tables B, C, D, E, F and G of this contract in the year following the year in which the State commences construction of the project transportation facilities and each year thereafter in order that the Transportation Charge to the Agency and the components thereof may accurately reflect increases or decreases from year to year in projected costs, outstanding reimbursable indebtedness of the State incurred to construct the project transportation facilities described in Table I of this contract annual entitlements, estimated deliveries, project interest rate, and all other factors which are determinative of such charges. In addition, each such redetermination shall include an adjustment of the components of the Transportation Charge to be paid by the Agency for succeeding years which shall account for the differences, if any, between projections of costs used by the State in determining the amounts of said components for all preceding years and actual costs incurred by the State during such years. Upon each such redetermination, appropriately revised copies of Tables B, C, D, E, F and G shall be prepared by the State and attached to this contract as amendments of those tables.

29. TIME AND METHOD OF PAYMENT

(a) Initial Payment—Delta Water Charge

Payments by the Agency under the Delta Water Charge shall commence in the year of initial water delivery to the Agency.

(b) Initial Payment—Transportation Charge: Capital Component

Payments by the Agency under the capital cost component of the Transportation Charge shall commence in the year following the year in which the State commences construction of the project transportation facilities. If such construction has already commenced when this contract is executed, such payments shall begin in the year following the year of execution.

(c) Initial Payment—Transportation Charge: Minimum Component

Payments by the Agency under the minimum operation, maintenance, power, and replacement component of the Transportation Charge shall commence for each aqueduct reach in the year following the year in which construction of that reach is completed.

(d) Initial Payment—Transportation Charge: Variable Component

Payments by the Agency under the variable operation, maintenance, power, and replacement component of the Transportation Charge shall commence in the year of initial water delivery to the Agency.

(e) Statement of Charges

The State shall, on or before July 1 of each year, commencing with the year preceding the year in which payment of the respective charge is to commence pursuant to this article, furnish the Agency with a written statement of: (1) the charges to the Agency for the next succeeding year under the capital cost and minimum operation, maintenance, power, and replacement components of the Delta Water Charge and Transportation Charge; (2) the unit charges to the Agency for the next succeeding year under the variable operation, maintenance, power, and replacement components of said Delta Water Charge and Transportation Charge; and (3) the total charges to the Agency for the preceding year under the variable operation, maintenance, power, and replacement components of said Delta Water Charge and Transportation Charge: *Provided*, That through December 31,

1969, the Delta Water Charge shall be based upon a unit rate of $3.50 per acre-foot and shall be paid by the contractors on the basis of their respective annual entitlements to project water, as provided in Article 22(b): *Provided further*, That the first such statement shall be provided by the State as soon after the execution of this contract as is feasible. All such statements shall be accompanied by the latest revised copies of the document amendatory to Article 22 and of Tables B, C, D, E, F and G of this contract, together with such other data and computations used by the State in determining the amounts of the above charges as the State deems appropriate. The State shall, on or before the fifteenth day of each month of each year, commencing with the year of initial water delivery to the Agency, furnish the Agency with a statement of the charges to the Agency for the preceding month under the variable operation, maintenance, power, and replacement components of the Delta Water Charge and Transportation Charge. Such charges shall be determined by the State in accordance with the relevant provisions of Articles 22 and 26 of this contract, upon the basis of metered deliveries of project water to the Agency, except as otherwise provided in those articles.

(f) Times of Payment—Capital Components

The Agency shall pay to the State, on or before January 1 of each year, commencing with the year in which payment of the respective charge is to commence pursuant to this article, one-half (½) of the charge to the Agency for the year under the capital cost component of the Delta Water Charge and one-half (½) of the charge to the Agency for the year under the capital cost component of the Transportation Charge, as such charges are stated pursuant to subdivision (e) of this article; and shall pay the remaining one-half (½) of each of said charges on or before July 1 of that year.

(g) Times of Payment—Minimum Components

The Agency shall pay to the State, on or before the first day of each month of each year, commencing with the year of initial water delivery to the Agency, one-twelfth (1/12) of the sum of the charges to the Agency for the year under the minimum operation, maintenance, power, and replacement components of the Delta Water Charge and Transportation Charge, respectively, as such charges are stated pursuant to subdivision (e) of this article.

(h) Times of Payment—Variable Components

The Agency shall pay to the State on or before the fifteenth day of each month of each year, commencing with the year of initial water delivery to the Agency, the charges to the Agency under the variable operation, maintenance, power, and replacement components of the Delta Water Charge and Transportation Charge, respectively, for which a statement was received by the Agency during the preceding month pursuant to subdivision (e) of this article, as such charges are stated in such statement.

(i) Contest of Accuracy of Charges

In the event that the Agency contests the accuracy of any statement submitted to it pursuant to subdivision (e) of this article, it shall give the State notice thereof at least ten (10) days prior to the day upon which payment of the stated amounts is due. To the extent that the State finds the Agency's contentions regarding the statement to be correct, it shall revise the statement accordingly, and the Agency shall make payment of the revised amounts on or before the due date. To the extent that the State does not find the Agency's contentions to be correct, or where time is not available for a review of such contentions prior to the due date, the Agency shall make payment of the stated amounts on or before the due date, but may make the contested part of such payment under protest and seek to recover the amount thereof from the State.

30. SURCHARGE FOR PROJECT WATER USED ON EXCESS LAND

(a) Definitions: "Surcharge"; "Excess Land"

As used herein the term "surcharge" shall mean an amount equivalent to the power credit per acre-foot of water, as such credit is determined under and established by subdivision (b) of this article, to be charged to water users other than the United States or the State of California, as hereinafter provided and to the extent permitted by law, for each acre-foot of project water put to agricultural or manufacturing use on excess land. As used herein the term "excess land" shall mean that part of any land held in single beneficial ownership within a contractor's boundaries, or, where project water is delivered to water users by a retail agency as hereinafter defined, that part of any such land within the service area of such retail agency, which is in excess of 160 acres; or in the case of joint ownership by husband and wife that part of any such land which is in excess of 320 acres.

(b) Definition: "Power Credit"

As used herein, the term "power credit" shall mean the net value accruing to the State from revenues derived from the sale or other disposal of electrical energy generated in connection with operation of initial project conservation facilities after deducting from said revenues the amount necessary to repay the investment properly chargeable to energy generation and for operation, maintenance, and replacement of the electrical generation facilities. The power credit

per acre-foot of water shall be computed in accordance with the following formula:

$$\frac{c_1(1+i)^{-1} + c_2(1+i)^{-2} + \ldots + c_n(1+i)^{-n}}{e_1(1+i)^{-1} + e_2(1+i)^{-2} + \ldots + e_n(1+i)^{-n}}$$

Where:

i = The project interest rate.

c = The projected annual power credit accrued during the respective year of the project repayment period.

1, 2, and n appearing below c = The respective year of the project repayment period during which the power credit is accrued, n being the last year of the project repayment period.

e = The total of annual entitlements to project water of all contractors for the respective year of the project repayment period.

1, 2, and n appearing below e = The respective year of the project repayment period in which the annual entitlements occur, n being the last year of the project repayment period.

n used as exponent = The number of years in the project repayment period.

The power credit per acre-foot of water is hereby established as $2 until all of the facilities for generation of electrical energy in connection with operation of initial project conservation facilities are installed and in operation. The State shall redetermine the power credit per acre-foot of water each year thereafter in order that it may accurately reflect increases or decreases from year to year in the power credit as defined herein. Each such redetermination shall be in accordance with the method of computation set forth in this subdivision, and upon each such redetermination, a document showing the revised amount of the power credit per acre-foot of water shall be attached to this contract as an amendment of this subdivision.

(c) Definition: "Retail Agency"

As used herein the term "retail agency" shall mean any agency which delivers directly to the users thereof, project water made available by, through, or under a contractor.

(d) Payment of Surcharge

Each contractor, to the extent that it delivers project water directly to the users thereof, shall require on behalf of the State that each such user on or before June 1 of each year, commencing with the year following the year of initial water delivery: (1) certify in writing to the contractor on forms prescribed and furnished by the State the description of the excess land owned by such user upon which project water is put to agricultural or manufacturing use, and the amount of project water put to agricultural or manufacturing use on such land during the preceding year; and (2) pay to the contractor for the account of the State a surcharge for the amount of water so certified. Each contractor, to the extent that it delivers project water to a retail agency or to another agency by, through, or under which such water is delivered to a retail agency, shall require on behalf of the State that each water user served by such retail agency be required to, on or before May 1 of each year, commencing with the year following the year of initial water delivery: (1) certify in writing to the retail agency on forms prescribed and furnished by the State the description of the excess land owned by such user upon which project water is put to agricultural or manufacturing use and the amount of project water put to agricultural or manufacturing use on such land during the preceding year; and (2) pay to the retail agency for the account of the State a surcharge for the amount of project water so certified. Each contractor and retail agency shall be entitled to rely upon the certifications furnished them by water users pursuant to this subdivision, unless notified by the State as to the inaccuracy of any such certification. Payments made to the contractor pursuant to this subdivision, together with the certifications supporting such payments, shall be forwarded to the State on or before July 1 of the year in which they are received. Payments made to a retail agency pursuant to this subdivision, together with the certifications supporting such payments, shall on behalf of the State be required to be forwarded to the contractor, which shall in turn forward them to the State on or before July 1 of the year in which they are received; except that where project water has been delivered to the retail agency by, through, or under an agency or agencies other than the contractor, such payments and certifications shall on behalf of the State be required to be forwarded by the retail agency to the agency from which it received project water and by that agency, et seq., to the contractor, which shall forward them to the State on or before July 1 of the year in which they are received.

(e) Commingling of Project and Nonproject Water

In the event that a contractor, retail agency, or water user commingles project water with water from another source in a common distribution system, the contractor shall, in complying with the provisions of this article, adhere to the following rules, and, where project water is delivered by it to a retail agency or to another agency by, through or under which project water is delivered to a retail agency, as contemplated in subdivision (d) of this article, shall require on behalf of the State that such retail agency adhere or be required to adhere to the same rules.

(1) If the amount of nonproject water applied in any year within the area served with project

water by the contractor or retail agency is equal to or greater than the amount of water put to agricultural or manufacturing use on all excess land within that area during such year, it shall be presumed that the water put to agricultural or manufacturing use on such excess land is nonproject water, and there shall be no surcharge to water users in that area.

(2) If the amount of nonproject water applied in any year within the area served with project water by the contractor or retail agency is less than the amount of water put to agricultural or manufacturing use on all excess land within that area during such year, it shall be presumed, for the purpose of determining the payments to be made under the surcharge by water users in that area, that the amount of project water put to agricultural or manufacturing use on excess land of a particular ownership within that area during such year bears the same proportion to the total amount of water so used on that excess land during such year as the total amount of project water applied within that area during such year bears to the total amount of water applied within that area during such year.

(3) Project water which reaches the underground prior to delivery to or pumping by a water user shall not be subject to a surcharge under this article.

(f) Failure of Retail Agency to Perform Obligations

Subject to subdivision (g) of this article, a contractor shall not be liable for the failure of any retail agency or other agency to perform the obligations imposed upon it in accordance with subdivision (d) of this article.

(g) State May Enforce Surcharge

In the event that any retail agency or other agency by, through or under which project water is delivered to a retail agency, fails to perform the obligations imposed upon it in accordance with subdivision (d) of this article, the State may take such action in a court of competent jurisdiction, in the name of the contractor and/or agency or agencies by, through or under which project water is delivered to such retail agency, as it deems necessary to compel the performance of such obligations, and in such action the State shall be subrogated to the rights of such contractor and/or such other agency or agencies against such retail agency or other agency. In the event that any certification furnished by a water user in accordance with subdivision (d) of this article is found by the State to inaccurately represent facts of water use or land ownership, with the result that such user is avoiding payment under the surcharge provided for herein, the State may take such action in a court of competent jurisdiction, in the name of the contractor and/or the retail agency and/or any other agency or agencies by, through, or under which project water is delivered to such water user, as it deems necessary to collect full payment under the surcharge from such water user and to compel the performance of all obligations imposed upon such water user in accordance with said subdivision (d), and in such action the State shall be subrogated to the rights of such contractor and/or such retail agency and/or such other agency or agencies against such water user. Where project water is delivered by a contractor to a retail agency or to another agency by, through, or under which project water is delivered to a retail agency, as contemplated in subdivision (d) of this article, the contractor shall require on behalf of the State that such retail agency or other agency and all agencies by, through, or under which project water is delivered to a retail agency permit or be required to permit the State to bring the foregoing actions in their respective names and be subrogated to their respective rights as set forth above.

(h) State to Defend and Indemnify Against Claims

Should the application of any of the provisions of this article in the manner provided for herein result in claims of any nature against a contractor, retail agency, or other agency by, through, or under which project water is delivered to a retail agency, the State shall defend the contractor, retail agency, or other agency against such claims, and shall indemnify them for any liability with respect thereto arising from activities required by the State under this article.

(i) Separability

This article shall be separable from all other provisions in this contract, and in the event that any or all of the provisions of this article are in any manner or to any extent held to be invalid by final judgment or decree of a court of competent jurisdiction, such holding and such invalidity shall in no way affect the validity of, or make invalid, any other provision of this contract.

31. ADJUSTMENT FOR OVERPAYMENT OR UNDERPAYMENT

If in any year, by reason of errors in computation or other causes, there is an overpayment or underpayment to the State by the Agency of the charges provided for herein, which overpayment or underpayment is not accounted for and corrected in the annual redetermination of said charges, the amount of such overpayment or underpayment shall be credited or debited, as the case may be, to the Agency's account for the next succeeding year and the State shall notify the Agency thereof in writing.

32. DELINQUENCY IN PAYMENT

(a) Agency to Provide for Punctual Payment

The governing body of the Agency shall provide for the punctual payment to the State of payments which become due under this contract.

(b) Interest on Overdue Payments

Upon every amount of money required to be paid by the Agency to the State pursuant to this contract which remains unpaid after it becomes due and payable, interest shall accrue at the rate of one-half (½) of one (1) percent per month of the amount of such delinquent payment from and after the due date until it is paid, and the Agency hereby agrees to pay such interest: *Provided*, that no interest shall be charged to or be paid by the Agency unless such delinquency continues for more than thirty (30) days.

33. OBLIGATION OF AGENCY TO MAKE PAYMENTS

(a) Refusal of Water Does Not Affect Obligation

The Agency's failure or refusal to accept delivery of project water to which it is entitled under Article 6(b) shall in no way relieve the Agency of its obligation to make payments to the State as provided for in this contract. The State, however, shall make reasonable efforts to dispose of any water made available to but not required by the Agency and any net revenues from such disposal shall be credited pursuant to Article 21.

(b) Character of Obligation

The Agency as a whole is obligated to pay to the State the payments becoming due under this contract, notwithstanding any individual default by its constituents or others in the payment to the Agency of assessments, tolls, or other charges levied by the Agency.

34. OBLIGATION OF AGENCY TO LEVY TAXES AND ASSESSMENTS

(a) When Obligated

If in any year the Agency fails or is unable to raise sufficient funds by other means, the governing body of the Agency shall levy upon all property in the Agency not exempt from taxation, a tax or assessment sufficient to provide for all payments under this contract then due or to become due within that year.

(b) Enforcement by Officers of Agency

Taxes or assessments levied by the governing body of the Agency pursuant to subdivision (a) of this article shall be enforced and collected by all officers of the Agency charged with the duty of enforcing and collecting taxes or assessments levied by the Agency.

(c) Deposit in Separate Fund

All money collected for taxes or assessments under this article shall be kept in a separate fund by the treasurer or other officer of the Agency charged with the safekeeping and disbursement of funds of the Agency, and, upon the written demand of the State, the treasurer or other officer shall pay over to the State all such money in his possession or control then due the State under this contract, which money shall be applied by the State to the satisfaction of the amount due under this contract.

(d) Enforcement of Levy

In the event of failure, neglect, or refusal of any officer of the Agency to levy any tax or assessment necessary to provide payment by the Agency under this contract, to enforce or to collect the tax or assessment, or to pay over to the State any money then due the State collected on the tax or assessment, the State may take such action in a court of competent jurisdiction as it deems necessary to compel the performance in their proper sequence of all such duties. Action taken pursuant hereto shall not deprive the State of or limit any remedy provided by this contract or by law for the recovery of money due or which may become due under this contract.

D. GENERAL PROVISIONS

35. REMEDIES NOT EXCLUSIVE

The use by either party of any remedy specified herein for the enforcement of this contract is not exclusive and shall not deprive the party using such remedy of, or limit the application of, any other remedy provided by law.

36. AMENDMENTS

This contract may be amended at any time by mutual agreement of the parties, except insofar as any proposed amendments are in any way contrary to applicable law. The State shall promptly furnish the Agency with copies of all contracts now or hereafter executed by the State for a dependable supply of project water, and of any amendments thereof.

37. AGENCY NOT ESTOPPED TO CHALLENGE STATE LAWS

Nothing herein contained shall be construed as estopping or otherwise preventing the Agency or any person, firm, association, corporation, or public body or agency claiming by, through, or under the Agency from contesting by litigation or other lawful means the validity, constitutionality, construction or application of any law of this State, including laws referred to in the Bond Act, or as preventing or prejudicing the amendment or repeal of any such law, and each contract executed by the State for a dependable supply of

project water shall contain a similar reservation with respect to State laws.

38. OPINIONS AND DETERMINATIONS

Where the terms of this contract provide for action to be based upon the opinion, judgment, approval, review, or determination of either party hereto, such terms are not intended to be and shall never be construed as permitting such opinion, judgment, approval, review, or determination to be arbitrary, capricious, or unreasonable.

39. CONTRACTING OFFICER OF THE STATE

The contracting officer of the State shall be the Director of Water Resources of the State of California and his successors, or their duly authorized representatives. The contracting officer shall be responsible for all discretionary acts, opinions, judgments, approvals, reviews, and determinations required of the State under the terms of this contract.

40. SUCCESSORS AND ASSIGNS OBLIGATED

This contract and all of its provisions shall apply to and bind the successors and assigns of the parties hereto.

41. ASSIGNMENT

No assignment or transfer of this contract or any part hereof, rights hereunder, or interest herein by the Agency shall be valid unless and until it is approved by the State and made subject to such reasonable terms and conditions as the State may impose.

42. WAIVER OF RIGHTS

Any waiver at any time by either party hereto of its rights with respect to a default or any other matter arising in connection with this contract, shall not be deemed to be a waiver with respect to any other default or matter.

43. NOTICES

All notices that are required either expressly or by implication to be given by one party to the other under this contract shall be signed for the State by its contracting officer, and for the Agency by such officer as it may, from time to time, authorize in writing to so act. All such notices shall be deemed to have been given if delivered personally or if enclosed in a properly addressed envelope and deposited in a United States Post Office for delivery by registered or certified mail. Unless and until formally notified otherwise, all notices shall be addressed to the parties at their addresses as shown on the signature page of this contract.

44. MAINTENANCE AND INSPECTION OF BOOKS, RECORDS, AND REPORTS

During regular office hours, each of the parties hereto and their duly authorized representatives shall have the right to inspect and make copies of any books, records, or reports of the other party pertaining to this contract or matters related hereto. Each of the parties hereto shall maintain and make available for such inspection accurate records of all of its costs, disbursements and receipts with respect to its activities under this contract and the Bond Act.

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E. SPECIAL PROVISIONS AND TABLES

45. SPECIAL PROVISIONS

(a) On or before June 30, 1963, the Agency shall furnish to the State its written request specifying the year in which the first delivery of project water from the East Branch Aqueduct as defined in Table H of this contract shall be made to the Agency. The timing of first deliveries of project water from said Branch Aqueduct shall be as so requested by the Agency: *Provided*, That in the event said request is, in the judgment of the State, incompatible with similar requests received from other contractors to be served from or through said Branch Aqueduct, which contractors have executed contracts with the State on or before June 30, 1963, the timing of first deliveries of project water to the Agency and such other contractors from said Branch Aqueduct shall be as established by mutual agreement among the State, the Agency, and said contractors: *Provided further*, That if such agreement has not been reached on or before December 31, 1963, the State may then construct said Branch Aqueduct in accordance with such construction schedules as, in the judgment of the State, will best serve the interests of all those contractors whose service areas are located south of the South Portal of the Tehachapi Tunnels and which have executed contracts with the State on or before June 30, 1963.

(b) The State shall provide sufficient capacity in the transportation facilities to deliver 11 percent of the Agency's annual entitlement in each of four months in each year. Subject to the foregoing limitation, in scheduling deliveries under Article 12(a) the State will provide for up to 1/9 of the Agency's annual entitlement to be delivered in excess of a rate of 8-1/3 percent of the annual entitlement per month.

(c) The annexation to the Agency, authorized by Resolution No. 7 of the Board of Directors of the Agency dated May 27, 1963, is deemed to be approved by the department within the meaning of Article 15(b), and is generally described as the Lake Arrowhead Annexation.

TABLE A

ANNUAL ENTITLEMENTS
CRESTLINE–LAKE ARROWHEAD WATER AGENCY

Year	Total Annual Amount in Acre-Feet
1	500
2	750
3	1,000
4	1,250
5	1,500
6	1,750
7	2,000
8	2,250
9	2,500
10	2,750
11	3,000
12	3,250
13	3,500
14	3,750
15	4,000
16	4,250
17	4,500
18	4,750
19	5,000

and each succeeding year thereafter, for the term of this contract as a Maximum Annual Entitlement: 5,000 Acre-feet

TABLE B

ALLOCATED PROPORTION OF COSTS OF PROJECT TRANSPORTATION FACILITIES

CRESTLINE–LAKE ARROWHEAD WATER AGENCY

Aqueduct Reach	Total for project transportation facilities				District participation				
	Total of maximum annual entitlements of all contractors thousands of acre-feet per year [1] [4]	Total of maximum capacities in cubic-feet per second [1] [4]	Total capital cost, thousands of dollars	Minimum annual operating cost, thousands of dollars [2]	Maximum annual entitlement, thousands of acre-feet per year [1]	Ratio of maximum annual entitlement, to total of maximum annual entitlements	Maximum capacity in cubic-feet per second [1]	Ratio of maximum capacity to total capacity	Average of ratios
CALIFORNIA AQUEDUCT									
Delta to Discharge Delta Pumping Plant: [3]									
Discharge, Delta Pumping Plant to San Luis Forebay: [3]									
San Luis Forebay: [3]									
San Luis Forebay to Kettleman City:									
Kettleman City to Avenal Gap:									
Avenal Gap to Buena Vista Pumping Plant:									
Buena Vista Pumping Plant to Wheeler Ridge Pumping Plants I and II:									
Wheeler Ridge Pumping Plants I and II to Tehachapi Pumping Plant:									
Tehachapi Pumping Plant to South Portal Tehachapi Tunnels:									
South Portal Tehachapi Tunnels to Junction, East and West Branches:									
EAST BRANCH									
Junction, East and West Branches to Little Rock Creek:									
Littlerock Creek to Cedar Springs Reservoir									

[1] As increased by an allowance to compensate for losses as provided in Article 24(b) (2).
[2] Based on values as of the end of the construction period.
[3] Costs allocated to water transportation.
[4] State's capacity only.

TABLE C

PROJECTED ALLOCATIONS OF CAPITAL COST OF PROJECT TRANSPORTATION FACILITIES TO CRESTLINE–LAKE ARROWHEAD WATER AGENCY

Year	Projected Allocation in Thousands of Dollars
1*	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
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29	
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31	

* Year in which State commenced construction of project transportation facilities, 1959.

TABLE D

TRANSPORTATION CHARGE – CAPITAL COST COMPONENT
CRESTLINE–LAKE ARROWHEAD WATER AGENCY
(In thousands of dollars)

Year	Annual Payment of Principal	Annual Interest Payment	Total Annual Payment by District
1*			
2			
3			
4			
5			
6**			
7			
8			
9			
10			
11			
12			
13			
14			
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44			
45			

TABLE D (Continued)

TRANSPORTATION CHARGE – CAPITAL COST COMPONENT
CRESTLINE–LAKE ARROWHEAD WATER AGENCY
(In thousands of dollars)

Year	Annual Payment of Principal	Annual Interest Payment	Total Annual Payment by District
46			
47			
48			
49			
50			
51			
52			
53			
54			
55			
56			
57			
58			
59			
60			
61			
62			
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64			
65			
66			
67			
68			
69			
70			
71			
72			
73			
74			
75			
76			
77			
78			
79			
80			
TOTAL			

* Year in which the State commenced construction of the project transportation facilities, 1959.

** Year of first payment.

TABLE E

TRANSPORTATION CHARGE – MINIMUM OPERATION MAINTENANCE, POWER, AND REPLACEMENT COMPONENT CRESTLINE–LAKE ARROWHEAD WATER AGENCY

Year	Total Annual Payment by District* (In thousands of dollars)
1**	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
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27	
28	
29	
30	
31	
and each succeeding year thereafter, for the term of this contract.	

* Payment shall start with respect to each aqueduct reach in the year following the year in which the State completes construction of the respective reach.

** Year in which the State commenced construction of the project transportation facilities, 1959.

TABLE F

TRANSPORTATION CHARGE – ESTIMATED VARIABLE OPERATION, MAINTENANCE, POWER, AND REPLACEMENT COMPONENT
CRESTLINE–LAKE ARROWHEAD WATER AGENCY

Year	Total Annual Payment by District* (In thousands of dollars)
1**	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
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16	
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and each succeeding year thereafter, for the term of this contract.	

* Payments start with year of initial water delivery.

** Year in which State commenced construction of project transportation facilities, 1959.

TABLE G

PAYMENT SCHEDULE
CRESTLINE–LAKE ARROWHEAD WATER AGENCY
(In thousands of dollars)

Year	Transportation Charge			
	Capital Cost Component	Minimum Component	Variable Component	Total
1*				
2				
3				
4				
5				
6**				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
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43				
44				
45				

TABLE G (Continued)

PAYMENT SCHEDULE
CRESTLINE–LAKE ARROWHEAD WATER AGENCY
(In thousands of dollars)

Year	Transportation Charge			
	Capital Cost Component	Minimum Component	Variable Component	Total
46				
47				
48				
49				
50				
51				
52				
53				
54				
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56				
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58				
59				
60				
61				
62				
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75				
76				
77				
78				
79				
80				

* Year in which State commenced construction of project transportation facilities, 1959.

