

FOR INFORMATION PURPOSES
MODEL CONTRACT SHOWING MWD ORIGINAL CONTRACT AND AMENDMENTS,
AS IF AMENDED BY THE PROPOSED CONTRACT EXTENSION AMENDMENT
DEPARTMENT OF WATER RESOURCES
MARCH 20, 2018

Markup showing in detail the substantive changes made by the Contract Extension Amendment
(e.g., does not show capitalization of defined terms as changes)

~~Language deleted is in red with strikethrough.~~

Language moved is in green, both where ~~deleted~~ and where inserted (except with respect to
alphabetizing the definitions).

Language inserted is in blue and underlined.

STATE OF CALIFORNIA
THE RESOURCES AGENCY OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

WATER SUPPLY CONTRACT
BETWEEN

THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

AND

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

For Information Purposes: This document serves as a model contract showing how the original State Water Project Water Supply Contract with Metropolitan Water District of Southern California and amendments to date would appear in a consolidated contract if further amended by the proposed Contract Extension Amendment.

A. INTRODUCTORY PROVISIONS2

- 1. Definitions.2
- 2. Term of Contract.....12
- 3. Validation.....12
- 4. Option for Continued Service.12
- 5. Pledge of Revenues.....13

B. WATER SERVICE PROVISIONS13

- 6. Annual Entitlements.13
- 7. Change in Annual Entitlements; Maximum Annual Entitlement.15
- 8. Option to Increase Maximum Annual Entitlement.15
- 9. Obligation to Deliver Water Made Available.16
- 10. Delivery Structures.16
- 11. Measurement of Water Delivered.17
- 12. Priorities, Amounts, Times, and Rates of Delivery.17
- 13. Responsibilities for Delivery and Distribution of Water.20
- 14. Curtailment of Delivery.20
- 15. Use of Water.21
- 16. Continuity and Dependability of Water Supply.22
- 17. Construction of Project Facilities.23
- 18. Shortage in Water Supply.27
- 19. Water Quality.....28
- 20. Suspension of Service.....29
- 21. Interruptible Water Service.....30

C. PAYMENT PROVISIONS31

- 22. Delta Water Charge.31
- 23. Transportation Charge.45
- 24. Transportation Charge – Capital ~~Cost Component~~[Components](#).50
- 25. Transportation Charge – Minimum Operation, Maintenance, Power, and Replacement Component.60
- 26. Transportation Charge – Variable Operation, Maintenance, ~~and~~ [Power](#), ~~and~~ [Replacement](#) Component.64
- 27. Transportation Charge – Repayment Schedule.....66
- 28. [Delta Water Charge and](#) Transportation Charge – Redetermination.67
- 29. Time and Method of Payment [of Delta Water Charge and Transportation Charge](#).....70
- 30. <Deleted>73
- 31. Adjustment for Overpayment or Underpayment.73
- 32. Delinquency in Payment.73
- 33. Obligation of District to Make Payments.73
- 34. Obligation of District to Levy Taxes and Assessments.73

D.	GENERAL PROVISIONS	75
35.	Remedies Not Exclusive.	75
36.	Amendments.	75
37.	Reservation With Respect to State Laws.	75
38.	Opinions and Determinations.	75
39.	Contracting Officer of the State.	75
40.	Successors and Assigns Obligated.	75
41.	Assignment.	75
42.	Waiver of Rights.	76
43.	Notices.	76
44.	Maintenance and Inspection of Books, Records, and Reports.	76
45.	Contracts to be Uniform.	76
46.	Suit on Contract.	77
47.	Amendatory Provisions.	77
48.	Operation of East Branch Aqueduct from - Devil Canyon Powerplant to Perris Reservoir (Reaches 28G through 28J)	87
49.	Enlargement Capacity from Junction, West Branch, California Aqueduct through Devil Canyon Powerplant (Reaches 18A through 26A)	87
50.	Water System Facility Revenue Bond Financing Costs.	98
51.	Financial Adjustments.	104
52.	Kern Water Bank	119
53.	Permanent Transfers and Reductions of Entitlement	119
54.	Usage of Lakes Castaic and Perris.....	123
55.	Transportation of Nonproject Water.....	127
56.	Use, Storage and Sale of Project Water Outside of Service Area and Storage of Water in Project Surface Conservation Facilities	128
57.	<Intentionally Left Blank>.....	133
58.	Determination of Dependable Annual Supply of Project Water to be Made Available by Existing Project Facilities.....	133
<59.	Does not exist	133
<60.	Does not exist	134
61.	Financial Accounts and Activities	134
EXHIBIT A.....		140
EXHIBIT B: System Reporting Principles		141

A. INTRODUCTORY PROVISIONS

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

(a) **“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~~ Annual Table A Amount 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) Groundwater 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.

(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(a) 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.

(b) **“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.

(c) **“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 District at the delivery structures provided for the District. 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 District. The Annual Table A Amounts and the terms of this contract reflect an expectation that under certain ~~conditions the District 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 District. 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.

(d) **“Area of Origin Statutes”** shall mean Sections 10505 and 11460 through 11463 of the Water Code as now existing or hereafter amended.

(e) **“Article 51(e) Amounts”** shall mean the annual amounts determined pursuant to Article 51(e)(1).

(f) **“Billing Transition Date”** shall mean January 1 of the first calendar year starting at least six (6) months after the Contract Extension Amendment Effective Date.

(g) **“Burns-Porter 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, as enacted in Chapter 1762 of the Statutes of 1959.

(h) **“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 Burns-Porter 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, and relocation work, all as shown upon the official records of the Department of Water Resources.

(i) “Carry-over Entitlement Water” shall mean water from a Contractor’s ~~annual entitlement~~ Annual Table A Amount for a respective year, which is made available for delivery by the State in the next year pursuant to Article 12(e).

(j) “Central Valley Project Act” shall mean the Central Valley Act comprising Part 3, commencing at Section 11100, of Division 6 of the Water Code.

(k) “Contract Extension Amendment” shall mean the substantially similar amendments to the Contractors’ Water Supply Contracts that include, among other things, an extension of the term of the contract to December 31, 2085.

(l) “Contract Extension Amendment Effective Date” shall mean the date on which the Contract Extension Amendment becomes effective with regard to this contract. The State shall provide a written notice to the [District] specifying the Contract Extension Amendment Effective Date once the applicable conditions set out in the Contract Extension Amendment have been met.

(m) “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, as such contracts have been amended from time to time.

(n) “Delta” shall mean the Sacramento-San Joaquin Delta as defined in Section 12220 of the Water Code on the date of approval of the Burns-Porter Bond Act by the voters of the State of California.

(o) “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 South Portal of the Tehachapi Tunnels to a terminus in the vicinity of Perris, Riverside County.

(p) “Economic Useful Life” shall mean the period during which the State expects to derive economic benefit from using an asset, as determined by the State.

(q) “Financial Information System” shall mean the system of record designated by the State as the authoritative source for the recording of all financial data values relating to the System.

(r) **“Financing Costs”** shall mean the following:

- (1) principal of and interest on Revenue Bonds,
- (2) debt service coverage required by the applicable bond resolution or indenture in relation to such principal and interest,
- (3) deposits to reserves required by the bond resolution or indenture in relation to such Revenue Bonds, and
- (4) premiums for insurance or other security obtained in relation to such Revenue Bonds.

(s) **“Incurred”** shall mean the following with respect to the timing of a cost:

- (1) Capital Costs and operation, maintenance, and power costs allocated irrespective of the amount of Project Water delivered to the Contractors are “Incurred” when the expenditure for the good, service or other consideration is recorded in the State’s financial information system, regardless of the date the good, service or other consideration is provided; and
- (2) operation, maintenance, and power costs allocated in an amount which is dependent upon and varies with the amount of Project Water delivered to the Contractors are “Incurred” when the good, service or other consideration is provided, regardless of when the expenditure for the good, service or other consideration is recorded in the financial information system.

(t) **“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 such 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.

(u) **“Interruptible Water”** shall mean Project Water available as determined by the State that is not needed for fulfilling Contractors’ ~~annual entitlement~~ Annual Table A Amount 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.

(v) “**Manufacturing Use**” shall mean any use of water primarily in the production of finished goods for market.

(w) “**Maximum Annual Table A Amount**” shall mean the maximum annual amount 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 Amount.”

(x) “**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.

(y) “**Monterey Amendment**” shall mean ~~this amendment and the~~ substantially similar amendments to ~~other Contractors’ Water Supply Contracts~~ Contractors’ Water Supply Contracts that ~~include~~included, among other provisions, the addition of Articles 51 through 56.

(z) “**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.

(aa) “**Nonproject Water**” shall mean water made available for delivery to Contractors that is not Project Water as defined in Article 1(ah).

(ab) “**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(a)(2), and by conveying water to the District. Such Project Facilities shall consist specifically of “Project Conservation Facilities” and “Project Transportation Facilities”, as hereinafter defined.

