

**KEY TERMS FOR QUANTIFICATION SETTLEMENT
AMONG THE STATE OF CALIFORNIA, IID, CVWD AND
MWD**

October 15, 1999

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AMONG THE STATE OF CALIFORNIA, IID, CVWD AND
MWD**

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The Negotiating Teams for IID and CVWD agree to recommend that their Boards of Directors and the State of California, respectively, authorize the use of the Key Terms For Quantification Settlement among the State of California, IID, CVWD and MWD as the basis for obtaining public input and completing a New Quantification Agreement among the parties.

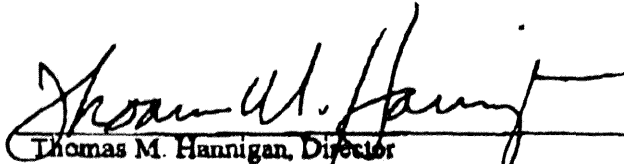
The Negotiating Team for MWD agrees to recommend that its Board of Directors and the State of California, respectively, authorize the use of the Key Terms For Quantification Settlement among the State of California, IID, CVWD and MWD as the basis for completing a New Quantification Agreement among the parties.

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**NEGOTIATING TEAM
FOR
STATE OF CALIFORNIA**

Dated: October 15, 1999


Thomas M. Hannigan, Director
of the Department of Water Resources

Key Terms For Quantification Settlement

October 15, 1999

**NEGOTIATING TEAM
FOR
THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

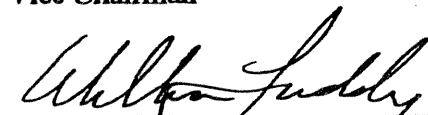
Dated: October 15, 1999



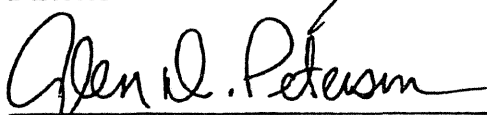
Phillip J. Pace
Chairman of the Board



Henry S. Barbosa
Vice Chairman



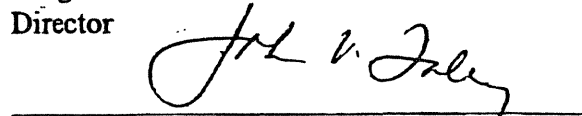
William G. Luddy
Director



Glen D. Peterson
Director



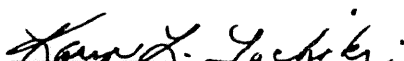
Langdon W. Owen
Director



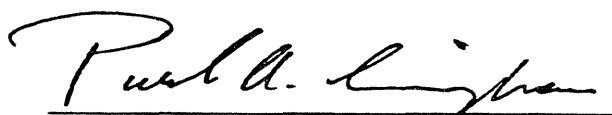
John V. Foley
Director



Ronald R. Gastelum
General Manager



Karen L. Tachiki
Assistant General Counsel



Paul A. Cunningham
Special Counsel

Key Terms For Quantification Settlement

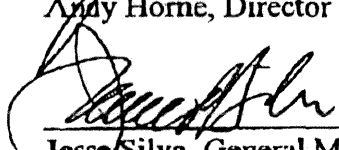
October 15, 1999

**NEGOTIATING TEAM
FOR
IMPERIAL IRRIGATION DISTRICT**

Dated: October 15, 1999

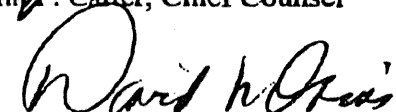

Lloyd Allen, Director

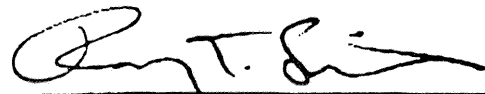

Andy Horne, Director


Jesse Silva, General Manager


John Eckhardt, Manager
Water Department


John F. Carter, Chief Counsel


David L. Oslas, Special Counsel


Rodney T. Smith, Special Consultant


William H. Swan, Attorney/Consultant

Key Terms For Quantification Settlement


October 15, 1999

NEGOTIATING TEAM
FOR
COACHELLA VALLEY WATER DISTRICT

Dated: October 15, 1999


TELLIS CODEKAS, Board
President


GERALD D. SHOAF, Counsel


JOHN P. POWELL, JR., Director


STEVEN B. ABBOTT, Counsel


TOM LEVY, General Manager
Chief Engineer

KEY TERMS FOR QUANTIFICATION SETTLEMENT

October 15, 1999

KEY TERMS FOR QUANTIFICATION SETTLEMENT AMONG THE STATE OF CALIFORNIA, IID, CVWD AND MWD

October 15, 1999

I. INTRODUCTION

The following memorializes the key material terms of the Quantification Settlement reached among the Imperial Irrigation District ("IID"), Coachella Valley Water District ("CVWD"), The Metropolitan Water District of Southern California ("MWD") (collectively, the "Districts") and the State of California ("State"). This settlement was reached with the participation of officials representing the interests of the United States Department of the Interior ("Department") but the Department is not a party to the settlement. **This is not a contract or an enforceable legal document. Rather, these key material terms will be utilized by the Districts to obtain public input and by the Districts' attorneys and negotiators to prepare legal documents that will contain all of the terms and provisions of the Quantification Settlement.**

The implementation of the Quantification Settlement will be subject to and contingent upon, among other things, appropriate environmental review and the promulgation of rules, decisions and other actions by the Department and agencies of the State. The Districts recognize that such actions by the Department and agencies of the State will be taken only if they are determined to be appropriate after the completion of all required public processes and the due consideration by the Department and the State of applicable laws, standards and policies.

The Districts anticipate that complete legal documents will not be available for six months. The complete legal documents will serve as the detailed description of the proposed steps to be undertaken within the Quantification Settlement and will be used for appropriate environmental review, which the Districts hope to commence no later than April 1, 2000.

II. DEFINITIONS

- A. "As Adjusted" means adjusted by the Inflation Index.
- B. "Conserved Water" means water attributable to projects or programs that enable the use of less water to accomplish the same purpose or purposes of use allowed under State and Federal law.
- C. "Consumptive Use" means all diversion of water from the main stream of the Colorado River, including water drawn from the main stream by underground pumping, net of measured and unmeasured return flows.
- D. "First 50 KAF Environmental Cap" means \$2.1 million in 2001 dollars.
- E. "Force majeure" means an event, not within the control of the Districts, which materially and adversely affects the performance of their respective obligations and duties to properly construct, operate, or maintain the means of creating Conserved Water.
- F. "Inflation Index" means (1) during the period starting January 1, 1999, and ending December 31, 2024, the Producer Price Index for the Materials and Components

for Construction (ID#WPU2200); and (2) beginning on January 1, 2025, the Gross Domestic Product Implicit Price Deflator.

- G. "Materiality" and grammatical variations thereof reference a standard that will be negotiated on a provision-by-provision basis.
- H. "Quantification Period" is defined in V.
- I. "Revised Surplus Criteria" is defined in IV.B.
- J. "Second 50 KAF Environmental Minimum" means \$5 million in 2001 dollars or such greater amount, if any, as MWD may determine during the period for developing the complete legal documents.
- K. "Year __" (e.g., Year 25) means one of the series of calendar years occurring within the Quantification Period, with Year 1 being the first calendar year of the Quantification Period.

III. WATER BUDGET DURING THE QUANTIFICATION PERIOD

- A. IID Quantification Arrangements.
 - 1. IID Cap of Priority 3. Subject to the inadvertent overrun provisions, IID's Consumptive Use entitlement under its share of Priority 3 will be capped

at 3.1 MAF¹ at Imperial Dam, less the Conserved Water made available by the IID for use by others.