** Year of first payment

TABLE H

PROJECT TRANSPORTATION FACILITIES
CRESTLINE–LAKE ARROWHEAD WATER AGENCY

A San Joaquin Valley–Southern California Aqueduct extending to Cedar Springs Reservoir on the East Branch Aqueduct defined below, to the extent such aqueduct is determined by the State to be required for water transportation.

> ***"East Branch Aqueduct"*** shall mean that portion of the San Joaquin Valley–Southern California Aqueduct specified in Section 12934(d) (2) of the Water Code extending from the Junction of East and West Branches to a terminus in the vicinity of Perris, Riverside County.

TABLE I

AQUEDUCT REACHES
CRESTLINE–LAKE ARROWHEAD WATER AGENCY

Aqueduct Reach	Major Features of Reach
Delta to Discharge Delta Pumping Plant:	Intake Canal Fish Protective Facilities Delta Pumping Plant (Pumping Plant I)
Discharge Delta Pumping Plant to San Luis Forebay:	Aqueduct
San Luis Forebay:	San Luis Forebay and Forebay Dam
San Luis Forebay to Kettleman City:	Aqueduct Mile 18 Pumping Plant
Kettleman City to Avenal Gap:	Aqueduct
Avenal Gap to Buena Vista Pumping Plant:	Aqueduct
Buena Vista Pumping Plant to Wheeler Ridge Pumping Plants I and II:	Buena Vista Pumping Plant Aqueduct
Wheeler Ridge Pumping Plants I and II to Tehachapi Pumping Plant:	Wheeler Ridge Pumping Plant I Wheeler Ridge Pumping Plant II Aqueduct
Tehachapi Pumping Plant to South Portal Tehachapi Tunnels:	Tehachapi Pumping Plant (Pumping Plant VI) Tehachapi Tunnels
South Portal Tehachapi Tunnels to Junction, East and West Branches:	Cottonwood Power Plant Aqueduct
EAST BRANCH	
Junction, East and West Branches to Little Rock Creek:	Aqueduct
Littlerock Creek to Cedar Springs Reservoir:	Aqueduct Cedar Springs Reservoir

IN WITNESS WHEREOF, the parties hereto have executed this contract on the date first above written.

Approved as to legal form and sufficiency:

For Chief Counsel
Department of Water Resources
P.O. Box 388
Sacramento, California

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

Director

Attest:

Secretary
Crestline–Lake Arrowhead Water Agency
P.O. Box 880
Crestline, California

CRESTLINE–LAKE ARROWHEAD WATER AGENCY

By
President

Approved as to form and execution:

By
Director

Counsel

By
Director

By
Director

By
Director

STATE OF CALIFORNIA

DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 1 TO WATER SUPPLY
CONTRACT BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND

CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT, made this 15th day of November, 1963, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State," and

CRESTLINE-LAKE ARROWHEAD WATER AGENCY

a public agency in the State of California, duly organized, existing, and acting pursuant to the laws thereof with its principal place of business in Crestline, California, herein referred to as the "Agency,"

WITNESSETH, That:

WHEREAS, the State is authorized to construct and operate facilities for the storage and conveyance of water, certain of which facilities will make water available to the Agency; and

WHEREAS, the State and the Agency have entered into a water supply contract, dated June 22, 1963 providing that the State shall supply certain quantities of water to the Agency, and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment; and

WHEREAS, the State and the Agency are desirous of making certain changes and additions to the above-mentioned contract, while otherwise continuing the contract in full force and effect;

NOW THEREFORE, it is mutually agreed that the following changes and additions are hereby made to the Agency's water supply contract with the State:

Article 46 is added to the contract to read as follows:

46. Amendatory Provisions

a. Surplus Water

Notwithstanding other provisions of this contract, surplus water for agricultural and ground water replenishment use shall be offered to contractors on the following basis. Before surplus water is sold for other than agricultural and ground water replenishment use, each contractor shall have the right, subject to the ability of the State to deliver such water, to contract for agricultural and ground water replenishment use for a portion of the total amount of surplus water available in any year, in an amount which bears the same ratio to the total amount of surplus water available in that year as the sum of the annual entitlements delivered to the contractor for agricultural and ground water replenishment use during the preceding three years bears to the total amount of the annual entitlements delivered for agricultural and ground water replenishment use during the preceding three years of all contractors requesting surplus water: Provided, That if its proportion of such surplus water is not required by or cannot be delivered to any contractor, such amount of additional surplus water shall be offered to other contractors for agricultural and

ground water replenishment use. During the first three years in which project water is delivered to a contractor, the State shall determine the amount of surplus water which the contractor may obtain based on the contractor's maximum annual entitlement and the estimated percentage of its annual entitlement to be delivered for agricultural and ground water replenishment use; but quantities so determined shall not exceed the contractor's annual entitlement for that year. For the purpose of computing the portion of the surplus water for agricultural and ground water replenishment use to which each contractor is entitled, the State shall determine the amounts of water used for agricultural and ground water replenishment use by each contractor in each year: Provided, That each contractor shall furnish certified copies of such records and data concerning the use of water within its boundaries as the State may request.

Surplus water for agricultural and ground water replenishment use shall be furnished at prices which will return to the State the variable operation, maintenance, power, and replacement components of the Delta Water Charge and Transportation Charge incurred in such service of surplus water as determined by the State. A surcharge shall be added to the rate for surplus water furnished to excess land in an amount and under the conditions specified in Article 30 of this contract. Contracts made pursuant to this subdivision may exceed one year in duration.

Except as herein modified, the provisions of Article 21 of this contract are hereby confirmed, and all surplus water not specifically allocated pursuant to this subdivision shall be sold under the provisions of Article 21.

As used in this subdivision "ground water replenishment use" shall mean the use of project water exclusively by direct application to spreading basins, streambeds, or through other means of direct artificial recharge for the purpose of replenishing overdrawn ground water basins.

b. Surcharge Credit

Notwithstanding other provisions of this contract, the State may include provisions in water supply contracts allowing a credit to a contractor not to exceed the surcharge to be paid by such contractor: Provided, That such credit shall be utilized to reduce the cost of water for agricultural use on other than excess land at a uniform rate per acre-foot not to exceed two dollars ($2) per acre-foot. Any contract including provisions pursuant to this subdivision shall assure that the reductions in the contractors' obligations authorized by this subdivision are made available exclusively for the benefit of agricultural use on land other than excess land and are not directly or indirectly made available for the benefit of agricultural use on excess land.

IN WITNESS WHEREOF, the parties hereto have executed this contract on the date first above written.

Approved as to legal form and sufficiency:

P. G. Tourné
Chief Counsel
Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By William E. Warne
Director

Attest:

Herman Ulrich
Secretary
Crestline-Lake Arrowhead Water Agency
P. O. Box 880
Crestline, California

CRESTLINE-LAKE ARROWHEAD WATER AGENCY

By Stanley Ziegler
President

By Herman Ulrich
Secretary

Approved as to form and execution:

Robert D. Farrell
Kenneth B. Henry
Counsel

STATE OF CALIFORNIA

DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 2 TO WATER SUPPLY
CONTRACT BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT, made this 28th day of September 1964, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State," and Crestline-Lake Arrowhead Water Agency, a public agency in the State of California, duly organized, existing, and acting pursuant to the laws thereof with its principal place of business in Crestline, California, herein referred to as the "Agency,"

WITNESSETH, That:

WHEREAS, the State is authorized to construct and operate facilities for the storage and conveyance of water, certain of which facilities will make water available to the Agency; and

WHEREAS, the State and the Agency have entered into a water supply contract, dated June 22, 1963, as amended November 15, 1963, providing that the State shall supply certain quantities of water to the Agency, and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment; and

WHEREAS, the maximum annual entitlements under all contracts executed by the State on or before December 31, 1963, did not aggregate the amount of the minimum project yield as defined in such water supply contract; and

WHEREAS, the Agency has elected to become entitled to a certain amount of the uncontracted for portion of the minimum project yield under the provisions of Article 8 of the above-mentioned contract and the State has determined that the Agency can put the water involved to beneficial use within a reasonable period of time; and

WHEREAS, the State and the Agency are desirous of making certain other changes and additions to such contract, while otherwise continuing the contract in full force and effect;

NOW THEREFORE, it is mutually agreed that the following changes and additions are hereby made to the Agency's water supply contract with the State:

1. Subdivision (k) of Article 1 is amended to read as follows:

(k) Minimum Project Yield

"Minimum project yield" shall mean the dependable annual supply of project water to be made available, estimated to be 4,230,000 acre-feet per year, said amount to be determined by the State on the basis of coordinated operation studies of initial project conservation facilities and additional project conservation facilities, which studies shall be based upon:

(1) The estimated relative proportion of deliveries for agricultural use to deliveries for municipal use for the year

1990, and the characteristic distributions of demands for these two uses throughout the year.

(2) An allowable reduction in the agricultural use portion of the minimum project yield, due to drought, of not to exceed fifty percent (50%) in any one year, nor a total of one hundred percent (100%) of one year's supply in any series of seven consecutive years.

(3) Agreements now in effect or as hereafter amended or supplemented between the State and the United States and others regarding the diversion or utilization of waters of the Delta or streams tributary thereto.

2. Table A of the contract entitled "Annual Entitlements Crestline-Lake Arrowhead Water Agency" is amended to read as follows:

TABLE A

ANNUAL ENTITLEMENTS
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

Year	Total Annual Amount in Acre-feet
1	580
2	870
3	1,160
4	1,450
5	1,740
6	2,030
7	2,320
8	2,610
9	2,900
10	3,190
11	3,480
12	3,770
13	4,060
14	4,350
15	4,640
16	4,930
17	5,220
18	5,510
19	5,800
And each succeeding year thereafter, for the term of this contract:	5,800

3. Subdivision (c) of Article 12 is amended to read as follows:

(c) Limit on Rate of Delivery to Agency

In no event shall the State be obligated to deliver water to the Agency through all delivery structures at a total combined instantaneous rate of flow exceeding eleven (11) cubic feet per second, except as this rate of flow may be revised by amendment of this article after submission to the State of the Agency's requests with respect to maximum flow capacities to be provided in said delivery structures, pursuant to Article 10.

4. Subdivision (a) of Article 16 is amended to read as as follows:

(a) Limit on Total of All Maximum Annual Entitlements

The Agency's maximum annual entitlement hereunder, together with the maximum annual entitlements of all other contractors, shall aggregate no more than the minimum project yield as defined herein and in no event more than 4,230,000 acre-feet of project water.

5. Article 46 is amended to read as follows:

46. Amendatory Provisions

(a) Surplus Water

Notwithstanding other provisions of this contract, surplus water for agricultural and ground water replenishment use shall be offered to contractors on the following basis. Before surplus water is sold for other than agricultural and ground water replenishment use, each contractor shall have the right, subject to the ability of the State to deliver such water and to the provisions of the next succeeding paragraph, to contract for agricultural and ground water replenishment use for a portion of the total amount of surplus water available in any year, in an amount which bears the same ratio to the total amount of surplus water available in that year as the sum of the annual entitlements, set forth in Table A of this contract, delivered to the contractor for agricultural and ground water replenishment use during the preceding three years bears to the total amount of such annual entitlements delivered for agricultural and ground water replenishment use during the preceding three years of all contractors requesting surplus water: Provided, That if its proportion of such surplus water is not required by or cannot be delivered to

any contractor, such amount of additional surplus water shall be offered to other contractors for agricultural and ground water replenishment use. During the first three years in which project water is delivered to a contractor, the State shall determine the amount of surplus water which the contractor may obtain based on the contractor's maximum annual entitlement and the estimated percentage of its annual entitlement to be delivered for agricultural and ground water replenishment use; but quanitites so determined shall not exceed the contractor's annual entitlement for that year. For the purpose of computing the portion of the surplus water for agricultural and ground water replenishment use to which each contractor is entitled, the State shall determine the amounts of water used for agricultural and ground water replenishment use by each contractor in each year: Provided, That each contractor shall furnish certified copies of such records and data concerning the use of water within its boundaries as the State may request.

The provisions of this paragraph shall be applicable only to contractors in the San Joaquin Valley Service Area, contractors in the Southern California Service Area, and contractors in the Central Coastal Service Area. Before surplus water is sold for other than agricultural and ground water replenishment use, each such contractor shall have the right, subject to the ability of the State to deliver such water, to contract for agricultural and ground water replenishment use in accordance with the following formula: contractors in the San Joaquin Valley Service Area shall have a right to contract for sixty-nine percent (69%) of the surplus water available at the Mile 18 Pumping Plant;

contractors in the Southern California Service Area shall have a right to contract for twenty-nine percent (29%) of such water; and contractors in the Central Coastal Service Area shall have a right to contract for two percent (2%) of such water: Provided, That within each of these service areas, each contractor shall have the right to contract for agricultural and ground water replenishment use for a portion of the total amount of surplus water available to that service area in any year, in an amount which bears the same ratio to the total amount of surplus water available to the service area in that year as the sum of the annual entitlements, set forth in Table A of this contract, delivered to the contractor for agricultural and ground water replenishment use during the preceding three years bears to the total amount of such annual entitlements delivered for agricultural and ground water replenishment use during the preceding three years of all contractors in that service area requesting surplus water: Provided, further, That if its proportion of such surplus water is not required by or cannot be delivered to any contractor, such amount of additional surplus water shall be offered to other contractors for agricultural and ground water replenishment use. During the first three years in which project water is delivered to a contractor, the State shall determine the amount of surplus water which the contractor may obtain based on the contractor's maximum annual entitlement and the estimated percentage of its annual entitlement to be delivered for agricultural and ground water replenishment use; but quantities so determined shall not exceed the contractor's annual entitlement for that year. As used in this paragraph, "contractors in the

San Joaquin Service Area" shall mean: Devil's Den Water District, Dudley Ridge Water District, Empire West Side Irrigation District, Hacienda Water District, Kern County Water Agency, and Tulare Lake Basin Water Storage District; "contractors in the Southern California Service Area" shall mean: Antelope Valley-East Kern Water Agency, City of West Covina, Coachella Valley County Water District, Crestline-Lake Arrowhead Water Agency, Desert Water Agency, Littlerock Creek Irrigation District, Mojave Water Agency, Palmdale Irrigation District, San Bernardino Valley Municipal Water District, San Gabriel Valley Municipal Water District, San Gorgonio Pass Water Agency, The Metropolitan Water District of Southern California, Upper Santa Clara Valley Water Agency, and Ventura County Flood Control District; "contractors in the Central Coastal Service Area" shall mean: San Luis Obispo County Flood Control and Water Conservation District and Santa Barbara County Flood Control and Water Conservation District.

The provision of this paragraph shall be applicable only to a contractor to which the delivery of project water for municipal use as of 1990 is estimated by the State to be in excess of fifty percent (50%) of such contractor's maximum annual entitlement. For the purpose of fixing such contractor's right to delivery of surplus water, water from a watershed not tributary to the contractor's area which is delivered within the contractor's boundaries for agricultural or ground water replenishment use shall be deemed to be part of the contractor's annual entitlement delivered for such use in computing the quantity of surplus water

to which the contractor is entitled under this subdivision: Provided, That the contractor shall not be deemed to have used more than its annual entitlement, as set forth in Table A, for such use. Surplus water shall be deemed to be used by the contractor for agricultural or ground water replenishment use if an equal quantity of water imported from a watershed not tributary to the contractor's area is delivered within the contractor's boundaries for such use.

In providing for the delivery of surplus water to contractors pursuant to this subdivision, the State shall refuse to deliver such surplus water to any contractor to the extent that the State determines that such delivery would tend to encourage the development of an economy within the area served by such contractor which would be dependent upon the sustained delivery of water in excess of the contractor's maximum annual entitlement. In no event shall the quantity of surplus water made available in any year prior to 1986 to any contractor under this subdivision exceed the difference between its annual entitlement for that year and its maximum annual entitlement, except that, subject to provisions of the immediately preceding sentence, with respect to any contractor which under Table A of its contract is scheduled to receive its maximum annual entitlement prior to 1978, the quantity of surplus water made available in any year prior to 1986 under this subdivision may exceed such difference by not more than 3,000 acre-feet.

Surplus water for agricultural and ground water replenishment use shall be furnished at prices which will return to the

State the variable operation, maintenance, power, and replacement components of the Delta Water Charge and Transportation Charge incurred in such service of surplus water as determined by the State. Surplus water delivered under this subdivision shall be limited to the quantity of water which can be delivered without adversely affecting the reliability, or increasing the cost, of service to meet annual entitlements. A surcharge shall be added to the rate for surplus water furnished to excess land in an amount and under the conditinns specified in Article 30 of this contract. Contracts made pursuant to this subdivision may exceed one year in duration.

Except as herein modified, the provisions of Article 21 of this contract are hereby confirmed, and all surplus water not specifically allocated pursuant to this subdivision shall be sold under the provisions of Article 21. Nothing in this subdivision shall limit the right of the Agency to increase its annual entitlements as otherwise provided in this contract.

As used in this subdivision "ground water replenishment use" shall mean the use of project water exclusively by direct application to spreading basins, streambeds, or through other means of direct artificial recharge for the purpose of replenishing overdrawn ground water basins.

(b) Surcharge Credit

Notwithstanding other provisions of this contract, the State may allow a credit to each contractor not to exceed the surcharge paid by such contractor.

For the purpose of this contract, the surcharge credit shall be determined and applied in the following manner:

(1) The State shall, in each year after the year of initial water delivery, allow a credit to the Agency in the amount of the surcharge forwarded by the Agency to the State in the preceding year.

(2) The Agency shall not establish water rates, or tax or assessment rates, so as to cause the surcharge credit to be passed on to water users in a manner which will bring about a greater reduction in the cost per acre-foot of project water put to use on excess land than such cost of project water put to use on other than excess land.

This subdivision 46(b) shall be separable from all other provisions in this contract, and in the event that any or all of the provisions of this subdivision are in any manner or to any extent held to be invalid by final judgment or decree of a court of competent jurisdication, such holding and such invalidity shall in no way affect the validity of, or make invalid, any other provision of this contract.

IN WITNESS WHEREOF, the parties hereto have executed this contract on the date first above written.

Approved as to legal form and sufficiency:

Chief Counsel
Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By _____
Director

Approved as to form and execution:

CRESTLINE-LAKE ARROWHEAD
WATER AGENCY

By _____
Stan Ziegler
President

_____
Herman Deich
Manager-Secretary

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 3 TO WATER SUPPLY CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT, made this 19th day of November 1965, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline-Lake Arrowhead Water Agency, a public agency in the State of California, duly organized, existing and acting pursuant to the laws thereof with its principal place of business in Crestline, California, herein referred to as the "Agency",

WITNESSETH, That:

WHEREAS, the State and the Agency have entered into a water supply contract, dated June 22, 1963 as amended November 15, 1963 and September 28, 1964, providing that the State will supply certain quantities of water to the Agency and providing that the Agency shall make certain payments to the State and setting forth the terms and conditions of such supply and such payment, and

WHEREAS, the State and the Agency desire to make certain changes in such contract, while otherwise continuing the contract in full force and effect;

NOW, THEREFORE, it is mutually agreed that the following change is hereby made to the Agency's water supply contract with the State:

1. Subdivision (b) of Article 45 is amended to read as follows:

(b) The State shall provide sufficient capacity in the transportation facilities, subject to the provisions of Article 17(b), to deliver eleven percent (11%) of the Agency's annual entitlement in each of nine months in each year. Subject to the foregoing limitation, in scheduling deliveries under Article 12(a) the State will provide for up to twenty-four percent (24%) of the Agency's annual entitlement to be delivered in excess of a rate of eight and one-third percent (8 1/3%) of the annual entitlement per month.

IN WITNESS WHEREOF, the parties hereto have executed this contract on the date first above written.

Approved as to legal form and sufficiency:

P. G. Turner
Chief Counsel
Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By William E. Warne
Director

Approved as to form and execution:

Robert J. Farrell

CRESTLINE-LAKE ARROWHEAD WATER AGENCY

By Stan Ziegler
Stan Ziegler
President

Herman Deich
Herman Deich
Manager-Secretary

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 4 TO WATER SUPPLY
CONTRACT BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT, made this 30th day of August 1968, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline-Lake Arrowhead Water Agency, a public agency in the State of California, duly organized, existing, and acting pursuant to the laws thereof with its principal place of business in Crestline, California, herein referred to as the "Agency",

WITNESSETH, That:

WHEREAS, the State is authorized to construct and operate facilities for the storage and conveyance of water, certain of which facilities will make water available to the Agency; and

WHEREAS, the State and the Agency have entered into a water supply contract, dated June 22, 1963, as amended November 15, 1963, September 28, 1964, and November 19, 1965, providing that the State shall supply certain quantities of water to the Agency, and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment; and

WHEREAS, the State and the Agency desire to make certain other changes and additions to such contract, while otherwise continuing the contract in full force and effect;

NOW THEREFORE, it is mutually agreed that the following changes and additions are hereby made to the Agency's water supply contract with the State:

1. Subdivision (c) is added to Article 46 of the contract to read as follows:

(c) Turnouts and Measuring Devices

(1) Notwithstanding the provisions of Article 10(d), any delivery structure requested by the Agency, if in the opinion of the State the construction of the structure will not interfere with or adversely affect any project facilities or the construction or operation thereof, may be designed and constructed by the Agency subject to the prior written approval by the State of plans and specifications for such structure and subject to construction supervision by the State: Provided, That the Agency shall pay all design and other costs incurred by the State which in the opinion of the State are properly chargeable to any such turnout designed and constructed by the Agency: Provided further, That the provisions of Article 10(d) shall apply to all delivery structures constructed by the State.

(2) Notwithstanding the provisions of Article 11, measuring devices and equipment to be installed in any delivery structure constructed by the Agency, pursuant to subdivision (c)(1) of this Article, may be acquired and installed by the Agency but shall be maintained and operated by the State:

Provided, That such measuring devices and equipment as may be acquired and installed by the Agency shall be satisfactory and acceptable to the State, and shall be installed under the supervision of the State: Provided further, That such devices and equipment shall be examined, tested and serviced regularly by the State to insure their accuracy, and that at any time or times the Agency or any other contractor may inspect such devices and equipment, and the measurements and records taken therefrom: Provided further, That the provisions of Article 11 shall apply to all measuring devices and equipment acquired and installed by the State.

IN WITNESS WHEREOF, the parties hereto have executed this contract on the date first above written.

Approved as to legal form and sufficiency

P. C. Tower

Chief Counsel
Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By W. R. Gianelli
Director

Approved as to form and execution:

Arthur L. Littleworth

CRESTLINE-LAKE ARROWHEAD WATER AGENCY

By Loyal Klopfenstein
Loyal Klopfenstein
President

Robert M. Massey
Robert M. Massey
Manager

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

~~632.5143~~

AMENDMENT NO. 5 TO WATER SUPPLY CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT, made this 5th day of March 1970 pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline-Lake Arrowhead Water Agency, herein referred to as the "Agency";

WITNESSETH, That

WHEREAS, the State and the Agency have entered into and subsequently amended a water supply contract providing that the State will supply certain quantities of water to the Agency, and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment; and

WHEREAS, Article 22(b) of such water supply contract provides that for each year through the year 1969 the Delta Water Charge shall be the product of $3.50 and the Agency's annual entitlement for the respective year and that beginning in the year 1970, the Delta Water Charge shall be the sum of the capital cost component, minimum operation, maintenance, power and replacement component, and

variable operation, maintenance, power and replacement component computed in accordance with Articles 22(c) and (d) of the water supply contract; and

WHEREAS, Articles 22(e) and (g) of such water supply contract provide that the Delta Water Charge as computed in accordance with Articles 22(c) and (d) shall include all projected costs of additional project and supplemental conservation facilities commencing in the years in which the State first incurs capital costs for such facilities after the facilities are authorized; and

WHEREAS, the parties desire that all water supply contracts be amended to postpone inclusion of the projected costs of any authorized additional project and supplemental conservation facilities in the computation of the Delta Water Charge until after the year 1970 and to fix the rate for computing the Delta Water Charge for the year 1970 at $6.65; and

WHEREAS, the payments to be made by the Agency to the State include interest calculated at the "project interest rate" defined in Article 1(r) of such water supply contract to mean the weighted average of the interest rates paid by the State on bonds issued under the Water Resources Development Bond Act (Bond Act) disregarding premiums received on the sale of such bonds; and

WHEREAS, the underlying assumption upon which the "project interest rate" was established was that all of the initial facilities of the State Water Resources Development System (Project) would be financed principally with proceeds of bonds issued under the Bond Act or from other sources on which the interest rate would not exceed that of the bonds issued under the Bond Act; and

WHEREAS, the State already has financed the Oroville-

Thermalito power facilities through Central Valley Project Revenue Bonds and may finance other portions of the project facilities through additional revenue bond issues, bonds issued under other authority granted by the Legislature or the voters, bonds issued by other state agencies, advances from contractors, and other methods under which the financing costs relate to interest rates that may exceed the interest rate of the bonds issued under the Bond Act; and

WHEREAS, either the State or contractors making advances to the State may be subject to interest rates, or other financing costs that relate to interest rates, which will be greater than the "project interest rate" as presently defined in the contracts; and

WHEREAS, the parties desire that (1) the interest costs hereafter incurred by or on behalf of the State in financing the construction of project facilities by means other than the use of moneys provided under the Bond Act will be reflected in appropriate adjustments of the "project interest rate" (excepting the interest costs incurred for the Central Valley Project Revenue Bonds issued prior to the date of this amendment); (2) appropriate credit will be given to any contractor having made an advance of funds to the State corresponding to the bond service obligation payable by such contractor by reason of such advance or if bonds were not used to obtain funds for such advance, then to the net interest cost which would have resulted if the contractor had sold bonds for the purpose of funding the advance; and (3) if any sources of funds other than those provided under the Bond Act are employed to finance the construction of specific project facilities and the interest or other costs of such financing are greater than the cost would have been if bonds issued under the Bond Act had been used, appropriate

adjustments to the charges to contractors will be made with respect to such facilities so that the charges to contractors taking water through reaches which include such facilities will be the same after such adjustments as such charges would have been if such facilities had been financed by the use of proceeds of bonds issued under the Bond Act, except insofar as the "project interest rate" has been adjusted pursuant to (1) in this recital:

NOW THEREFORE, it is mutually agreed that the following changes and additions are hereby made to the Agency's water supply contract with the State:

1. Subdivision (b) of Article 22 is amended to read as follows:

For each contractor receiving project water in any year through December 31, 1969, the Delta Water Charge shall be the product of $3.50 and the contractor's annual entitlement to project water for the respective year. For each contractor receiving project water in the year 1970, the Delta Water Charge shall be the product of $6.65 and the contractor's annual entitlement to project water for that year. The $6.65 rate for the year 1970 shall consist of a capital cost component of $5.04 and a minimum operation, maintenance, power and replacement component of $1.61. After December 31, 1970, the Delta Water Charge shall consist and be the sum of the following components as these are computed in accordance with subdivisions (c) and (d) of this article: a capital cost component; a minimum operation, maintenance, power and replacement component; and a variable operation, maintenance, power and replacement component.