(ac) “**Project Conservation Facilities**” shall mean such Project Facilities as are presently included, or as may be added in the future, under subarticles 1(a) and 1(t).

(ad) “**Project Interest Rate**” shall mean the following:

(1) Prior to the Billing Transition Date, 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:

(1A) 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,

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

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

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

(5E) 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,

(6F) 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

(7G) 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) On and after the Billing Transition Date, the Project Interest Rate shall be four and six hundred and ten thousandths percent (4.610%) per annum.

~~(wae) “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.~~

(af) “Project Revenues” shall mean revenues derived from the service of Project Water to Contractors and others, and from the sale or other disposal of electrical energy generated in connection with operation of Project Facilities.

(ag) “Project Transportation Facilities” shall mean the following Project Facilities:

(1) All those facilities specified in subparagraph (2) of Section 12934(d) of the Water Code except: The reservoir near Los Banos in Merced County; the reach of the San Joaquin Valley-Southern California Aqueduct extending from the Delta to the reservoir near Los Banos in Merced County, to the extent required for water conservation as determined by the State; the North Bay Aqueduct extending to a terminal reservoir in Marin County; the South Bay Aqueduct extending to terminal reservoirs in the Counties of Alameda and Santa Clara; the Pacheco Pass Tunnel Aqueduct extending from a reservoir near Los Banos in Merced County to a terminus in Pacheco Creek in Santa Clara County; and the Coastal Aqueduct beginning on the San Joaquin Valley-Southern California Aqueduct in the vicinity of Avenal, Kings County, and extending to a terminus at the Santa Maria River.

(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.

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

(ah) “Project Water” shall mean water made available for delivery to the Contractors by the Project Conservation Facilities and the Project Transportation Facilities included in the System.

(ai) “Revenue Bonds” shall mean the following types of instruments payable from the sources provided in the Central Valley Project Act: revenue bonds, notes, refunding bonds, refunding notes, bond anticipation notes, certificates of indebtedness, and other evidences of indebtedness.

(aj) “Subject to Approval by the State” shall mean subject to the determination and judgment of the State as to acceptability.

(ak) “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.

(al) “Supplemental Water” shall mean water made available by Supplemental Conservation Facilities, in excess of the Minimum Project Yield.

(am) “System” shall mean the State Water Resources Development System as defined in Section 12931 of the Water Code.

(an) “System Revenue Account” shall mean the special account created pursuant to Water Code Section 12937(b) into which are deposited all revenues derived from the sale, delivery or use of water or power and all other income or revenue, derived by the State, from the System, with the exception of revenue attributable to facilities financed with revenue bonds issued pursuant to the Central Valley Project Act (Water Code Section 11100 et seq.).

(ao) “Water Supply Contract” shall mean one of the contracts described in the definition of Contractor in Article 1(m).

(ap) “Water System Facilities” shall mean the following facilities to the extent that they are financed with ~~water system revenue bonds~~ Revenue Bonds or to the extent that other financing of such facilities is reimbursed with proceeds from ~~water system revenue bonds~~ Water System Facility 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(ha)(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),~~ Project Facilities,

(9) A Project Facilities corporation yard, ~~and~~

(10) A Project Facilities operation center, ~~and~~

(11) Capital projects which are approved in writing by the State and eighty (80) percent of the affected Contractors as “Water System Facilities”, provided that the approving Contractors’ Table A amounts exceed eighty (80) percent of the Table A amounts representing all affected Contractors and provided further that “affected Contractors” for purposes of this subdivision (11) shall mean those Contractors which would be obligated to pay a share of the debt service on Revenue Bonds issued to finance such project.

(aq) “Water System Facility Revenue Bonds” shall mean ~~water made available for delivery to contractors that is not project water as defined in Article 1(Revenue Bonds issued after January 1, 1987 for Water System Facilities identified in Article 1(ap).~~

(ar) “West 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 South Portal of the Tehachapi Tunnels to a terminus in the vicinity of Newhall, Los Angeles County.

(as) “Year” shall mean the 12-month period from January 1 through December 31, both dates inclusive.

(at) “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.

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~~

1. [December 31, 2085, or](#)

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.

3. **Validation.** Within one (1) year after the effective date of this contract, the District 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 District 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 District 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 District's maximum annual entitlement hereunder.
- (2) Service of water at no greater cost to the District 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 District 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 [Burns-Porter Bond Act](#) and the holders and owners of Revenue Bonds issued under the [Central Valley Project Act](#),

and the income and revenues derived from this contract are pledged to the respective purposes and in the ~~priority~~respective priorities set forth in ~~that act~~these acts, as provided by law.

B. WATER SERVICE PROVISIONS

6. Annual Entitlements.

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

- (b) Commencing with the year of initial water delivery to the District, the State each year shall make available for delivery to the District 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 District's Annual Table A Amounts.

TABLE A
ANNUAL AMOUNTS**
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Year	<Calendar> <Year>	Total Annual Amount in Acre-Feet
1	<1972>	154,772
2	<1973>	354,600
3	<1974>	454,900
4	<1975>	555,200
5	<1976>	655,600
6	<1977>	755,900
7	<1978>	856,300
8	<1979>	956,600
9	<1980>	1,057,000
10	<1981>	1,157,300
11	<1982>	1,257,600
12	<1983>	1,358,000
13	<1984>	1,458,300
14	<1985>	1,558,700
15	<1986>	1,659,300
16	<1987>	1,759,800
17	<1988>	1,860,400
18	<1989>	1,961,400
19-29	<1990-2000>	2,011,500
30	<2001>	2,011,500
31	<2002>	2,011,500
32	<2003>	2,011,500
33	<2004>	1,911,500

And each succeeding year
thereafter, through December 31, 2035: **1,911,500**

Effective January 1, 2036: **2,011,500***

*The 2003 Exchange Agreement provides for the transfers to Coachella/Desert to simultaneously terminate on December 31, 2035 unless both are earlier or later simultaneously terminated pursuant to the terms of the 2003 Exchange Agreement.

**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.

(c) 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 District 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.

7. Change in Annual Entitlements; Maximum Annual Entitlement.

(a) The District 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.

(b) The maximum amount of project water to be made available to the District in any one year under this contract shall be 1,911,500, acre-feet, referred to in this contract as the District's maximum annual entitlement, and in no event shall such maximum amount of project water to be made available to the District be increased over this amount, except as is provided for in Articles 8 and 15(c).

(c) In the event that the State enters into a contract with a contractor for service of project water to an area outside the District, which area, as shown upon the official records of the District as of the date of execution of this contract, is proposed to be served by the District with project water made available pursuant to this contract, provision being made therefore in Table A included in Article 6(b), the District's annual entitlements and maximum annual entitlement hereunder shall be appropriately reduced, effective on the effective date of said contract for service of project water by the State to such area outside the District, by amendment of said Table A and subdivision (b) of this article respectively: Provided, That such reductions shall not exceed the amounts of said contractor's annual entitlements and maximum annual entitlement under its contract. Upon any reduction in the District's annual entitlements and maximum annual entitlement pursuant to this subdivision, the State shall appropriately reduce: (1) the delivery capabilities to be provided in the project transportation facilities for service to the District, and (2) the District's payment obligations hereunder.

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 District and all other contractors, and the District 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 District'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 District 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 District under this option and by other contractors through the exercise of similar options on or before September 30, 1964, the District 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 District's maximum annual entitlement under Article 7(b) shall be increased by the amount of the additional entitlement thereby obtained by amendment of that article, and the District 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. Obligation to Deliver Water Made Available. Project water made available to the District pursuant to Article 6(b) shall be delivered to the District by the State at the delivery structures established in accordance with Article 10. At any time or times the

District may refuse to accept delivery of water made available to it: Provided, That the District shall remain obligated to make all payments required under this contract.

10. Delivery Structures.

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

(b) Pursuant to subdivision (a) of this article, the District shall furnish to the State on or before June 30, 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) From time to time the District may request delivery structures in addition to those requested pursuant to subdivision (b) of this article.

(d) The District 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) The State shall measure all project water delivered to the District 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 District 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 District or any other contractor may inspect such measuring devices and equipment, and the measurements and records taken therefrom.

(b) The District 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. Priorities, Amounts, Times, and Rates of Delivery.

(a) The amounts, times, and rates of delivery of project water to the District 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 District 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 District 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 District, shall make such modifications in it as are necessary to insure the delivery of the annual quantity allocated to the District in accordance with Article 18 and to insure that the amounts, times, and rates of delivery to the District 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 District the water delivery schedule for the next succeeding year which shall show the amounts of water to be delivered to the District during each month of that year.