2. 1988 IID/MWD Agreement.

- a. Term modification. Upon termination of the Quantification Period, the 1988 IID/MWD Agreement and the associated 1989 Approval Agreement terms will be extended to the later of December 31, 2041, or 270 days beyond the term of the Quantification Period, and the termination provisions in Sections 7.1 and 7.2 of the 1988 IID/MWD Agreement relating to notice and payment shall not be applicable.
- b. Volume adjustment. During the Quantification Period, IID shall waive any rights it may have under Section 1.3 of the 1988 IID/MWD Agreement and Section 4.1 of the 1989 Approval Agreement to reduce the volume of Conserved Water made available to MWD to 100 KAF.
- c. Unpaid costs. MWD and IID acknowledge that claims for any unpaid costs or other amounts due under the 1988 IID/MWD Agreement are not untimely if presented for payment by the end of Year 1 of the Quantification Period, and thereafter if presented within one year of costs being incurred.

¹ All references to water volumes are per year unless expressly noted otherwise.

- d. Accounting. A current accounting of all appropriate costs and savings realized to date under the 1988 IID/MWD Agreement shall be promptly prepared by MWD and IID.
 - e. Surviving Language. The complete legal documents will specify what provisions of the 1988 IID/MWD Agreement and the related 1989 Approval Agreement and 1989 Supplement to Approval Agreement are impacted by the Quantification Settlement.
3. The First 50 KAF of Conserved Water for CVWD.
- a. Volume. CVWD shall have the right to acquire up to 50 KAF of Conserved Water from IID.
 - b. Price. CVWD shall pay to IID \$50/AF, As Adjusted, and shall pay, in a manner to be determined, environmental process and mitigation costs associated with such acquisition in an amount not to exceed \$3.50/AF, As Adjusted.
 - c. Prohibition. CVWD shall have no right to make available to others Conserved Water received from IID. The reconciliation of legitimate exchange and conjunctive use programs with this prohibition will be developed during the period for developing the complete legal documents.

- d. Mechanism and Delivery. IID makes Conserved Water available for acquisition at Imperial Dam by reducing its Consumptive Use by an amount equal to the volume of Conserved Water to be acquired. CVWD shall take delivery at Imperial Dam.
- e. Schedule. The acquisition shall commence no earlier than January 1, 2007, provided that CVWD may provide IID two years' advance notice that it wishes to postpone the acquisition commencement date to a subsequent January 1.
- f. Ramp-Up. Once the acquisition commences, the acquisition shall ramp-up in 5 KAF annual steps; provided however, that CVWD may provide IID one year advance notice that it desires an annual step to be either 3 KAF or 4 KAF rather than 5 KAF.
- g. Occasional Reductions. During the period between commencement of the acquisition and two years after the end of the ramp-up, CVWD may occasionally reduce the amount of Conserved Water acquired in any given year. Such reduction shall be in a volume comprised of one or more increments of 5 KAF, and shall require that CVWD provide IID at least one year's advance notice prior to the January 1 for the year in which the reduction is sought. CVWD may not exercise its right to an occasional reduction in more than three years of any rolling ten-year period nor more than three years in succession, and the

aggregate reduction in any rolling ten-year period may not exceed 100 KAF. Subject to MWD's rights under III.C.7 below, IID may utilize or make available for lawful acquisition the Conserved Water not acquired by CVWD and shall make reasonable efforts to do so. CVWD can bring potential customers to IID's attention for IID's consideration. Should IID be unable to reasonably utilize or find another acquirer for this water, CVWD will be required to pay for the water and may use it without regard to restrictions related to Improvement District No. 1.

4. The Second 50 KAF of Conserved Water for CVWD.

- a. Volume. CVWD shall have the right to acquire a second increment of up to 50 KAF of Conserved Water from IID.
- b. Price. CVWD shall pay, in a manner to be determined, to IID \$125/AF, As Adjusted, plus up to \$3.50, As Adjusted, for environmental process and mitigation costs, and any additional environmental process and mitigation costs associated with such acquisition.
- c. MWD Payments. MWD shall pay to CVWD, in a manner to be determined, the difference between: (i) the price paid to the IID and \$50/AF, As Adjusted, and (ii) CVWD payments for environmental process and mitigation costs in excess of \$3.50/AF,

As Adjusted, for the first 20 KAF acquired by CVWD from the Second 50 KAF. MWD shall pay to CVWD, in a manner to be determined, the difference between (iii) the price paid to the IID and \$82.50/AF, As Adjusted, and (iv) CVWD payments for environmental process and mitigation costs in excess of \$3.50/AF, As Adjusted, for each AF over 20 KAF and up to 50 KAF acquired by CVWD from the Second 50 KAF.

- d. Prohibition. CVWD shall have no right to make available to others Conserved Water received from the IID. The reconciliation of legitimate exchange and conjunctive use programs with the transfer prohibition still needs to be developed during the period for developing the complete legal documents.
- e. Mechanism and Delivery. IID makes Conserved Water available for acquisition at Imperial Dam by reducing its Consumptive Use by an amount equal to the volume of Conserved Water to be acquired. CVWD shall take delivery at Imperial Dam.
- f. Schedule. The acquisition shall commence no earlier than the year following the last year of the ramp-up for the acquisition of the First 50 KAF by CVWD from the IID.
- g. Ramp-up. Once the acquisition commences, the acquisition shall ramp-up in 5 KAF annual steps; provided however, that CVWD

may provide IID one year advance notice that it desires an annual step to be either 3 KAF or 4 KAF rather than 5 KAF.

- h. Occasional Reductions. During the period between commencement of the acquisition and two years after the end of the ramp-up, CVWD may occasionally reduce the amount of Conserved Water acquired in any given year. Such reduction shall be in a volume comprised of one or more increments of 5 KAF, and shall require that CVWD provide IID at least one year's advance notice prior to the January 1 for the year in which the reduction is sought. CVWD may not exercise its right to an occasional reduction in more than three years of any rolling ten-year period nor more than three years in succession, and the aggregate reduction in any rolling ten-year period may not exceed 100 KAF. Subject to MWD's rights under III.C.7 below, IID may utilize or make available for lawful acquisition the Conserved Water not acquired by CVWD and shall make reasonable efforts to do so. CVWD can bring potential customers to IID's attention for IID's consideration. Should IID be unable to reasonably utilize or find another acquirer for this water, CVWD will be required to pay for the water and use it without regard to restrictions related to Improvement District No. 1.

- i. MWD Substitution. At the end of Year 45, IID shall be relieved of any obligation to make the Second 50 KAF available to CVWD and MWD shall provide CVWD with a replacement supply in the same volume and on the same economic terms for CVWD (including environmental mitigation expenses) as applied to the Second 50 KAF.
5. Conserved Water for SDCWA. Conserved Water shall be made available in amounts up to 200 KAF for the SDCWA under the executed 1998 IID/SDCWA Transfer Agreement and the 1998 MWD/SDCWA Exchange Agreement.
6. Conserved Water from the AAC.
 - a. For MWD. 56.2 KAF of Conserved Water attributable to the lining of the AAC shall be made available for MWD after completion of the canal lining. MWD will also receive any Conserved Water up to that amount that may be made available during the canal lining process. IID will have a right to this Conserved Water during years when more than 4.4 MAF of Colorado River water (without consideration of unused apportionments) is available to California and to the extent that the exercise of such right does not (i) create a mitigation obligation for MWD to other Colorado River basin states in relation to Revised Surplus Criteria; (ii) reduce the amount of surplus water otherwise

available to MWD; or (iii) reduce MWD's diversions of surplus water through the AAC or CC that MWD has a right to make.

b. San Luis Rey Indian Water Rights Settlement Act Purposes.