2. Subdivision (r) of Article 1 is amended to read as follows:

"Project interest rate" shall mean the weighted average interest rate of (1) through (6) below computed by dividing (i) the total interest cost required to be paid or credited by the State during the life of the indebtedness or advance by (ii) the total of the products of the various principal amounts and the respective terms in years of all such amounts:

(1) general obligation bonds issued by the State under the Bond Act,

(2) revenue bonds issued by the State under the Central Valley Project Act after May 1, 1969,

(3) bonds issued by the State under any other authority granted by the Legislature or the voters,

(4) bonds issued by any agency, district, political subdivision, public corporation, or non-profit corporation of this State,

(5) funds advanced by any contractor without the actual incurring of bonded debt therefor, for which the net interest cost and terms shall be those which would have resulted if the contractor had sold bonds for the purpose of funding the advance, as determined by the State, and

(6) funds borrowed from the General Fund or other funds in the Treasury of the State of California, for which the total interest cost shall be computed at the interest rate earned over the period of such borrowing

by moneys in the Pooled Money Investment Account of such Treasury invested in securities,

to the extent the proceeds of any such bonds, advances or loans are for construction of the State Water Facilities defined in Section 12934(d) of the Water Code, the additional project conservation facilities, and the supplemental conservation facilities (except advances for delivery structures, measuring devices and excess capacity) and without regard to any premiums received on the sale of bonds under item (1) above. The "project interest rate" shall be computed as a decimal fraction to five places.

3. Subdivision (f) of Article 17 is added to the contract to read as follows:

(f) Adjustments Due to Supplemental Financing Costs

(1) If a contractor, with approval of the State, advances funds to the State to assist the State in financing construction of project facilities (not including delivery structures, measuring devices and excess capacity), such advance shall be amortized by means of annual credits to the contractor having made such advance of funds to the State, with such credits being equal to the actual bond service obligations payable by such contractor by reason of such advance or, if no bonded debt was incurred, then such credits shall be sufficient to cover the repayment of principal and interest costs which would have resulted if the contractor had sold bonds for the purpose of funding the advance as determined by the State.

(2) If, after May 1, 1969, any source of funds other than those provided by the Bond Act is employed to finance

construction of specific project facilities, any additional costs incurred because of such financing will not be charged to the contractors, except for adjustments to the "project interest rate".

Approved as to legal form and sufficiency:

P. C. Towne

Chief Counsel
Department of Water Resources
P. O. Box 388
Sacramento, California

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

By (sgd) W. R. Gianelli
Director

Approved as to form and execution:

Arthur L. Littlewith

CRESTLINE-LAKE ARROWHEAD WATER AGENCY

By Layal Kloffenstein
President

Robert M. Massey
Manager

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 6 TO WATER SUPPLY CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT, made this 31st day of December , 1970, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and **Crestline-Lake Arrowhead Water Agency,**
herein referred to as the "Agency";

WITNESSETH, That

WHEREAS, the State and the Agency have entered into and subsequently amended a water supply contract providing that the State will supply certain quantities of water to the Agency, and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment; and

WHEREAS, Article 22(b) of such water supply contract, as amended, provides that for each year through the year 1969 the Delta Water Charge shall be the product of $3.50 and the Agency's annual entitlement for the respective year, that for the year 1970 the Delta Water Charge shall be the product of $6.65 and the Agency's annual entitlement for that year, and that beginning in the year

1971 the Delta Water Charge shall be the sum of the capital cost component, minimum operation, maintenance, power and replacement component, and variable operation, maintenance, power and replacement component computed in accordance with Articles 22(c) and (d) of the water supply contract; and

WHEREAS, Articles 22(e) and (g) of such water supply contract provide that the Delta Water Charge as computed in accordance with Articles 22(c) and (d) shall include all projected costs of additional project and supplemental conservation facilities commencing in the years in which the State first incurs capital costs for such facilities after the facilities are authorized; and

WHEREAS, the parties desire that all water supply contracts be amended to postpone inclusion of the projected costs of any authorized additional project and supplemental conservation facilities in the computation of the Delta Water Charge until after the year 1971 and to fix the rate for computing the Delta Water Charge for the year 1971 at $7.24;

NOW, THEREFORE, it is mutually agreed that the following changes and additions are hereby made to the Agency's water supply contract with the State:

1. Subdivision (b) of Article 22 is amended to read as follows:

For each contractor receiving project water in any year through December 31, 1969, the Delta Water Charge shall be the product of $3.50 and the contractor's annual entitlement to project water for the respective year. For each contractor receiving project water in the year 1970, the Delta Water Charge shall be the

product of $6.65 and the contractor's annual entitlement to project water for that year. The $6.65 rate for the year 1970 shall consist of a capital cost component of $5.04 and a minimum operation, maintenance, power and replacement component of $1.61. For each contractor receiving project water in the year 1971, the Delta Water Charge shall be the product of $7.24 and the contractor's annual entitlement to project water for that year. The $7.24 rate for the year 1971 shall consist of a capital cost component of $5.44 and a minimum operation, maintenance, power and replacement component of $1.80. After December 31, 1971, the Delta Water Charge shall consist and be the sum of the following components as these are computed in accordance with subdivisions (c) and (d) of this article: a capital cost component; a minimum operation, maintenance, power and replacement component; and a variable operation, maintenance, power and replacement component.

Approved as to legal form and sufficiency:

P. G. Torvan
Chief Counsel
Department of Water Resources
P. O. Box 388
Sacramento, California

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

By W. H. Gianelli
Director

Approved as to form and execution:

CRESTLINE-LAKE ARROWHEAD WATER AGENCY

By H. Fay Smith
President

Manager

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 7 TO WATER SUPPLY CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT, made this 4th day of November, 1971, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline-Lake Arrowhead Water Agency, herein referred to as the "Agency";

WITNESSETH, That:

WHEREAS, the State and the Agency have entered into and subsequently amended a water supply contract providing that the State will supply certain quantities of water to the Agency, and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment; and

WHEREAS, Article 22(b) of such water supply contract, as amended, provides that for each year through the year 1969 the Delta Water Charge shall be the product of $3.50 and the Agency's annual entitlement for the respective year, that for the year 1970 the Delta Water Charge shall be the product of $6.65 and the

Agency's annual entitlement for that year, that for the year 1971 the Delta Water Charge shall be the product of $7.24 and the Agency's annual entitlement for that year, and that beginning in the year 1972 the Delta Water Charge shall be the sum of the capital cost component, minimum operation, maintenance, power and replacement component, and variable operation, maintenance, power and replacement component computed in accordance with Articles 22(c) and (d) of the water supply contract; and

WHEREAS, Articles 22(e) and (g) of such water supply contract provide that the Delta Water Charge as computed in accordance with Articles 22(c) and (d) shall include all projected costs of additional project and supplemental conservation facilities commencing in the years in which the State first incurs capital costs for such facilities after the facilities are authorized; and

WHEREAS, the parties desire that all water supply contracts be amended to postpone inclusion of the projected costs of any authorized additional project and supplemental conservation facilities in the computation of the Delta Water Charge until the happening of certain events;

NOW, THEREFORE, it is mutually agreed that the following changes and additions are hereby made to the Agency's water supply contract with the State:

1. Subdivision (e) of Article 22 is amended to read as follows:

Prior to the time that additional project conservation facilities or supplemental conservation facilities are constructed,

the Delta Water Charge shall be determined on the basis of an allocation to project purposes, by the separable cost-remaining benefits method, of all actual and projected costs of all those initial project conservation facilities located in and above the Delta, and upon an allocation to the purposes of water conservation and water transportation, by the proportionate use of facilities method, of all actual and projected costs of the following project facilities located below the Delta: The aqueduct intake facilities at the Delta, Pumping Plant I (Delta Pumping Plant), the aqueduct from the Delta to San Luis Forebay (O'Neill Forebay), San Luis Forebay (O'Neill Forebay), and San Luis Reservoir: Provided, That all of the actual and projected costs properly chargeable to the generation and transmission of electrical energy in connection with operation of project conservation facilities shall be allocated to the purpose of water conservation in, above, and below the Delta: Provided further, That allocations to purposes the cost of which are to be paid by the United States shall be as determined by the United States.

Commencing in the year in which the State first awards a major construction contract for construction of a major feature of additional project conservation facilities, or first commences payments under a contract with a federal agency in the event a major feature of additional project conservation facilities is constructed by such federal agency under an agreement requiring the State to pay all or part of the costs of such construction, the Delta Water Charge shall be determined on the basis of the

foregoing allocations and upon an allocation to project purposes, by the separable costs-remaining benefits method and subject to the foregoing provisos, of all projected costs of such feature of the additional project conservation facilities: Provided, That if the agreement with such federal agency allows repayment of costs of a portion of a facility to be deferred, the associated costs of such portion shall be excluded from the Delta Water Charge computations until repayment of such deferred costs or interest thereon is commenced by the State: Provided further, That all costs of additional project conservation facilities incurred prior to the award of a major construction contract, shall be included in the Delta Water Charge computations in the year in which they are incurred.

2. Subdivision (g) of Article 22 is amended to read as follows:

Upon the construction of the supplemental conservation facilities, the Delta Water Charge shall be paid by all contractors for supplemental water, as well as by contractors for project water, and, together with revenues derived from the sale or other disposal of electrical energy generated in connection with operation of project conservation facilities and supplemental conservation facilities, shall return to the State, in addition to those costs of the project conservation facilities allocated to the purpose of water conservation, in, above, and below the Delta pursuant to subdivision (e) of this article, all costs of such supplemental conservation facilities, including capital, operation, maintenance, power, and replacement costs

which are allocated to the purpose of water conservation, in, above, and below the Delta pursuant hereto. Commencing in the year in which the State first awards a major construction contract for construction of a major feature of any supplemental conservation facilities, or first commences payments under a contract with a federal agency in the event a major feature of supplemental conservation facilities is constructed by such federal agency under an agreement requiring the State to pay all or part of the costs of such construction, the Delta Water Charge shall be determined on the basis of the allocations made pursuant to subdivision (e) of this article, and upon an allocation to project purposes, by the separable costs-remaining benefits method and subject to provisos corresponding to those contained in said subdivision (e), of all projected costs of such feature of the supplemental conservation facilities. Commencing in the same year, the computation of the rates to be used in determining the components of the Delta Water Charge shall include the annual entitlements to water under all contracts for supplemental water. If the repayment period of any bonds sold to construct supplemental conservation facilities or the repayment period under any agreement with a federal agency for repayment of the costs of supplemental conservation facilities constructed by such federal agency extends beyond the repayment period of the contract, the Delta Water Charge shall be determined and redetermined on the basis of such extended repayment period as the State determines to be appropriate: Provided, That if the agreement with such federal agency allows repayment of costs

of a portion of a facility to be deferred, the associated costs of such portion shall be excluded from the Delta Water Charge computations until repayment of such deferred costs or interest thereon is commenced by the State.

IN WITNESS WHEREOF, the parties hereto have executed this contract on the date first above written.

Approved as to legal form and sufficiency:

By P. G. Turner
Chief Counsel
Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By W. R. Gianelli
Director

CRESTLINE-LAKE ARROWHEAD
WATER AGENCY

By H. Fay Smith
H. Fay Smith, President
(Title)

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 8 TO WATER SUPPLY CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT, made as of the 15th day of October, 1972, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline-Lake Arrowhead Water Agency, herein referred to as the "Agency";

WITNESSETH, That:

WHEREAS, the State and the Agency have entered into and subsequently amended a water supply contract, dated June 22, 1963 (herein referred to as the "Amended Contract") providing that the State shall supply certain quantities of water to the Agency, and that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment; and

WHEREAS, the Amended Contract provides for a surcharge equivalent to the power credit per acre-foot of water to be charged to water users, other than the United States or the State of California, for each acre-foot of project water determined to have been put to agricultural or manufacturing uses on excess land, for collection by the Agency either itself or through a

retail agency or another agency, for payment to the State of such surcharge, and for the allowance, on specified terms and conditions, of the amount of such surcharge as a credit to the Agency; and

WHEREAS, the Amended Contract establishes the power credit per acre-foot of water as two dollars until all of the facilities for generation of electrical energy in connection with operation of initial project conservation facilities are installed and in operation, and provides for a redetermination of such credit thereafter to reflect accurately increases or decreases from year to year in the power credit; and

WHEREAS, the provisions of the Amended Contract providing for or related to the power credit, surcharge and surcharge credit have been suspended as to water deliveries during the years prior to 1972 pending redetermination of the power credit and a reevaluation of the merits of such contract provisions; and

WHEREAS, estimates indicate that the power credit will be relatively negligible in amount and that administrative costs associated with the power credit, surcharge and surcharge credit provisions will be excessively burdensome to the State, the Agency and its water users; and

WHEREAS, the power credit, surcharge and surcharge credit provisions rest on unclear, confused or mistaken premises and should no longer be retained;

NOW, THEREFORE, it is mutually agreed as follows:

There are hereby deleted from the Amended Contract the following:

1. Article 30 entitled "Surcharge for Project Water Used on Excess Land".

2. The next-to-the-last sentence of the fifth paragraph of subdivision (a) of Article 46, entitled "Surplus Water", which sentence reads as follows:

> "A surcharge shall be added to the rate for surplus water furnished to excess land in an amount and under the conditions specified in Article 30 of this contract".

3. Subdivision (b) of Article 46 entitled "Surcharge Credit".

IN WITNESS WHEREOF, the parties hereto have executed this contract amendment on the date first above written.

Approved as to legal form and sufficiency:

By _____
Chief Counsel
Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By _____
Director

Attest:

By _____
(Title)

CRESTLINE-LAKE ARROWHEAD WATER AGENCY

By _____
President
(Title)

_____
Secretary

Approved as to form and execution:

By _____
(Title)

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 9 TO WATER SUPPLY CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT, made this 26th day of December, 1972, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline-Lake Arrowhead Water Agency, herein referred to as the "Agency";

WITNESSETH, That:

WHEREAS, the State and the Agency have entered into and subsequently amended a water supply contract providing that the State will supply certain quantities of water to the Agency, and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment; and

WHEREAS, Article 28 of such water supply contract provides that the State shall redetermine the annual amounts of the Transportation Charge in order that the charges to the Agency may accurately reflect increases or decreases from year to year in projected costs, outstanding reimbursable indebtedness of the State, annual entitlements, estimated deliveries, project

interest rate, and all other factors which are determinative of such charges; and

WHEREAS, Article 28 also provides that each such redetermination shall include an adjustment of the components of the Transportation Charge to be paid by the Agency for succeeding years which shall account for differences, if any, between projections used by the State in determining the amounts of such components for all preceding years and actual costs incurred by the State during such years, but does not specify the computational details or the method of payment of such adjustments; and

WHEREAS, the State has been including such adjustments as "one-shot" credits or additional charges to be subtracted from or added to the Transportation Charge to be paid by the Agency in the year following the redetermination; and

WHEREAS, the magnitude of such adjustments together with changes in other determinants of charges may be significantly different in comparison with the amounts projected by the State under previous determinations and could impair the planned fiscal operations of the Agency, depending on the method of payment, and the parties desire to amend the contract to provide a method of amortizing the payment of the amounts of such differences over two or more years, depending on the magnitude of the differences; and

WHEREAS, bookkeeping will be simplified if the amortization of the payments of the amounts of such differences is

reflected solely in the capital cost component of the Transportation Charge; and

WHEREAS, the method of payment should apply regardless of whether the adjustments tend to increase or to decrease the Transportation Charge;

NOW THEREFORE, it is mutually agreed that effective January 1, 1973, Article 28 of the Agency's Water Supply Contract with the State is amended to read as follows:

28. Transportation Charge - Redetermination

(a) Determinative Factors Subject to Retroactive Change

The State shall redetermine the values and amounts set forth in Tables B, C, D, E, F, and G of this contract in the year following the year in which the State commences construction of the project transportation facilities and each year thereafter in order that the Transportation Charge to the Agency and the components thereof may accurately reflect the increases or decreases from year to year in projected costs, outstanding reimbursable indebtedness of the State incurred to construct the project transportation facilities described in Table I of this contract, annual entitlements, estimated deliveries, project interest rate, and all other factors which are determinative of such charges. In addition, each such redetermination shall include an adjustment of the components of the Transportation Charge to be paid by the Agency for succeeding years which shall account for the differences, if any, between those factors used by the State in determining the amounts of such components for all preceding years and the factors as then currently known by

the State. Such adjustment shall be computed by the State and paid by the Agency or credited to the Agency's account in the manner described in (b) and (c) below.

(b) Adjustment: Transportation Charge-Capital Cost Component

Adjustments for prior underpayments or overpayments of the capital cost component of the Transportation Charge to the Agency, together with accrued interest charges or credits thereon computed at the then current project interest rate on the amount of the underpayment or overpayment and compounded annually for the number of years from the year the underpayment or overpayment occurred to and including the year following the redetermination, shall be paid in the year following the redetermination: Provided, That the Agency may elect to exercise the option whereby when the redetermined Transportation Charge for the following year, with adjustments, including adjustments of the operation, maintenance, power, and replacement components provided for in subdivision (c) of this article, is more or less than the last estimate of the Charge provided pursuant to Article 27 for the corresponding year, without adjustments, an amount equal to the total of such difference shall be deducted from or added to the adjusted capital cost component for that year and paid or credited in accordance with the following schedule:

Percent that Transportation Charge differs from last estimate (+ or -)	Period, in years, for amortizing the difference in indicated charge
for 10% or less	no amortization
more than 10%, but not more than 20%	2
more than 20%, but not more than 30%	3
more than 30%, but not more than 40%	4
more than 40%.	5

Such payments or credits shall be in equal semi-annual amounts of principal and interest on or before the 1st day of January and the 1st day of July, with interest computed at the project interest rate and compounded annually, during varying amortization periods as set forth in the preceding schedule: Provided, That for the purpose of determining the above differences in the Transportation Charge, the variable operation, maintenance, power, and replacement component shall be computed on the basis of the same estimated project water deliveries as was assumed in computing pursuant to Article 26(c).

(c) Adjustment: Transportation Charge-Minimum and Variable Components

One-twelfth of the adjustments for prior underpayments or overpayments of the Agency's minimum and variable operation, power, and replacement components for each year shall be added or credited to the corresponding components to be paid in the corresponding month of the year following the redetermination, together with accrued interest charges or credits thereon computed at the then current project interest rate on the amount of the underpayment or overpayment and compounded annually for the number of years from the year the underpayment or overpayment occurred to and including the year following the redetermination.

(d) Exercise of Option

The option provided for in subdivision (b) above shall be exercised in writing on or before the January 1 due date of the first payment of the capital cost component of

the Transportation Charge for the year in which the option is to become effective.

Such option, once having been exercised, shall be applicable for all of the remaining years of the project repayment period.

IN WITNESS WHEREOF, the parties hereto have executed this contract on the date first above written.

Approved as to legal form and sufficiency:

By P. C. Tourner
Chief Counsel
Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By W. R. Gianelli
Director

Attest:

By _____
(Title)

CRESTLINE-LAKE ARROWHEAD
WATER AGENCY

By H. Fay Smith X
President
(Title)

Roxanne M. Holmes
Secretary

Approved as to form and execution:

By _____
(Title)

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 10 TO WATER SUPPLY CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT, made this 29th day of January, 1973, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline-Lake Arrowhead Water Agency, herein referred to as the "Agency";

WITNESSETH, That:

WHEREAS, the State and the Agency have entered into and subsequently amended a water supply contract providing that the State will supply certain quantities of water to the Agency, and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment; and

WHEREAS, the annual entitlement for the first year (1972) of water deliveries under the Agency's contract is 580 acre-feet; and

WHEREAS, certain of the project facilities necessary to commence initial deliveries of project water to the Agency were not completed in sufficient time to allow the Agency to take

delivery of all of its annual entitlement for 1972 on a reasonable schedule; and

WHEREAS, the State has developed a proposed adjustment of the Agency's 1972 entitlement taking into consideration the monthly distribution of 1972 project water deliveries as requested in its five-year delivery schedule submitted to the State in 1967; and

WHEREAS, the Agency has requested that its annual entitlement for the first year of water deliveries be decreased accordingly; and

WHEREAS, the State has determined that a decrease from 580 acre-feet to 526 acre-feet is justified and that allowing such a decrease in the Agency's 1972 annual entitlement will not impair the financial feasibility of the project facilities;

NOW THEREFORE, it is mutually agreed as follows:

Table A entitled "Annual Entitlements Crestline-Lake Arrowhead Water Agency" is amended to read as follows:

TABLE A

ANNUAL ENTITLEMENTS
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

Year	Total Annual Amount in acre-feet
1	526
2	870
3	1,160
4	1,450
5	1,740
6	2,030
7	2,320
8	2,610
9	2,900
10	3,190
11	3,480
12	3,770
13	4,060

14	4,350
15	4,640
16	4,930
17	5,220
18	5,510
19	5,800
And each succeeding year thereafter, for the term of this contract:	5,800

IN WITNESS WHEREOF, the parties hereto have executed this contract amendment on the date first above written.

Approved as to legal form and sufficiency:

By P. C. Townsend
Chief Counsel
Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By W. R. Gianelli
Director

CRESTLINE-LAKE ARROWHEAD
WATER AGENCY

By Robert W. Veasey
(Title)

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 11 TO WATER SUPPLY CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT, made as of the 26th day of September, 1974, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline-Lake Arrowhead Water Agency, herein referred to as the "Agency";

WITNESSETH, That:

WHEREAS, the State and the Agency entered into a contract whereby the State will deliver and the Agency will purchase a supply of water to be made available from project facilities constructed by the State; and

WHEREAS, the State and the Agency included in such contract a subarticle, hereinafter referred to as the agricultural and ground water replenishment provision, which entitles the Agency to obtain from the State a supply of surplus water for agricultural and ground water replenishment use when available; and

WHEREAS, Article 21 of such contract also provides for the sale by the State of a supply of surplus water when available; and

WHEREAS, the State and the Agency desire to amend the provisions of such contract related to the sale and purchase of surplus water;

NOW, THEREFORE, it is mutually agreed as follows:

1. Subdivision (a) of Article 46 of the Agency's water supply contract is deleted.

2. Article 21 of the Agency's water supply contract is amended to read as follows:

21. Sale of Surplus Water.

(a) Definitions. When used in this article:

(1) "Noncontractor" shall mean a person or entity that is not a contractor as that term is defined in Article 1 of this contract.

(2) "Surplus water" shall mean water which can be furnished to contractors and noncontractors, subject to the provisions of Article 14(a) of this contract, without interfering with:

(i) The delivery of annual entitlements of all contractors as specified in Table A and the meeting of the quality criteria of Article 19 of their respective water supply contracts including any modifications of Table A pursuant to Articles 7(a), 12(d), 14(b), 18(b), or 18(c) of the water supply contracts or to any other provisions in such contracts which permit changes in the delivery of annual entitlements;

(ii) The furnishing of water required for use in construction of the System or in exchange for local water used in construction of the System;

(iii) Operational requirements regarding recreation and fish and wildlife uses;

(iv) Generation of power by the System or furnishing of project water required by power contracts;

(v) The exchange of water and the filling, retention, and release of storage in System reservoirs necessary for operational flexibility and to meet the requirements of paragraphs (i) through (iv) of this subdivision.

(vi) Losses of water due to evaporation, leakage, seepage, or other causes to meet the requirements of paragraphs (i) through (v) of this subdivision.

(3) "Ground water replenishment use" shall mean the use of project water exclusively for recharge of ground water basins by direct application to spreading basins, streambeds, or through other means of direct artificial recharge.

(4) "Contractors in the San Joaquin Service Area" shall mean those contractors which are furnished water through delivery structures from the California Aqueduct between Dos Amigos Pumping Plant and the South Portal of the Carley V. Porter Tunnel and from the Coastal Branch, California Aqueduct, from its junction with the California Aqueduct to the site for Devil's Den Pumping Plant.

(5) "Contractors in the Southern California Service Area" shall mean contractors for which water is delivered from the California Aqueduct downstream from the South Portal of the Carley V. Porter Tunnel.

(6) "Contractors in the Central Coastal Service Area" shall mean contractors for which water is delivered from the Coastal Branch, California Aqueduct, downstream from the site for Devil's Den Pumping Plant.

(7) "Deferred entitlement" shall mean those portions of annual entitlements to project water deferred in accordance with Article 7(e) of the contract with Alameda County Flood Control and Water Conservation District, Zone 7, Article 7(e) of the contract with Alameda County Water District, Article 7(e) of the contract with Santa Clara Valley Water District, Article 45(f) of the contract with Empire West Side Irrigation District, Article 45(e) of the contract with Hacienda Water District, Article 45(f) of the contract with County of Kings, Article 45(e) of the contract with Oak Flat Water District, and Article 45(e) of the contract with Tulare Lake Basin Water Storage District.

(b) Priorities. The State shall furnish surplus water in accordance with the following priorities:

(1) First, to contractors for agricultural use or for ground water replenishment use.

(2) Second, to contractors for other uses.

(3) Third, to noncontractors for any beneficial use.

These priority groups shall be referred to as first priority, second priority, and thir priority respectively.