(3) A water delivery schedule may be amended by the State upon the District's written request. Proposed amendments shall be submitted by the District 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) In no event shall the State be obligated to deliver to any contractor through all delivery structures provided for such contractor a total amount of project water in any year greater than the contractor's annual entitlement for that year; nor to deliver to any contractor from the project transportation facilities downstream from Pumping Plant VI 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; nor 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 devoted 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 devoted 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 on monthly deliveries to such contractor shall be based on an appropriate apportionment of such contractor's annual entitlement for that 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 respective percentages set forth hereinabove may be revised by amendment of this subdivision after submission to the State of the respective 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 respective contractor of funds sufficient to cover any additional costs of the project transportation facilities occasioned thereby, as such costs are determined pursuant to Article 24(d): Provided further, That with respect to deliveries to the District from the project transportation facilities downstream from the Pumping Plant VI the percentage of eleven percent (11%) is revised to the extent provided in Article 47(c) of this contract.

(c) In no event shall the State be obligated to deliver water to the District through all delivery structures at a total combined instantaneous rate of flow exceeding three thousand four hundred eighty-eight (3,488) 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 District's requests with respect to maximum flow capacities to be provided in said delivery structures, pursuant to Article 10.

(d) <Deleted>

(e) Delivery of Carry-over Entitlement Water

Upon request of the District, the State shall make Carry-over Entitlement Water available for delivery to the District 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 District's approved delivery schedule for October, November and December, but was not delivered due to:

- (1) scheduled or unscheduled outages of facilities within the District'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 District'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 District 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 District 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 District 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 District will become a part of the current year's total project supply.

(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. Responsibilities for Delivery and Distribution of Water.

(a) 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 District 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 District shall indemnify and hold harmless the State and its officers, agents, and employees from any such damages or claims of damages.

(b) Neither the District 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.

(a) State May Curtail Deliveries

The State may temporarily discontinue or reduce the delivery of project water to the District 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 District, as well as due to outages in, or reductions in capability of, such facilities beyond the State's control or unusability of project water due to an emergency affecting project facilities. The State shall notify the District 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) District 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 District 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.

15. Use of Water.

(a) No sale or other disposal of project water delivered to the District pursuant to this contract shall be made by the District for use of such water outside the District which would, in the judgment of the State, materially impair the District's capacity to make payments to the State as provided for in this contract. Except insofar as such water is sold by the District to the United States, the State of California, or to purchasers for use within areas which are outside the areas proposed to be served by the State with water made available by the System, project water delivered to the District pursuant to this contract shall not be sold or otherwise disposed of by the District for use outside the District without the prior written consent of the State. The District shall notify the State

as promptly as feasible of all sales or other disposals of project water made or proposed to be made by the District for use outside the District.

(b) While this contract is in effect, no change shall be made in the organization of the District which would materially impair the District's capacity to make payments to the State as provided for herein. The District shall notify the State as promptly as feasible of any change or proposed change in the District's boundaries.

(c) In the event of annexation by the District of territory lying within an area served or to be served by the State with project water pursuant to a contract between the State and another contractor, and subject to the consummation of appropriate agreements between the State, the District, and such other contractor, the District's annual entitlements and maximum annual entitlement under this contract shall be increased by the amounts of the annual entitlements and maximum annual entitlement contracted for by said contractor for use in said annexed territory. In the event of annexation by the District of territory lying within an area proposed to be served by the State with project water, but for which no contract has been executed by the State for service of project water for use in such annexed territory, the District's annual entitlements and maximum annual entitlement under this contract, at the request of either the State or the District, shall be increased by the amounts of the prospective annual entitlements and maximum annual entitlement to project water allocated or assigned by the State for use in said annexed territory. Upon any increase in the District's annual entitlements and maximum annual entitlement pursuant to this subdivision, Table A included in Article 6(b), and Article 7(b) shall be amended accordingly and the District 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 such increased annual entitlements and maximum annual entitlement shall in all respects be subject to the terms and conditions of this contract.

(d) The State shall make no other contract to supply project water for use within the boundaries of the District without the consent of the District, and shall not authorize any other contractor to supply project water for use outside such other contractor's boundaries and within the boundaries of the District without the consent of the District.

16. Continuity and Dependability of Water Supply.

(a) Limit on Total of all Maximum Annual Table A Amounts

The District'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.

(b) 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) Commencing within two (2) years from the year of initial water delivery to the District, the State shall submit to the District at 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) 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) In planning and designing supplemental conservation facilities the State shall give consideration to the requirements and demands for supplemental water of the District and others who have contracted for project water. Entitlements to supplemental water shall be obtained, and repayment therefore shall be arranged, in contracts separate from contracts for project water.

17. Construction of Project Facilities.

(a) Subject to the rights of the District 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, other than the East Branch Aqueduct and the West Branch Aqueduct, such maximum monthly delivery capability for the transport and delivery of project water to the District as, in the judgment of the State, will best serve the interests of the District and all other contractors entitled to delivery of project water from or through said facilities: Provided, That within three (3) months after either the effective date of this contract or the execution of any amendments to this contract pursuant to the first proviso in Article 2, whichever is later, the District 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. On or before June 30, 1963, the District shall furnish to the State its written request specifying, subject to Articles 6(b), 7(b), 12(b), and 12(c), the maximum monthly delivery capability to be provided in each reach, including reservoirs, of the East Branch Aqueduct and of the West Branch Aqueduct for the transport and delivery of project water to the District, and specifying from which of said Branch Aqueducts the District shall receive water in the year of initial water delivery to the District and the year in

which the first delivery of project water from the other of said Branch Aqueducts shall be made to the District. Such maximum monthly delivery capabilities and timing of first deliveries of project water from said Branch Aqueducts shall be as so requested by the District: Provided, That the District shall not specify less than a total maximum monthly delivery capability of sixty-one thousand two hundred and sixty-five (61,265) acre-feet in each of said Branch Aqueducts for the transport and delivery of project water to the District, and the District's payment obligation under the Transportation Charge for said Branch Aqueducts shall be in accordance therewith unless the District requests a greater total maximum monthly delivery capability in either or both of said Branch Aqueducts pursuant to this subdivision: Provided further, That in the event said request by the District with respect to the timing of first deliveries of project water to the District from said Branch Aqueducts is, in the judgment of the State, incompatible with similar requests received from other contractors to be served from or through said Branch Aqueducts, which contractors have executed contracts with the State on or before June 30, 1963, the timing of first deliveries of project water to the District and such other contractors from said Branch Aqueducts shall be as established by mutual agreement among the State, the District, 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 Aqueducts 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 design and construct the project transportation facilities so as to provide for each reach thereof, including reservoirs, the capacity necessary to enable delivery of project water in each year to the District 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. Subject to Articles 6(b), 7(b), 12(b), and 12(c), the capacity so to be provided by the State for each reach of the project transportation facilities necessary for transporting water to the District shall be sufficient to enable delivery to the District in each month of any year of an amount of water up to but not exceeding eleven percent (11%) of the District's annual entitlement for the respective year and, upon completion of the project facilities, to enable delivery to the District in each month of any year of an amount of water up to but not exceeding eleven percent (11%) of the District's maximum annual entitlement: 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 District of the foregoing monthly amounts, subject to the retention at all times, except during periods of emergency, in each reservoir on the East Branch Aqueduct and the West Branch Aqueduct, respectively, of an amount of stored water reasonably sufficient

to meet emergency requirements of the District for project water during the respective year: Provided further, That excess capacity shall be provided in accordance with Article 47(c) of this contract.

(c) The District shall have a reasonable opportunity to inspect and study the State's plans and specifications for all project facilities during the planning stage and prior to the solicitation of bids for the construction thereof, and may make comments and recommendations thereon to the State. Such privilege shall also extend to any plans and specifications or proposed agreements for 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) 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) The State shall make all reasonable efforts to commence construction of the project transportation facilities on or before June 30, 1963. In the event that no contract for construction of project transportation facilities south of the San Luis Canal of the San Luis unit of the Federal Central Valley Project has been let on or before December 31, 1964, and that no bonds have been issued nor funds expended for construction of said facilities by that date, the District at any time after December 31, 1964, may at its option terminate this contract by giving notice of such termination to the State, such termination to be effective six (6) months after the giving of such notice, whereupon both parties hereto shall be relieved of all further obligations hereunder: Provided, That if the District has not theretofore given such notice, this option shall

expire upon the letting by the State of a contract for construction of said facilities at any time after March 31, 1965.

(f) 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 District as provided in this contract, and gives the District 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 District, 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 District 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 uncompleted portion or portions of the project transportation facilities to the extent necessary for the transport and delivery of water to the District 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 District, 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 District shall be credited by the State against the District's payment obligation under the capital cost component of the Transportation Charge, but the District 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 District 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 District pursuant hereto shall thereafter be deemed to be located at such point of connection. Specific arrangements for acquiring, constructing, operating, maintaining and replacing the District'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 District shall be and remain obligated to pay its proportionate share of the costs thereof.

(g) 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 (except advances for delivery structures, measuring devices and excess capacity and also excepting advances made under Article 47(m) of this contract), 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”.

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 District 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 District and other prior contractors in accordance with the terms of their contracts, and (ii) revise the District'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 District: Provided, That such redistribution of costs of transportation facilities shall not be made until there has been reasonable opportunity for the District to exercise the option provided for in (2) below, and for other prior contractors to exercise similar options.