Subject to the provisions of VII.D. below, 11.5 KAF of the Conserved Water from the lining of the AAC shall be available for San Luis Rey Indian Water Rights Settlement Act purposes.

c. Adjustments. 67.7 KAF shall be the agreed amount of Conserved Water from the completed AAC lining. The Districts shall develop a process for equitably adjusting the agreed amount if, as a result of Force Majeure, the Conserved Water from the AAC lining is materially less than 67.7 KAF. Each entity receiving such Conserved Water in any one year shall be responsible for its pro rata share of the annual costs of operation, maintenance and repair for maintaining the lining for that year.

7. Priorities 6 and 7. Priority 6 water will be made available to IID, MWD and CVWD in accordance with the following priorities and volumes:

(i) 38 KAF to MWD; (ii) 63 KAF retained for IID; (iii) 119 KAF to CVWD. Any water not used by a District in the above priority will be available to meet the volume of the next listed priority. Any balance of Priority 6 shall be available in accordance with each District's priority under its Section 5 Contracts as in effect on October 15, 1999. Each District receiving the water under this allocation shall be responsible for

any related environmental process and mitigation costs attributable to its allocation. MWD does not have a contractual right to Priority 6 and the method to allow MWD to divert water forborne by IID, PVID and CVWD will be developed in the complete legal documents. IID and CVWD shall continue to have a right to Priority 7 water.

B. CVWD Quantification Arrangements.

1. CVWD Cap of Priority 3. Subject to the inadvertent overrun provisions, CVWD's Consumptive Use entitlement under its share of Priority 3 shall be capped at 330 KAF at Imperial Dam, less Conserved Water made available from the lining of the CC. Acquisition of water by CVWD from IID and MWD under the Quantification Settlement shall be in addition to CVWD's share of Priority 3 water subject to the 330 KAF cap.
2. 1989 Approval Agreement.
 - a. Water For CVWD. MWD shall make available for CVWD without charge at Imperial Dam 20 KAF; and CVWD and MWD will waive certain obligations, to be defined during the period to develop complete legal documents, to each other under the 1988 IID/MWD Agreement, the 1989 Approval Agreement, and the 1989 Supplement to the Approval Agreement.
 - b. Applicable Provisions. The complete legal documents will specify the changes to the provisions of the 1988 IID/MWD Agreement,

the 1989 Approval Agreement and the 1989 Supplement to Approval Agreement necessary to make such Agreements consistent with the Quantification Settlement.

3. Conserved Water from the CC.

- a. For MWD. 21.5 KAF of Conserved Water attributable to the lining of the CC will be made available for MWD upon completion of the canal lining. MWD will also receive any Conserved Water up to that amount that may be made available during the canal lining process.
- b. Adjustments. 26 KAF shall be the agreed amount of Conserved Water from the completed CC lining. The Districts shall develop a process for equitably adjusting the agreed amount if, as a result of Force Majeure, the Conserved Water from the CC lining is materially less than 26 KAF. Each person receiving such Conserved Water in any year shall be responsible for its pro rata share of the annual costs of operation, maintenance and repair for maintaining the lining for that year.
- c. San Luis Rey Indian Water Rights Settlement Purposes. Subject to the provisions in VII.D below, 4.5 KAF of the Conserved Water from the lining of the CC shall be made available for San Luis Rey Indian Water Rights Settlement Act purposes.

4. Acquisition of First 50 KAF from IID. See III.A.3.
5. Acquisition of Second 50 KAF from IID. See III.A.4.
6. Acquisition of 35 KAF from MWD. This acquisition will be pursuant to the terms of an Exchange Agreement in the form of attached Exhibit C.
7. Priorities 6 and 7. See III.A.7.

C. MWD Quantification Arrangements.

1. MWD Priority 4 and 5. Subject to the inadvertent overrun provisions, MWD's annual Consumptive Use entitlement under Priorities 4 and 5 will be capped at 550 KAF and 662 KAF respectively at Lake Havasu.
2. 1988 IID/MWD Agreement. See III.A.2.
3. 1989 Approval Agreement. See III.B.2.
4. Conserved Water from the AAC and CC.
 - a. Subject to the provisions of III.A.6, MWD will receive 56.2 KAF from the lining of the AAC.
 - b. Subject to the provisions of III.B.3, MWD will receive 21.5 KAF from the lining of the CC. IID will have a right to this Conserved Water during years when more than 4.4 MAF of Colorado River water (without consideration of unused apportionments) is available to California and to the extent that the exercise of such

rights does not (i) create a mitigation obligation for MWD to other Colorado River basin states in relation to Revised Surplus Criteria; (ii) reduce the amount of surplus water otherwise available to MWD; or (iii) reduce MWD's diversions of surplus water through the AAC or CC that MWD has a right to make.

5. Transfer of 35 KAF to CVWD. See III.B.6.
6. Priority 6. See III.A.7.
7. MWD Option on IID Water Made Available to CVWD. MWD shall have an option to acquire at \$125/AF, As Adjusted, plus any environmental process and mitigation costs, the occasional reduction water that becomes available, plus any balance of the First 50 KAF or the Second 50 KAF (through Year 45) that CVWD determines to waive permanently.

SUMMARY OF WATER BUDGETS WHEN ONLY 4.4 MAF IS AVAILABLE FOR CALIFORNIA DURING QUANTIFICATION PERIOD

IID		CVWD		MWD		CRA	
3.1 MAF	Cap	330 K	Cap	550K	Priority 4	771-851K	MWD
<100-110K>	to MWD-'88 Agr.	<26K>	to MWD**-CC	130-200K	SDCWA	16K	SLR
<130-200K>	to SDCWA	20 K	from MWD-App Agmt	100-110K	from IID-'88 Agr	383 - 463K	dry year options,
<67.7>	to MWD*-AAC	50K	from IID	<20K>	to CVWD-App Agr.		stored surplus,
<50K>	to CVWD	50K	from IID	56.2K	from IID-AAC		Hayfield, Cadiz or
<50K>	to CVWD	35K	from MWD	21.5K	from CVWD-CC		other projects
<11.5K>	for Misc./Ind PPR if no P6 or 7	<3K>	for Misc./Ind PPR if no P6 or 7	<35K>	to CVWD	1.25 MAF	
				<31.5+K>	for Misc./Ind. PPR if no P6, or underuse/overuse of P1&2		
<hr/> 2.61-2.69 MAF		<hr/> 456K		<hr/> 771-851K			

* less 11.5K for SLR

** less 4.5K for SLR

SUMMARY OF WATER BUDGETS DURING QUANTIFICATION PERIOD

IID <u>Priority 3</u>	CVWD <u>Priority 3 and Other</u>	MWD
3.1 MAF Cap <100-110K> to MWD-'88 Agr. <130-200K> to SDCWA <67.7> to MWD*-AAC <50K> to CVWD <50K> to CVWD <11.5K> for Misc./Ind PPR if no P6 or 7,	330 K Cap <26K> to MWD**-CC 20 K from MWD-App Agmt 50K from IID 50K from IID 35K from MWD <3K> for Misc./Ind PPR if no P6 or 7,	550K Priority 4 130-200K SDCWA 100-110K from IID-'88 Agr <20K> to CVWD-App Agr. 56.2K from IID-AAC 21.5K from CVWD-CC <35K> to CVWD <31.5+K> for Misc./Ind. PPR 662K When available, P5 and RSC*** 38K from IID/CVWD-when P6 available unk. underuse/overuse of P1&2
<u>Priority 6 & 7 (when available)</u>	<u>Priority 6 & 7 (when available)</u>	
<38K> to MWD 63K IID use <119K> to CVWD balance in accord with priority system	<38K> to MWD <63K> for IID 119K CVWD use balance in accord with priority system	

