

Contract Extension Matrix of Offers and Proposals ¹					
Objective	DWR Initial Proposal May 1, 2013	SWP Contractors Initial Offer May, 1 2013	SWP Contractors Second Offer June 26, 2013	DWR Counter-Proposal July 10, 2013	SWP Contractors Third Offer August 7, 2013
Objective 1	Objective 1	Objective 1	Objective 1	Objective 1	Objective 1
Ensure DWR can finance SWP expenditures beyond 2035.	1. Extend the term of the Contract from 2035 to 2075 (40 years).	1. Extend the term of the Contract to 2110 (75 years).	1. Extend the term of the Contract to 2110 (75 years).		1. Extend the term of the Contract from 2035 to 2110 (75 years).
			2. Eliminate the Contract Term Ending with the Latest Maturity Date of Any Bond Issued.		
SWP Contractors Objective 2		SWP Contractors Objective 2			
To ensure that DWR can finance SWP expenditures beyond 2035 no later than December 31, 2014.		1. Expedite negotiations and CEQA compliance to ensure timely completion of the CEQA process.			
Objective 2a	Objective 2a		Objective 2a	Objective 2a	Objective 2a
Maintain an appropriate level of reserves and funds to meet State Water Project purposes.	1. 120 days/\$200 million GOA reserve. Adjust based on cash flow needs.		1. Increase GOA to \$60 million in reserves, for cash flow deficiencies resulting from a chargeable water supply purpose.	1. 90 days/\$150 million GOA, to ensure cash flow for SWP Obligations, cover shortages due to the two-year billing cycle, for costs not anticipated or cannot be billed in accordance with need due to contract language, and emergencies for any SWRDS purpose.	1.1 Contingent on milestones for phased increases in GOA funding levels, increase GOA from \$22.7 million to \$150 million pursuant to 51(e). 1.2 GOA to be a fixed dollar amount independent from a financial policy based on days of operation within SWRDS. 1.3 Funding source for pre-2035 adjustments to the GOA fixed funding level will be 51(e) revenues. 1.4 Funding source for post-2035 adjustments to the GOA fixed funding level will be investment earnings from SRA.

¹ This matrix is intended to summarize key negotiation topics and is not meant as an exhaustive treatment of any single offer or proposal. Light gray indicates common topics; dark gray indicates common concepts within a single objective (usually carried forward to subsequent offers/proposals); bold type indicates concepts that have been “parked” by DWR and SWP Contractors.

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	2.1 Change the 51(e) priorities, making the increase to the GOA first priority after rate management.		2.1 GOA superior in priority to SWRDS purposes and subordinate to rate reductions under 51(e).	2.1 Change the 51(e) priorities, making the increase to the GOA first priority after rate management.	2.1 GOA Funding priority established by the post-Monterey flow of funds would be modified to establish GOA funding subordinate to rate reductions under 51(e).
	2.2 Authorize GOA to be used for any cash flow deficiencies for chargeable water supply purposes, including capital, within SWRDS.		2.2 Authorize GOA to be used for any cash flow deficiencies for chargeable water supply purposes within SWRDS.	2.2 Authorize the GOA to be used for any cash flow deficiencies chargeable to the water supply purposes within SWRDS; except in the case of emergencies where it can be used for any SWRDS purpose.	2.2 Authorize GOA to be used for any cash-flow deficiencies and/or emergencies resulting from a changeable water supply purpose within the SWRDS.
			2.3 Eliminate restricted GOA annual funding rate of \$2 million allowing funding to \$60 million cap from excess revenues.	2.3 Eliminate the GOA rate of funding per year (\$2 million) to any amount of Systems Revenue cash flow until the proposed level is achieved.	2.3 Change the GOA fixed funding rate of \$2 million annually to any amount of available revenues determined in 51(e) subject to scheduled funding increases set out in the contract provisions and authorized maximum GOA funding level.
			3. Increase Contractors rate management credits to \$48 million.		3. Post-2035, eliminate Annual Rate Reductions authorized under 51(e)(1)(iii). (See SWP Contractors Third Offer, Objective 2b)
			4. Eliminate the 30-day grace period (estimated to be equivalent to \$40 million).	4. Eliminate the 30-day grace period (estimated to be equivalent to \$30 million).	4. Retain 30-day grace period authorized under 32(b).
			5. Authorize supplemental billing up to \$48 million.	5.1 Replenishment of the GOA will occur through the normal billing process or in an expedited manner, mutually agreed upon by DWR and the	5.1 Authorize replenishment of GOA through normal statement of charges pursuant to 29(e), under billing component that represents