(2) The District, 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 District are not required for delivery of project water to the District, 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 District under this contract: Provided further, That, except to the extent such limitation in Section 12931 of the Water Code be changed, the District shall not use the project transportation facilities under this option to transport water the right to which was secured by the District 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 District'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 District 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 District 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 District 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 District under this contract caused by drought, operation of area of origin statutes, or any other cause beyond its control.

19. Water Quality.

(a) 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 District, project water of such quality that the following constituents do not exceed the concentrations stated as follows:

<i>Constituent</i>	<i>Unit</i>	<i>Monthly Average</i>	<i>Average for any 10-year Period</i>	<i>Maximum</i>
Total Dissolved Solids	ppm	440	220	
Total Hardness	ppm	180	110	
Chlorides	ppm	110	55	
Sulfates	ppm	110	20	
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) The State shall regularly take samples of water at each delivery structure for delivery of project water to the District, 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 District at any time or times.

(c) 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. In the event of any default by the District 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 District, suspend deliveries of water under this contract for so long as such default continues: Provided, That during such period the District 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. 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 District 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.

C. PAYMENT PROVISIONS

22. Delta Water Charge.

The payments to be made by each Contractor shall include an annual charge designated as the Delta Water Charge, which shall be separately calculated and stated for costs Incurred prior to the Billing Transition Date and costs Incurred on or after the Billing Transition Date.

(a) Delta Water Charge for Costs Incurred Prior to the Billing Transition Date. The provisions of this subdivision (a) shall apply only to costs Incurred prior to the Billing Transition Date.

(1) Recovery of Costs of Project Conservation Facilities. ~~This charge~~ The Delta Water Charge for costs Incurred prior to the Billing Transition Date, together with the total revenues derived ~~during the project repayment period prior to the Billing Transition Date~~ 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 Incurred during the project repayment period prior to the Billing Transition Date, 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 subdivisions (c)(1) through (c)(3) of this article.~~ 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.

(b2) Components of Charge. 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~~ Contractor's Annual Table A Amount 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~~ Contractor's Annual Table A Amount 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~~ Contractor's Annual Table A Amount 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 for costs Incurred prior to the Billing Transition Date shall consist and be the sum of the following components as these are computed in accordance with subdivisions (ea)(3) and (da)(4) of this article: a capital-~~cost~~ component; a minimum operation, maintenance, power and replacement component; and a variable operation, maintenance, power and replacement component.

(3) Charge Components Expressed as Rates. The Capital Cost, the minimum operation, maintenance, power, and replacement, and the variable operation, maintenance, power, and replacement components of the Delta Water Charge for costs Incurred prior to the Billing Transition Date, together with that portion of the revenues derived ~~during the project repayment period~~ prior to the Billing Transition Date 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)~~ subdivisions (c)(1) through (c)(3) of this article:

(+A) Capital Costs;

(2B) operation, maintenance, power, and replacement costs Incurred irrespective of the amount of Project Water delivered to the Contractors; and (3

(3C) 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 for costs Incurred prior to the Billing Transition Date 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~~ Annual Table A Amounts of all Contractors, will be sufficient, together with that portion of the revenues derived ~~during the project repayment period~~ prior to the Billing Transition Date 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, 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:

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

Where:

i = The Project Interest Rate.

c = The total costs included in the respective category of costs and Incurred during 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 and incurred during the respective year of the Project Repayment Period (prior to the Billing Transition Date).

1, 2, and n
appearing
below c

and r = The respective year of the Project Repayment Period during which the costs ~~are~~-included in the respective category are Incurred, 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~~-Annual Table A Amounts 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~~-Annual Table A Amounts 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~~-Annual Table A Amounts or Project Water 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.

(4) Determination of Charge Components. The Capital Cost and minimum operation, maintenance, power, and replacement components of the Delta Water Charge for costs Incurred prior to the Billing Transition Date shall be the product of the appropriate rate computed under subdivision ~~(ea)~~(3) of this article; and the ~~contractor's annual entitlement to project water~~ Contractor's Annual Table A Amount for the respective year. The variable operation, maintenance, and power, ~~and replacement~~ component of the charge shall be the product of the appropriate rate computed under subdivision ~~(ea)~~(3) 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, such variable component during such period shall be the product of such 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.

(5) Redetermination of Rates. The rates to be used in determining the components of the Delta Water Charge pursuant to subdivision (a)(4) of this article and to become effective on January 1, 1970, shall be computed by the State in accordance with subdivision (a)(3) 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 (a)(3) and (4) 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 subdivisions (c)(1) through (c)(3) of this article, Annual Table A Amounts, 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 such 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.

(6) Water System Facility Revenue Bond Charges. Notwithstanding provisions of Article 22(a)(1) through (5), the capital and the minimum operation,

maintenance, power and replacement component of the Delta Water Charge for costs Incurred prior to the Billing Transition Date shall include an annual charge to recover the District's share of the portion of the Water System Facility Revenue Bond Financing Costs allocable to Project Conservation Facilities for Capital Costs Incurred prior to the Billing Transition Date. Charges to the District for these costs shall be calculated in accordance with Article 50(a).

(b) Delta Water Charge for Costs Incurred On or After the Billing Transition Date. The provisions of this subdivision (b) of this article shall apply only to costs Incurred on or after the Billing Transition Date.

(1) Components of the Delta Water Charge for Costs Incurred On or After the Billing Transition Date. The Delta Water Charge for costs Incurred on or after the Billing Transition Date shall consist of the following components as these are computed in accordance with subdivisions (b)(2) through (b)(4) of this article:

(A) Capital component,

(B) Minimum operation, maintenance, power, and replacement component; and

(C) Variable operation, maintenance, and power component.

(2) Determination of Charge Components. These three components of the Delta Water Charge for each calendar year, together with that portion of the revenues derived during such calendar year 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 such calendar year the following categories, respectively, of the costs allocated pursuant to subdivisions (c)(1) through (c)(3) of this article to the purpose of water conservation in, above, and below the Delta.

(A) the capital component consisting of Capital Costs of Project Conservation Facilities to be recovered during such calendar year as and to the extent provided in subdivision (b)(3) of this article;

(B) the minimum operation, maintenance, power, and replacement component consisting of operation, maintenance, power, replacement costs of Project Conservation Facilities Incurred during such calendar year irrespective of the amount of Project Water delivered to the Contractors; and

(C) the variable operation, maintenance, and power component consisting of operation, maintenance, and power costs of Project Conservation Facilities Incurred during such calendar year 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; and provided further that revenues generated in connection with the sale or other disposal of electrical energy generated in connection with operation of Project Conservation Facilities shall not reduce or be credited against charges pursuant to subdivision (b)(3)(D)(i) of this article (charges for Water System Facility Revenue Bond Financing Costs);

(3) Categories of Capital Costs.

(A) The amount of the capital component of the Delta Water Charge shall be determined in three steps as follows:

(i) first, an allocation to the District of Capital Costs of Project Conservation Facilities as provided in subdivisions (c)(1) through (c)(3) of this article,

(ii) second, a determination of the type and source of payment of each Capital Cost in accordance with subdivision (b)(3)(B) of this article, and

(iii) third, a computation of the annual payment to be made by the District as provided in subdivision (b)(3)(C) and (b)(3)(D) of this article.

(B) Annual Capital Costs of Project Conservation Facilities shall be divided into five categories of type and source of payment:

(i) Project Conservation Facility Capital Costs paid with the proceeds of Water System Facility Revenue Bonds,

(ii) Project Conservation Facility Capital Costs to be paid with the proceeds of Bonds issued under the Burns-Porter Bond Act,

(iii) Project Conservation Facility Capital Costs to be paid with amounts in the SWRDS Reinvestment Account

(iv) Project Conservation Facility Capital Costs to be paid annually for assets that will have a short Economic Useful Life or the costs of which are not substantial, and

(v) Project Conservation Facility Capital Costs prepaid by the District.

(C) The projected amounts of Project Conservation Facility Capital Costs in each such category to be allocated annually to the District shall be determined by the State in accordance with the cost allocation principles and procedures set forth in subdivision (c)(1) through (c)(3) and (b)(6) of this article, which principles and procedures shall be controlling as to allocations of Capital Costs to the District; *provided* that these amounts shall be subject to redetermination by the State in accordance with Article 28. Such projected amounts will be set forth in Table B by the State.

TABLE B
PROJECTED ALLOCATIONS TO [DISTRICT]
OF PROJECT CONSERVATION FACILITY CAPITAL COSTS INCURRED ON
OR AFTER THE BILLING TRANSITION DATE

<u>Year</u>	<u>Projected Allocations in Thousands of Dollars</u>				
	<u>Costs to be Paid with Proceeds of Water System Facility Revenue Bonds</u>	<u>Costs to be Paid with the Proceeds of Bonds issued under the Burns-Porter Bond Act</u>	<u>Costs to be Paid with Amounts in the SWRDS Reinvest-ment Account</u>	<u>Costs to be Paid Annually for Assets That Will Have a Short Economic Useful Life or the Costs of which are Not Substantial</u>	<u>Costs Prepaid by the District</u>
<u>1*</u>					
<u>2</u>					
<u>3</u>					

* Year commencing with the Billing Transition Date.