* less 11.5K for SLR

** less 4.5K for SLR

*** RSL means Revised Surplus Criteria

IV. CONDITIONS PRECEDENT²

The Quantification Period shall commence only if the following conditions precedent have been satisfied on or before March 31, 2001:

- A. Environmental Review. Appropriate environmental review has been completed for each water budget component and arrangements have been made for any required mitigation with respect to the Conserved Water transactions described in III.A.3 and 4 which are not above the First 50 KAF Environmental Cap or the Second 50 KAF Environmental Minimum, and for the balance of III which are within any cost thresholds to be negotiated; and an Endangered Species Act Section 10(a) "no surprises" assurance under the Special Rule application to Section 10 has been obtained for 50 years for the First 50 KAF acquisition by CVWD and through Year 50 or, if appropriate, Year 45 for the Second 50 KAF acquisition by CVWD.
- B. Revised Surplus Criteria. The BOR has adopted and implemented Revised Surplus Criteria in all respects in conformance with the attached Exhibit A in conformance with III.A.6.a and III.C.4.b above, or otherwise acceptable to MWD

² The Department considers certain decree accounting and Colorado River management provisions to have basin wide implications that may potentially affect water users outside the State of California. Sections IV. B, C, D, J and K are such provisions. These provisions set forth positions that are those of the Districts. The Department is committed to conduct a public process to consider the positions expressed by the Districts, as well as the positions expressed by other Colorado River basin states and other affected parties and, after full consideration of all positions, to independently adopt appropriate policies addressing these matters.

to assure, together with those other water supplies under the control of MWD, a full Colorado River Aqueduct from Year 1 through at least Year 15.

C. Decree Accounting.

1. BOR has adopted and implemented standards and procedures for decree accounting for annual Consumptive Use by Priorities 1, 2 and 3b which utilize, at MWD's discretion, either a 25-year running average or an actual annual Consumptive Use.
2. BOR has agreed with the Districts to develop a process for establishing a statistically significant trend test for increases in use by Priorities 1, 2 and 3b.
3. BOR has adopted and implemented standards and procedures for an inadvertent overrun program that is in all respects in conformance with the attached Exhibit B, or is otherwise acceptable to IID, CVWD and MWD, and that would result in no material reduction in the water available to each District under the Quantification Settlement water budget. Within two weeks of the date these Key Terms are approved by the Districts, MWD will provide IID and CVWD with its assessment of the likely impact of an inadvertent overrun program that is in all respects in conformance with the attached Exhibit B.

D. Approvals. The State Water Resources Control Board ("SWRCB") and the Department, as applicable, have given any final approvals required for the

implementation of all of the Quantification Settlement water budget components and the Districts have secured any and all other necessary governmental approvals or permits.

1. The SWRCB and the Department approvals regarding the 1998 IID/SDCWA Transfer Agreement shall be based on findings that (a) IID and SDCWA have presented substantial evidence in support of those approvals and (b) that such evidence and the consent of the junior right holders to water budget components satisfies any SWRCB and Department concerns with respect to the reasonable and beneficial use of water by the IID as of the date of the findings and with respect to any alleged injury to the consenting junior right holders.
2. The IID/SDCWA Petition and requests for Department and other governmental approvals regarding the 1998 IID/SDCWA Transfer Agreement will be presented in a manner that will permit MWD and CVWD to not intervene in opposition because the submissions and correlative SWRCB and Department findings will expressly recognize that the approvals in question, and any findings made in connection therewith, including the finding and approval of the transfer of Priority 3 water, shall have no binding or precedential effect in any matter presenting any issue of state or federal water law arising outside the context of this Quantification Settlement, including, without limitation, any attempt by IID and SDCWA to obtain future approval of any water transaction after

the termination of this Settlement. Permitted litigation under the Shortage and Sharing of Reduced Water Availability under VII.M below shall not produce decisions, judgments or orders which can be used for any precedential purpose outside the Quantification Settlement context.

3. The findings by the SWRCB and the Department will recognize that:
 - (i) the approvals in question, and the consent of MWD and CVWD thereto under the terms of the Quantification Settlement, involve major conservation activities to be implemented by IID over the course of many years; (ii) the SWRCB and Department will take these conservation measures into account in connection with any assessment activities under state and federal reasonable and beneficial use standards; and (iii) subject to IID's implementation of the conservation measures in furtherance of the Quantification Settlement water budget components and absent any substantial material adverse change in IID's irrigation practices or advances in economically feasible technology associated with irrigation efficiency, the SWRCB and Department do not anticipate that any assessment of the IID's reasonable and beneficial use of water will be necessary before the end of the ramp-up for the First 50 KAF acquisition by CVWD in approximately Year 20.

- E. PVID Waiver. PVID has waived for the Quantification Period any call rights on Conserved Water from the lining of the AAC and CC, any expansion of use on

the PVID Mesa, and any rights to Priority 6 water in exchange for release of its Approval Agreement obligations.

- F. Ratification. The Districts shall have ratified, executed and delivered all legal documents and agreements necessary to implement the Quantification Settlement.
- G. San Luis Rey Indian Water Rights Settlement. The Districts, PVID, the Secretary of the Interior and the San Luis Rey Indian Settlement Parties have reached a settlement as referenced in VII.D. below.
- H. Water Budget Commencement Arrangements. The Districts have made or secured all agreements, arrangements and approvals for the commencement of the ramp-up and delivery of Conserved Water to the SDCWA under the 1998 IID/SDCWA Transfer Agreement and for the eventual implementation of the balance of the Quantification Settlement water budget components, including (1) the waiver by SDCWA of any rights under the 1998 IID/SDCWA Transfer Agreement with respect to Conserved Water that may be acquired by MWD pursuant to the exercise of its option under III.C.7, and (2) MWD's agreement that, should IID transfer less than the full 200 KAF to SDCWA as part of the stabilized primary quantity under the 1998 IID/SDCWA Transfer Agreement, but later make available additional Conserved Water for transfer to SDCWA, MWD agrees to exchange such additional amounts up to a total of 200 KAF under the terms of the 1998 MWD/SDCWA Exchange Agreement.

- I. Yuma Island. The Department has appointed an independent panel to review and provide recommendations in connection with the determination of the Consumptive Use of water on the Yuma Island and whether such use is charged to Priority 2.
- J. Salinity Control Act. BOR has agreed with CVWD that should IID, CVWD and MWD submit annual estimates of water diversions in the manner provided in VII.I, then the BOR will determine that the "interim period" under the Colorado River Basin Salinity Control Act has not ended.
- K. The Department has approved the 1998 IID/SDCWA Transfer Agreement as provided in Exhibit K to that Agreement. Said Exhibit will be modified to be consistent with these Key Terms and will (1) consist of the required Department findings as provided in IV.D. and (2) refer to a quantified Colorado River Priority 3 water entitlement of 3.1 MAF to IID in place of an IID Priority 3 forbearance of diversions above 3.1 MAF.
- L. Salton Sea Flooding Cases. IID and CVWD shall have entered into an agreement regarding the sharing of liability in Salton Sea flooding cases which provides:
 - 1. As to pending third party liability claims, IID and CVWD agree to share liability on a percentage split basis, arrived at by focusing on volumes of water;

2. As to future third-party liability claims, IID and CVWD agree to share liability on a percentage basis according to a formula focusing on volumes of water; and
3. As to pending claims by one District against the other for indemnity or for flooding of the District's land, IID and CVWD agree either (a) to settle such claims on a percentage basis that focuses on volumes of water and values of land, or (b) that litigation of liability for such claims will be limited to volumes of water and values of land.