(c) Reductions in Requested Deliveries. If requests for surplus water cannot be met, the following reductions in requested deliveries shall be made:

(1) First, the quantity of surplus water to be delivered to noncontractors shall be limited to the quantity available in excess of the requests under the first priority and the second priority.

(2) Second, if there is not sufficient surplus water in excess of the requests under the first priority to meet the requests of contractors under the second priority, the quantity of water to be delivered under the second priority shall be limited to the quantity available in excess of the requests under the first priority and that quantity shall be apportioned in proportion to the amounts of the contractors' current annual entitlements that are to be used for purposes other than agricultural and ground water replenishment uses as determined by the State. If any contractor decides not to use the surplus water available to it under this provision, such surplus water shall be offered on a similar basis to other contractors for such uses.

(3) If there is not sufficient surplus water to meet the requests of contractors under the first priority, the quantity of water to be delivered under that priority shall be limited to the quantity available, and such quantity shall be apportioned to areas upstream and downstream from Dos Amigos Pumping Plant in proportion to the contractors' current annual entitlements that are to be used in such areas for agricultural and ground water replenishment purposes as determined by the State. The quantity of such water available upstream from Dos Amigos Pumping Plant shall be apportioned to contractors upstream from Dos Amigos Pumping Plant in proportion to the amounts of the contractors' current annual entitlements that are to be used for agricultural and ground water

replenishment purposes as determined by the State. If any such contractor decides not to use the surplus water available to it, such surplus water shall first be offered on a similar basis to other contractors upstream from Dos Amigos Pumping Plant and second offered to contractors downstream from Dos Amigos Pumping Plant. The quantity of surplus water available at Dos Amigos Pumping Plant for delivery to contractors downstream from that plant shall be apportioned 69 percent to the San Joaquin Service Area, 29 percent to the Southern California Service Area, and 2 percent to the Central Coastal Service Area. Within each such service area, surplus water shall be apportioned to contractors in proportion to the amounts of the contractors' current annual entitlements that are to be used for agricultural and ground water replenishment purposes as determined by the State. If any such contractor decides not to use the surplus water available to it, such surplus water, on a similar basis, shall first be offered to other contractors in such service area and second offered to contractors in the other such service areas.

(d) Schedules. On or before October 1 of each year, concurrently with the schedule submitted pursuant to the provisions of Article 12, the contractor shall submit in writing to the State a preliminary water delivery schedule, indicating the desired amounts of surplus water for each month of the subsequent six-year period beginning January 1 of the next succeeding year. The last five years of this preliminary surplus water delivery schedule shall be used by the State for planning and operations studies. If a contractor commits itself in writing at the time it submits its October 1 schedule to guarantee payment of the cost of power required

in the judgment of the State to furnish surplus water to it, the contractor shall have a prior right to have such power utilized for furnishing surplus water otherwise available to it pursuant to this article at a cost no higher than that which the State is obligated to pay at the time it orders such power, but it shall have no greater right or priority to receive surplus water. A contractor's commitment may be for any part of the six-year period of its schedule, and the contractor will become bound by such commitment and become entitled to the prior right provided for in the preceding sentence only when the State, after consultation with the contractor, notifies the contractor in writing that it has ordered power based on the contractor's commitment.

(e) Rates.

(1) Surplus water (except further surplus water as described in subdivision (e)(4) of this article) shall be furnished to a contractor for agricultural use and for ground water replenishment use at rates which will return to the State all power costs as defined in subdivision (f) of this article and all incremental operation, maintenance, and replacement costs, and any other incremental costs, incurred in the conservation and transportation of such surplus water as determined by the State, which rates shall include an administrative charge to be determined by the State for each acre-foot of surplus water scheduled for delivery during the year. The amount of such administrative charge shall be credited to general operating costs of the System prior to the allocation of such costs. Incremental costs shall mean those costs which would not be incurred if surplus water were not scheduled for or delivered to the contractor.

(2) Surplus water furnished to a contractor for purposes other than agricultural use or ground water replenishment use shall be sold at rates determined on the same basis as those charged for surplus water for agricultural use and for ground water replenishment use plus an amount equal to one-half of the current Delta water rate.

(3) Surplus water furnished to a noncontractor shall be at rates, as determined by the State, which will return to the State not less than the charges specified for a contractor for surplus water for agricultural use and for ground water replenishment use plus an amount equal to the current Delta water rate plus an appropriate share of the capital and the minimum operation, maintenance, power and replacement costs of the transportation facilities of the System utilized in conveying such surplus water to the noncontractor.

(4) To the extent that the combined volume of entitlement water and surplus water furnished to a contractor in any year for agricultural use and for ground water replenishment use exceeds 150 percent of such contractor's maximum annual entitlement, such further surplus water shall be sold to the contractor at a rate equal to the rate for surplus water sold for agricultural use and for ground water replenishment use specified in subdivision (e)(1) of this article plus an amount equal to one-quarter of the current Delta water rate.

For years prior to 1990, notwithstanding the provisions of the preceding sentence, an amount up to 3,000 acre-feet of further surplus water may be delivered in any year at the charges provided for in subdivisions (e)(1) and (2) of this

article to any contractor which, under Table A of its contract, is scheduled to receive its maximum annual entitlement prior to 1978 and every year thereafter.

(5) Any revenues in excess of operation, maintenance, power and replacement costs and the administrative charge derived from sales of surplus water shall be credited as follows: The Delta water rate or portion thereof paid in accordance with subdivisions (e)(2), (e)(3), or (e)(4) of this article shall be credited to the cost of project conservation facilities, and the balance of such excess revenues, if any, shall be apportioned and credited, as appropriate, to the capital and to the minimum operation, maintenance, power and replacement costs of reaches of the transportation facilities of the System utilized for conveying such water to the purchasers.

(6) The rates and charges for surplus water shall be subject to redetermination by the State to reflect actual costs incurred and the difference shall be promptly credited or debited to the contractor that purchased such surplus water.

(f) Power Costs. Power costs for pumping surplus water shall consist of the cost of capacity, energy and additional transmission service required for the delivery of surplus water, including but not limited to the following:

(1) To the extent utilized for pumping surplus water:

(i) The cost of power purchased for pumping entitlement water,

(ii) The value of project recovery plant generation scheduled for pumping entitlement water, and

(iii) The value of project recovery plant generation not scheduled for pumping entitlement water; and

(2) Power purchased specifically for pumping surplus water including power ordered pursuant to subdivision (d) of this article.

The cost and value of power in (1)(i) and (ii) of this subdivision shall be credited to the pumping plant power cost attributable to annual entitlement water; the value of power in (1)(iii) that is generated by entitlement water shall be added to the net value of power attributable to such entitlement water; and the value of power in (1)(iii) that is generated by surplus water shall be credited to the costs incurred in pumping such surplus water.

The State shall determine the cost of power for pumping surplus water so that sufficient revenue will be available to the State to cover both the cost of purchased power and the value of recovery plant generation.

(g) Restrictions on Deliveries.

(1) In providing for the delivery of surplus water pursuant to this article, the State shall refuse to deliver such surplus water to any contractor or noncontractor to the extent that the State determines that such delivery would tend to encourage the development of an economy within the area served by such contractor or noncontractor which would be dependent upon the sustained delivery of surplus water.

(2) Surplus water shall not be scheduled to a contractor in a year unless an amount of project water equal to its annual entitlement set forth for that year in Table A of its

contract (disregarding any amendments reducing such Table A executed after July 1, 1974) is first scheduled and unless all of its deferred entitlements are first scheduled: Provided, That at the request of the contractor surplus water may be scheduled in lieu of deferred entitlements and the right to receive such deferred entitlements shall be reduced accordingly. If at the end of any year delivery of scheduled surplus water has prevented any annual entitlement or deferred entitlement from being delivered during that year, then for the purpose of charging for water delivered, deliveries during the year shall be considered first as annual entitlement water to the extent of the annual entitlement, and the balance as deferred entitlement or surplus water in accordance with the option of the contractor previously exercised pursuant to the first sentence of this subdivision.

(3) Before a contractor can receive surplus water under its contract in an amount greater than its annual entitlement for the year as shown in its Table A, it shall first increase its annual entitlement for such year to an amount equivalent to the surplus water scheduled, but it shall not be required to increase its annual entitlement to an amount in excess of 75 percent of its maximum annual entitlement.

(4) The State shall not sell surplus water to a contractor or noncontractor for use directly or indirectly within the boundaries of any other contractor without the written consent of such other contractor, nor shall the State authorize any contractor to supply surplus water for use outside such contractor's boundaries and within the boundaries of any other contractor without the written consent of such other contractor: Provided, That where

a contractor's boundaries include an area within the boundaries of another contractor, only the written consent of the contractor that serves the overlapping area with water under its annual entitlements need be obtained.

(h) Water from Nontributary Source. The provisions of this subdivision shall be applicable only to a contractor to which the delivery of project water for municipal use as of 1990 is estimated by the State to be in excess of 50 percent of such contractor's maximum annual entitlement. For the purpose of fixing such contractor's right to delivery of surplus water, water from a watershed not tributary to the contractor's area which is delivered within the contractor's boundaries for agricultural or ground water replenishment use shall be deemed to be part of the contractor's annual entitlement delivered for such use in computing the quantity of surplus water to which the contractor is entitled under this article: Provided, That the contractor shall not be deemed to have used more than its annual entitlement, as set forth in Table A, for such use. Surplus water shall be deemed to be used by the contractor for agricultural or ground water replenishment use if an equal quantity of water imported from a watershed not tributary to the contractor's area is delivered within the contractor's boundaries for such use.

(i) Determination of Use. For the purpose of computing the portion of the surplus water to which each contractor is entitled, the State shall determine the quantities of annual entitlement used for agricultural use and for ground water replenishment use and for other uses by each contractor in each year: Provided, That each contractor shall furnish certified copies of such records

and data concerning the use of water within its boundaries as the State may request.

(j) Contracts.

(1) To obtain a supply of surplus water, any contractor or noncontractor shall execute a further contract with the State which shall be in conformity with this article and will include at least the following: Further provisions concerning the scheduling of surplus water and provisions as to times and methods of payment.

(2) The State shall not contract to sell surplus water to noncontractors for periods in excess of five years.

IN WITNESS WHEREOF, the parties hereto have executed this contract amendment as of the date first above written.

Approved as to legal form and sufficiency:

By _____
For Chief Counsel
Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By Robert B. Edwards
for Director

CRESTLINE-LAKE ARROWHEAD
WATER AGENCY

By _____
(Title)

THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 12 TO WATER SUPPLY CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT, made this 11th day of February, 1980, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline-Lake Arrowhead Water Agency , herein referred to as the "Agency";

WHEREAS, the State and the Agency have entered into and subsequently amended a water supply contract providing that the State will supply certain quantities of water to the Agency, and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment; and

WHEREAS, the State and the Agency desire to make certain changes and additions to such contract, while otherwise continuing the contract in full force and effect;

NOW, THEREFORE, it is mutually agreed that the following changes and additions are hereby made to the Agency's water supply contract with the State;

1. Subdivision t of Article 1 of the Agency's Water Supply Contract with the State is amended to read as follows:

(t) Project Repayment Period

"Project repayment period" shall mean that period of years commencing on January 1, 1961, and extending until December 31, 2035; Provided, that whenever construction of any project facilities is financed by a bond issue with maturity dates later than December 31, 2035, whether the bonds are issued pursuant to the Bond Act or other authority, repayment of the costs of such facilities shall be extended to end on the date of the latest maturities of the bonds with which construction of such facilities is financed.

2. Article 2 of the Agency's Water Supply Contract with the State is amended to read as follows:

(2) Term of Contract

This contract shall become effective on the date first above written and shall remain in effect for the longest of the following:

1. The project repayment period
2. 75 years
3. The period ending with the latest maturity date of any bond issue used to finance the construction costs of project facilities.

IN WITNESS WHEREOF, the parties hereto have executed this contract amendment on the date first above written.

Approved as to legal form and sufficiency:

by _____
Chief Counsel
Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

by _____
Director

CRESTLINE-LAKE ARROWHEAD
WATER AGENCY

X by _____

Title President
Board of Directors

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

(Crestline)

AMENDMENT NO. 13 TO WATER SUPPLY CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND THE
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT, made this 1st day of December, 1988, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline-Lake Arrowhead Water Agency, herein referred to as the "Agency";

WHEREAS, the State and the Agency have entered into and subsequently amended a water supply contract providing that the State will supply certain quantities of water to the Agency, and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment; and

WHEREAS, the State and the Agency desire to make certain changes and additions to such contract, while otherwise continuing the contract in full force and effect;

NOW, THEREFORE, it is mutually agreed that the following changes and additions are hereby made to the Agency's water supply contract with the State:

1. Article 1(e) is amended to read:

(e) Project Facilities

"Project facilities" shall mean those facilities of the system which will, in whole or in part, serve the purposes of this contract by conserving water and making it available for use in and above the Delta and for export from the Delta and from such additional facilities as are defined in Article 1(h)(2) herein, and by conveying water to the Agency. Said project facilities shall consist specifically of "project conservation facilities" and "project transportation facilities", as hereinafter defined.

2. Article 1(h) is amended to read:

(h) Additional Project Conservation Facilities

"Additional project conservation facilities" shall mean the following facilities and programs which will serve the purpose of preventing any reduction in the minimum project yield as hereinafter defined:

(1) Those project facilities specified in Section 12938 of the Water Code;

(2) Those facilities and programs described in (A), (B), (C), (D), and (E) below which, in the State's determination, are engineeringly feasible and capable of producing project water which is economically competitive with alternative new water supply sources, provided that, in the State's determination, the construction and operation of such facilities and programs will not interfere with the requested deliveries of annual entitlement to any contractor other than the sponsoring contractor, and will not result in any greater annual charges to any contractor other than the sponsoring contractor than would have occurred with the

construction at the same time of alternative new water supply sources which are either reservoirs located north of the Delta or off-Aqueduct storage reservoirs located south or west of the Delta designed to supply water to the California Aqueduct. The following facilities and programs shall hereinafter be referred to as "Local Projects":

(A) On-stream and off-stream surface storage reservoirs not provided for in Section 12938 of the Water Code, that will produce project water for the System for a period of time agreed to by the sponsoring contractor;

(B) Ground water storage facilities that will produce project water for the System for a period of time agreed to by the sponsoring contractor;

(C) Waste water reclamation facilities that will produce project water for the System for a period of time agreed to by the sponsoring contractor;

(D) Water and facilities for delivering water purchased by the State for the System for a period of time agreed to by the sponsoring contractor; provided that the economic test specified herein shall be applied to the cost of these facilities together with the cost of the purchased water; and

(E) Future water conservation programs and facilities that will reduce demands by the sponsoring contractor for project water from the System for a period of time agreed to by the sponsoring contractor and will thereby have the effect of increasing project water available in the Delta for distribution.

(3) Whether a Local Project described in (2) above shall be considered economically competitive shall be determined by the State by comparing, in an engineering and economic analysis, such Local Project with alternative new water supply sources which are either reservoirs located north of the Delta or off-Aqueduct storage reservoirs located south or west of the Delta designed to supply water to the California Aqueduct. The analysis for such alternative new water supply sources shall use the average cost per acre-foot of yield in the latest studies made for such sources by the State and shall compare those facilities with the proposed Local Project using commonly accepted engineering economics. In the case of a Local Project to be funded in part by the State as part of the System and in part from other sources, the economic analysis specified herein shall be applied only to the portion to be funded by the State as part of the System.

(4) The Local Projects in (2) above shall not be constructed or implemented unless or until:

(A) The sponsoring contractor signs a written agreement with the State which:

(i) Contains the sponsoring contractor's approval of such facility or program.

(ii) Specifies the yield and the period of time during which the water from the Local Project shall constitute project water; and

(iii) Specifies the disposition of such Local Project or of the yield from such Local Project upon the expiration of such period of time; and

(B) All contractors within whose boundaries any portion of such Local Project is located, and who are not sponsoring contractors for such Local Project give their written approval of such Local Project.

(5) "Sponsoring contractor" as used in this Article 1(h) shall mean the contractor or contractors who either will receive the yield from facilities described in 2(A), (B), (C), or (D) above, or agree to reduce demands for project water from the System pursuant to 2(E) above.

(6) In the event of a shortage in water supply within the meaning of Article 18(a), the determination of whether to count, in whole or in part, the yield from facilities described in 2(A), (B), (C), or (D) above, or the reduced demand from future conservation programs described in 2(E) above in the allocation of deficiencies among contractors will be based on a project-by-project evaluation taking into consideration such factors as any limitation on the use of the water from such facilities and whether the sponsoring contractor has access to project water from the Delta as an alternate to such facilities.

3. Article 1(i)(2) is amended to read:

(2) Facilities for the generation and transmission of electrical energy of the following types:

(A) Hydroelectric generating and transmission facilities, whose operation is dependent on the transportation of project water, or on releases to channels downstream of project facilities defined under (1) above. Such facilities shall be called "project aqueduct power recovery plants."

(B) All other generating and associated transmission facilities, except those dependent on water from project conservation facilities, for the generation of power. These facilities shall be called "off-aqueduct power facilities" and shall consist of the State's interest in the Reid-Gardner and any other generating and associated transmission facilities, constructed or financed in whole or in part by the State, which are economically competitive with alternative power supply sources as determined by the State.

4. Article 1(r) is amended to read:

(r) Project Interest Rate

"Project interest rate" shall mean the weighted average interest rate of (1) through (6) below computed by dividing (i) the total interest cost required to be paid or credited by the State during the life of the indebtedness or advance by (ii) the total of the projects of the various principal amounts and the respective terms in years of all such amounts:

(1) general obligation bonds issued by the State under the Bond Act,

(2) revenue bonds issued by the State under the Central Valley Project Act after May 1, 1969,

(3) bonds issued by the State under any other authority granted by the Legislature or the voters,

(4) bonds issued by any agency, district, political subdivision, public corporation, or nonprofit corporation of this State,

(5) funds advanced by any contractor without the actual incurring of bonded debt therefor, for which the net interest cost and terms shall be those which would have resulted if the contractor had sold bonds for the purpose of funding the advance, as determined by the State, and

(6) funds borrowed from the General Fund or other funds in the Treasury of the State of California, for which the total interest cost shall be computed at the interest rate earned over the period of such borrowing by moneys in the Pooled Money Investment Account of such Treasury invested in securities,

to the extent the proceeds of any such bonds, advances or loans are for construction of the State Water Facilities defined in Section 12934(d) of the Water Code, the additional project conservation facilities, and the supplemental conservation facilities, (except off-aqueduct power facilities and advances for delivery structures, measuring devices and excess capacity) and without regard to any premiums received on the sale of bonds under item (1) above. The "project interest rate" shall be computed as a decimal fraction to five places.

5. Subdivision (h) is added to Article 22 to read:

(h) The determination of the rate for water under the Delta Water Charge shall be made by including the appropriate costs and quantities of water, calculated in accordance with subdivisions (c), (d) and (e) above, for all additional project conservation facilities as defined in Article 1(h) hereinabove. In the event a Local Project as defined in Article 1(h)(2) will,

pursuant to written agreement between the State and the sponsoring contractor, be considered and treated as an additional project conservation facility for less than the estimated life of the facility, the rate under the Delta Water Charge will be determined on the basis of that portion of the appropriate cost and water supply associated with such facility as the period of time during which such facility shall be considered as an additional project conservation facility bears to the estimated life of such facility. No costs for the construction or implementation of any Local Project are to be included in the Delta Water Charge unless and until the written agreement required by Article 1(h) has been entered into.

6. Subdivision (i) is added to Article 22 to read:

(i) In calculating the rate for project water to be paid by each contractor for the Delta Water Charge under subdivisions (c), (d) and (e) above, the component for operation, maintenance, power and replacement costs shall include, but not be limited to, all costs to the State incurred in purchasing water, which is competitive with alternative sources as determined by the State, for delivery as project water.

7. Subdivision (f) is added to Article 24 to read:

(f) The capital costs of project aqueduct power recovery plants shall be charged and allocated in accordance with this Article 24. The capital costs of off-aqueduct power facilities shall be charged and allocated in accordance with Article 25(d).

8. Subdivision (d) is added to Article 25 to read:

(d) Notwithstanding the provisions of subdivisions (a) and (b) of this article, or of Article 1(s), the costs of off-aqueduct power facilities shall be determined and allocated as follows:

(1) The off-aqueduct power costs shall include all annual costs the State incurs for any off-aqueduct power facility, which shall include, but not be limited to, power purchases, any annual principal and interest payments on funds borrowed by or advanced to the State, annual principal and interest on bonds issued by the State or other agency, or under revenue bond financing contracts, any requirements for coverage, deposits to reserves, and associated operation and maintenance costs of such facility, less any credits, interest earnings, or other monies received by the State in connection with such facility. In the event the State finances all or any part of an off-aqueduct power facility directly from funds other than bonds or borrowed funds, in lieu of such annual principal and interest payments, the repayment of capital costs as to that part financed by such other funds shall be determined on the basis of the schedule that would have been required under Article 24.

(2) The annual costs of off-aqueduct power facilities as computed in (1) above shall initially be allocated among contractors in amounts which bear the same proportions to the total amount of such power costs that the total estimated electrical energy (kilowatt hours) required to pump through project transportation facilities the desired delivery amounts of annual entitlements for that year, as submitted pursuant to

Article 12(a)(1) and as may be modified by the State pursuant to Article 12(a)(2), bears to the total estimated electrical energy (kilowatt hours) required to pump all such amounts for all contractors through project transportation facilities for that year, all as determined by the State.

(3) An interim adjustment in the allocation of the power costs calculated in accordance with (2) above, may be made in May of each year based on April revisions in approved schedules of deliveries of annual entitlement for such year. A further adjustment shall be made in the following year based on actual deliveries of annual entitlement; provided, however, in the event no deliveries are made through a pumping plant, the adjustments shall not be made for that year at that plant.

(4) To the extent the monies received or to be received by the State from all contractors for off-aqueduct power costs in any year are determined by the State to be less than the amount required to pay the off-aqueduct power costs in such year, the State may allocate and charge that amount of off-aqueduct power costs to the Agency and other contractors in the same manner as costs under the capital cost component of the Transportation Charge are allocated and charged. After that amount has been so allocated, charged and collected, the State shall provide a reallocation of the amounts allocated pursuant to this paragraph (4), such reallocation to be based on the allocations made pursuant to (2) and (3) above for that year, or in the event no such allocation was made for that year, on the last previous allocation made pursuant to (2) and (3) above. Any such

reallocation shall include appropriate interest at the project interest rate.

9. Subdivision (e) is added to Article 25 to read:

(e) The total minimum operation, maintenance, power and replacement component due that year from each contractor shall be the sum of the allocations made under the proportionate use of facilities method provided in subdivision (b) of this article and the allocations made pursuant to subdivision (d) of this article for each contractor.

10. Subdivision (b) of Article 32 is amended to read:

(b) Interest on Overdue Payments

Upon every amount of money required to be paid by the Agency to the State pursuant to this contract which remains unpaid after it becomes due and payable, interest shall accrue at an annual rate equal to that earned by the Pooled Money Investment Fund, as provided in Government Code Sections 16480, et seq. calculated monthly on the amount of such delinquent payment from and after the due date until it is paid, and the Agency hereby agrees to pay such interest: provided, that no interest shall be charged to or be paid by the Agency unless such delinquency continues for more than thirty (30) days.

IN WITNESS WHEREOF, the parties hereto have executed this contract amendment as of the date first above written.

Approved as to legal form and sufficiency:

By _____
Chief Counsel
Acting Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By _____
Director

CRESTLINE-LAKE ARROWHEAD
WATER AGENCY

By _____
(Title) General Manager

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 14 TO WATER SUPPLY CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS CONTRACT is made this 27th day of February, 1987, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline-Lake Arrowhead Water Agency, herein referred to as the "Agency".

WHEREAS, the State and the Agency have entered into and subsequently amended a water supply contract providing that the State will supply certain quantities of water to the Agency, and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment;

WHEREAS, the State and the Agency wish to provide financing for project facilities with water system revenue bonds and provide for repayment of water system revenue bonds;

WHEREAS, the State and the Agency wish to clarify the definition of the project interest rate without changing the interpretation of Article 1(r), except for the addition of item (7), and to specify that financing costs of water system facilities and East Branch Enlargement facilities shall not be included in calculating the project interest rate; and

WHEREAS, the State is willing to amortize over the remaining repayment period of the contract, the "one-shot" adjustment applied to previous payments resulting from revisions in the project interest rate under conditions defined in this amendment.

NOW THEREFORE, it is mutually agreed that the following changes and additions are hereby made to the Agency's water supply contract with the State:

1. Article 1(r) is amended to read:

(r) "Project interest rate" shall mean the weighted average interest rate on bonds, advances, or loans listed in this section to the extent the proceeds of any such bonds, advances, or loans are for construction of the State Water Facilities defined in Section 12934(d) of the Water Code, the additional project conservation facilities, and the supplemental conservation facilities (except off-aqueduct power facilities; water system facilities; advances for delivery structures, measuring devices and excess capacity; and East Branch Enlargement Facilities). The project interest rate shall be calculated as a decimal fraction to five places by dividing (i) the total interest cost required to be paid or credited by the State during the life of the indebtedness or advance by (ii) the total of the products of the various principal amounts and the respective terms in years of all such amounts. The bonds, advances, or loans used in calculating the project interest rate shall be:

(1) General obligation bonds issued by the State under the Bond Act, except that any premium received on the sale of these bonds shall not be included in the calculation of the project interest rate,

(2) Revenue bonds issued by the State under the Central Valley Project Act after May 1, 1969,

(3) Bonds issued by the State under any other authority granted by the Legislature or the voters,

(4) Bonds issued by any agency, district, political subdivision, public corporation, or nonprofit corporation of this State,

(5) Funds advanced by any contractor without the actual incurring of bonded debt therefor, for which the net interest cost and terms shall be those which would have resulted if the contractor had sold bonds for the purpose of funding the advance, as determined by the State,

(6) Funds borrowed from the General Fund or other funds in the Treasury of the State of California, for which the total interest cost shall be computed at the interest rate earned over the period of such borrowing by moneys in the Surplus Money Investment Fund of such Treasury invested in securities, and

(7) Any other financing capability available in the Treasury of the State of California at whatever interest rate and other financing costs are provided in the law authorizing such borrowing. However, the use of other financing from the State Treasury is intended to involve only short term borrowing at interest rates and other financing costs no greater than those charged to other State agencies during the same period until such time as the Department can sell bonds and reimburse the source of the short term borrowing from the proceeds of the bond sale.