(D) The annual amount to be paid by the District under the capital component of the Delta Water Charge for each calendar year for costs Incurred on or after the Billing Transition Date shall consist of the following categories:

(i) Water System Facility Revenue Bonds: a charge determined in accordance with Article 50(b) to recover Water System Facility Revenue Bond Financing Costs Incurred during such calendar year that relate to the financing of Project Conservation Facilities,

(ii) Burns-Porter Act Bonds: a charge to recover the amount to be paid by the State of California during such calendar year in accordance with the Burns-Porter Bond Act for the principal of and interest on bonds issued under the Burns-Porter Bond Act on or after the Billing Transition Date for Project Conservation Facility Capital Costs,

(iii) SWRDS Reinvestment Account: a charge determined in accordance with subdivision (b)(5) of Article 61 to amortize

Project Conservation Facility Capital Costs Incurred during prior calendar years (but not prior to the Billing Transition Date) that have been paid with amounts from the SWRDS Reinvestment Account.

(iv) Capital Assets with Short Economic Life or Costs of which are Not Substantial: a charge to recover the Capital Costs to be Incurred during such calendar year of Project Conservation Facility assets with a short Economic Useful Life or the costs of which are not substantial as determined by the State and any such Capital Costs Incurred but not charged in the prior two calendar years.

(E) The projected amounts of each category of charges to be paid annually by the District under this capital component shall be determined by the State in accordance with the cost allocation principles and procedures set forth in this subdivision (b), which principles and procedures shall be controlling as to allocations of types of capital component charges to the District; provided that these amounts shall be subject to redetermination by the State in accordance with Article 28. Such amounts are projected to be as set forth in Table C by the State.

TABLE C
PROJECTED CHARGES TO [DISTRICT]
UNDER THE CAPITAL COMPONENT OF THE DELTA WATER CHARGE
FOR COSTS INCURRED ON OR AFTER THE BILLING TRANSITION DATE

<u>Year</u>	<u>Projected Charges in Thousands of Dollars</u>			
	<u>Costs to be Paid with Proceeds of Water System Facility Revenue Bonds</u>	<u>Costs to be Paid with the Proceeds of Bonds issued under the Burns-Porter Bond Act</u>	<u>Costs to be Paid with Amounts in the SWRDS Reinvestment Account</u>	<u>Costs to be Paid Annually for Assets That Will Have a Short Economic Useful Life or the Costs of which are Not Substantial</u>
<u>1</u>				
<u>2</u>				
<u>3</u>				

* Year commencing with the Billing Transition Date.

(4) Minimum Operation, Maintenance, Power and Replacement Charge – Determination; Repayment Table.

The amount to be paid each year by the District under the minimum operation, maintenance, power, and replacement component of the Delta Water Charge shall be determined by the State in accordance with the cost allocation principles and procedures set forth in subdivision (b)(6)(A) of this article; provided that these amounts shall be subject to redetermination by the State in accordance with Article 28. Such amounts are projected to be as set forth in Table D by the State.

TABLE D
DELTA WATER CHARGE -- ESTIMATED MINIMUM OPERATION, MAINTENANCE, POWER AND REPLACEMENT COMPONENT FOR COSTS INCURRED ON OR AFTER THE BILLING TRANSITION DATE [DISTRICT]

<u>Year</u>	<u>Total Annual Payment by District</u>
<u>1*</u>	
<u>2</u>	
<u>3</u>	
<u>4</u>	

* Year commencing with the Billing Transition Date.

(5) Variable Operation, Maintenance and Power Charge– Determination; Repayment Table.

The amount to be paid each year by the District under the variable operation, maintenance and power component of the Delta Water Charge shall be determined by the State in accordance with the cost allocation principles and procedures set forth in subdivision (b)(6)(B) of this article; provided that these amounts shall be subject to redetermination by the State in accordance with Article 28. Such amounts are projected to be as set forth in Table E by the State.

TABLE E
DELTA WATER CHARGE -- ESTIMATED VARIABLE OPERATION,
MAINTENANCE AND POWER COMPONENT FOR COSTS INCURRED ON
OR AFTER THE BILLING TRANSITION DATE
[DISTRICT]

<u>Year</u>	<u>Total Annual Payment by District</u>
<u>1*</u>	
<u>2</u>	
<u>3</u>	
<u>4</u>	

* Year commencing with the Billing Transition Date.

(6) Allocation of Charges to the District.

(A) The capital and minimum operation, maintenance, and power components of the Delta Water Charge for each calendar year for costs Incurred on or after the Billing Transition Date shall be allocated to the District in proportion to the ratio of the District's Annual Table A Amount for such calendar year to the total of the Annual Table A Amounts for all Contractors for such calendar year.

(B) The variable operation, maintenance, and power component of the Delta Water Charge for each calendar year for costs Incurred on or after the Billing Transition Date shall be allocated to the District in proportion to the ratio of the number of acre-feet of Project Water delivered to the District during such calendar year to the number of acre-feet of Project Water delivered to all Contractors during such calendar 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, such variable component during such period shall be calculated as if the number of acre-feet wasted had been delivered.

(7) Delta Water Charge -- Repayment Schedule.

The amounts to be paid by the District for each year on or after the Billing Transition Date under the Capital Cost component, minimum operation, maintenance, power and replacement component and the variable operation, maintenance, and power component of the Delta Water Charge shall be set forth

by the State in Table F, which Table F shall constitute a summation of Tables C, D, and E; provided that each of the amounts set forth in Table F shall be subject to redetermination by the State in accordance with Article 28; provided further that the principles and procedures set forth in this Article 22 shall be controlling as to such amounts. Such amounts shall be paid by the District in accordance with the provisions of Article 29.

TABLE F
REPAYMENT SCHEDULE—DELTA WATER CHARGE FOR COSTS
INCURRED ON OR AFTER THE BILLING TRANSITION DATE
[DISTRICT]

<u>Year</u>	<u>Capital Cost Component</u>	<u>Minimum Component</u>	<u>Variable Component</u>	<u>Total</u>
<u>1*</u>				
<u>2</u>				
<u>3</u>				
<u>4</u>				

* Year commencing with the Billing Transition Date.

(c) Provisions Applicable to the Delta Water Charge for Costs Incurred Both Before and On or After the Billing Transition Date. The provisions of this subdivision (c) shall be applicable to costs Incurred both prior to and on or after the Billing Transition Date.

(1) Allocation of Costs to Project Purposes.

(A) 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) <Harvey O. Banks 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.

(B) Wherever reference is made, in connection with the computation, determination, or payment 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 that are reimbursable by the Contractors as determined by the State.

(C) The State, in fixing and establishing prices, rates, and charges for water and power, shall include as a reimbursable cost of any state water project an amount sufficient to repay all costs incurred by the State, directly or by contract with other agencies, for the preservation of fish and wildlife and determined to be allocable to the costs of the project works constructed for the development of that water and power, or either. Costs incurred for the enhancement of fish and wildlife or for the development of public recreation shall not be included in the prices, rates, and charges for water and power, and shall be nonreimbursable costs. Such recreational purposes include, but are not limited to, those recreational pursuits generally associated with the out-of-doors, such as camping, picnicking, fishing, hunting, water contact sports, boating, and sightseeing, and the associated facilities of campgrounds, picnic areas, water and sanitary facilities, parking areas, viewpoints, boat launching ramps, and any others necessary to make project land and water areas available for use by the public. In administering this Contract “development of public recreation” shall include recreation capital and operation and maintenance.

(2) Additional Conservation Facilities. 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.

~~(f3)~~ *Supplemental Conservation Facilities.* 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 ~~(ec)(1)~~ 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 ~~(ec)(1)~~ 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 such subdivision ~~(ec)(1)~~, 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~~ [Annual Table A Amounts](#) 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.

~~(h4)~~ *Local Projects.* 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 ~~(e)~~, ~~(da)~~ and ~~(eb)~~ above, for all Additional Project Conservation Facilities as defined in Article 1(~~h~~) ~~hereinabove~~a). In the event a Local Project as defined in Article 1(~~h~~)a(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~~)a) has been entered into.

(i5) *Water Purchased By the State.* In calculating the ~~rate for project water to be paid by each contractor for the~~ Delta Water Charge under subdivisions ~~(e)~~, ~~(da)~~ and ~~(e) above~~b) of this article, 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.

(6) *Replacement Cost Treatment.* Replacement costs of Project Conservation Facilities shall be treated as either Capital Costs or as minimum operation, maintenance, power, and replacement costs, as determined by the State considering the Economic Useful Life of the asset being replaced and other relevant factors.

~~(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 District's share of the conservation portion of the water system revenue bond financing costs. Charges to the District 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.~~

23. Transportation Charge.

The payments to be made by each Contractor shall include an annual charge designated as the Transportation Charge, which shall be separately stated and calculated for costs Incurred prior to the Billing Transition Date and costs Incurred on or after the Billing Transition Date.