V. QUANTIFICATION PERIOD

A. Commencement. The Quantification Period will commence on the "initial transfer date" under the 1998 IID/SDCWA Transfer Agreement and end on the earlier of the following dates:

1. December 31 of Year 75.
2. The date on which the 1998 IID/SDCWA Transfer Agreement terminates for reasons other than the consent, agreement or other voluntary action of IID and SDCWA. Non-renewal of the initial term of the 1998 IID/SDCWA Transfer Agreement at Year 30 or Year 45 shall not be considered a voluntary action for the purposes of this paragraph. In the event that the 1998 IID/SDCWA Transfer Agreement terminates by voluntary action of the parties thereto, the Quantification Settlement water budget shall continue without that component.

- B. Extension. The Quantification Period may be extended for a period of time, provided that all terms of the Quantification Settlement, including all Quantification Settlement water budget components then in effect, remain operative and all Districts agree to go forward on that basis.

VI. TERMINATION

- A. Termination Events. The Quantification Settlement will terminate only upon the first to occur of the following: (1) the Quantification Period has not commenced, or (2) the Quantification Period has ended.
- B. Effect of Termination. Except as otherwise specifically provided herein, upon termination of the Quantification Settlement, all Quantification Settlement water budget components and all state and federal approvals, permits and water contract amendments issued or adopted in connection therewith shall thereupon terminate by consent of each of the Districts, which consents are hereby given, and which consents shall be reaffirmed in writing at the request of any District, and the rights of the Districts shall revert to the status quo as though the Districts had never agreed upon the Quantification Settlement.
- C. Notice. SDCWA and IID agree to provide: (1) three years' notice to the other Districts of non-renewal or voluntary termination of the 1998 IID/SDCWA Transfer Agreement, and (2) as much notice as is practical in the event of non-voluntary termination.

VII. ACCOMMODATIONS AND SETTLEMENT DURING THE QUANTIFICATION PERIOD

- A. No Admission of Settlement Terms; Reservation of Rights and Claims. The Districts do not agree on the nature or scope of their relative rights to the delivery, use or transfer of Colorado River water. The Quantification Settlement is a consensual, comprehensive settlement arrangement acceptable to all Districts. It does not reflect any District's rights or claims singularly or collectively, nor does it reflect the anticipated, predicted or possible outcome to any of the many disputes between the Districts if they were to be resolved without consensus. The Districts acknowledge that the Quantification Settlement is, in fact, a settlement and thus may not be used for any purpose in any judicial, legislative or administrative proceeding, and may not be used in any future attempt to reallocate water rights or to reorder the priorities of the Districts upon the termination of the Quantification Settlement. Subject to the provisions of the Quantification Settlement which compromise such matters, the legal rights, duties, obligations, powers and claims of each District are preserved and may be acted upon by any District during the Quantification Period.
- B. Miscellaneous/Indians PPR's. The Districts have divided responsibility for satisfying the demands of miscellaneous and Indian PPR's. MWD shall utilize its water rights as needed to satisfy all such demands, less 14.5 KAF, which shall be satisfied by IID and CVWD from their rights under Priorities 6, 7 or 3, as needed, in the amount of 11.5 KAF and 3 KAF, respectively. Should IID and CVWD be

collectively responsible for less than 14.5 KAF, then a credit equal to the difference between 14.5 KAF and the amount of actual responsibility shall be shared 75% to IID and 25% to CVWD.

C. Increases and Reductions in Use by Priorities 1, 2 and 3b. Depending on the decree accounting method elected by MWD pursuant to IV. C.1:

1. Should the actual or running average of Consumptive Use by Priorities 1, 2, and 3b exceed 420 KAF, MWD shall be responsible for repayment of any overrun in excess of 420 KAF; and
2. Should the actual or running average of Priorities 1, 2, and 3b use be less than 420 KAF, MWD shall have the exclusive right to all unused water for beneficial use or repayment of any inadvertant overrun for which it has responsibility.

D. AAC/CC-Conserved Water For San Luis Rey Indian Water Rights Settlement Act Purposes.

1. During the Quantification Period.
 - a. Volume. 16 KAF of Conserved Water attributable to the lining of the AAC and CC will be made available to be utilized by the Department to facilitate implementation of the San Luis Rey Indian Water Rights Settlement Act. The volume from each canal

is in proportion to its percentage of the total water conserved,
11.5 KAF from the AAC and 4.5 KAF from the CC.

- b. Mechanism for Delivery. The Department will enter into negotiations with MWD and SDCWA on an agreement to convey the Conserved Water for San Luis Rey Indian Water Rights Settlement Act purposes.
- c. Schedule. As the Conserved Water to be made available by the lining of the AAC and CC is produced, it will be made available on a pro rata basis to MWD and the Department. The Department will provide MWD on or before October 1 of each year a schedule of monthly deliveries.
- d. Decree Accounting. For Colorado River water Consumptive Use decree accounting purposes, Consumptive Use of the Conserved Water from the lining of the AAC and CC to facilitate the purposes of the San Luis Rey Indian Water Rights Settlement Act will be assigned to the Department and will not be charged to IID or CVWD, but will be deducted from IID's 3.1 MAF Consumptive Use cap and CVWD's 330 KAF Consumptive Use cap in proportion to the Conserved Water from the AAC and CC, respectively.

e. Cost Sharing. Payment of the operation, maintenance and repair costs of the AAC and CC lining shall be made pursuant to III.A.6. and III.B.3.

2. After the Quantification Period. After the Quantification Period ends, the Districts agree that, subject to Force Majeure, the 16 KAF of Conserved Water created by the lining of the AAC and the CC shall be made available for the purposes of the San Luis Rey Indian Water Rights Settlement Act. All other matters regarding decree accounting, payment obligations, transportation and the like are reserved for further negotiation.

E. CVWD Utilization of Water.

1. CVWD faces a serious groundwater overdraft situation in the lower Coachella Valley. CVWD is developing a groundwater management program to limit over-pumping of groundwater. As part of its management program, CVWD will use Colorado River water to provide groundwater recharge through direct and "in lieu" recharge programs. CVWD's water budget, as set forth in these Key Terms, is based solely on water needs identified within Improvement District No. 1.
2. The Districts recognize that CVWD needs some flexibility in utilizing its water budget for the benefit of Improvement District No. 1, including the potential utilization of Colorado River water in the Coachella Valley, but outside Improvement District No. 1, in order to maximize the

effectiveness of Improvement District No. 1's water use and recharge programs. The Districts will not object to such flexibility based on CVWD's commitment to use best efforts to not utilize its water budget to facilitate any water use outside Improvement District No. 1 other than for recharge, to utilize its water budget to address the groundwater overdraft problem in Improvement District No. 1, and to implement a program that is designed to achieve a safe yield within Improvement District No. 1 by the end of CVWD's water budget ramp-up in approximately Year 30. The Districts' willingness to provide CVWD with this flexibility is conditioned on an express understanding that under no circumstances will CVWD have access to additional Colorado River water in Priorities 3, 6 or 7 as a matter of right. CVWD has a surplus contract with the Secretary subject to all prior rights (Priorities 1-7) for use of Colorado River waters anywhere within its boundaries. The Quantification Settlement does not affect CVWD's rights under such surplus contract. If CVWD encounters future needs for additional Colorado River water to respond to urban growth and/or to address a future groundwater overdraft situation, it will need to negotiate with other entitlement holders for the procurement of new supplies of water through market-based transactions.