2. Article 1(cc) is added to read:

(cc) "Water system revenue bonds" shall mean revenue bonds or revenue bond anticipation notes issued by the State under the Central Valley Project Act after January 1, 1987 for water system facilities identified in Article 1(hh).

3. Article 1(gg) is added to read:

(gg) "East Branch Enlargement Facilities" shall mean all of the following:

(1) The facilities remaining to be constructed as part of the East Branch Enlargement construction;

(2) The work done pursuant to the letter agreement between the State and The Metropolitan Water District of Southern California dated November 29, 1966, which consisted of constructing the California Aqueduct between Cottonwood (now known as Alamo) Powerplant and Cedar Springs (now known as Silverwood) Reservoir so that, by future additions to the canal lining, siphons, and additional pumping units at Pearblossom Pumping Plant, the capacity could be increased by a then-estimated approximately 700 cubic feet per second;

(3) That portion of the enlargement of the Pearblossom Pumping Plant Forebay and Cofferdam construction which would not have been constructed but for the proposed East Branch Enlargement and which was done pursuant to the letter agreement between the State and The Metropolitan Water District of Southern California, dated January 19, 1984;

(4) That portion of the canal lining work between Alamo Powerplant and Pearblossom Pumping Plant done pursuant to the letter agreements

between the State and The Metropolitan Water District of Southern California, dated July 2, 1984, and May 15, 1985, which increased the East Branch Aqueduct capacity beyond that set forth in Table B-2 as shown in State Bulletin 132-70;

(5) That portion of Reach 24 (Silverwood Lake) to be determined by reallocation of Reach 24 to reflect the additional use to be made of that reach as a result of the East Branch Enlargement operation; and

(6) That portion of Reach 25 (San Bernardino Tunnel) to be determined by an allocation of total delivery capacity of Reach 25 between the basic East Branch facilities and the East Branch Enlargement as a result of East Branch Enlargement operation.

4. Article 1 (hh) is added to read:

(hh) "Water System Facilities" shall mean the following facilities to the extent that they are financed with water system revenue bonds or to the extent that other financing of such facilities is reimbursed with proceeds from water system revenue bonds:

(1) The North Bay Aqueduct,

(2) The Coastal Branch Aqueduct,

(3) Delta Facilities, including Suisun Marsh facilities, to serve the purposes of water conservation in the Delta, water supply in the Delta, transfer of water across the Delta, and mitigation of the environmental effects of project facilities, and to the extent presently authorized as project purposes, recreation and fish and wildlife enhancement,

(4) Local projects as defined in Article 1(h)(2) designed to develop no more than 25,000 acre-feet of project yield from each project,

(5) Land acquisition for the Kern Fan Element of the Kern Water Bank,

(6) Additional pumps at the Banks Delta Pumping Plant,

(7) The transmission line from Midway to Wheeler Ridge Pumping Plant, and

(8) Repairs, additions, and betterments to conservation or transportation facilities existing as of January 1, 1987, and to all other facilities described in this subarticle (hh) except for item (5).

5. Article 22(j) of the Agency's water supply contract with the State is added as follows:

(j) Notwithstanding provisions of Article 22(a) through (i), the capital cost component and the minimum OMP&R component of the Delta Water Charge shall include an annual charge to recover the Agency's share of the conservation portion of the water system revenue bond financing costs. Charges to the Agency for these costs shall be calculated in accordance with provisions in Article 50 of this contract.

6. Article 24(g) of the Agency's water supply contract with the State is added as follows:

(g) Notwithstanding provisions of Article 24(a) through (d), the capital cost component of the Transportation charge shall include an annual charge to recover the Agency's share of the transportation portion of the water system revenue bond financing costs. Charges to the Agency for these costs

shall be calculated in accordance with provisions in Article 50 of this contract.

6.5. Article 28(e) of the Agency's water supply contract with the State is added to read:

28(e) Notwithstanding the provisions of Article 28(b), adjustments for prior overpayments and underpayments shall be repaid beginning in the year following the redetermination by application of a unit rate per acre-foot which, when paid for the projected portion of the Agency's annual entitlement will return to the State, during the project repayment period, together with interest thereon computed at the project interest rate and compounded annually, the full amount of the adjustments resulting from financing after January 1, 1987, from all bonds, advances, or loans listed in Article 1(r) except for Article 1(r)(3) and except for bonds issued by the State under the Central Valley Project Act after January 1, 1987 for facilities not listed among the water system facilities in Article 1(hh). Notwithstanding the immediately preceding exception, such amortization shall also apply to any adjustments in this component charge resulting from a change in the project interest rate due to any refunding after January 1, 1986 of bonds issued under the Central Valley Project Act. However, amortization of adjustments resulting from items 1(r)(4) through (7) shall be limited to a period which would allow the Department to repay the debt service on a current basis until such time as bonds are issued to reimburse the source of such funding. In no event shall this amortization period be greater than the project repayment period.

7. Article 28(f) of the Agency's water supply contract with the State is added as follows:

f. Adjustment: Water System Revenue Bond Financing Costs. The use of water system revenue bonds for financing facilities listed in Article 1(hh) would result in adjustments for prior underpayments or overpayments of the capital cost component of the Transportation Charge to the Agency under the provisions of this article; however, in place of making such adjustments, charges to the Agency will be governed by Article 50.

8. Article 50 of the Agency's water supply contract with the State is added as follows:

50. Water System Revenue Bond Financing Costs.

(a) Charges to the Agency for water system revenue bond financing costs shall be governed by provisions of this article. Charges to all contractors for water system revenue bond financing costs shall return to the State an amount equal to the annual financing costs the State incurs in that year for water system revenue bonds (including water system revenue bond anticipation notes). Annual financing costs shall include, but not be limited to, any annual principal and interest on water system revenue bonds plus any additional requirements for bond debt service coverage, deposits to reserves, and annual premiums for insurance or other security obtained pursuant to subdivision (f) of this article. The State shall provide credits to the contractors for excess reserve funds, excess debt service coverage, interest, and other earnings of the State in connection with repayment of such revenue bond financing costs, when and as permitted by the bond resolution. When such

credits are determined by the State to be available, such credits shall be promptly provided to the contractors and shall be in proportion to the payments under this article from each contractor. Reserves, bond debt service coverage, interest, and other earnings may be used in the last year to retire the bonds.

(b) Annual charges to recover water system revenue bond financing costs shall consist of two elements.

(1) The first element shall be an annual charge to the Agency for repayment of capital costs of water system facilities as determined under Articles 22 and 24 of this contract with interest at the project interest rate. For conservation facilities, the charge shall be a part of the capital cost component of the Delta Water Charge in accordance with Article 22. For transportation facilities, the charge shall be a part of the capital cost component of the Transportation Charge in accordance with Article 24.

(2) The second element shall be the Agency's share of a Water System Revenue Bond Surcharge to be paid in lieu of a project interest rate adjustment. The total annual amount to be paid by all contractors under this element shall be the difference between the total annual charges under the first element and the annual financing costs of the water system revenue bonds. The amount to be paid by each contractor shall be calculated annually as if the project interest rate were increased to the extent necessary to produce revenues from all contractors sufficient to pay such difference for that year. In making that calculation, adjustments in the Agency's Transportation capital cost component charges for prior overpayments and underpayments shall be determined as if amortized over the remaining years of the project repayment period.

(c) The Water System Revenue Bond Surcharge will be identified by component and charge in the Agency's invoice.

(d) Timing of Payments. Payments shall be made in accordance with Article 29(f) of this contract.

(e) Reduction in Charges. The Water System Revenue Bond Surcharge under Article 50(b)(2) shall cease for each series of water system revenue bonds when that series is fully repaid. However, the annual charge determined pursuant to Article 50(b)(1) shall continue to be collected for the time periods otherwise required under Articles 22 and 24.

After the Department has repaid the California Water Fund in full and after each series of Water System Revenue Bonds is repaid, the Department will reduce the charges to all contractors in an equitable manner in a total amount that equals the amount of the charges under Article 50(b)(1) that the Department determines is not needed for future financing of facilities of the System which, in whole or in part, will serve the purposes of the water supply contract with the Agency.

(f) To the extent economically feasible and justifiable, as determined by the State after consultation with contractors, the State shall maintain insurance or other forms of security protecting bondholders and non-defaulting contractors against costs resulting from the failure of any contractor to make the payments required by this article.

(g) Before issuing each series of water system revenue bonds, the State shall consult with the contractors, prepare a plan for the State's future financing of water system facilities, and give the Agency an opportunity to comment on the plan. The plan shall include but not be limited to the size

of any water system revenue bond issuances and the form of any necessary resolutions or supplements.

(h) Defaults. (1) If a contractor defaults partially or entirely on its payment obligations calculated under this article and sufficient insurance or other security protecting the non-defaulting contractors is not provided under Article 50(f), the State shall allocate a portion of the default to each non-defaulting contractor. The Agency's share of the default shall be equal to an amount determined by multiplying the total default amount to be charged to all non-defaulting contractors by the ratio that the Agency's maximum Table A entitlement bears to the maximum Table A entitlements of all non-defaulting contractors. However, such amount shall not exceed in any year 25 percent of the Water System Revenue Bond financing costs that are otherwise payable by the Agency in that year. The amount of default to be charged to non-defaulting contractors shall be reduced by any receipts from insurance protecting non-defaulting contractors and bond debt service coverage from a prior year and available for such purpose.

(2) If a contractor defaults partially or entirely on its payment obligations under this article, the State shall also pursuant to Article 20, upon six months' notice to the defaulting contractor, suspend water deliveries under Article 20 to the defaulting contractor so long as the default continues. The suspension of water deliveries shall be proportional to the ratio of the default to the total water system revenue bond payments due from the defaulting contractor. However, the State may reduce, eliminate, or not commence suspension of deliveries pursuant to this subparagraph if it determines suspension in the amounts otherwise required is likely to impair the

defaulting contractor's ability to avoid further defaults or that there would be insufficient water for human consumption, sanitation, and fire protection. The State may distribute the suspended water to the non-defaulting contractors on terms it determines to be equitable.

(3) During the period of default, credits otherwise due the defaulting contractor shall be applied to payments due from the defaulting contractor.

(4) Except as otherwise provided in Article 50(h)(3), the defaulting contractor shall repay the entire amount of the default to the State with interest compounded annually at the Surplus Money Investment Fund rate before water deliveries that had been suspended shall be fully resumed to that contractor. If the defaulting contractor makes a partial repayment of its default, the Department may provide a proportional restoration of suspended deliveries. The amount of the default to be repaid shall include any amounts previously received by the State from insurance proceeds, bond debt service coverage, or other reserves, and payments from other contractors pursuant to this subparagraph (h). The defaulting contractor shall not be entitled to any make-up water deliveries as compensation for any water deliveries suspended during the period when the contractor was in default.

(5) At such time as the default amount is repaid by the defaulting contractor, the non-defaulting contractors shall receive credits in proportion to their contributions towards the amount of the default with interest collected by the State on the defaulted amount.

(6) In the event there is an increase in the amount a non-defaulting contractor contributes to reserves and/or bond debt service

coverage, such increase shall be handled in the same manner as provided in Article 50(a).

(7) Action taken pursuant to this subarticle shall not deprive the State of or limit any remedy provided by this contract or by law for the recovery of money due or which may become due under this contract.

(i) Power of Termination.

(1) The Department and the Agency agree to negotiate in good faith the development of a means to provide adequate protection for the Department's cash flow into priorities one and two for revenues under Water Code Section 12937(b) with the goal of obtaining agreement by April 1, 1987. The Department and the Agency agree to continue negotiations beyond April 1, 1987 if necessary to meet their common goal of arriving at agreement.

(2) If such an agreement has not been reached by April 1, 1987, and if the Director of Water Resources determines that adequate progress has not been made toward such an agreement, the Director may give notice to the Agency and other contractors that he intends to exercise the power to terminate provided in this subarticle 50(i). The Director's authority to give such a notice shall terminate on July 1, 1988.

(3) After six months from the date of issuing the notice of intent to terminate, but in no event later than January 1, 1989, the Director may terminate the authority of the Department to issue additional series of water system revenue bonds using the repayment provisions of Article 50. The Department shall promptly notify the Agency and other contractors that the Director has exercised the power of termination.

(4) No additional series of water system revenue bonds shall be issued under the provisions of this Article 50 after the Director has exercised the power to terminate, but Article 50 shall remain in effect as to any series of water system revenue bonds issued prior to the time the Director exercises the power to terminate.

(5) An exercise of the power to terminate provided in this subarticle 50(i) shall also rescind any changes made by this amendment in the schedule of payment of overpayment or underpayment of capital costs resulting from a change in the project interest rate and shall also rescind the addition of item (7) to Article 1(r). However, if the Department has borrowed any funds under Article 1(r)(7), Article 1(r)(7) shall remain in effect as to that and only that borrowing. Upon the exercising of the power to terminate, subarticles 28(e) and (f) shall be rescinded and Article 1(r) shall read as it previously read as shown on Attachment Number 1 to this amendment.

(6) At any time before January 1, 1989, so long as the Director has not already exercised the power of termination, the Director may irrevocably waive his right to exercise the power of termination or may rescind any previously issued notice of intention to terminate.

(7) If the Director does not exercise the power of termination before January 1, 1989, this Subarticle 50(i) shall expire, and the remainder of this Article 50 shall remain in effect. Changes made by this amendment to other articles shall also remain in effect.

IN WITNESS WHEREOF, the parties have executed this contract on the date first above written.

Approved as to legal form and sufficiency:

By _____
Chief Counsel
Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By _____
Director

Attest:

By _____
(Title)
Dorothy E. Horton, Secretary
Board of Directors

CRESTLINE-LAKE ARROWHEAD WATER AGENCY

By _____

Thomas G. Barnes, President
Board of Directors

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 15 TO WATER SUPPLY CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES
AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS AMENDMENT to the Water Supply Contract is made this 27th day of March, 1991, pursuant to the provisions of the California Water Resources Development Bond Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as "State", and Crestline-Lake Arrowhead Water Agency, herein referred to as the "Agency".

WHEREAS, the State and the Agency entered into a contract whereby the State will deliver and the Agency will purchase a supply of water to be made available from project facilities constructed by the State;

WHEREAS, a more efficient use of entitlement water may be achieved by deferral of its use from October, November and December of one calendar year into the first three months of the next year.

WHEREAS, the State and the Agency desire to amend the provisions of such contract related to the delivery and scheduling of entitlement water to allow, under certain conditions, the carry-over of a portion of the Agency's entitlement deliveries from a respective year into the first three months of the next calendar year.

WHEREAS, the carry-over of entitlement by the Agency is not intended to adversely impact current or future project operations.

WHEREAS, the State Water Project contractors and the Department are aware that the carry-over of entitlement water from one year into the next may increase or decrease the costs to other SWP contractors in either year. The tracking of those costs may be too complex and expensive and does not warrant special accounting procedures to be established; however, any significant identifiable cost shall be charged to those contractors causing such cost, as determined by the Department;

WHEREAS, the carry-over of entitlement water is not to affect the payment provisions of the contract.

NOW THEREFORE, it is mutually agreed that the following changes and additions are hereby made to the Agency's Water Supply Contract with the State:

1. Article 1(ii) is added to read:

"Carry-over Entitlement Water" shall mean water from a contractor's annual entitlement for a respective year which is made available for delivery by the State in the next year pursuant to Article 12(e).

2. Article 12(e) is added to read:

(e) Delivery of Carry-over Entitlement Water

Upon request of the Agency, the State shall make Carry-over Entitlement Water available for delivery to the Agency during the first three months of the next year, to the extent that such deliveries do not adversely affect current or future project operations, as determined by the State. The State's determination shall include, but not be limited to the operational constraints of project facilities, filling of project conservation storage, flood control releases and water quality restrictions.

Carry-over of entitlement water shall be limited to entitlement water that was included in the Agency's approved delivery schedule for October, November and December, but was not delivered due to:

(1) scheduled or unscheduled outages of facilities within the Agency's service area; or

(2) a delay in the planned application of a contractor's annual entitlement water for pre-irrigation; or

(3) a delay in the planned spreading of the Agency's annual entitlement water for ground water storage.

After determining that the carry-over of entitlement water would not adversely affect project operations, the State shall notify the Agency of the amount of entitlement water to be carried over to the following January through March period. The notification shall include the proposed terms and

conditions consistent with this Article 12(e) that would govern the delivery of the Carry-over Entitlement Water.

The Agency agrees to pay all significant identifiable costs associated with its Carry-over Entitlement Water, as determined by the State.

All scheduling and delivery of Carry-over Entitlement Water shall be carried out pursuant to the provisions of this contract.

The Agency agrees to forego the delivery of any Carry-over Entitlement Water that is lost because of project operations or is not delivered by March 31 of the next year.

Any Carry-over Entitlement Water foregone by the Agency will become a part of the current year's total project supply.

WITNESS WHEREOF, the parties have executed this contract on the date first above written.

Approved as to legal form and sufficiency:

Acting Chief Counsel
Department of Water Resources

Attest:

Name

Title

Date

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

Director

CRESTLINE-LAKE ARROWHEAD WATER AGENCY

Name
Thomas G. Barnes

President, Board of Directors
Title

1-3-91
Date

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

63X.514.1

AMENDMENT NO. 16 TO WATER SUPPLY
CONTRACT BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS AMENDMENT to the Water Supply Contract is made this 14th day of APRIL, 1991, pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline-Lake Arrowhead Water Agency, herein referred to as the "Agency".

RECITALS:

WHEREAS, the State and the Agency entered into a contract whereby the State will deliver and the Agency will purchase a supply of water to be made available from project facilities constructed by the State;

WHEREAS, the State and the Agency included in such contract an article which entitles the Agency to obtain from the State deliveries of surplus water when available;

WHEREAS, the State and the Agency desire to amend the provisions of such contract related to the deliveries of surplus water; and

WHEREAS, beginning January 1, 1991 the Agency desires to be charged for the power used for pumping surplus water at the Melded Power Rate as provided herein for the remainder of the project repayment period.

WHEREAS, the parties to this Amendment, and those approving the Amendment, intend no impact upon their positions with respect to the interpretation of any existing contractual provisions.

AGREEMENT:

It is agreed that the following changes are hereby made to the Agency's water supply contract as follows:

1. Purpose and Scope. This Amendment is only intended to define the procedure for determining the charges for power used to pump surplus and unscheduled water. The scope of the Amendment is strictly confined to that purpose.

2. Article 21(d) of the Agency's water supply contract with the State is amended to read:

(d) Schedules. On or before October 1 of each year, concurrently with the schedule submitted pursuant to the provisions of Article 12, the Agency shall submit in writing to the State a preliminary water delivery schedule, indicating the desired amounts of surplus water for each month of the subsequent six-year period beginning January 1, of the next succeeding year. The last five years of this preliminary surplus water delivery schedule shall be used by the State for planning and operations studies.

3. Article 21(f) of the Agency's water supply contract with the State is amended to read:

(f) Power Costs.

(1) Beginning January 1, 1991, the Agency shall pay power charges for pumping surplus water as follows:

(A) If during a calendar month it is either not necessary to purchase power for pumping surplus water, or it is necessary to purchase power for pumping surplus water and the purchased power rate is less than or equal to the Melded Power Rate (defined as the average unit charge for pumping entitlement water during the calendar year for all power resources, including on-aqueduct power resources, off-aqueduct power resources, and any other power resources), then the monthly charges to the Agency for the Net Power (gross power used to pump the surplus water less power generated by the surplus water) used to pump surplus water to the Agency shall be determined using the Melded Power Rate.

(B) If during a calendar month it is necessary to purchase power for pumping surplus water and the purchased power rate is greater than the Melded Power Rate, the monthly charges to the Agency for the Net Power used to pump surplus water for delivery to the Agency shall be determined using a composite rate equal to the sum of:

(i) The monthly average purchased power rate per unit of power so purchased times the power purchased for pumping surplus water and that result divided by the Net Power; plus,

(ii) The Melded Power Rate per unit of power times a quantity which equals the Net Power used for pumping surplus water minus the power purchased for pumping surplus water and that result divided by the Net Power.

(C) In all cases, the power charges shall include the cost of any additional transmission service required for the delivery of surplus water to the Agency.

(2) By receiving surplus or unscheduled water under this Article 21(f), the Agency accepts the responsibility to indemnify, defend, and hold harmless the State, its officers, employees and agents from all liability, expenses, defense costs, attorney fees, claims, actions, liens, and lawsuits of whatever kind, arising out of or related to this article.

(3) Effective January 1, 1991, power charges for delivery of unscheduled water to the Agency shall be calculated in the same manner as provided in this Article 21(f).

4. This Amendment shall take effect on January 1, 1991, only if, by January 31, 1991 an Amendment substantially the same as this one is executed by contractors that together have maximum annual entitlements totaling at least 3,796,007 acre-feet. By February 15, 1991, the State will inform the Agency of whether sufficient contractors had executed the Amendment to cause the Amendment to take effect.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment on the date first above written.

Approved as to legal form and sufficiency:

Acting Chief Counsel
Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

Director

CRESTLINE-LAKE ARROWHEAD
WATER AGENCY

ATTEST:

SIGNATURE

Thomas G. Barnes
NAME

President, Board of Directors
TITLE

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 17 (THE MONTEREY AMENDMENT)
TO WATER SUPPLY CONTRACT BETWEEN THE
STATE OF CALIFORNIA DEPARTMENT OF
WATER RESOURCES AND CRESTLINE-LAKE ARROWHEAD WATER AGENCY

THIS AMENDMENT to the Water Supply Contract is made this 13th day of December, 1995, pursuant to the provisions of the California Water Resources Development Bond Act, the Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Crestline-Lake Arrowhead Water Agency, herein referred to as the "Agency".

RECITALS:

WHEREAS, the State and the Agency have entered into and subsequently amended a water supply contract providing that the State will supply certain quantities of water to the Agency, and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment; and

WHEREAS, on December 1, 1994, representatives of the contractors and the State executed a document entitled "Monterey Agreement - Statement of Principles - By the State Water Contractors and the State of California Department of Water Resources For Potential Amendments To The State Water Supply Contracts" (the "Monterey Agreement"); and

WHEREAS, the contractors and the State have negotiated an amendment to the water supply contracts to implement provisions of the Monterey Agreement (the "Monterey Amendment"); and

WHEREAS, the State and the Agency desire to implement such provisions by incorporating this Monterey Amendment into the water supply contract;

NOW, THEREFORE, IT IS MUTUALLY AGREED that the following changes and additions are hereby made to the Agency's water supply contract with the State:

1. Article 1(d) is amended to read:

(d) **Contractor**

"Contractor" shall mean any entity that has executed, or is an assignee of, a contract of the type published in Department of Water Resources Bulletin No. 141 dated November 1965, with the State for a dependable supply of water made available by the System, except such water as is made available by the facilities specified in Section 12934(d)(6) of the Water Code.

2. Article 1(k) is amended to read:

(k) **Minimum Project Yield**

"Minimum project yield" shall mean the dependable annual supply of project water to be made available, estimated to be 4,185,000 acre-feet per year, said amount to be determined by the State on the basis of coordinated operation studies of initial project conservation facilities and additional project conservation facilities, which studies shall be based upon:

(1) The estimated relative proportion of deliveries for agricultural use to deliveries for municipal use for the year 1990, and the characteristic distributions of demands for these two uses throughout the year.

(2) Agreements now in effect or as hereafter amended or supplemented between the State and the United States and others regarding the diversion or utilization of waters of the Delta or streams tributary thereto.

3. Article 1(hh) is amended to read:

(hh) **Water System Facilities**

(hh) "Water System Facilities" shall mean the following facilities to the extent that they are financed with water system revenue bonds or to the extent that other financing of such facilities is reimbursed with proceeds from water system revenue bonds:

(1) The North Bay Aqueduct,

(2) The Coastal Branch Aqueduct,

(3) Delta Facilities, including Suisun Marsh facilities, to serve the purposes of water conservation in the Delta, water supply in the Delta, transfer of water across the Delta, and mitigation of the environmental effects of project facilities, and to the extent presently authorized as project purposes, recreation and fish and wildlife enhancement,

(4) Local projects as defined in Article 1(h)(2) designed to develop no more than 25,000 acre-feet of project yield from each project,

(5) Land acquisition prior to December 31, 1995, for the Kern Fan Element of the Kern Water Bank,

(6) Additional pumps at the Banks Delta Pumping Plant,

(7) The transmission line from Midway to Wheeler Ridge Pumping Plant,

(8) Repairs, additions, and betterments to conservation or transportation facilities existing as of January 1, 1987, and to all other facilities described in this subarticle (hh) except for item (5),

(9) A project facilities corporation yard, and

(10) A project facilities operation center.

4. Article 1(jj) is added to read:

(jj) **Interruptible water**

"Interruptible water" shall mean project water available as determined by the State that is not needed for fulfilling contractors' annual entitlement deliveries as set forth in their water delivery schedules furnished pursuant to Article 12 or for meeting project operational requirements, including storage goals for the current or following years.

5. Article 1(kk) is added to read:

(kk) **Nonproject water**

"Nonproject water" shall mean water made available for delivery to contractors that is not project water as defined in Article 1(j).

6. Article 1(ll) is added to read:

(ll) "Monterey Amendments" shall mean this amendment and substantially similar amendments to other contractors' water supply contracts that include, among other provisions, the addition of Articles 51 through 56.

7. Article 4 is amended to read:

4. OPTION FOR CONTINUED SERVICE

By written notice to the State at least six (6) months prior to the expiration of the term of this contract, the Agency may elect to receive continued service after expiration of said term under the following conditions unless otherwise agreed to:

(1) Service of water in annual amounts up to and including the Agency's maximum annual entitlement hereunder.

(2) Service of water at no greater cost to the Agency than would have been the case had this contract continued in effect.