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				Contractors. 5.2 DWR shall have the ability to issue revised/supplemental billings in the event of a cash flow shortage caused by an emergency or crisis. 5.3 Emergency draws will be billed to SWP Contractors and other project beneficiaries.	costs incurred which triggered cash-flow event requiring use of GOA. 5.2 Retain supplemental billing provisions authorized under 51(c)4.
			6 Authorize SWRDS to Refund GOA Investment Earnings.	6. Interest earnings on the GOA shall be retained in the account or used to meet lawful SWRDS purposes, including transfer to the SWRDS Support Account per Objective 2b.	6. Authorize SWRDS to refund Contractors the annual GOA investment earnings.
			7. GOA dependent on management policies and administrative measures (financial organization, reporting, annual financial plan, best business practices, oversight and policy).	7. Financial management discussed outside the Contract Extension process.	7.1 Enhance the fiscal policies and administrative measures for the consolidated and comprehensive financial management of the SWRDS. 7.2 Phase 1: SWRDS General Manager, COO and CFO by 12/31/2014 will have authority over SOW/budgets across all Divisions funded by SWRDS. 7.3 Phase 2: By June 30, 2015, establish SWRDS Financial Committee, with DWR and SWP Contractor representatives (including 80 percent of Table A Contractors). Chair elected by DWR Director and SWP Contractor majority. Timely development/ implementation of work plan. Financial guidance on policies, goals and

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					budgets. Near-term blueprint for consolidating and leveraging current tools to provide financial/managerial information by June 30, 2015. 7.4 Phase 3: Work plan complete December 2015. . Phase 4: Work plan implementation by December 2017.
				8. Periodic Review and Adjustment prepared by DWR every five years in consultation with the Contractors. Increases in the GOA will be billed to Contractors, decreases will be refunded to the Contractors.	8. Initial GOA funding is \$50 million. GOA funding increases tied to financial management enhancements: <ul style="list-style-type: none"> • Phase 1: \$10 M/ \$ 60 M total. • Phase 2: \$10 M/ \$70 M total. • Phase 3: \$30 M/\$100 M total. • Phase 4: \$50 M/\$150 M total.
			9. Eliminate the Replacement Accounting System (RAS) with the cash balance returned to the Contractors. (See SWP Contractors Second Offer, Objective 3)	9. Eliminate the Replacement Accounting System (RAS) with \$20 million transferred to the GOA to increase the account to \$170 million. The balance in the RAS account, after encumbrances, will be returned to the Contractors. (See SWP Contractors Second Offer, Objective 3)	9. Eliminate the Replacement Accounting System (RAS) with the intent to have replacement costs treated as minimum or capital costs. The unencumbered cash balance of the RAS funds will be returned to the Contractors. (See SWP Contractors Third Offer, Objective 3).

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Objective 2b	Objective 2b			Objective 2b	Objective 2b
Maintain an appropriate level of reserves and funds to meet State Water Project purposes.	1. Other Project Purposes Account for projects with no revenue stream.			1. \$60 million SWRDS Support Account (SSA) to provide a funding source for costs where there are currently no funds or revenue sources available.	1. Establish a SWRDS Support Account (SSA) funded up to \$60 million, subsequent to the adoption of financial management enhancement contract provisions, the payoff of the Pooled Money Investment Account (PMIA), and the adoption of SWRDS Reinvestment Account (SRA). The SSA provides a revenue stream for non-chargeable costs for operation and maintenance of the State Water Project.
				2. Target amount adjusted up or down every five years based on percentage change in annual charges to Contractors (agreed to formula or index).	2. Periodic review and adjustment of the SSA subject to the SWRDS Financial Committee (see SWP Contractors Third Offer, Objective 2a).
				3. DWR will consult with the Contractors re: the projects and activities for which SSA monies are used.	3. The Department shall consult with, and consider input from, the Contractors regarding the projects and activities for which monies from the SSA are used.

				<p>4. DWR shall use good faith efforts to provide initial funding for the SSA from available system revenues, included Article 51(e) and any amounts remaining in the capital facilities account on December 31, 2035.</p>	<p>4. From 2016 to 2035, 51(e) revenues provide initial funding for the SSA. Additionally the State Water Facilities Capital Account shall be closed and the balance transferred to the SSA.</p>
				<p>5. Starting in 2036, the Contractors shall be charged annually the lesser of 1% of the Contractors annual charges for the year or a percentage (if less than 1%) of the Contractors annual charges to bring the SSA up to the target amount.</p>	<p>5. Establish the SWRDS Reinvestment Account (SRA), investing a percentage of 51(e) revenues from 2016 to 2035. After 2035, the SRA will replenish and fund adjustments to the SWRDS Support Account (SSA). Authorized SRA investments include: reinvestment in SWP capital facilities, temporary financing in lieu of the SWRDS commercial paper program, and allowable investments per State Government Code.</p>
				<p>6. Interest/Investment income will be retained in the SSA. GOA investment income may be transferred from the GOA to SSA for SSA purposes.</p>	<p>6. Investment earnings are retained to reduce annual SRA needs.</p>
				<p>7. At such time, if any, that costs paid from the SSA are reimbursed to the system, the Department shall deposit those reimbursed revenues in the SSA.</p>	