- F. CVWD Groundwater Storage of IID Water. Subject to (i) the physical availability of storage in the Coachella Valley after accounting for the storage to be utilized by CVWD and for the MWD/CVWD conjunctive use program, if

implemented, and (ii) negotiating reasonable and mutually-acceptable terms to govern storage by CVWD of IID water, CVWD agrees to provide a quantity of groundwater storage for IID's use upon payment by IID of CVWD's costs.

- G. Acquisitions of Colorado River Water. MWD, CVWD and IID shall be free during the Quantification Period to acquire Colorado River water from persons other than the Districts, without objection by any District, so long as such acquisitions will not materially reduce the water available to another District under the Quantification Settlement.
- H. Revised Surplus Criteria Extension. IID, CVWD and the State agree to support MWD if it should seek to extend the period for Revised Surplus Criteria, so long as such extension does not result in any material reduction in the water available to IID or CVWD under the Quantification Settlement.
- I. Salinity Control Act Interim Period. To assist CVWD to avoid a repayment obligation under the Colorado River Basin Salinity Control Act, IID and MWD agree to submit annual estimates of water diversions to the BOR with the modifier "to the extent Colorado River water is available to IID and MWD under each of its entitlements and the Quantification Settlement water budget components."
- J. California Bond Issue. The IID and CVWD will support the issuance, in conjunction with the March 2000 California state bond issue (Proposition 13), of \$75 million in bonds to fund capital projects initiated by MWD to promote the goals of the California Plan, so long as such issuance does not include any

provisions or projects that cause IID or CVWD to suffer a material adverse impact. IID and CVWD shall notify MWD within two weeks of the date of approval of these Key Terms whether they expect the bond issue to cause them to suffer a material and adverse impact.

K. MWD/IID Peace Treaty Elements.

1. Before the start of Year 21, IID shall make no transfers other than
 - (a) transfers of up to 30 KAF within Imperial County, or (b) transfers under one or more Defensive Transfer Agreements (defined below).
2. Before Year 21, and thereafter, until IID has entered into a non-Defensive Transfer Agreement, MWD shall not (a) pursue any legislative, administrative or judicial proceeding, or take any other action that would reduce IID's Consumptive Use entitlement, or (b) divert any water that IID is ordered to conserve as the result of a challenge to IID's water supply. However, MWD may at any time challenge a proposed IID transfer, other than a transfer of up to 30 KAF within Imperial County on any grounds so long as that challenge is limited in scope to whether the proposed transfer can be made.
3. IID shall provide MWD prompt notice and description of the volume of water proposed to be transferred upon any of the following events:
 - a. IID anticipates a need to enter into a Defensive Transfer Agreement;

- b. IID anticipates a decision or order of the nature described in K.5;
 - c. IID has determined to explore whether to make a transfer of any kind, in which event notice shall be given before IID discusses a possible transfer with any potential transferee;
 - d. IID has entered into a transfer agreement; or
 - e. IID has sought any approvals of a transfer or any aspect thereof.
4. IID shall provide MWD with the first opportunity to be the transferee under any Defensive Transfer Agreement. Upon notice by IID that it is interested in obtaining an offer for a Defensive Transfer Agreement, MWD shall have 90 days to make such an offer. Upon receipt of MWD's offer, if one is made: (i) IID shall accept or not, but not solicit offers from anyone else if MWD's offer is to acquire transferred water at the same per acre-foot price contemporaneously being paid or to be paid by SDWCA under the 1998 IID/SDWCA Transfer Agreement (an "SDWCA Offer"); or (ii) in the event MWD has not made an SDCWA Offer within the 90-day period, IID shall, in its sole discretion, accept, reject or seek offers for Defensive Transfer Agreements from any party including MWD.
5. "Defensive Transfer Agreement" means an agreement to transfer to a transferee that meets the following tests (other than MWD):

- a. The Defensive Transfer Agreement is an agreement reached by IID under threat of a decision or order by a federal or state agency or tribunal acting within its jurisdiction and authority. At least one element of the threatened order or decision would, if issued, result in (1) a determination that IID is not reasonably and beneficially using its water supply or that IID's water supply should be re-allocated to another party, class of users or region; and (2) a decrease in IID's annual Consumptive Use entitlement in an amount not less than the quantity to be transferred;
 - b. IID has reasonable grounds for believing that the decision or order would be entered or imposed; and
 - c. IID has provided MWD prompt notice as provided in K.3.
 - d. The proposed transferee is not a party that has commenced or is participating adverse to IID in a proceeding that is the source of the threatened decision or order.
6. If there is a dispute between IID and MWD as to whether a proposed transfer constitutes a Defensive Transfer Agreement, that dispute shall be settled promptly through binding arbitration commencing within 30 days after notice by IID to MWD that it believes has met the requirements for a Defensive Transfer Agreement.

7. IID and MWD agree that, pending any change in IID's policy regarding transfers, the principal goal of this Section K is to maintain IID's water supply for use within the IID and to permit only those transfers required to avoid reductions in available water.

L. CVWD/IID Peace Treaty Elements. During the Quantification Period:

1. CVWD will not challenge IID's water use practices or seek to reduce IID's entitlement to water under the Quantification Settlement, except during the Shortage and Sharing of Reduced Water Availability period;
2. IID will not challenge CVWD's water use practices or seek to reduce CVWD's entitlement to water under the Quantification Settlement, except during the Shortage and Sharing of Reduced Water Availability period; and
3. CVWD will not object to transfers or use by IID of water outside the Imperial Service Area provided that such transfers or uses do not result in any reduction in the water available to CVWD under the Quantification Settlement, except that CVWD may object to any transfer proposed during the Shortage and Sharing of Reduced Water Availability period.

M. Shortage and Sharing of Reduced Water Availability. If, for any reason, there is less than 3.85 MAF available to Priorities 1, 2 and 3, there will be no termination of the Quantification Settlement and all transfers will continue. IID and CVWD will negotiate to resolve and/or share any shortage or reduced water availability.

If the parties cannot resolve the matter by negotiation, they will litigate the dispute in court and not before the State Water Resources Control Board. In such litigation, each party, notwithstanding the IID-CVWD Peace Treaty, will be able to assert all legal rights, claims, powers and defenses available to it as if this Quantification Settlement did not exist, and this Quantification Settlement and all approvals associated therewith shall not be admissible in evidence or considered by the court in ruling on the sharing of the shortage or reduced water availability.

- N. IID and CVWD agree to a provisional sharing of the shortage or reduced water availability prior to final judgment on the basis of 75% to IID and 25% to CVWD, except that IID sharing shall not result in IID having less than the volume available under its present perfected right. After final judgment, the parties will settle up and allocate the shortage or reduced water availability in accordance with the final judgment. The debtor party shall have three years to repay for each year the litigation was pending in court, and, unless otherwise agreed, shall repay in equal installments. To the extent that flood control releases are available to and are used or can be stored by the creditor party, the repayment obligation is discharged.

VIII. REMEDIES

Each District recognizes that the rights and obligations of the Districts under the Quantification Settlement are unique and of such a nature as to be inherently difficult or impossible to value monetarily. If one District does not perform in accordance with the Quantification Settlement, the other Districts will likely suffer harm curable only by the

imposition of an injunction requiring specific performance. Thus, each of the Districts agrees that any breach of the Quantification Settlement by any District shall entitle the non-breaching Districts, or any one of them, to injunctive relief, including but not limited to a decree of specific performance, in addition to any other remedies at law or in equity that may be available in the circumstances.