(3) Service of water under the same physical conditions of service, including time, place, amount and rate of delivery, as are provided for hereunder.

(4) Retention of the same chemical quality objective provision as is set forth herein.

(5) Retention of the same options to utilize the project transportation facilities as are provided for in Articles 18 (c) and 55, to the extent such options are then applicable.

Other terms and conditions of the continued service shall be reasonable and equitable and shall be mutually agreed upon. In the event that said terms and conditions provide for continued service for a limited number of years only, the Agency shall have the same option to receive continued service here provided for upon the expiration of that and each succeeding period of continued service.

8. Article 7(a) is amended to read:

(a) **Changes in Annual Entitlements**

The Agency may, at any time or times during the term of this contract, by timely written notice furnished to the State, request that project water be made available to it thereafter in annual amounts greater or less than the annual entitlements designated in Table A of this contract. Subject to approval by the State of any such request, the State's construction schedule shall be adjusted to the extent necessary to satisfy the request, and the requested increases or decreases in said annual entitlements shall be incorporated in said Table A by amendment thereof. Requests for changes in annual entitlements for more than one year shall be approved by the State: *Provided*, That no change shall be approved if in the judgment of the State it would impair the financial feasibility of project facilities.

9. The title of Article 12 is amended to read "Priorities, Amounts, Times and Rates of Deliveries".

10. Article 12(a)(2) is amended to read:

(2) Upon receipt of a preliminary schedule the State shall review it and, after consultation with the Agency, shall make such modifications in it as are necessary to insure the delivery of the annual quantity allocated to the Agency in accordance with Article 18 and to insure that the amounts, times, and rates of delivery to the Agency will be consistent with the State's overall delivery ability, considering the then current delivery schedules of all contractors. On or before December 1 of each year, the State shall determine and furnish to the Agency the water delivery schedule for the next succeeding year which shall show the amounts of water to be delivered to the Agency during each month of that year.

11. Article 12(d) is deleted.

12. Article 12(f) is added to read:

(f) **Priorities**

Each year water deliveries to the contractors shall be in accordance with the following priorities to the extent there are conflicts:

First, project water to meet scheduled deliveries of contractors' annual entitlements for that year.

Second, interruptible water to the extent contractors' annual entitlements for that year are not met by the first priority.

Third, project water to fulfill delivery requirements pursuant to Article 14(b).

Fourth, project water previously stored pursuant to Articles 12(e) and 56.

Fifth, nonproject water to fulfill contractors' annual entitlements for that year not met by the first two priorities.

Sixth, additional interruptible water delivered to contractors in excess of their annual entitlements for that year.

Seventh, additional nonproject water delivered to contractors in excess of their annual entitlements for that year.

13. Article 14 is amended to read:

Curtailment of Delivery

(a) **State May Curtail Deliveries**

The State may temporarily discontinue or reduce the delivery of project water to the Agency hereunder for the purposes of necessary investigation, inspection, maintenance, repair, or replacement of any of the project facilities necessary for the delivery of project water to the Agency, as well as due to outages in, or reductions in capability of, such facilities beyond the State's control or unuseability of project water due to an emergency affecting project facilities. The State shall notify the Agency as far in advance as possible of any such discontinuance or reduction, except in cases of emergency, in which case notice need not be given.

(b) **Agency May Receive Later Delivery of Water Not Delivered**

In the event of any discontinuance or reduction of delivery of project water pursuant to subdivision (a) of this article, the Agency may elect to receive the amount of annual entitlement which otherwise would have been delivered to it during such period under

the water delivery schedule for that year at other times during the year or the succeeding year to the extent that such water is then available and such election is consistent with the State's overall delivery ability, considering the then current delivery schedules of annual entitlement to all contractors.

14. Article 16(a) is amended to read:

(a) **Limit on Total of all Maximum Annual Entitlements**

The Agency's maximum annual entitlement hereunder, together with the maximum annual entitlements of all other contractors, shall aggregate no more than the minimum project yield as defined herein and in no event more than 4,185,000 acre-feet of project water.

15. Article 18 is amended to read:

18. SHORTAGE IN WATER SUPPLY

(a) **Shortages; Delivery Priorities**

In any year in which there may occur a shortage due to drought or any other cause whatsoever, in the supply of project water available for delivery to the contractors, with the result that such supply is less than the total of the annual entitlements of all contractors for that year, the State shall allocate the available supply in proportion to each contractor's annual entitlement as set forth in its Table A for that year and shall reduce the allocation of project water to each contractor using such water for agricultural purposes and to each contractor using such water for other purposes by the same percentage of their respective annual entitlements for that year: *Provided*, that the State may allocate on some other basis if such is required to meet minimum demands of

contractors for domestic supply, fire protection, or sanitation during the year. If a contractor is allocated more water than it requested, the excess water shall be reallocated among the other contractors in proportion to their annual entitlements as provided for above. The foregoing provisions of this subdivision shall be inoperative to the extent necessary to comply with subdivision (c) of this article and to the extent that a contractor's annual entitlement for the respective year reflects established rights under the area of origin statutes precluding a reduction in deliveries to such contractor.

(b) - Deleted

(c) **Permanent Shortage; Contracts for Areas-of-Origin**

In the event that the State, because of the establishment by a party of a prior right to water under the provisions of Sections 11460 through 11463 of the Water Code, enters into a contract with such party for a dependable supply of project water, which contract will cause a permanent shortage in the supply of project water to be made available to the Agency hereunder:

(1) The State shall: (i) equitably redistribute the costs of all transportation facilities included in the System among all contractors for project water, taking into account the diminution of the supply to the Agency and other prior contractors in accordance with the terms of their contracts, and (ii) revise the Agency's annual entitlements and maximum annual entitlement, by amendment of Table A of this contract to correspond to the reduced supply of project water to be made available to the Agency: *Provided*, That such redistribution of costs of transportation facilities shall not be made until there has been reasonable

opportunity for the Agency to exercise the option provided for in (2) below, and for other prior contractors to exercise similar options.

(2) The Agency, at its option, shall have the right to use any of the project transportation facilities which by reason of such permanent shortage in the supply of project water to be made available to the Agency are not required for delivery of project water to the Agency, to transport water procured by it from any other source: *Provided*, That such use shall be within the limits of the capacities provided in the project transportation facilities for service to the Agency under this contract: *Provided further*, That, except to the extent such limitation in Section 12931 of the Water Code be changed, the Agency shall not use the project transportation facilities under this option to transport water the right to which was secured by the Agency through eminent domain unless such use be approved by the Legislature by concurrent resolution with a majority of the members elected to each house voting in favor thereof. This option shall terminate upon a redistribution of costs of transportation facilities by the State pursuant to (1) above. In the event that this option is exercised, the State shall take such fact into account in making such redistribution of costs, and shall offset such use as is made of the project transportation facilities pursuant thereto against any reduction in the Agency's payment obligation hereunder resulting from such redistribution of costs.

(d) **Reinstatement of Entitlements**

If after any revision of annual entitlements and maximum annual entitlements pursuant to subdivision (c) of this article, circumstances arise which, in the judgment of the State, justify a revision upward of the same, the State shall, with the consent of the affected contractor, reinstate proportionately the previously reduced entitlements of such contractor to the extent deemed justified, and shall equitably redistribute the costs of the project transportation facilities if inequities would otherwise occur as a result of such reinstatement of entitlements.

(e) **Advance Notice of Delivery Reductions**

The State shall give the Agency written notice as far in advance as possible of any reduction in deliveries to it which is to be made under subdivision (a) of this article and, to the extent possible, shall give the Agency written notice five (5) years in advance of any reduction in its annual entitlements and maximum annual entitlement under subdivision (c) of this article. Reports submitted to the Agency pursuant to Article 16(c) may constitute such notices.

(f) **No Liability for Shortages**

Neither the State nor any of its officers, agents, or employees shall be liable for any damage, direct or indirect, arising from shortages in the amount of water to be made available for delivery to the Agency under this contract caused by drought, operation of area of origin statutes, or any other cause beyond its control.

16. Old Article 21 "Sale of Surplus Water" is deleted and replaced by new Article 21 "Interruptible Water Service" to read:

21. Interruptible Water Service

(a) **Allocation of Interruptible Water**

Each year from water sources available to the project, the State shall make available and allocate interruptible water to contractors in accordance with the procedure in Article 18(a). Allocations of interruptible water in any one year may not be carried over for delivery in a subsequent year, nor shall the delivery of interruptible water in any year impact a contractor's approved deliveries of annual entitlement or the contractor's allocation of water for the next year. Deliveries of interruptible water in excess of a contractor's annual entitlement may be made if the deliveries do not adversely affect the State's delivery of annual entitlement to other contractors or adversely affect project operations. Any amounts of water owed to the Agency as of the date of this amendment pursuant to former Article 12(d), any contract provisions or letter agreements relating to wet weather water, and any Article 14(b) balances accumulated prior to 1995, are canceled. The State shall hereafter use its best efforts, in a manner that causes no adverse impacts upon other contractors or the project, to avoid adverse economic impacts due to a contractor's inability to take water during wet weather.

(b) **Rates**

For any interruptible water delivered pursuant to this article, contractors shall pay the State the same (including adjustments) for power resources (including on-aqueduct,

off-aqueduct, and any other power) incurred in the transportation of such water as if such interruptible water were entitlement water, as well as all incremental operation, maintenance, and replacement costs, and any other incremental costs, as determined by the State. The State shall not include any administrative or contract preparation charge. Incremental costs shall mean those nonpower costs which would not be incurred if interruptible water were not scheduled for or delivered to the contractor. Only those contractors not participating in the repayment of the capital costs of a reach shall be required to pay any use of facilities charge for the delivery of interruptible water through that reach.

(c) **Contracts**

To obtain a supply of interruptible water, a contractor shall execute a further contract with the State which shall be in conformity with this article and shall include at least provisions concerning the scheduling of deliveries of interruptible water and times and methods of payment.

17. Article 22(j) is amended to read:

(j) Notwithstanding provisions of Article 22(a) through (i), the capital cost component and the minimum OMP&R component of the Delta Water Charge shall include an annual charge to recover the Agency's share of the conservation portion of the water system revenue bond financing costs. Charges to the Agency for these costs shall be calculated in accordance with provisions in Article 50 of this contract. Charges for the conservation portion of the water system revenue bond financing costs shall not be affected by any reductions in payments pursuant to Article 51.

18. The first paragraph of Article 24(b) is amended to read:

(b) In the first step, the total amount of capital costs of each aqueduct reach to be returned to the State shall be allocated among all contractors entitled to delivery of project water from or through the reach by the proportionate use of facilities method of cost allocation and in accordance with (1) and (2) below. The measure of the proportionate use of each contractor of each reach shall be the average of the following two ratios: (i) the ratio of the contractor's maximum annual entitlement to be delivered from or through the reach to the total of the maximum annual entitlements of all contractors to be delivered from or through the reach from the year in which charges are to be paid through the end of the project repayment period and (ii) the ratio of the capacity provided in the reach for the transport and delivery of project water to the contractor to the total capacity provided in the reach for the transport and delivery of project water to all contractors served from or through the reach from the year in which charges are to be paid through the end of the project repayment period. Allocations of capital costs to the Agency pursuant hereto shall be on the basis of relevant values which will be set forth in Table B of this contract by the State as soon as designs and cost estimates are prepared by it subsequent to receipt of requests from the Agency as to the maximum monthly delivery capability to be provided in each aqueduct reach of the project transportation facilities for the transport and delivery of project water to the Agency, pursuant to Article 17(a): *Provided*, That these values shall be subject to redetermination by the State in accordance with Article 28: *Provided further*, That the principles and procedures set forth in this

subdivision shall be controlling as to allocations of capital costs to the Agency. Proportionate use of facilities factors for prior years shall not be adjusted by the State in response to changes or transfers of entitlement among contractors unless otherwise agreed by the State and the parties to the transfer and unless there is no impact on past charges or credits of other contractors.

19. Article 24(g) is amended to read:

(g) Notwithstanding provisions of Article 24(a) through (d), the capital cost component of the Transportation Charge shall include an annual charge to recover the Agency's share of the transportation portion of the water system revenue bond financing costs. Charges to the Agency for these costs shall be calculated in accordance with the provisions of Article 50 of this contract. Charges for the transportation portion of the water system revenue bond financing costs shall not be affected by any reductions in payments pursuant to Article 51.

20. Article 25(d)(3) is amended to read:

(3) An interim adjustment in the allocation of the power costs calculated in accordance with (2) above, may be made in May of each year based on April revisions in approved schedules of deliveries of project and nonproject water for contractors for such year. A further adjustment shall be made in the following year based on actual deliveries of project and nonproject water for contractors provided, however, in the event no deliveries are made through a pumping plant, the adjustments shall not be made for that year at that plant.

21. Article 50(j) is added to read:

(j) Amounts payable under this article shall not be affected by any reductions in payments pursuant to Article 51.

22. Article 51 is added to read:

51. FINANCIAL ADJUSTMENTS

(a) **General Operating Account**

(1) The State shall maintain a General Operating Account to provide the moneys needed to pay obligations incurred by the State of the types described in Water Code sections 12937(b)(1) and (2) in the event of emergency or cash flow shortages.

(2) An initial deposit of $15 million shall be made available from revenue bond reserves that are no longer required by revenue bond covenants and that would otherwise be credited to the contractors including the Agency. In 1998 or when the funds become available an additional $7.7 million will be deposited in the General Operating Account from revenue bond reserves that are no longer required by revenue bond covenants and that would otherwise be credited to the contractors including the Agency, bringing the deposits to that account under this article to $22.7 million.

(3) The balance in the General Operating Account will increase pursuant to subdivision (e)(3)(v) of this article to an amount determined by the State but not in excess of $32 million. However, after the year 2001, the maximum amount of the fund may increase or decrease annually by not more than the same percentage as the increase or decrease in the charges, other than power charges for pumping water, to all the contractors for the previous year from

the charges for the year before that for obligations under subdivisions (c)(2)(ii) and (iii) of this article.

(b) **State Water Facilities Capital Account**

(1) The State shall establish a State Water Facilities Capital Account to be funded from revenues available under Water Code section 12937(b)(4). Through procedures described in this article and as limited by this article, the State may consider as a revenue need under subdivision (c)(2)(v) of this article and may deposit in the State Water Facilities Capital Account the amounts necessary to pay capital costs of the State Water Facilities for which neither general obligation bond nor revenue bond proceeds are available, including but not limited to planning, reconnaissance and feasibility studies, the San Joaquin Valley Drainage Program and, through the year 2000, the CALFED Bay-Delta Program.

(2) The Director of the Department of Water Resources shall fully consult with the contractors and consider any advice given prior to depositing funds into this account for any purposes. Deposits into this account shall not exceed the amounts specified in subdivision (c)(2)(v) of this article plus any amounts determined pursuant to subdivision (e)(1)(iii) of this article.

(3) The State shall use revenue bonds or other sources of moneys rather than this account to finance the costs of construction of any major capital projects.

(c) **Calculation of Financial Needs**

(1) Each year the State shall calculate in accordance with the timing provisions of Articles 29 and 31 the amounts that would have been charged (but for this article) to each contractor as provided in other provisions of this contract.

(2) Each year the State shall also establish its revenue needs for the following year for the following purposes, subject to the following limitations:

(i) The amount required to be collected under the provisions of this contract, other than this article, with respect to all revenue bonds issued by the State for Project Facilities.

(ii) The amount required for payment of the reasonable costs of the annual maintenance and operation of the State Water Resources Development System and the replacement of any parts thereof as described in Water Code section 12937(b)(1). These costs shall not include operation and maintenance costs of any Federal Central Valley Project facilities constructed by the United States and acquired by the State of California after 1994, other than the State's share of the joint use facilities which include San Luis Reservoir, the San Luis Canal and related facilities.

(iii) The amount required for payment of the principal of and interest on the bonds issued pursuant to the Burns-Porter Act as described in Water Code section 12937(b)(2).

(iv) Any amount required for transfer to the California Water Fund in reimbursement as described in Water Code section 12937(b)(3) for funds utilized from said fund for construction of the State Water Resources Development System.

(v) For the years 1998 and thereafter, the amount needed for deposits into the State Water Facilities Capital Account as provided in subdivision (b) of this article, but (A) not more than $6 million per year for the years 1998, 1999 and 2000, and (B) not more than $4.5 million per year for the years 2001 and thereafter.

(3) Subject to the provisions of subdivision (e) of this article, the State shall reduce the annual charges in the aggregate for all contractors by the amounts by which the hypothetical charges calculated pursuant to subdivision (c)(1) above exceed the revenue needs determined pursuant to subdivision (c)(2) above. The reductions under this article shall be apportioned among the contractors as provided in subdivisions (d), (e), (f) and (g) of this article. Reductions to contractors shall be used to reduce the payments due from the contractors on each January 1 and July 1; *Provided*, however, that to the extent required pursuant to subdivision (h) of this article, each Agricultural Contractor shall pay to the Agricultural Rate Management Trust Fund an amount equal to the reduction allocated to such Agricultural Contractor. Any default in payment to the trust fund shall be subject to the same remedies as any default in payment to the State under this contract.

(4) The State may submit a supplemental billing to the Agency for the year in an amount not to exceed the amount of the prior reductions for such year under this article if necessary to meet unanticipated costs for purposes identified in Water Code section 12937(b)(1) and (2) for which the State can issue billings under other provisions of this contract. Any supplemental billing made to the Agency for these purposes shall be in the same proportion to the total supplemental billings to all contractors for these purposes as the prior reduction in charges to the Agency in that year bears to the total reductions in charges to all contractors in that year and shall be treated as reducing the amount of the reduction made available for that year to the Agency by the amount of the supplemental bill to the Agency.

(5) The State may also submit a supplemental billing to the Agency for the year if necessary to meet unanticipated costs for revenue bond debt service and coverage for which the State can issue a statement of charges under provisions of this contract other than this article. The relative amounts of any supplemental billing made to the Agency and to other contractors for revenue bond purposes shall be governed by such other applicable provisions of this contract.

(6) Payment of any supplemental billing shall be due thirty days after the date of the invoice. Delinquency and interest on delinquent amounts due shall be governed by Article 32.

(d) **Apportionment of Reductions between Agricultural and Urban Contractors**

(1) Reductions available under this article are projected to begin to occur in 1997. The numbers and percentages in this subdivision reflect certain estimates of dollars and sharing of reductions. The actual reductions may vary slightly from the amounts described below. The State shall determine the availability of reductions for each year in accordance with this article.

(2) Reductions shall be phased in as follows:

(i) In 1997 reductions in the amount of $14 million are projected to be available and shall be applied as follows: the first $10 million of reductions shall be apportioned among the Agricultural Contractors, and the remaining reductions shall be apportioned among the Urban Contractors.

(ii) In 1998 reductions in the amount of $17 million are projected to be available and shall be applied as follows: the first $10 million of reductions shall be apportioned among the

Agricultural Contractors, and the remaining reductions shall be apportioned among the Urban Contractors.

(iii) In 1999 reductions in the amount of $32 million are projected to be available and shall be applied as follows: the first $10 million of reductions shall be apportioned among the Agricultural Contractors, and the remaining reductions shall be apportioned among the Urban Contractors.

(iv) In 2000 reductions in the amount of $33 million are projected to be available and shall be applied as follows: the first $10 million of reductions shall be apportioned among the Agricultural Contractors, and the remaining reductions shall be apportioned among the Urban Contractors.

(3)(i) In the event that the aggregate amount of reductions in any of the years 1997 through 2000 is less than the respective amount projected for such year in subdivision (d)(2) above, the shortfall shall be taken first from reductions that would have been provided to Urban Contractors. Only after all reductions to Urban Contractors have been eliminated in a given year shall the remaining shortfall be taken from reductions scheduled for Agricultural Contractors. Any projected reductions not made available due to such shortfalls in the years 1997 through 2000 shall be deferred with interest at the project interest rate to the earliest subsequent years when reductions in excess of those projected for those years are available. Such deferred reductions with interest at the project interest rate shall be applied to the charges of the contractors whose reductions have been deferred.

(ii) In the event that the aggregate amount of reductions available in any of the years 1997 through 2000 is

greater than the sum of (A) the respective amount projected for such year in subdivision (d)(2) above, plus (B) the amount of any shortfall with accrued interest at the project interest rate, remaining from any prior year to be applied, the excess shall be applied for the purposes and in the amounts per year described in subdivisions (e)(3)(iii), (iv), (v) and (vi) of this article, in that order.

(4) In 2001 and in each succeeding year reductions equal to or in excess of $40.5 million are projected to be available and shall be applied as follows:

(i) If reductions are available in an amount that equals or exceeds $40.5 million, $10 million of reductions shall be apportioned among the Agricultural Contractors, and $30.5 million of reductions shall be apportioned among the Urban Contractors. If reductions are available in an amount greater than $40.5 million, the excess shall be applied as provided in subdivision (e)(3) of this article, subject however to subdivision (e)(1).

(ii) If reductions are available in an amount less than $40.5 million in any of these years, the reductions shall be divided on a 24.7% - 75.3% basis between the Agricultural Contractors and the Urban Contractors respectively. Any such reductions not made due to shortages shall be applied without interest in the next year in which reductions in an amount in excess of $40.5 million are available pursuant to subdivision (e)(3) of this article with any remainder that is not available carried over without interest to be applied in the earliest subsequent years when reductions in excess of $40.5 million are available.

(5) Annual charges to a contractor shall only be reduced prospectively from and after the date it executes the Monterey Amendment to this contract. Apportionments of reductions shall be calculated on the assumption that all contractors have executed such amendment.

(e) **Review of Financial Requirements**

(1) In 2001 and every fifth year thereafter the Director of the Department of Water Resources, in full consultation with the contractors, will review the financial requirements of the State Water Resources Development System and determine the following:

(i) The amount of revenues that are needed for State Water Resources Development System purposes in addition to those needed for the purposes specified in subdivisions (c)(2)(i), (ii), (iii), and (iv) of this article;

(ii) If the aggregate amount that would have been charged to all contractors in any year but for this article exceeds the sum of (A) the amount of revenues needed for the purposes specified in subdivisions (c)(2)(i), (ii), (iii) and (iv), plus (B) $40.5 million, plus (C) the amount determined pursuant to subdivision (c)(2)(v) of this article, the amount of such excess.

(iii) The amount of the excess determined in subdivision (e)(1)(ii) above that should be collected by the State for additional State Water Resources Development System purposes and the amount of such excess that should be used for further annual charge reductions.

(2) After making the determinations required above, the State may collect the revenues for additional State Water Resources

Development System purposes in the amount determined pursuant to subdivision (e)(1)(iii) above.

(3) If and to the extent that as a result of such determinations, the aggregate amount to be charged to contractors is to be reduced by more than $40.5 million per year, the following priorities and limitations shall apply with respect to the application of such additional reductions:

(i) First, reductions shall be allocated to make up shortfalls in reductions from those projected for the years 1997 through 2000 with interest at the project interest rate pursuant to subdivision (d)(3)(i).

(ii) Second, reductions shall be allocated to make up shortfalls in reductions from those projected for the years beginning with 2001 without interest pursuant to subdivision (d)(4)(ii).

(iii) Third, additional reductions in the amount of $2 million per year shall be apportioned among the Urban Contractors until a total of $19.3 million in such additional reductions have been so applied.

(iv) Fourth, reductions up to an additional $2 million per year shall be allocated to make up any shortfalls in the annual reductions provided for in subdivision (e)(3)(iii).

(v) Fifth, $2 million per year shall be charged and collected by the State and deposited in the General Operating Account to bring the account ultimately up to an amount determined by the State but not in excess of $32 million with adjustments as provided in subdivision (a) of this article. Any amount in the

account in excess of this requirement shall be returned to general project revenues.

(vi) Sixth, remaining amounts if any shall be used for reductions divided on a 24.7% - 75.3% basis between the Agricultural Contractors and the Urban Contractors respectively.

(f) **Apportionment of Reductions among Urban Contractors.** Reductions in annual charges apportioned to Urban Contractors under subdivisions (d) and (e) of this article shall be further allocated among Urban Contractors pursuant to this subdivision. The amount of reduction of annual charges for each Urban Contractor shall be based on each Urban Contractor's proportionate share of total allocated capital costs as calculated below, for both project conservation and project transportation facilities, repaid by all Urban Contractors over the project repayment period.

(1) The conservation capital cost component of the reduction allocation shall be apportioned on the basis of maximum annual entitlement. Each Urban Contractor's proportionate share shall be the same as the percentage of that contractor's maximum annual entitlement to the total of all Urban Contractors' maximum annual entitlements.

(2) The transportation capital cost component of the reduction allocation shall be apportioned on the basis of transportation capital cost component repayment obligations, including interest over the project repayment period. Each Urban Contractor's proportionate share shall be the same as the percentage that the contractor's total transportation capital cost component repayment obligation is of the total of all Urban Contractors' transportation capital cost component repayment obligations.

(i) Recalculations shall be made annually through the year 1999. Beginning in the year 2000 recalculations shall be made every five years unless an Urban Contractor requests a recalculation for an interim year and does so by a request in writing delivered to the Department by January 1 of the year in which the recalculation is to take place.

(ii) The transportation capital cost component repayment obligations, for purposes of this Article 51(f), shall be based in the year of recalculation on the then most recent Department of Water Resources Bulletin 132, Table B-15, "Capital Cost Component of Transportation Charge for Each Contractor," or its equivalent, excluding any costs or entitlement associated with transfers of entitlement from Agricultural Contractors pursuant to Article 53.

(3) To reflect the relative proportion of the conservation capital cost component and the transportation capital cost component to the total of all capital cost repayment obligations, the two cost components shall be weighted as follows:

(i) The conservation capital cost component shall be weighted with a thirty percent (30%) factor. The weighting shall be accomplished by multiplying each Urban Contractor's percentage of maximum annual entitlements as calculated in subdivision (f)(1) of this article by thirty percent (30%).

(ii) The transportation capital cost component shall be weighted with a seventy percent (70%) factor. The weighting shall be accomplished by multiplying each Urban Contractor's percentage of transportation capital cost component repayment obligations as

calculated in subdivision (f)(2) of this article by seventy percent (70%).