(a) **Transportation Charge for Costs Incurred Prior to the Billing Transition Date.** The provisions of this subdivision (a) and Articles 24(a) and (c), 25 and 26 shall apply to costs Incurred prior to the Billing Transition Date.

(1) *Recovery of Costs of Project Transportation Facilities.* The Transportation Charge for costs Incurred prior to the Billing Transition Date shall return to the State during the Project Repayment Period such costs of all Project Transportation Facilities necessary to deliver Project Water to the Contractor ~~incurred during the project repayment period, including capital, operation, maintenance, power, and replacement costs,~~ and which are allocated to the Contractor in accordance with the cost allocation principles and procedures hereinafter 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.~~

(2) *Components of Transportation Charge for Costs Incurred Prior to the Billing Transition Date.* The Transportation Charge for costs Incurred Prior to the Billing Transition Date shall consist of a capital component; a minimum operation, maintenance, power, and replacement component; and a variable operation, maintenance, ~~and~~ power, ~~and replacement~~ component, as these components are defined in and determined under Articles 24(a) and (c), 25, and 26, respectively.

(b) **Transportation Charge for Costs Incurred On or After the Billing Transition Date.** The provisions of this subdivision (b) and Articles 24(b) and (c), 25 and 26 shall apply to costs Incurred on or after the Billing Transition Date.

(1) *Recovery of Costs of Project Transportation Facilities.* The Transportation Charge for costs Incurred on or after the Billing Transition Date shall return to the State during each such calendar year all costs which are Incurred on or after the Billing Transition Date of all Project Transportation Facilities necessary to deliver Project Water to the Contractor and which are allocated to the Contractor in accordance with the cost allocation principles and procedures hereinafter set forth.

(2) *Components of Transportation Charge.* The Transportation Charge for costs Incurred on or after the Billing Transition Date shall consist of a capital component; a minimum operation, maintenance, and power component; and a variable operation, maintenance, and power component, as these components are defined in and determined under Articles 24(b) and (c), 25, and 26, respectively.

(c) Segregation of Aqueduct Reaches for All Transportation Charge

Purposes. For the purpose of allocations of costs among Contractors pursuant to ~~said articles, subdivisions (a) and (b) of this article, and Articles 24, 25 and 26,~~ 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 District 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, a portion of the costs of which may be allocated to the District, are established as ~~follows: provided in Table G;~~ *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.

TABLE G
PROJECT TRANSPORTATION FACILITIES NECESSARY TO DELIVER
WATER TO
DISTRICT

(This table was labeled Table I in original contract provisions)

<u>Aqueduct Reach</u>	<u>Major Features of Reach</u>
Delta to Discharge Pumping Plant I	Intake Canal Fish Protective Facilities Pumping Plant I <Harvey O. Banks>
Discharge Pumping Plant I to San Luis Forebay	Aqueduct
San Luis Forebay to Outlet San Luis Reservoir	San Luis <O'Neill> Forebay and Dam Pumping Plant II <Dos Amigos> San Luis Reservoir and Dam
Outlet San Luis Reservoir to Avenal Gap	Aqueduct
Avenal Gap to Pumping III	Aqueduct
Pumping Plant III to Pumping Plants IV-V	Pumping Plant III <Buena Vista> Aqueduct
Pumping Plant IV-V to Pumping Plant VI	Pumping Plant IV <Wheeler Ridge (IRA J. Chrisman)> Pumping Plant V <Windgap (John R. Teerink)> Aqueduct
Pumping Plant VI to South Portal Tehachapi Tunnels	Pumping Plant VI <A.D. Edmonston> Tehachapi Tunnels

East Branch Aqueduct

South Portal Tehachapi Tunnels to Cottonwood Power Plant	Aqueduct Cottonwood Power Plants 1 and 2 <now one plant named Alamo Power Plant>
Cottonwood Power Plant to a point near Fairmont Reservoir	Aqueduct
Near Fairmont Reservoir to Little Rock Creek	Aqueduct
Little Rock Creek to West Fork Mojave River	Pumping Plant VIII <Pearblossom Pumping Plant> Aqueduct
West Fork Mojave River to Perris Reservoir	Cedar Springs Reservoir <Lake Silverwood> and Dam Devil Canyon Power Plants 1 and 2 <now one plant> Aqueduct <Santa Ana Pipeline> Perris Reservoir and Dam <Lake Perris>

West Branch Aqueduct

South Portal Tehachapi Tunnels to West Branch Terminal Reservoir	West Branch Aqueduct <Canal Oso Pumping Plant, Quail Lake, Peace Valley Pipeline, Warne Power Plant, Pyramid Lake, Angeles Tunnel, Castaic Power Plant, and Elderberry Forebay>
West Branch Terminal Reservoir	Dam, reservoir, and outlet facilities <Castaic Lake>

(d) Provisions Applicable to the Transportation Charge for Costs Incurred Both Before and On or After the Billing Transition Date.

(1) Wherever reference is made, in connection with the computation, determination, or payment of the Transportation Charge, to the allocation or payment of 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.

(2) The State, in fixing and establishing prices, rates, and charges for water and power, shall include as a reimbursable cost of any state water project an amount sufficient to repay all costs incurred by the State, directly or by contract with other agencies, for the preservation of fish and wildlife and determined to be allocable to the costs of the project works constructed for the development of that water and power, or either. Costs incurred for the enhancement of fish and wildlife or for the development of public recreation shall not be included in the prices, rates, and charges for water and power, and shall be nonreimbursable costs. Such recreational purposes include, but are not limited to, those recreational

pursuits generally associated with the out-of-doors, such as camping, picnicking, fishing, hunting, water contact sports, boating, and sightseeing, and the associated facilities of campgrounds, picnic areas, water and sanitary facilities, parking areas, viewpoints, boat launching ramps, and any others necessary to make project land and water areas available for use by the public. In administering this Contract “development of public recreation” shall include recreation capital and operation and maintenance.

24. Transportation Charge - Capital ~~Cost Component~~Component.

(a) Transportation Charge Capital Component for Costs Incurred Prior to the Billing Transition Date. The provisions of this subdivision (a) shall apply only to Capital Costs Incurred prior to the Billing Transition Date.

(1) *Recovery of Capital Costs of Project Transportation Facilities Incurred Prior to the Billing Transition Date.* The amount of the capital 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 for Capital Costs Incurred prior to the Billing Transition Date shall be determined in two steps as follows:

(~~1~~A) *first,* an allocation of ~~capital~~such costs to the Contractor in accordance with subdivision (a)(2) of this article, and

(~~2~~B) *second,* a computation of annual ~~payment~~payments to be made by the Contractor of such allocated ~~capital~~ costs and interest thereon, computed at the Project Interest Rate in accordance with subdivision (a)(3) of this article, ~~to be made by the contractor.~~

(~~b~~)*(2) Allocation of Capital Costs of Project Transportation Facilities Incurred Prior to the Billing Transition Date.* In the first step, ~~the~~ The total amount of Capital Costs Incurred prior to the Billing Transition Date 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~~such reach by the proportionate use of facilities method of cost allocation and in accordance with (~~1~~) and (~~2~~) below, Article 23(c) and subdivision (c)(1) of this article.

The projected amounts of Capital Costs to be allocated annually to the District 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 (a) and subdivision (c)(1) of this article, which principles and procedures shall be controlling as to allocations of Capital Costs to the District. Such amounts will be set forth in Table ~~C~~H by the State as soon as designs and cost estimates are prepared by it subsequent to receipt of requests from the District as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of Project Water to the District, pursuant to Article 17(a), provided that these amounts shall be subject to redetermination by the State in accordance with Article 28.

TABLE ~~C~~H
PROJECTED ALLOCATIONS OF CAPITAL COSTS INCURRED PRIOR TO
THE BILLING TRANSITION DATE OF
PROJECT TRANSPORTATION FACILITIES TO
[DISTRICT]

<u>Year</u>	<u>Projected Allocation in Thousands of Dollars</u>
1*	
2	
3	
4	

* Year in which State commences construction of Project Transportation Facilities.

(This table was labeled Table C in original contract provisions)

(3) Determination of Capital Component of Transportation Charge for Costs Incurred Prior to the Billing Transition Date. The District's annual payment of its allocated Capital Costs Incurred prior to the Billing Transition Date and interest thereon, computed at the Project Interest Rate and compounded annually, shall be determined in accordance with a repayment schedule established by the State and determined in accordance with the principles set forth in (A), (B), and (C) below, which principles shall be controlling as to the District's payment of its allocated Capital Costs. The District's repayment schedule will be set forth in Table I by the State as soon as designs and cost estimates are prepared by it subsequent to receipt of requests from the District as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of Project Water to the District, pursuant to Article 17(a); *provided* that the amounts set forth in Table I shall be subject to redetermination by the State, pursuant to Article 28.