EXHIBIT A:
SURPLUS CRITERIA FOR MANAGEMENT OF THE COLORADO RIVER

Need For Development of Revised Interim Surplus Criteria

The Criteria for Coordinated Long-Range Operation of the Colorado River Reservoirs (LROC) reflect the multiple purposes for which the reservoir system is operated. Resource management requires the optimization of the operation of the Colorado River System reservoirs to satisfy the growing needs of these purposes. The Colorado River has been widely developed through great investments by the federal government and many water and power agencies to provide system storage of more than 60 million acre-feet. The reservoir system and its extensive storage allows the operation of the Colorado River to be efficiently managed so as to optimize the beneficial use of this resource which supports more than 20 million people and multi-billion dollar farm and business economies.

The governing view of river operations during the development of the LROC anticipated that the level and growth of water needs for this period and beyond would be such that little or no surplus water would occur, and did not contemplate a prolonged interim period of surplus water. Most efforts relating to reservoir operations in the development of the LROC focused on shortage criteria. Consequently, Colorado River management has the consequence of maximizing the amount of water held in storage in the near term. This strategy tends to force more flood control releases in wet years, in excess of downstream needs and the ability to divert and store such water for subsequent use. In dry years, this strategy leans towards not releasing water to users even though there is a high probability for the next fifteen years of surplus water

releases in excess of needs and the ability to store and divert such water. Overall, this strategy does not optimize the beneficial use of this valuable resource because it does not take full advantage of the high volume of storage created by the extensive infrastructure on the river. It was also envisioned in the 1968 Colorado River Basin Project Act that there would be a federal augmentation of the flow of Colorado River. In the absence of augmentation, the ability to optimize the use of available surplus water and to store water off-stream is essential.

Revised interim surplus criteria are needed to guide reservoir operations to increase the reasonable and beneficial use of surplus water while keeping risk of shortages minimal. Specific criteria would provide for more effective and efficient use of Colorado River water by providing for steadier releases over longer periods of time. This would reduce the need for flood control releases in excess of the downstream needs, and increase the ability to divert and store such water for subsequent use.

Surplus criteria based on these principles would promote water use efficiency, and provide increased reliability and predictability to Colorado River water users. Predictability would allow water agencies to more effectively plan for the future, and more efficiently allocate limited resources as appropriate. More predictable releases could also benefit the planning required for developing the Lower Colorado River Multi-Species Conservation Program.

A. Implementation of Surplus Criteria

Revised interim surplus criteria should preferably be developed pursuant to Article III(3) of the LROC. These surplus criteria would be used in conjunction with the LROC to develop the annual operating plan (AOP). In this way, the surplus criteria will provide a high degree of

certainty by adoption through a formal process with public comment and input, and publication in the Federal Register. Certainty is enhanced through the five-year review process already present in the LROC which requires consultation with the Basin states and water users, before changes to the surplus criteria can be implemented. By keeping reviews of the surplus criteria on a five-year time frame, agencies can develop data and gain experience on how the surplus criteria are operating without reacting to annual fluctuations.

By the same token, the five-year review process in the LROC provides flexibility through a process in which the surplus criteria can be adjusted without requiring a lengthy administrative process. The AOP consultation process will serve to put parties on notice of any concerns regarding the operation of the surplus criteria, which can then be addressed through the five-year review. This orderly process will prevent sudden or unilateral changes to the surplus criteria while providing flexibility to adapt the surplus criteria to changed conditions as circumstances warrant.

The current schedule for development of surplus criteria by the Department of the Interior calls for circulation of final NEPA documentation in December 2000, with a Record of Decision by January 2001. This schedule allows the surplus criteria to provide the sought for benefits and certainty within a reasonable timeframe.

B. Revised Surplus Criteria

Revised interim surplus criteria, also referred to as "River Re-operations", are based on a strategy of optimizing use of existing storage to make available the maximum amount of surplus water while keeping risk of shortages to a minimum during at least the first fifteen-year period of

the California Quantification Settlement, and possibly beyond. This allows for an efficient use of the existing supply of Colorado River water by utilizing storage to reduce flood control releases. The use of revised surplus criteria during this period also allows California to achieve a “soft landing”, avoiding severe supply impacts and lengthy legal disputes over water rights, in implementing the California Plan to reduce annual Colorado River water usage to 4.4 million acre-feet when required.

The proposed surplus criteria specifically use elevations at Lake Mead as a trigger, instead of the previous concept, which used avoidance of flood control releases as the trigger. This management strategy uses three levels of surplus water releases with elevation triggers that are adjusted periodically to reflect real world conditions in the Colorado River Basin.

The proposed surplus criteria provide significant surplus water benefits to California, Arizona, and Nevada--allowing for beneficial use of water that would otherwise likely be lost. River modeling indicates that the risk of shortage to Arizona and Nevada is quite slight, and even these small risks can be mitigated. For instance, with regard to shortage risk for the Central Arizona Project caused by revised surplus criteria, there would be a zero percent likelihood of shortage through 2010, and a 1 to 6 percent likelihood from 2011 through 2015. Withdrawing prior surplus water from groundwater storage could completely offset the likelihood of shortage through 2015. Such surplus criteria would provide for more effective use of surplus water, and provide greater benefits to California, Arizona, and Nevada than under previous proposals.

The proposed three levels of surplus criteria are as follows:

Level 1 Surplus Release – Level 1 surplus releases will be based on a Lake Mead elevation at or above 1,160 feet (17.6 million acre-feet (MAF) in storage at Lake Mead) starting in 2001 and rising to 1,166 feet (18.4 MAF in storage) by 2015. The trigger elevations will be adjusted based on demands within the Upper Basin. Actual trigger levels will be based on reality and have the ability to be adjusted depending on the real usage of Colorado River water. If the Upper Basin demand for a given calendar year differs from the current assumed projection of demand, the elevation levels will be adjusted upward or downward by 1-foot for every 1.7 percent change in the Upper Basin demands. Level 1 surplus releases will be available to Arizona, California and Nevada for all direct uses or off-stream storage based on the current surplus allocation (46%-50%-4%, respectively). Storage water is essential for increasing water supply reliability during inevitable shortage or normal years. Any water apportioned to but unused in any state will be available for use in the other states.

Level 2 Surplus Release – Level 2 surplus releases will be based on a Lake Mead elevation at or above 1,116 feet (13.0 MAF in storage) in 2001 (but below the Level 1 surplus of 1,160 feet in that year) and rising to 1,125 feet (13.9 MAF in storage) in 2015 (but below the Level 1 surplus of 1,166 feet in that year). Here again, the trigger elevation will be subject to adjustment over time. If the Upper Basin demand for a given calendar year differs from the current assumed projection of demand, the elevation levels will be adjusted upward or downward by 1-foot for every 1.1 percent change in the Upper Basin demands. Under a Level 2 surplus declaration, surplus water will be made available for the following uses: Metropolitan will keep the Colorado River Aqueduct full, the Southern Nevada Water Authority will meet water needs in its service area, and the Central Arizona Project will meet water needs in its service area. In

keeping the Colorado River Aqueduct full, Metropolitan will divert water conserved and available to Metropolitan under the IID/MWD Water Conservation Program, the IID-SDCWA Transfer, and the All American and Coachella Canal lining projects before diverting Level 2 surplus water. Surplus water will not be made available for any other agricultural uses. Surplus water may be stored for municipal and industrial uses only. Any water apportioned to but unused in any state will be available for use in the other states.