(iii) A total, weighted capital cost percentage shall be calculated for each Urban Contractor by adding the weighted conservation capital cost component percentage to their weighted transportation capital cost component percentage.

(4) The total amount of the annual charges to be reduced to Urban Contractors in each year shall be allocated among them by multiplying the total amount of annual charges to be reduced to the Urban Contractors by the total, weighted capital cost percentages for each such contractor. If the amount of the reduction to an Urban Contractor is in excess of that contractor's payment obligation to the Department for that year, such excess shall be reallocated among the other Urban Contractors.

(5) In the case of a permanent transfer of urban entitlement, the proportionate share of annual charge reductions associated with that entitlement shall be transferred with the entitlement to the buying contractor. In the case of an entitlement transfer by either Santa Barbara County Flood Control and Water Conservation District or San Luis Obispo County Flood Control and Water Conservation District, the reductions in annual charges to that agency shall be allocated (a) on the basis of that entitlement being retained by that agency which bears Coastal Branch Phase II transportation costs, (b) on the basis of that entitlement being retained by that agency which does not bear Coastal Branch Phase II transportation costs, and (c) on the basis of the balance of that agency's entitlement which also does not bear Coastal Branch Phase II transportation costs.

(g) **Apportionment of Reductions Among Agricultural Contractors**

(1) Reductions in annual charges apportioned to Agricultural Contractors under subdivisions (d) and (e) of this article shall be allocated among the Agricultural Contractors pursuant to this subdivision. The amount of reduction of annual charges for each Agricultural Contractor for the years 1997 through 2001 shall be based on each Agricultural Contractor's estimated proportionate share of the total project costs, excluding the variable operation, maintenance, power and replacement components of the Delta Water Charge and the Transportation Charge and also excluding off-aqueduct power charges, to be paid by all Agricultural Contractors for the years 1997 through 2035, calculated without taking into account this article. For purposes of these calculations, Kern County Water Agency's and Dudley Ridge Water District's estimated project costs shall not include any costs associated with the 45,000 acre-feet of annual entitlement being relinquished by those contractors pursuant to subdivision (i) of Article 53. Also, for purposes of these calculations, an Agricultural Contractor's estimated project costs shall not be reduced by the transfer of any of the 130,000 acre-feet of annual entitlements provided for in subdivisions (a) through (i) of Article 53. The proportionate shares for 1997 through 2001 shall be calculated as follows:

(i) Each Agricultural Contractor's statement of charges received on July 1, 1994, shall be the initial basis for calculating the proportionate shares for the five years 1997 through 2001.

(ii) Each Agricultural Contractor's estimated capital and minimum components of the Delta Water Charge and the

Transportation Charge (excluding off-aqueduct power charges) and Water Revenue Bond Surcharge shall be totaled for the years 1997 through 2035.

(iii) Kern County Water Agency and Dudley Ridge Water District totaled costs shall be reduced for the 45,000 acre-feet of annual entitlement being relinquished by them.

(iv) Any reductions in an Agricultural Contractor's totaled costs resulting from the transfer of any of the 130,000 acre-feet of annual entitlement shall be re-added to that contractor's costs.

(v) Each Agricultural Contractor's proportionate share shall be computed by dividing that contractor's total costs by the total costs for all Agricultural Contractors determined pursuant to subparagraphs (ii), (iii) and (iv) above.

(2) The reductions in annual charges, for 1997 through 2001, shall be calculated using the method described in subdivision (g)(1) of this article.

(3) The allocation shall be recalculated using the same method described in subdivision (g)(1) of this article every five years beginning in 2002, if any Agricultural Contractor requests such a recalculation. Any recalculation shall be based on project cost data beginning with the year that the recalculation is to become effective through 2035.

(h) **Agricultural Rate Management Trust Fund**

(1) **Establishment.** Through a trust agreement executed contemporaneously with this amendment, the State and the Agricultural Contractors that sign the Monterey Amendments shall

establish the Agricultural Rate Management Trust Fund with a mutually agreed independent trustee.

(2) **Separate Accounts.** The trustee shall maintain within the trust fund a separate account for each Agricultural Contractor that signs the trust agreement to hold deposits made pursuant to this article.

(3) **Deposits.** Each Agricultural Contractor that signs the trust agreement shall deposit into such contractor's account within the trust fund, at the same time as payments would otherwise be required by this contract to be made to the State, an amount equal to the amount by which such contractor's charges under this contract have been reduced by reason of this article, until the balance in such contractor's account within the trust fund is the same percentage of $150,000,000 as such contractor's percentage share of reductions made available to all Agricultural Contractors as specified in subdivision (g) of this article. In 2002 and every fifth year thereafter, the Agricultural Contractors will review the maximum accumulation in the trust fund (the "Cap") and determine whether the cap should be adjusted. However, the Cap shall not be reduced below an aggregate of $150,000,000 for all Agricultural Contractor accounts.

(4) **Trust Fund Disbursements.**

(i) In any year in which the State's allocation of water to an Agricultural Contractor by April 15th of that year is less than one-hundred percent (100%) of the contractor's requested annual entitlement for that year, the trustee shall, to the extent there are funds in that contractor's account, distribute to the State from such account for the benefit of that contractor an amount equal to

the percentage of the total of that contractor's statement of charges for that year, as redetermined by the State on or about May 15th of that year, for (a) the Delta Water Charge; (b) the capital cost and minimum operation, maintenance, power and replacement components of the Transportation Charge (including off-aqueduct power charges); and (c) the water system revenue bond surcharge, that is equal to the percentage of that contractor's annual entitlement for that year that was not allocated to it by the State by April 15th of that year.

(ii) In addition to the provisions of subdivision (h)(4)(i) of this article, if on April 15 of any year any of the irrigable land within the Tulare Lake Basin Water Storage District (Tulare) is flooded, and Tulare in writing requests the trustee to do so, the trustee shall, to the extent there are funds in Tulare's account, distribute to the State from such account for the benefit of Tulare an amount equal to the percentage of the total of Tulare's statement of charges for that year, as redetermined by the State on or about May 15th of that year, for (a) the Delta Water Charge; (b) the capital cost and minimum components of the Transportation Charge (including off-aqueduct power charges); and (c) the water system revenue bond surcharge, that is equal to the percentage of the irrigable land within Tulare that is flooded on April 15.

(iii) Each Agricultural Contractor shall remain obligated to make payments to the State as required by other articles in this contract. Any amount to be disbursed pursuant to subdivisions (h)(4)(i) and (h)(4)(ii) shall be paid by the trustee to the State on July 1 of the year involved and shall be credited by the State toward any amounts owed by such respective Agricultural

Contractor to the State as of that date. However, an Agricultural Contractor may direct the trustee to make the disbursement to that Agricultural Contractor which shall in turn make the payment to the State as required by other provisions of this contract. If the amount to be disbursed exceeds the amount owed to the State by such contractor as of July 1, the excess shall be disbursed by the Trustee to the State at the time of and in payment of future obligations owed to the State by such contractor. Alternatively, upon the request of such contractor, all or part of the excess shall be paid by the trustee to that contractor in reimbursement of prior payments by the contractor to the State for that year.

(5) **Payment of Supplemental Bills.** In any year in which a supplemental bill has been submitted to an Agricultural Contractor pursuant to subdivision (c)(4) of this article, such supplemental bill shall be treated as reducing by an equal amount the obligation of such contractor for that year to make payments into the Agricultural Rate Management Trust Fund. To the extent that such contractor has already made payments to the trust fund in an amount in excess of such contractor's reduced trust fund payment obligation, such contractor may request the trustee to use the excess from the trust fund to pay the supplemental bill.

(6) **Discharge of Payment Obligation.** Each payment to the State by the trust fund shall discharge and satisfy the Agricultural Contractor's obligation to pay the amount of such payment to the State. No reimbursement of the trust fund by the Agricultural Contractor for such payments shall be required. However, each Agricultural Contractor shall continue to make deposits to the trust fund matching the amount of each year's reductions as provided in

subdivision (d) of this article so long as the amount in that contractor's account is less than its share of the Cap.

(7) **Distribution of Funds in Excess of the Cap.** Whenever accumulated funds (including interest) in an Agricultural Contractor's account in the trust fund exceed that contractor's share of the Cap, or the estimated remaining payments the contractor is required to make to the State prior to the end of the project repayment period, that contractor may direct the trustee to pay such excess to the contractor.

(8) **Termination of Trust Fund.** At the end of the project repayment period, the Agricultural Rate Management Trust Fund shall be terminated and any balances remaining in the accounts for each of the Agricultural Contractors shall be disbursed to the respective Agricultural Contractors.

(i) **Definitions.** For the purposes of this article, the following definitions will apply:

(1) "Agricultural Contractor" shall mean the following agencies as they now exist or in any reorganized form:

(i) County of Kings,

(ii) Dudley Ridge Water District,

(iii) Empire West Side Irrigation District,

(iv) Kern County Water Agency for 993,300 acre-feet of its entitlement,

(v) Oak Flat Water District,

(vi) Tulare Lake Basin Water Storage District.

(2) "Urban Contractor" shall mean every other agency having a long term water supply contract with the State as they exist as of the date of this amendment or in any reorganized form as well as

Kern County Water Agency for 119,600 acre-feet of its entitlement.

(j) Except as provided in subdivisions (c)(4) and (c)(5), this article shall not be interpreted to result in any greater State authority to charge the contractors than exists under provisions of this contract other than this article.

23. Article 52 is added to read:

52. KERN WATER BANK

(a) The State shall convey to the Kern County Water Agency (KCWA) in accordance with the terms set forth in the agreement between the State of California Department of Water Resources and Kern County Water Agency entitled "Agreement for the Exchange of the Kern Fan Element of the Kern Water Bank" (the Kern Water Bank Contract), the real and personal property described therein.

(b) Subject to the approval of KCWA, other contractors may be provided access to and use of the property conveyed to KCWA by the Kern Water Bank Contract for water storage and recovery. Fifty percent (50%) of any project water remaining in storage on December 31, 1995, from the 1990 Berrenda Mesa Demonstration Program and the La Hacienda Water Purchase Program shall be transferred to KCWA pursuant to the Kern Water Bank Contract. The remaining fifty percent (50%) of any such water (approximately 42,828.5 acre-feet) shall remain as project water and the State's recovery of such project water shall be pursuant to the provisions of a separate recovery contract. Any other Kern Water Bank demonstration program water shall remain as project water and the State's recovery of such water shall be pursuant to the provisions of the respective contracts for implementation of such demonstration programs.

24. Article 53 is added to read:

53. PERMANENT TRANSFERS AND REDUCTIONS OF ENTITLEMENT

(a) Article 41 provides that no assignment or transfer of a contract or any part thereof, rights thereunder or interest therein by a contractor shall be valid unless and until it is approved by the State and made subject to such reasonable terms and conditions as the State may impose. In accordance with State policy to assist water transfers, the State and the County of Kings, Dudley Ridge Water District (DRWD), Empire West Side Irrigation District, Kern County Water Agency (KCWA), Oak Flat Water District and Tulare Lake Basin Water Storage District (for the purposes of this article the "Agricultural Contractors") shall, subject to the conditions set forth in this article, expeditiously execute any necessary documents and approve all contracts between willing buyers and willing sellers until permanent transfers totaling 130,000 acre-feet of annual entitlements of the Agricultural Contractors and, to the extent provided in such contracts, rights in project transportation facilities related to such annual entitlement have been made to other contractors (the "Urban Contractors") or noncontractors in accordance with the provisions of this article. Such approval requirement shall apply to all contracts executed prior to January 1, 2011. KCWA shall be responsible for approval of such transfers for any portion of the 130,000 acre-feet not previously made available under this article by the other Agricultural Contractors. A contract between a willing buyer and a willing seller shall mean a contract between (1) a buyer which is an Urban Contractor or, to the extent provided in subdivision (e) of this article, a noncontractor and (2) a seller which is an Agricultural Contractor

or a public entity which obtains project water from an Agricultural Contractor.

(b) The State shall not be obligated to approve any transfer of annual entitlements if in its judgment the transfer would impair the security of the State's bondholders and the State may impose conditions on any transfer as necessary to make the delivery of the water operationally feasible and to assure that the transportation costs associated with the transferred entitlement are fully repaid. Transfers not approved by the State shall not be considered as part of the 130,000 acre-feet of annual entitlements provided for in this article.

(c) KCWA member units shall have 90 days to exercise a right of first refusal to purchase any annual entitlements being offered for sale to Urban Contractors by another KCWA member unit pursuant to this article, other than those annual entitlements made available to Urban Contractors by subdivision (d) of this article, by agreeing to pay the same price offered by the buyer. Any such sales to KCWA member units exercising such right of first refusal shall not be considered a part of the 130,000 acre-feet of annual entitlements provided for in this article.

(d) Any permanent transfers of annual entitlements by Agricultural Contractors to noncontractors, including transfers to KCWA urban member units or to KCWA's Improvement District Number 4, other than transfers pursuant to subdivision (c) of this article, will be considered a part of the 130,000 acre-feet of annual entitlements provided for in this article if the Urban Contractors have been given a right of first refusal to purchase such annual

entitlements as well as transportation rights in accordance with the following terms and procedure:

(1) The Agricultural Contractor shall provide the State a copy of a bona fide contract or Proposed Contract (the "Proposed Contract") and the State shall, within five working days of receipt, provide copies of such Proposed Contract to all Urban Contractors together with a Notice of Proposed Contract stating the date on or before which a Notice of Intent to Exercise a Right of First Refusal (NOI) must be delivered to both the State and the seller, which date shall be 90 days from the date the State mails the Notice of Proposed Contract.

(2) The Proposed Contract shall provide for the transfer of rights in project transportation facilities sufficient to deliver to the seller's service area in any one month eleven percent (11%) of the annual entitlement being transferred or such greater amount as the seller determines to sell; *Provided*, however, that sellers shall not be obligated to sell any transportation rights in the Coastal Aqueduct.

(3) To exercise the right of first refusal, an Urban Contractor shall deliver to the State and the seller its NOI within the time period stated in the Notice of Proposed Contract and shall proceed in good faith to try to complete the transfer to the Urban Contractor. If two or more Urban Contractors deliver NOI's to the State, the amount of annual entitlement and transportation rights being sold shall be allocated among those Urban Contractors that are prepared to perform the purchase by the Performance Date provided for herein in proportion to their maximum annual entitlements, or in another manner acceptable to the Urban Contractors delivering the

NOIs. An offer by an Urban Contractor in its NOI to purchase less than the entire annual entitlement and transportation right being transferred shall not be deemed to be an effective exercise of the right of first refusal unless other Urban Contractors submit NOIs to purchase the remainder of the annual entitlement and transportation right or the noncontractor buyer agrees to purchase the remainder at the same unit price and on the same terms and conditions provided for in the Proposed Contract. The Performance Date shall be the date upon which the Urban Contractor is prepared to perform the purchase, which date shall be the later of: (1) 180 days after the delivery of the NOI or (2) the date set forth in the Proposed Contract for the noncontractor buyer to perform the purchase.

The Performance Date shall be extended at the request of the Urban Contractor if a temporary restraining order or preliminary injunction is in effect as a result of a lawsuit challenging the execution of the contract on the basis of noncompliance with the California Environmental Quality Act. Such extensions shall continue until five days after the temporary restraining order or injunction expires or until the Urban Contractor requests it be discontinued, whichever occurs first. The Urban Contractor shall be liable for any damages suffered by the seller as a result of such extensions of the Performance Date.

(4) If the seller and the noncontractor buyer under the Proposed Contract make any substantive changes in the Proposed Contract, such changes shall constitute a new Proposed Contract that cannot be performed without compliance with all of the procedures set forth in this article.

(5) If an Urban Contractor issuing a NOI fails to complete its exercise of the Right of First Refusal by the Performance Date, the seller shall be free to sell its entitlement in substantial conformance with the terms and conditions set forth in the Proposed Contract . An Urban Contractor issuing a NOI may assign its rights to exercise a right of first refusal to another Urban Contractor and the assignee shall have the same rights as the assignor to complete the purchase by the Performance Date.

(6) In exercising the Right of First Refusal, an Urban Contractor, at its option, may either agree to perform the Proposed Contract in its entirety, including all of its terms and conditions, or agree to pay the price offered under the Proposed Contract for the annual entitlement and transportation rights without condition and without being entitled to enforce or being subject to any other provisions of the Proposed Contract.

(e) As used in this article, "price" shall mean the dollar amount of consideration provided for in the Proposed Contract.

(f) Upon the effective date of any such transfer, the seller shall be relieved of and the buyer shall become liable to the State for all prospective Delta Water Charges, the related Transportation Charges and any other charges for the annual entitlements and associated transportation rights transferred unless the seller and buyer provide otherwise in the contract for the transfer and the State approves such other provisions. However, the contractor making the sale shall remain obligated to the State to make the payments if the buyer defaults on its payments to the State related to the water transferred and is not a party to a long term water supply contract of the type contained in Department of Water

Resources Bulletin Number 141. If the contractor making the sale is required to make any payments to the State as a result of the buyer's default, the entitlement transferred to the defaulting buyer shall, if provided for in the Proposed Contract, revert back to the contractor making the sale. The buyer may also be liable for any charges imposed pursuant to subdivision (g) of this article.

(g) A contractor which is a buyer of annual entitlement pursuant to this article may receive deliveries using any portion of the capacity previously provided by the State in each reach of the project transportation facilities for such contractor that is necessary for transporting the entitlement purchased by it on the same basis as any other entitlement provided for in its Table A in effect prior to the date of the Monterey Amendment. Such contractor may also use any transportation rights transferred to it by a seller in the same manner as the seller was entitled to use them and any unused capacity in any of the reaches specified in this paragraph so long as project operations and/or priority of service of water to other contractors participating in repayment of capital costs in such reaches is not adversely affected. The State shall not be responsible for any resulting adverse impacts upon its ability to provide such contractor peaking capacity. The capital cost and minimum, operation, maintenance, power and replacement components of the Transportation Charge allocated to a buying contractor needing transportation capacity in excess of the capacity factors on which its charges are based in any reach shall be determined prospectively based upon the increase in the buying contractor's annual entitlement resulting from the purchase, and service of water to fulfill annual entitlement to other contractors shall not be

impaired. The capital cost and minimum operation, maintenance, power and replacement components of the Transportation Charges shall then be reallocated among the other entities participating in repayment of costs of that reach. For the purposes of this determination, all payments received by the State from the seller relating to the annual entitlement sold shall be deemed to have been received from the buying contractor. Any increased Transportation minimum operation, maintenance, power and replacement component charges allocated to the buying contractor pursuant to this subdivision (g) shall begin January 1 of the year following the effective date of the transfer.

(h) Individual contractors may transfer entitlements among themselves in amounts in addition to those otherwise provided for in this article. The State shall expeditiously execute any necessary documents and approve all contracts involving permanent sales of entitlements among contractors, including permanent sales among Urban Contractors. Such sales shall be subject to the provisions of subdivisions (b), (f) and (g) of this article; *Provided*, however, that for a buying contractor needing transportation capacity in excess of the capacity factors on which its charges are based in any reach, reallocation of the Transportation capital cost component charges for transfers other than (i) the 130,000 acre-feet provided for in this article and (ii) the approximate 33,000 acre-feet of transfers proposed from contractors located in Santa Barbara or San Luis Obispo counties, shall be determined both prospectively and retroactively.

(i) On January 1 following the year in which such Monterey Amendments take effect and continuing every year thereafter until

the end of the project repayment period: (i) Kern County Water Agency's (KCWA) annual entitlement for agricultural use as currently designated in Table A-1 of its contract shall be decreased by 40,670 acre-feet; (ii) Dudley Ridge Water District's (DRWD) annual entitlement as currently designated in Table A of its contract shall be decreased by 4,330 acre-feet; and (iii) the State's prospective charges (including any adjustments for past costs) for the 45,000 acre-feet of annual entitlements to be relinquished by KCWA and DRWD thereafter shall be deemed to be costs of project conservation facilities and included in the Delta Water Charge for all contractors in accordance with the provisions of Article 22. If by November 20, 1995 and each October 1 thereafter until the Monterey Amendments of both KCWA and DRWD take effect, KCWA and DRWD at their option notify the State in writing that they will relinquish up to their shares of 45,000 acre-feet of annual entitlements for the following calendar year beginning before the Monterey Amendments take effect, the State, when and if the Monterey Amendments take effect, shall adjust the charges retroactively for the acre-feet relinquished by KCWA and DRWD to January 1 of each year for which water was relinquished. The delivery points for the 45,000 acre-feet of annual entitlement to be relinquished shall be identified for the State by KCWA and DRWD to enable the State to calculate the transportation costs for the 45,000 acre-feet to be included in the Delta Water Charge.

25. Article 54 is added to read:

54. Usage of Lakes Castaic and Perris

(a) The State shall permit the contractors participating in repayment of the capital costs of Castaic Lake (Reach 30) and Lake Perris (Reach 28J) to withdraw water from their respective service connections in amounts in excess of deliveries approved pursuant to other provisions of the state water contracts. Each such contractor shall be permitted to withdraw up to a Maximum Allocation from the reach in which it is participating. The contractors participating in repayment of Castaic Lake may withdraw a collective Maximum Allocation up to 160,000 acre-feet pursuant to this article, which shall be apportioned among them pursuant to the respective proportionate use factors from the Department of Water Resources' Bulletin 132-94, Table B-1 upon which capital cost repayment obligations are based, as follows:

Castaic Lake

Participating Contractor	**Proportionate Use Factor**	**Maximum Allocation (Acre Feet)**
The Metropolitan Water District of Southern California	0.96212388	153,940
Ventura County Flood Control and Water Conservation District	0.00860328	1,376
Castaic Lake Water Agency	0.02927284	4,684
Total	**1.00000000**	**160,000**

The Metropolitan Water District of Southern California, as the only contractor participating in repayment of Lake Perris, shall be allocated a Maximum Allocation at Lake Perris of 65,000 acre-feet based upon a proportionate use factor of 1.00000000.

The Maximum Allocation totals of 160,000 acre-feet and 65,000 acre-feet shall not be subject to adjustment. The individual contractor's Maximum Allocations shall be adjusted only as agreed to among the contractors desiring to adjust their Maximum Allocations. Adjustments between the contractors shall be subject to approval of the State which approval shall be given unless there are adverse impacts upon another contractor participating in the reach which are unacceptable to such contractor. The participating contractors will, in consultation with the State, cooperate with each other in an effort to promote efficient utilization of Castaic Lake, and to minimize any adverse impacts to each other, through coordination of deliveries pursuant to other provisions of the State Water Contract as well as withdrawals of allocations pursuant to this article.

(b) The State shall operate Castaic and Perris Reservoirs as transportation facilities in a manner consistent with this article. A contractor desiring to withdraw a portion or all of its Maximum Allocation shall furnish the State with a proposed delivery schedule. The proposed schedule may be submitted as part of the preliminary water delivery schedule submitted pursuant to Article 12(a)(1). Upon receipt of a schedule the State shall promptly review it to ensure that the amounts, times and rates of delivery will be consistent with the State's ability to operate the reach. The contractor may modify its proposed

delivery schedule at any time, and the modified schedule shall be subject to review in the same manner. If necessary, the State may modify the schedule after consultation with the contractor and other contractors participating in repayment of that reach but may not change the total quantity of water to be withdrawn. As part of the consultation, the State shall advise a contractor if it determines a withdrawal will adversely impact the rate of delivery provided for the contractor in this contract. The State shall not be responsible for any such impacts.

(c) A contractor may withdraw all or a portion of its Maximum Allocation. It shall restore any withdrawn portion of such allocation by furnishing an equivalent amount of replacement water to the reservoir from which the water was withdrawn within five years from the year in which the withdrawal takes place. The unused portion of the allocation, in addition to any replacement water furnished to the reservoir, shall remain available for subsequent withdrawal. The State shall keep an accounting of the contractor's storage withdrawals and replacements. In any year, the State shall permit a contractor to withdraw an amount equivalent to the contractor's Maximum Allocation minus remaining replacement water requirements due to previous withdrawals. If the contractor fails to schedule and replace the withdrawn water within the five-year return period, the State shall provide the replacement water from water scheduled for delivery to the contractor in the sixth year or as soon as possible thereafter. The total amount of scheduled annual entitlement which a contractor can use in any one year for restoring its Maximum Allocation and storing water in surface storage facilities

outside of its service area pursuant to Article 56 shall be the sum of the maximum amount the contractor can add to storage that year pursuant to Article 56 and the amount of acre-feet shown in column 2 of the following table, depending on the State's final water supply allocation percentage as shown in column 1.

1. Final Water Supply Allocation Percentage	2. Maximum Acre-Feet of Scheduled Entitlement for Restoring Maximum Allocation*
50% or less	100,000
51%	98,000
52%	96,000
53%	94,000
54%	92,000
55%	90,000
56%	88,000
57%	86,000
58%	84,000
59%	82,000
60%	80,000
61%	78,000
62%	76,000
63%	74,000
64%	72,000
65%	70,000
66%	68,000
67%	66,000
68%	64,000
69%	62,000
70%	60,000
71%	58,000
72%	56,000
73%	54,000
74%	52,000
75 to 99%	50,000
100%	no limit

* Excludes the maximum amount that can be added to storage in a year pursuant to Article 56, which may be used in addition to the amounts in this table to restore Maximum Allocation.

A contractor may use any of this total amount for replacement water but cannot use any more than that provided for in Article 56 to add to storage in project surface conservation facilities and in nonproject surface storage facilities. There shall be no limit under this article on the amount of scheduled annual entitlement a contractor can use to restore its Maximum Allocation in a year when its percentage of annual water supply allocation is one-hundred percent (100%), nor shall there be any limit under this article on the amount of interruptible water, nonproject water or water obtained through an exchange which a contractor can use to restore its Maximum Allocation.

(d) For any replacement water furnished to reservoir storage pursuant to this article, the responsible contractor shall pay the State charges for the conservation, if any, and transportation of such replacement water as are associated with the type of replacement water that is furnished, as if such water were delivered to the turnout at the reservoir to which the replacement water is furnished. Adjustments from estimated to actual costs shall be subject to provisions applicable to the type of replacement water. The State shall not charge contractors for water withdrawn pursuant to this article.