(A) The District's annual payment shall be the sum of the amounts due from the District on the District'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 District's allocated Capital Costs for the respective year and interest thereon, computed at the Project Interest Rate and compounded annually.

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

(C) Such annual Transportation Charge payments shall cease when all allocated Capital Costs and interest thereon, computed at the Project Interest Rate and compounded annually, are repaid.

TABLE ~~D~~I
TRANSPORTATION CHARGE FOR COSTS INCURRED PRIOR TO THE
BILLING TRANSITION DATE-- CAPITAL COST COMPONENT
[DISTRICT]

(In Thousands of Dollars)

<u>Year</u>	<u>Annual Payment of Principal</u>	<u>Annual Interest Payment</u>	<u>Total Annual Payment by District</u>
1*			
2**			
3			
4			

* Year in which State commences construction of Project Transportation Facilities.

** Year of first payment.

(This table was labeled Table D in original contract provisions)

(4) Notwithstanding provisions of subdivisions 24(a)(1) through ~~(d),(a)(3)~~ of this article, the capital component of the Transportation Charge for costs Incurred prior to the Billing Transition Date shall include an annual charge to recover the District's share of the ~~transportation portion of the water system revenue bond financing costs~~ Water System Facility Revenue Bond Financing Costs allocable to Project Transportation Facilities. Charges to the District for these costs shall be calculated in accordance with Article 50(a) 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.~~

(b) Transportation Charge Capital Component for Costs Incurred On or After the Billing Transition Date. The provisions of this subdivision (b) shall apply only to Capital Costs Incurred on or after the Billing Transition Date.

(1) The amount of the capital component of the Transportation Charge for costs Incurred on or after the Billing Transition Date shall be determined in three steps as follows:

(A) first, an allocation of Capital Costs to the Contractor as provided in subdivision (b)(2) of this article,

(B) second, a determination of the type and source of payment of each Capital Cost as provided in subdivision (b)(3) of this article, and

(C) third, a computation of the annual payment to be made by the Contractor as provided in subdivision (b)(4) and (b)(5) of this article.

(2) The total amount of Capital Costs of each aqueduct reach to be returned to the State under the Transportation Charge for costs Incurred on or after the Billing Transition Date 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 Article 23(c) and subdivision (c)(1) of this article.

(3) Annual Capital Costs of Project Transportation Facilities shall be divided into five categories of type and source of payment:

(A) Project Transportation Facility Capital Costs paid with the proceeds of Water System Facility Revenue Bonds,

(B) Project Transportation Facility Capital Costs paid with the proceeds of bonds issued under the Burns-Porter Bond Act

(C) Project Transportation Facility Capital Costs paid with amounts in the SWRDS Reinvestment Account

(D) Project Transportation Facility Capital Costs paid annually for assets that will have a short Economic Useful Life or the costs of which are not substantial.

(E) Project Transportation Facility Capital Costs prepaid by the District.

The projected amounts of Project Transportation Facility Capital Costs of each type to be allocated annually to the District shall be determined by the State in accordance with the cost allocation principles and procedures set forth in Article 23(c)(1) through (c)(3) and this subdivision (b)(3), which principles and procedures shall be controlling as to allocations of each type of Capital Costs to the District; *provided* that these amounts shall be subject to redetermination by the State in accordance with Article 28. Such projected amounts will be set forth in Table J by the State.

TABLE J
PROJECTED ALLOCATIONS TO [DISTRICT]
OF PROJECT TRANSPORTATION FACILITY CAPITAL COSTS INCURRED
ON OR AFTER THE BILLING TRANSITION DATE

<u>Year</u>	<u>Allocations in Thousands of Dollars</u>				
	<u>Costs to be Paid with Proceeds of Water System Facility Revenue Bonds</u>	<u>Costs to be Paid with the Proceeds of Bonds issued under the Burns-Porter Bond Act</u>	<u>Costs to be Paid with Amounts in the SWRDS Reinvestment Account</u>	<u>Costs to be Paid Annually for Assets That Will Have a Short Economic Useful Life or the Costs of which are Not Substantial</u>	<u>Costs Prepaid by the District</u>
<u>1*</u>					
<u>2</u>					
<u>3</u>					

* Year commencing with the Billing Transition Date

(4) The capital component of the Transportation Charge for a calendar year for costs Incurred on or after the Billing Transition Date shall consist of the following to the extent the related Capital Costs are allocated to the District:

(A) Water System Facility Revenue Bond: a charge determined in accordance with Article 50(b) to recover Water System Facility Revenue Bond Financing Costs Incurred during such calendar year that relate to the financing of Water System Facilities that are Project Transportation Facilities,

(B) Burns-Porter Act Bonds: a charge to recover the amount to be paid by the State of California during such calendar year in accordance with the Burns-Porter Bond Act for the principal of and interest on bonds issued under the Burns-Porter Bond Act on or after the Billing Transition Date for Project Transportation Facility Capital Costs,

(C) SWRDS Reinvestment Account: a charge determined in accordance with subdivision (b)(5) of Article 61 to amortize Project Transportation Facility Capital Costs Incurred during prior calendar years

(but not prior to the Billing Transition Date) that have been paid with amounts from the SWRDS Reinvestment Account,

(D) Capital Assets with Short Economic Life or Costs of which are Not Substantial: a charge to recover the Capital Costs to be Incurred during such calendar year of Project Transportation Facility assets with a short Economic Useful Life or the costs of which are not substantial as determined by the State and any such Capital Costs Incurred but not charged in the prior two calendar years,

(5) Projected Charges. The projected amounts of the charges to be allocated annually to the District under the capital component of the Transportation Charge for costs Incurred on or after the Billing Transition Date shall be determined by the State in accordance with the cost allocation principles and procedures set forth in this Article, which principles and procedures shall be controlling as to allocations of capital component charges to the District; provided that these amounts shall be subject to redetermination by the State in accordance with Article 28. Such amounts are projected to be as set forth in Table K by the State.

TABLE K
PROJECTED CHARGES UNDER THE CAPITAL COMPONENT
OF THE TRANSPORTATION CHARGE FOR COSTS INCURRED ON OR
AFTER THE BILLING TRANSITION DATE TO
[DISTRICT]

<u>Year</u>	<u>Projected Charges in Thousands of Dollars</u>			
	<u>Costs to be Paid with Proceeds of Water System Facility Revenue Bonds</u>	<u>Costs to be Paid with the Proceeds of Bonds issued under the Burns-Porter Bond Act</u>	<u>Costs to be Paid with Amounts in the SWRDS Reinvestment Account</u>	<u>Costs to be Paid Annually for Assets That Will Have a Short Economic Useful Life or the Costs of which are Not Substantial</u>
<u>1*</u>				
<u>2</u>				
<u>3</u>				

* Year commencing with the Billing Transition Date.

(c) Provisions Applicable to the Transportation Charge For Costs Incurred Both Prior To and On or After the Billing Transition Date. The provisions of this subdivision (c) shall be applicable to Capital Costs Incurred both prior to and on or after the Billing Transition Date.

(1) Proportionate Use Factors. The measure of the proportionate use of by each Contractor of each reach shall be the average of the following two ratios:

(A) the ratio of the Contractor's ~~maximum annual entitlement~~ Maximum Annual Table A Amount to be delivered from or through the reach to the total of the ~~maximum annual entitlements~~ Maximum Annual Table A Amounts 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

(B) 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 District pursuant hereto shall be on the basis of relevant values which will be set forth in Table ~~B~~ by the State as soon as designs and cost estimates are prepared by it subsequent to receipt of requests from the District 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 District, 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 District. Proportionate use of facilities factors for prior years shall not be adjusted by the State in response to changes or transfers of ~~entitlement~~ Table A Amounts 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.

TABLE L

[TABLE L shall set forth the relevant values that shall serve as the basis for allocation of all Transportation Charge Costs]

(This table was labeled Table B in original contract provisions)

~~(1)~~2) Determinations Using Proportionate Use Factors. The total amount in each category 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 in that category to be returned to the State under the Transportation Charge by the average of the two foregoing ratios for such reach as such average is set forth in the appropriate table included in its contract.

(2)-3) Excess Capacity. 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~~ Maximum Annual Table A Amount or Amounts to be supplied by such excess capacity, as determined by the State, shall be deemed to be contracted for by such 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 A) the ~~maximum annual entitlement~~ Maximum Annual Table A Amount 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~~ Contractor's Maximum Annual Table A Amount to be delivered from or through the reach bears to the total of the ~~maximum annual entitlements~~ Maximum Annual Table A Amounts to be delivered from or through the reach under all contracts; and

(ii B) 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~~ Contractor's Maximum Annual Table A Amount to be delivered from or through the reach is increased pursuant to (i A) above.

(4) Power Facilities. 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).

(5) Capital Costs of Excess 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 such 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)(1) 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:

(1A) 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 such subdivision (b)(1); and

(2B) the amount of the difference between such 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 (2B) above shall be further allocated between or among them in amounts which bear the same proportion to the total of such 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 (2B) above, the account of such Contractor shall be credited or debited accordingly.