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Objective 3	Objective 3	Objective 3	Objective 3	Objective 3	Objective 3
<p>DWR: Simplify the SWP billing Process.</p> <p>SWP Contractors: To ensure that DWR can extend the cost recovery of SWP expenditures as defined in the Water Supply Contracts beyond 2035 no later than December 31, 2014.</p>	1. Implement Freeze-Go Concept-Amend the existing contract to establish a "Freeze-Go" Billing System.	1. Implement Freeze-Go Concept-Amend the existing contract to establish a "Freeze-Go" Billing System.	1. Implement Freeze-Go Concept-Amend the existing contract to establish a "Freeze-Go" Billing System.	1. Implement Freeze-Go Concept-Amend the existing contract to establish a "Freeze-Go" Billing System.	1. Implement Freeze-Go Concept-Amend the existing contract to establish a "Freeze-Go" Billing System.
			2. Eliminate adjustments at the Project Interest Rate on "Post-Legacy Year Costs" (2016-2035).	2.1 Project Repayment Period to apply only to those costs incurred prior to 2016. The term of the Project Repayment Period will remain the same. Retain the condition that if any bond for the purposes of the SWP are sold past the termination date of the extended contracts, the contract termination date will be extended until the bonds are fully repaid.	2.1 Project Repayment Period to apply only to those costs incurred prior to 2016. The term of the Project Repayment Period will remain the same. Retain the condition that if any bond for the purposes of the SWP are sold past the termination date of the extended contracts, the contract termination date will be extended until the bonds are fully repaid.
				2.2 Amend the definition of the Project Interest Rate to apply only to those costs incurred prior to 2016. The Project Interest Rate will remain 4.61%.	2.2 Amend the definition of the Project Interest Rate to apply only to those costs incurred prior to 2016. The Project Interest Rate will remain 4.61%.
				3. Transition amortized operation, maintenance, power, and replacement cost recovery of project conservation facilities to an annual cost recovery or Pay-As-You-Go methodology	3. Transition amortized operation, maintenance, power, and replacement cost recovery of project conservation facilities to an annual cost recovery or Pay-As-You-Go methodology

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			3.1 Transition the amortized capital cost recovery of project conservation and transportation facilities to an annual recovery of debt service or Pay-As-You-Go methodology.		3.1 Annual cost recovery within a bill year for estimated annual O&M, power, and replacement cost for all conservation facilities. 3.2 Annual cost recovery of actual debt service, created by SWRDS financing activities, within a bill year for financed capital transportation and conservation facilities. 3.3 Authorize SWRD to finance 100% of all capital costs. Authorize SWRDS to use various methods of financing including Water Revenue Bonds and SRA, to bill an amount that is equal to the accumulated annual debt service payments to the Contractors.
			4. Eliminate the Replacement Accounting System (RAS) with the cash balance returned to the Contractors. (See DWR Counter Proposal, 2a)		4. Eliminate the Replacement Accounting System (RAS) with the intent to have replacement costs treated as minimum or capital costs. The unencumbered cash balance of the RAS funds will be returned to the Contractors (See DWR Counter Proposal, 2a)

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				3. Contractors to pay projected variable costs up-front each month.	
					5. Expanding 1(hh): <ul style="list-style-type: none"> • Facilities authorized for Bond Financing: Finance all repairs, additions, and betterments, regardless of when any facility was built. • Any Facility approved by 80% of the Contractors

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Objective 4	Objective 4	Objective 4	Objective 4	Objective 4	Objective 4
<p><i>Contractors shall have the option and right to opt out of the costs and burdens and benefits of the BDCP.</i></p> <p><i>Participation in the implementation and financing of BDCP should be voluntary.</i></p>		<p>1. Initial Butte and Plumas Objective: To ensure that contractors shall have the option and right to opt out of the cost and other burdens and benefits of BDCP and any implementing and related projects.</p>	<p>1. Each contractor's participation in the implementation and financing of the BDCP and DHCCP should be voluntary. The Agreement in Principle and subsequent contract amendments should limit each contractor's obligation to fund any implementing and related BDCP and DHCCP projects.</p>		