(e) The State shall operate capacity in Castaic and Perris Reservoirs, not required for purposes of Maximum Allocation deliveries, in compliance with the requirement of Article 17(b) of The Metropolitan Water District of Southern California's water supply contract with the State to maintain an amount of water reasonably sufficient to meet emergency requirements of the contractors participating in repayment of that reach. A

contractor receiving water pursuant to this article accepts that the State shall not be liable for any damage, direct or indirect, arising from shortages in the amount of water to be made available from that reservoir to meet the contractor's actual emergency requirements as a result of prior storage withdrawals by that contractor pursuant to this article. Nothing in this article shall permit or require the State to adjust allocations or deliveries under Article 18.

(f) To the extent a contractor, during a calendar year, uses all or a portion of its Maximum Allocation, the State may, to the extent necessary to service project purposes, reduce that contractor's requested peaking service. Such reduction in peaking service shall only occur to the extent such usage of Maximum Allocation causes the State to be unable to provide all peaking service requested. This paragraph shall not apply to the extent the contractor requested usage of Maximum Allocation as part of the preliminary water delivery schedule submitted pursuant to Article 12(a)(1).

(g) The State may reduce water stored in Castaic Lake and Lake Perris to the extent necessary for maintenance and to respond to emergencies resulting from failure of project transportation facilities or of other supply importation facilities serving the State project service area. The State shall promptly replace water within the Maximum Allocation as soon as the need for the reduction terminates.

26. Article 55 is added to read:

55. Transportation of Nonproject Water

(a) Subject to the delivery priorities in Article 12(f), contractors shall have the right to receive services from any of the project transportation facilities to transport water procured by them from nonproject sources for delivery to their service areas and to interim storage outside their service areas for later transport and delivery to their service areas: *Provided,* that except to the extent such limitation in Section 12931 of the Water Code be changed, a contractor shall not use the project transportation facilities under this option to transport water the right to which was secured by the contractor through eminent domain unless such use be approved by the Legislature by concurrent resolution with the majority of the members elected to each house voting in favor thereof.

(b) For any nonproject water delivered pursuant to this article, contractors shall pay the State the same (including adjustments) for power resources (including on-aqueduct, off-aqueduct, and any other power) incurred in the conservation and transportation of such water as if such nonproject water were entitlement water, as well as all incremental operation, maintenance, and replacement costs, and any other incremental costs, which may include an administrative or contract preparation charge, all as determined by the State. Incremental costs shall mean those nonpower costs which would not be incurred if nonproject water were not scheduled for or delivered to contractors. Only those contractors not participating in the repayment of a reach shall be required to pay a use of facilities

charge for the delivery of nonproject water from or through that reach. Costs for transporting water placed into interim storage shall be paid in the same manner provided for in subdivision (c)(6) of Article 56.

(c) The amounts, times and rates of delivery of nonproject water shall be provided for pursuant to a water delivery schedule to be issued in the same manner as provided for in Article 12. The costs specified in this article shall be paid for at the same time the corresponding project water costs are paid.

27. Article 56 is added to read:

56. Use, Storage and Sale of Project Water Outside of Service Area and Storage of Water in Project Surface Conservation Facilities

(a) **State Consent to Use of Project Water Outside of Service Area**

Notwithstanding the provisions of Article 15(a), the State hereby consents to the Agency storing project water outside its service area for later use within its service area in accordance with the provisions of subdivision (c) of this article and to the Agency selling project water for use outside its service area in accordance with the provisions of subdivision (d) of this article.

(b) **Groundwater Storage Programs**

The Agency shall cooperate with other contractors in the development and establishment of groundwater storage programs.

(c) **Storage of Project Water Outside of Service Area**

(1) A contractor may elect to store project water outside its service area for later use within its service area, up to the

limits and in accordance with the provisions provided for in this subdivision (c) and any applicable water right laws, by setting forth on the preliminary water delivery schedule submitted to the State on or before October 1 of each year pursuant to Article 12(a) the quantity of project water it wishes to store in the next succeeding year. There shall be no limit on the amount of project water a contractor can store outside its service area during any year in a then existing and operational groundwater storage program. The amount of project water a contractor can add to storage in project surface conservation facilities and in nonproject surface storage facilities located outside the contractor's service area each year shall be limited to the lesser of the percent of the contractor's Table A annual entitlement shown in column 2 or the acre-feet shown in column 3 of the following table, depending on the State's final water supply allocation percentage as shown in column 1. However, there shall be no limit to storage in nonproject facilities in a year in which the State's final water supply allocation percentage is one hundred percent. These limits shall not apply to water stored pursuant to Article 12(e).

1. Final Water Supply Allocation Percentage	2. Maximum Percent of Agency's Annual Entitlement That Can be Stored	3. Maximum Acre-Feet That Can be Stored
50% or less	25%	100,000
51%	26%	104,000
52%	27%	108,000
53%	28%	112,000
54%	29%	116,000
55%	30%	120,000
56%	31%	124,000
57%	32%	128,000
58%	33%	132,000
59%	34%	136,000
60%	35%	140,000
61%	36%	144,000
62%	37%	148,000
63%	38%	152,000
64%	39%	156,000
65%	40%	160,000
66%	41%	164,000
67%	42%	168,000
68%	43%	172,000
69%	44%	176,000
70%	45%	180,000
71%	46%	184,000
72%	47%	188,000
73%	48%	192,000
74%	49%	196,000
75% or more	50%	200,000

(2) Storage capacity in project surface conservation facilities at any time in excess of that needed for project operations shall be made available to requesting contractors for storage of project and nonproject water. If such storage requests exceed the available storage capacity, the available capacity shall be allocated among contractors requesting storage in proportion to their annual entitlements designated in their Table A's for that year. A contractor may store water in excess of its allocated share of capacity as long as capacity is available for such storage.

(3) If the State determines that a reallocation of excess storage capacity is needed as a result of project operations or because of the exercise of a contractor's storage right, the available capacity shall be reallocated among contractors requesting storage in proportion to their annual entitlements designated in their Table A's for that year. If such reallocation results in the need to displace water from the storage balance for any contractor or noncontractor, the water to be displaced shall be displaced in the following order of priority:

First, water, if any, stored for noncontractors.

Second, water stored for a contractor that previously was in excess of that contractor's allocation of storage capacity.

Third, water stored for a contractor that previously was within that contractor's allocated storage capacity.

The State shall give as much notice as feasible of a potential displacement.

(4) Any contractor electing to store project water outside its service area pursuant to this subdivision may not sell project water under the provisions of subdivision (d) of this article during the year in which it elected to store project water. This limitation shall not apply to replacement water furnished to Castaic and Perris Reservoirs pursuant to Article 54, nor to the storage of water introduced into a groundwater basin outside a contractor's service area if recovery is intended to occur within that contractor's service area.

(5) The restrictions on storage of project water outside a contractor's service area provided for in this subdivision (c), shall not apply to storage in any project offstream storage facilities constructed south of the Delta after the date of this amendment.

(6) For any project water stored outside its service area pursuant to this subdivision (c), a contractor shall pay the State the same (including adjustments) for power resources (including on-aqueduct, off-aqueduct, and any other power) incurred in the transportation of such water as the contractor pays for the transportation of annual entitlement to the reach of the project transportation facility from which the water is delivered to storage. If annual entitlement is stored, the Delta Water Charge shall be charged only in the year of delivery to interim storage. For any stored water returned to a project transportation facility for final delivery to its service area, the contractor shall pay the State the same for power resources (including on-aqueduct, off-aqueduct, and any other power) incurred in the transportation of such water calculated from the

point of return to the aqueduct to the turn-out in the contractor's service area. In addition, the contractor shall pay all incremental operation, maintenance, and replacement costs, and any other incremental costs, as determined by the State, which shall not include any administrative or contract preparation charge. Incremental costs shall mean those nonpower costs which would not be incurred if such water were scheduled for or delivered to the contractor's service area instead of to interim storage outside the service area. Only those contractors not participating in the repayment of a reach shall be required to pay a use of facilities charge for use of a reach for the delivery of water to, or return of water from, interim storage.

(7) A contractor electing to store project water in a nonproject facility within the service area of another contractor shall execute a contract with that other contractor prior to storing such water which shall be in conformity with this article and will include at least provisions concerning the point of delivery and the time and method for transporting such water.

(d) **Sale of Project Water For Use Outside Service Area**

(1) If in any year a contractor has been allocated annual entitlement that it will not use within its service area, the contractor has not elected to store project water in accordance with the provisions of subdivision (c) of this article during that year, and the contractor has not elected to carry over entitlement water from the prior year pursuant to the provisions of Article 12(e), the contractor may sell such annual entitlement for use outside its service area in accordance with the following provisions.

(2) Each year the State shall establish an annual entitlement water pool (the Pool) for contractors wishing to sell or buy project water pursuant to the provisions of this subdivision. The Pool shall constitute the exclusive means of selling portions of annual entitlements not desired by contractors that year. Contractors willing to sell to or buy water from the Pool shall notify the State in writing of their desire to do so indicating the quantity to be sold or purchased. Contractors shall have the first priority to purchase all water placed in the Pool. The State may purchase any water remaining in the Pool not purchased by contractors at the same price available to contractors and use such water for the purpose of providing additional carryover storage for contractors: *Provided*, that the State shall consult with the contractors prior to making any such purchases.

(3) Each year, the price per acre-foot to be paid by the State to contractors selling water placed in the Pool on or before February 15 that is purchased by a contractor requesting such purchase by March 1 or by the State on March 1 shall be equal to fifty percent (50%) of the Delta water rate as of that date. The price per acre-foot to be paid to the State for the purchase of water from the Pool by a contractor placing a request for such purchase on or before March 1 shall be equal to fifty percent (50%) of the Delta water rate as of that date. Any water placed in the Pool on or before February 15 that is not purchased by contractors or the State by March 1 may be withdrawn from the Pool by the selling contractor.

(4) Each year the price per acre-foot to be paid by the State to contractors selling water remaining in the Pool or placed in the Pool after February 15, but on or before March 15 that is purchased by a contractor requesting such purchase by April 1 or by the State on April 1 shall be equal to twenty-five percent (25%) of the Delta water rate as of that date. The price per acre-foot to be paid to the State for the purchase of water from the Pool by a contractor placing a request for such purchase between March 2 and April 1 shall be equal to twenty-five percent (25%) of the Delta water rate as of the later date. Any water placed in the Pool on or before March 15 that is not purchased by a contractor or the State by April 1 may be withdrawn from the Pool by the selling contractor.

(5) If there are more requests from contractors to purchase water from the Pool than the amount in the Pool, the water in the Pool shall be allocated among those contractors requesting such water in proportion to their annual entitlements for that year up to the amount of their requests. If requests to purchase water from the Pool total less than the amount of water in the Pool, the sale of Pool water shall be allocated among the contractors selling such water in proportion to their respective amounts of water in the Pool.

(6) Any water remaining in the Pool after April 1 that is not withdrawn by the selling contractor shall be offered by the State to contractors and noncontractors and sold to the highest bidder: *Provided*, that if the highest bidder is a noncontractor, all contractors shall be allowed fifteen days to exercise a right of first refusal to purchase such water at the price offered by

the noncontractor. The price to be paid to the selling contractor shall be the amount paid by the buyer exclusive of the amount to be paid by the buyer to the State pursuant to subdivision (d)(7) of this article.

(7) For any water delivered from the Pool to contractors, the buyer shall pay the State the same for power resources (including on-aqueduct, off-aqueduct, and any other power) incurred in the transportation of such water as if such water were entitlement water, as well as all incremental operation, maintenance, and replacement costs, and any other incremental costs, as determined by the State, which shall not include any administrative or contract preparation charge. Incremental costs shall mean those nonpower costs which would not be incurred if such water were not scheduled for or delivered to the buyer. Only those buyers not participating in the repayment of a reach shall be required to pay any use of facilities charge for the delivery of such water from or through the reach. Adjustments from estimated to actual costs shall be computed by the State pursuant to these provisions and shall be paid by the buyer or credited to the buyer at the times and interest rates described in Article 28(c).

(e) **Continuance of Article 12(e) Carry-over Provisions**

The provisions of this article are in addition to the provisions of Article 12(e), and nothing in this article shall be construed to modify or amend the provisions of Article 12(e). Any contractor electing to sell project water during any year in accordance with the provisions of subdivision (d) of this article, shall not be precluded from using the provisions of

Article 12(e) for carrying over water from the last three months of that year into the first three months of the succeeding year.

(f) **Bona Fide Exchanges Permitted**

Nothing in this article shall be deemed to prevent the Agency from entering into bona fide exchanges of project water for use outside the Agency's service area with other parties for project water or nonproject water if the State consents to the use of the project water outside the Agency's service area. Also, nothing in this article shall be deemed to prevent the Agency from continuing those exchange or sale arrangements entered into prior to September 1, 1995, which had previously received any required State approvals. A "bona fide exchange" shall mean an exchange of water involving a contractor and another party where the primary consideration for one party furnishing water to another is the return of a substantially similar amount of water, after giving due consideration to the timing or other nonfinancial conditions of the return. Reasonable payment for costs incurred in effectuating the exchange and reasonable deductions from water delivered, based on expected storage or transportation losses may be made. A "bona fide exchange" shall not include a transfer of water from one contractor to another party involving a significant payment unrelated to costs incurred in effectuating the exchange. The State, in consultation with the contractors, shall have authority to determine whether transfers of water constitute "bona fide exchanges" within the meaning of this paragraph and not disguised sales.

(g) **Other Transfers**

Nothing in this article shall be deemed to modify or amend the provisions of Article 15(a), or Article 41, except as expressly provided for in subdivisions (c) and (d) of this article.

28. All balances of wet weather and Article 12(d) water otherwise available to any contractor executing the Monterey Amendment shall be eliminated as of the effective date of such amendment and no new balances for such water shall be established.

29. **Effective Dates and Phase-in.**

(a) No Monterey Amendment to any contractor's water supply contract shall take effect unless and until both of the following have occurred (1) the Monterey Amendments to both the Kern County Water Agency's and The Metropolitan Water District of Southern California's contracts have been executed and no legal challenge has been filed within sixty days of such execution or, if filed, a final judgment of a court of competent jurisdiction has been entered sustaining or validating said amendments; and (2) the State has conveyed the property which constitutes the Kern Fan Element of the Kern Water Bank to Kern County Water Agency pursuant to the Kern Water Bank Contact provided for in Article 52 either on or before October 1, 1996 or, if the conveyance on such date has been prevented by an interim court order, within ninety days after such court order has become ineffective so long as said ninety days expires not later than January 1, 2000. The

October 1, 1996 date and the January 1, 2000 date may be extended by unanimous agreement of the State, Kern County Water Agency and The Metropolitan Water District of Southern California.

(b) The State shall administer the water supply contracts of any contractors that do not execute the Monterey Amendment so that such contractors are not affected adversely or to the extent feasible beneficially by the Monterey Amendments of other contractors' water supply contracts.

(c) If a court of competent jurisdiction issues a final judgment or order determining that any part of a contractor's Monterey Amendment is invalid or unenforceable, all provisions of that amendment shall be of no force or effect as to such contractor, except as provided in subdivisions (e) and (f) of this paragraph.

(d) If any part of the Monterey Amendment of the Kern County Water Agency's or The Metropolitan Water District of Southern California's contracts or if the conveyance of the Kern Fan Element of the Kern Water Bank to the Kern County Water Agency provided for in Article 52 is determined by a court of competent jurisdiction in a final judgment or order to be invalid or unenforceable, the Monterey Amendments of all contractors and the Kern Water Bank Contract shall be of no force and effect except as provided in subdivisions (e) and (f) of this paragraph.

(e) Notwithstanding subdivisions (c), (d) and (f) of this paragraph, if any part of the Monterey Amendment of the Kern County Water Agency's or The Metropolitan Water District of Southern California's contract is determined by a court of competent jurisdiction in a final judgment or order to be invalid

or unenforceable, and if Articles 52 and 53 (i) have been implemented (i.e., the property which constitutes the Kern Fan Element of the Kern Water Bank has been conveyed by the State and the 45,000 acre-feet of annual entitlements have been relinquished to the State), the implementation of the relinquishment shall not be reversed unless the implementation of the conveyance is also reversed, and conversely, implementation of the conveyance shall not be reversed unless implementation of the relinquishment is also reversed. Nothing in this subdivision shall affect any party's right to seek additional damages, compensation or any other remedy available at law or in equity.

(f) The total invalidity or unenforceability of one contractor's Monterey Amendment as provided for in subdivision (c) of this paragraph or of all contractor's Monterey Amendments as provided for in subdivision (d) of this paragraph or of the Kern Water Bank Contract as provided for in subdivision (d) of this paragraph may be avoided only if such invalidity or unenforceability is explicitly waived in writing signed by the State, Kern County Water Agency and The Metropolitan Water

District of Southern California. In cases arising under subdivision (c) or (d), the affected contractor whose Monterey Amendment has been determined to be partially invalid or unenforceable must first request the waiver.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment on the date first above written.

Approved as to legal form and sufficiency

Susan N. Weber
Chief Counsel
Department of Water Resources

ATTEST:

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STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

Director

CRESTLINE-LAKE ARROWHEAD WATER AGENCY

Raymond B. Rucker
RAYMOND B. RUCKER, PRESIDENT OF THE BOARD OF DIRECTORS

ATTEST: Dorothy E. Horton
DOROTHY E. HORTON, SECRETARY OF THE BOARD OF DIRECTORS

State of California
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

AMENDMENT NO. 18 TO THE WATER SUPPLY CONTRACT
BETWEEN
THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES
AND
CRESTLINE-LAKE ARROWHEAD WATER AGENCY

This Amendment is made this 28th day of May, 2003, pursuant to the provisions of the California Water Resources Development Bond Act, the Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, hereinafter referred to as the "State," and Crestline-Lake Arrowhead Water Agency , hereinafter referred to as the "Agency."

RECITALS

A. The State and the Agency entered into and subsequently amended a water supply contract (the "contract") providing that the State shall supply certain quantities of water to the Agency and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payments.

B. On December 1, 1994, the State and representatives of certain State Water Project contractors executed a document entitled "Monterey Agreement – Statement of Principles – By The State Water Contractors And The State Of

California Department Of Water Resources For Potential Amendments To The State Water Supply Contracts" (the "Monterey Agreement").

C. The State, the Central Coast Water Authority ("CCWA") and those contractors intending to be subject to the Monterey Agreement subsequently negotiated an amendment to their contracts to implement provisions of the Monterey Agreement, and such amendment was named the "Monterey Amendment."

D. In October 1995, an environmental impact report ("EIR") for the Monterey Amendment was completed and certified by CCWA as the lead agency, and thereafter the Agency and the State executed the Monterey Amendment.

E. The EIR certified by the CCWA was challenged by several parties (the "Plaintiffs") in the Sacramento County Superior Court and thereafter in the Third District Court of Appeal, resulting in a decision in Planning and Conservation League, et al. v. Department of Water Resources, 83 Cal.App.4th 892 (2000), which case is hereinafter referred to as "PCL v. DWR."

F. In its decision, the Court of Appeal held that (i) the Department of Water Resources ("DWR"), not CCWA, had the statutory duty to serve as lead agency, (ii) the trial court erred by finding CCWA's EIR sufficient despite its failure to discuss implementation of Article 18, subdivision (b) of the State Water Project contracts, as a no-project alternative, (iii) said errors mandate preparation of a

new EIR under the direction of DWR, and (iv) the trial court erroneously dismissed the challenge to DWR's transfer of title to certain lands to Kern County Water Agency (the "Validation Cause of Action") and execution of amended State Water Project contracts for failure to name and serve indispensable parties. The Court of Appeal remanded the case to the trial court, ordering it to take the following five actions: (1) vacate the trial court's grant of the motion for summary adjudication of the Validation Cause of Action; (2) issue a writ of mandate vacating the certification of the EIR; (3) determine the amount of attorney fees to be awarded Plaintiffs; (4) consider such orders it deems appropriate under Public Resources Code Section 21168.9(a) consistent with the views expressed in the Appellate Court's opinion; and (5) retain jurisdiction over the action until DWR, as lead agency, certifies an environmental impact report in accordance with CEQA standards and procedures, and the Superior Court determines that such environmental impact report meets the substantive requirements of CEQA.

G. The State, the contractors, and the Plaintiffs in PCL v. DWR reached an agreement to settle PCL v. DWR, as documented by that certain Settlement Agreement dated MAY 05 2003, 2003 (the "Settlement Agreement"), and in such Settlement Agreement have agreed that the contracts should be amended, for clarification purposes, to delete terms such as "annual entitlement" and "maximum annual entitlement" so that the public, and particularly land use planning agencies, will better understand the contracts.

H. Pursuant to the Settlement Agreement, the State and the Agency desire to so amend the Agency's contract, with the understanding and intent that the amendments herein with respect to subsections (k), (l), and (m) of Article 1, subsection (b) of Article 6, and subsection (a) of Article 16, and to Table A of the Agency's contract are solely for clarification purposes and that such amendments are not intended to and do not in any way change the rights, obligations or limitations on liability of the State or the Agency established by or set forth in the contract.

I. Pursuant to the Settlement Agreement, the State, the contractors and the Plaintiffs in PCL v. DWR also agreed that the contracts should be amended to include a new Article 58 addressing the determination of dependable annual supply of State Water Project water to be made available by existing Project facilities, and the State and Agency desire to so amend the Agency's contract.

NOW THEREFORE, IT IS MUTUALLY AGREED, as follows:

1. Article 1(l) is amended to read:

(l) Annual Table A Amount

"Annual Table A Amount" shall mean the amount of project water set forth in Table A of this contract that the State, pursuant to the obligations of this contract and applicable law, makes available for delivery to the Agency at the delivery structures provided for the Agency. The term Annual Table A Amount shall not be interpreted to mean that in each year the State will be able to make that

quantity of project water available to the Agency. The Annual Table A Amounts and the terms of this contract reflect an expectation that under certain conditions the Agency will receive its full Annual Table A Amount; but that under other conditions only a lesser amount, allocated in accordance with this contract, may be made available to the Agency. This recognition that full Annual Table A Amounts will not be deliverable under all conditions does not change the obligations of the State under this contract, including but not limited to, the obligations to make all reasonable efforts to complete the project facilities, to perfect and protect water rights, and to allocate among contractors the supply available in any year, as set forth in Articles 6(b), 6(c), 16(b) and 18, in the manner and subject to the terms and conditions of those articles and this contract. Where the term "annual entitlement" appears elsewhere in this contract, it shall mean "Annual Table A Amount." The State agrees that in future amendments to this and other contractor's contracts, in lieu of the term "annual entitlement," the term "Annual Table A Amount" will be used and will have the same meaning as "annual entitlement" wherever that term is used.

2. Article 1(m) is amended to read:

(m) Maximum Annual Table A Amount

"Maximum annual entitlement" shall mean the maximum annual amounts set forth in Table A of this contract, and where the term "maximum annual entitlement" appears elsewhere in this contract it shall mean "Maximum Annual Table A Amounts."

3. Article 1(k) is amended to read:

(k) Minimum Project Yield

"Minimum project yield" shall mean the dependable annual supply of project water to be made available assuming completion of the initial project conservation facilities and additional project conservation facilities. The project's capability of providing the minimum project yield shall be determined by the State on the basis of coordinated operations studies of initial project conservation facilities and additional project conservation facilities, which studies shall be based upon factors including but not limited to: (1) the estimated relative proportion of deliveries for agricultural use to deliveries for municipal use assuming Maximum Annual Table A Amounts for all contractors and the characteristic distributions of demands for these two uses throughout the year; and (2) agreements now in effect or as hereafter amended or supplemented between the State and the United States and others regarding the division of utilization of waters of the Delta or streams tributary thereto.

4. Article 6(b) is amended to read:

(b) Agency's Annual Table A Amounts

Commencing with the year of initial water delivery to the Agency, the State each year shall make available for delivery to the Agency the amounts of project water

designated in Table A of this contract, which amounts shall be subject to change as provided for in Article 7(a) and are referred to in this contract as the Agency's Annual Table A Amounts.

5. Article 16(a) is amended to read:

(a) Limit on Total of all Maximum Annual Table A Amounts

The Agency's Maximum Annual Table A Amount hereunder, together with the maximum Table A amounts of all other contractors, shall aggregate no more than 4,185,000 acre-feet of project water.

6. Article 57 is intentionally left blank for future use.

7. Article 58 is added to read:

58. Determination of Dependable Annual Supply of Project Water to be Made Available by Existing Project Facilities.

In order to provide current information regarding the delivery capability of existing project conservation facilities, commencing in 2003 and every two years thereafter the State shall prepare and mail a report to all contractors, and all California city, county, and regional planning departments and agencies within the contractors' project service areas. This report will set forth, under a range of hydrologic conditions, estimates of overall delivery capability of the existing project facilities and of supply availability to each contractor in accordance with other provisions of the contractors' contracts. The range of hydrologic conditions shall include the delivery capability in the driest year of record, the average over the historic

extended dry cycle and the average over the long-term. The biennial report will also include, for each of the ten years immediately preceding the report, the total amount of project water delivered to all contractors and the amount of project water delivered to each contractor.

8. Add the following language at the bottom of Table A:

In any year, the amounts designated in this Table A shall not be interpreted to mean that the State is able to deliver those amounts in all years. Article 58 describes the State's process for providing current information for project delivery capability.

9. Except for Article 58, the changes made by this amendment are solely for clarification purposes, and are not intended to nor do they in any way change the rights, obligations or limitations on liability of the State or the Agency established by or set forth in the contract, and this amendment shall be interpreted in accordance with this intent.

10. At the time of execution of this Agreement and thereafter, the effectiveness of this Amendment is dependent upon the effectiveness of the Agency's Monterey Amendment (all provisions therein) and the Kern Fan Element Transaction.

IN WITNESS WHEREOF, the parties hereto have executed this amendment on the date first above written.

Approved as to legal form
and sufficiency:

Chief Counsel
Department of Water Resources

STATE OF CALIFORNIA
DEPARTMENT OF WATER
RESOURCES

Director

CRESTLINE-LAKE ARROWHEAD WATER
AGENCY

Name James J. McCrory

President, Board of Directors
Title