Level 3 Surplus Releases -- Level 3 surplus releases will be based on a Lake Mead elevation at or above 1,088 feet (10.5 MAF in storage) in 2001 (but below the Level 2 surplus of 1,116 feet in that year) and rising to 1,098 feet (11.3 MAF in storage) in 2015 (but below the Level 2 surplus of 1,125 feet in that year). Here again, the trigger elevation will be subject to adjustment over time. If the Upper Basin demand for a given calendar year differs from the current assumed projection of demand, the elevation levels will be adjusted upward or downward by 1 foot for every 1 percent change in the Upper Basin demands. Under a Level 3 surplus declaration, surplus water will be made available to satisfy Indian and urban demands; Metropolitan will keep the Colorado River Aqueduct full, the Southern Nevada Water Authority will meet water needs in its service area, and the Central Arizona Project will meet urban and Indian water needs in its service area. In keeping the Colorado River Aqueduct full, Metropolitan will divert water conserved and available to Metropolitan under the IID/MWD Water Conservation Program, the IID-SDCWA Transfer, the All American and Coachella Canal lining projects, and an additional 100,000 acre-feet from other sources annually, before diverting Level 3 surplus water. The additional 100,000 acre-feet will come either from already banked off-stream storage or an option type program similar to the MWD-PVID Test Land Fallowing

Program. Surplus water will not be made available for agricultural uses or for off-stream storage. Any water apportioned to but unused in any state will be available for use in the other states.

EXHIBIT B:
OVERRUN ACCOUNTING

During the Quantification Period, annual orders of Colorado River water by IID, CVWD and MWD shall be limited by the terms of their respective entitlements for Colorado River water as adjusted by the water budget components under the Quantification Settlement. IID and CVWD shall be deemed to have incurred an inadvertent overrun to the extent that (i) their Consumptive Use of Priority 3 Colorado River water exceeds 3.43 MAF including up to 14.5 KAF for Indian and Miscellaneous PPR's in any year of the Quantification Period, and (ii) their Consumptive Use of Priority 3 Colorado River water less 3.43 MAF exceeds the quantity of Priority 6 and 7 water available to IID and CVWD during that year.

During the Quantification Period, annual orders of Colorado River water by IID, CVWD and MWD shall be limited by the terms of their respective entitlements for Colorado River water as adjusted by the water budget components under the Quantification Settlement. IID, CVWD and MWD shall be deemed to have incurred an inadvertent overrun if their Colorado River Consumptive Use entitlement for that year, as adjusted, is exceeded.

MWD shall be deemed to have incurred an inadvertent overrun in an amount equal to:

(1) the amount that by which its Consumptive Use of Colorado River water in any year during the Quantification Period exceeds its entitlement to Colorado River water under Priority 4 and 5, and, via the Quantification Settlement, Priority 6; and (2) the amount by which the Consumptive Use of Colorado River water by Priorities 1, 2 and 3b exceed 420 KAF as adjusted by the water

budget components of Colorado River water, and the amount of water available to MWD under its surplus contract.

IID, CVWD and MWD, respectively, shall have a cumulative inadvertent overrun account of 310,000 AF, 46,800 AF, and 100,000 AF. During the Quantification Period, overruns within these limits must be repaid by reductions in diversions below a District's entitlement, as adjusted by the water budget components, over a five-year period, in annual amounts of at least 20% per year, starting in the first full calendar year after an overrun amount is reported by the BOR. Any overruns in excess of a District's allowed account must be repaid within the first full calendar year after the excess is reported by the BOR.

Overrun paybacks are tolled, but not prohibited, during periods of unlimited surplus, and overrun paybacks are forgiven in the event of flood control spills or anticipated flood control releases. The payback of an inadvertent overrun as a result of the need to satisfy Indian and Miscellaneous PPR's from Priority 3, 4, 5, 6 and 7 will be permitted.

EXHIBIT C:
35,000 AFY EXCHANGE AGREEMENT

Under the proposed transaction, Metropolitan will provide Coachella with a firm supply of 35,000 acre-feet. The proposed transaction involves a transfer agreement and an exchange agreement.

Transfer Agreement

Scope of Transaction. Metropolitan will transfer 35,000 acre-feet per year (afy) of its State Water Project (SWP) entitlement to Coachella Valley Water District (Coachella) on a permanent basis under the Monterey Agreement. Permanent basis refers to a term until 2035, the renewal date of the State Water contractors' agreements, with a right of renewal to coincide with the term of the Quantification Period. Upon termination of the Quantification Period, Coachella will re-convey this SWP entitlement to Metropolitan.

Purchase Price. Coachella will purchase the entitlement water from Metropolitan at a payment equivalent to \$60 per acre-foot in year 1999. This \$60 per acre-foot payment will be adjusted according to either the Inflation Index or the percentage change in SWP variable water delivery costs incurred in the future year compared to those costs incurred in the base year 1999. SWP variable water delivery costs include variable OMP&R, off-aqueduct power facilities charges, and future SWP cost paid by Metropolitan for variable water delivery costs and associated credits.

Option for Additional Transfer. The Department of Water Resources (DWR), Coachella, and Metropolitan agree that the execution of the original SWP entitlement transfer of 100,000 acre-feet will remain unaffected by the proposed 35,000 acre-foot transfer. Under the original proposed transfer and exchange, Metropolitan would transfer 100,000 acre-feet to Coachella and the Desert Water Agency (Desert) on a permanent basis; Coachella would pay Metropolitan the SWP fixed and variable costs associated with the 100,000 acre-feet of water. The parties will meet in good faith to conclude negotiations on the proposed 100,000 acre-foot transfer and exchange. Metropolitan's agreement to enter into such transfer and exchange will not be contingent upon a Metropolitan-Coachella conjunctive use program, although the parties will continue to explore the mutual benefits of entering into a conjunctive use program.

DWR Approval. The Director of the Department of Water Resources will approve both the 35,000 acre-foot and 100,000 acre-foot transfers in a timely manner.

Exchange Agreement

Scope of Transaction. The SWP entitlement transfer water will be delivered to Coachella through an exchange agreement. Metropolitan and Coachella will exchange 35,000 afy of SWP entitlement transfer water and Colorado River deliveries. Coachella will deliver its 35,000 afy of SWP entitlement transfer water to Metropolitan at the Devil Canyon Afterbay. In exchange, Metropolitan will deliver 35,000 afy of Colorado River water to Coachella at the Imperial Dam for delivery of the exchange water through the Coachella Canal, and/or at the service connection adjacent to the Whitewater River on the Colorado River Aqueduct, at Metropolitan's option. The parties shall cooperate to deliver water at the point of delivery which provides the maximum

flexibility to Coachella if needed, except that delivery shall be made at Imperial Dam when Metropolitan needs to optimize the use of the Colorado River Aqueduct.

Operating Costs. Metropolitan will be responsible for the additional costs of delivering the 35,000 afy of SWP entitlement transfer water to Devil Canyon Afterbay. These additional SWP costs include the O&M replacement costs, fish mitigation costs, and higher power costs for moving all of the water through the East Branch. Coachella will be responsible for the operating costs associated with the delivery of Colorado River water from Imperial Dam, conveyance through the All American and Coachella Canals, and conveyance to the Desert Water Agency/Coachella Valley Water District ("DWCV") service connection adjacent to the Whitewater River.

Reliability Provision. If SWP deliveries are subject to shortage allocations during dry hydrology, Metropolitan will provide Coachella with firm delivery of 35,000 afy by making up the shortfall in deliveries through the existing Whitewater account. Specifically, the allocated deliveries of SWP entitlement transfer water will be exchanged and delivered at Imperial Dam for conveyance through the Coachella Canal or at the DWCV service connection adjacent to the Whitewater River on the Colorado River Aqueduct. If the allocated delivery is less than 35,000 afy, then the shortfall will be deducted from the Advance Delivery account.