(6) Replacement Cost Treatment. Replacement costs of Project Transportation Facilities shall be treated as either Capital Costs or as minimum operation, maintenance, power and replacement costs, as determined by the State considering the Economic Useful Life of the asset being replaced and other relevant factors.

~~(e) — 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).~~

(f) *East Branch Enlargement.* Notwithstanding provisions of ~~Article~~Articles 24(a) through 24(d), Capital Costs associated with East Branch Enlargement Facilities as defined in Article 49(a) shall be collected under the capital ~~east~~ component of the East Branch Enlargement Transportation Charge Article 49(d). Any Capital Costs of off-aqueduct power facilities associated with

deliveries through East Branch Enlargement Facilities shall be charged and allocated in accordance with Article 25(d).

25. Transportation Charge – Minimum Operation, Maintenance, Power, and Replacement Component.

The provisions of this article shall apply to costs incurred both prior to and on or after the Billing Transition Date.

(a) **Purpose.** 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 subdivision (b) of this article; *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.** 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 such 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 subdivisions (c)(1) through (c)(3) of 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) **Determination; Repayment Table.** The amount to be paid each year by the District 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 ~~BL~~, included in Article 24; *provided* that these values shall be subject to redetermination by the State in accordance with Article 28. Such amounts and any appropriate interest thereon for costs incurred prior to the Billing Transition Date shall be set forth by the State in Table ~~EM~~ as soon as designs and cost estimates have been prepared by it subsequent to receipt of requests from the District as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of Project Water to the District, pursuant to Article 17(a); *provided*

that the amounts set forth in Table ~~EM~~ shall be subject to redetermination by the State in accordance with Article 28.

TABLE ~~EM~~
TRANSPORTATION CHARGE -- MINIMUM OPERATION MAINTENANCE,
POWER, AND REPLACEMENT COMPONENT
[DISTRICT]

<u>Year</u>	<u>Total Annual Payment by District*</u>
1**	
2	
3	
4	

* 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 commences construction of Project Transportation Facilities.

(This table was labeled Table E in original contract provisions)

(d) **Off-Aqueduct Power Facilities.** Notwithstanding the provisions of subdivisions (a) ~~and through (b)~~ of this ~~article, Article~~ Article or of Article 1(~~th~~), 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~~ annual Financing Costs, 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 or Revenue Bonds issued to finance the Capital Costs of 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~~ of [Annual Table A Amounts](#) 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 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*, that 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 District 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 [of costs incurred prior to the Billing Transition Date](#) shall include appropriate interest [thereon](#) at the Project Interest Rate.

(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.

(f) Notwithstanding provisions of Articles 25(a) through 25(c) and 25(e), minimum operation, maintenance, power, and replacement costs associated with deliveries through East Branch Enlargement Facilities as defined in Article 49(a) shall be collected under the minimum operation, maintenance, power, and replacement component of the East Branch Enlargement Transportation Charge [as determined under Article 49\(e\)](#).

26. **Transportation Charge — Variable Operation, Maintenance, and Power, and Replacement Component.**

The provisions of this article shall apply to costs Incurred both prior to and on or after the Billing Transition Date.

(a) **Purpose.** The variable operation, maintenance, and 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.

(b) **Determination.** The amount of this variable operation, maintenance, and power component shall be determined as follows:

(1) **Determination of Charge Per Acre-Foot.** There shall be computed for each calendar year 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, and power, and replacement costs of the reach for ~~the respective~~ such calendar year. This computation shall be made by dividing such 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) **Determination of Charge Per Reach to the Contractor.** The amount of the variable component shall be the product of the sum of the charges per acre-foot of water, determined under (1) above, for each aqueduct reach necessary to deliver water to the Contractor, and the number of acre-feet of Project Water delivered to the Contractor during the year through such reach; *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 such 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.

(c) Credit Relating to Project Aqueduct Power Recovery Plants. There shall be credited against the amount of the variable operation, maintenance, and power 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 reach 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 such projected net value that the number of acre-feet of Project Water delivered to the Contractor through such plants during the year bears to the number of acre-feet of Project Water delivered to all Contractors through such plants during the year.

(d) Determination of Total Variable Component Charge. The amount to be paid each year by the District under the variable operation, maintenance, ~~and 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, L~~ included in Article 24. Such amounts and any appropriate interest thereon for costs incurred prior to the Billing Transition Date shall be set forth by the State in Table ~~FN~~ as soon as designs and cost estimates are prepared by it subsequent to receipt of requests from the District as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of Project Water to the District, pursuant to Article 17(a); *provided* that the amounts set forth in Table ~~FN~~ shall be subject to redetermination by the State in accordance with Article 28.

TABLE ~~FN~~
TRANSPORTATION CHARGE -- ESTIMATED VARIABLE OPERATION,
MAINTENANCE, AND POWER COMPONENT
[DISTRICT]

<u>Year</u>	<u>Total Annual Payment by District*</u>
1**	
2	
3	
4	

* Payments start with year of initial water delivery.

** Year in which the State commences construction of the Project Conservation Facilities.

(This table was labeled Table F in original contract provisions)

(e) No Separate Variable Component for East Branch Enlargement Facilities. There shall be no separate variable operation, maintenance, and power, ~~and replacement~~ component for deliveries of water through East Branch Enlargement Facilities defined in Article 49(a).

27. Transportation Charge - Repayment Schedule.

The amounts to be paid by the District 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, ~~and~~ power, ~~and replacement~~ component of such charge on the basis of then estimated deliveries, shall be set forth by the State in Table ~~GO~~ as soon as designs and cost estimates have been prepared by it subsequent to receipt of requests from the District as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of Project Water to the District, pursuant to Article 17(a), which Table ~~GO~~ shall constitute a summation of Tables ~~DI, EK, M, and FN~~; ~~Provided, That; provided that~~ each of the amounts set forth in Table ~~GO~~ 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 District in accordance with the provisions of Article 29.

TABLE ~~GO~~
REPAYMENT SCHEDULE--TRANSPORTATION CHARGE
[DISTRICT]

<u>Year</u>	<u>Capital Cost Component</u>	<u>Minimum Component</u>	<u>Variable Component</u>	<u>Total</u>
1*				
2**				
3				
4				

* Year in which State commences construction of Project Transportation Facilities.

** Year of first payment.

(This table was labeled Table G in original contract provisions)

28. Delta Water Charge and Transportation Charge – Redetermination.

(a) Redetermination of Transportation Charges for Costs Incurred Prior to the Billing Transition Date. The provisions of this subdivision (a) shall apply only to costs incurred prior to the Billing Transition Date.

(a1) Determinative Factors Subject to Retroactive Change. The State shall redetermine the values and amounts set forth in Tables ~~B, C, D, E, F, and GH~~ through O (referred to in the original contract provisions as Tables B through 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

during the Project Repayment Period in order that the Transportation Charge to the District 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 prior to the Billing Transition Date to construct the Project Transportation Facilities described in Table ~~I~~G of this contract, ~~annual entitlements~~ Annual Table A Amounts, 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 District 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 District or credited to the District's account in the manner described in (b) and (c) below.

(b~~2~~) *Adjustment: Transportation Charge - Capital Component* For Costs Incurred Prior to the Billing Transition Date. Adjustments for prior underpayments or overpayments of the capital ~~cost~~ component of the Transportation Charge to the District for costs Incurred prior to the Billing Transition Date, 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 District 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 (e~~a~~)(3) 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 component for that year and paid or credited in accordance with the following schedule:

Percent that Transportation Charge <u>for costs Incurred prior to the Billing Transition Date</u> 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 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 for costs Incurred prior to the Billing Transition Date, the variable operation, maintenance, and 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).

(e3) *Adjustment: Transportation Charge - Minimum and Variable Components for costs Incurred prior to the Billing Transition Date.* One-twelfth of the adjustments for prior underpayments or overpayments of the District'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.

(d4) *Exercise of Option.* The option provided for in subdivision ~~(b a)~~(2) ~~above~~ of this article shall be exercised in writing on or before the January 1 due date of the first payment of the capital 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.

(e5) Project Interest Rate Adjustments. Notwithstanding the provisions of ~~Article 28(b)~~ subdivision (a)(2) of this article, 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 District's ~~annual entitlement~~ Annual Table A Amount 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(~~ad~~) except for Article 1(~~ad~~)(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(~~hhap~~). 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~~ on bonds issued under the Central Valley Project Act. However, amortization of adjustments resulting from items ~~1-(f)(4) through (7)~~ listed in subdivisions (D) through (G) of Article 1(ad)(i) 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.

(f6) No Adjustment of Water System Facility Revenue Bond Financing Costs. The use of Water System Facility Revenue Bonds for financing facilities listed in Article 1(~~hhap~~) shall not result in adjustments for prior underpayments or overpayments of the capital ~~cost~~ component of the Transportation Charge to the District under the provisions of this article; ~~however, in~~ In place of making such adjustments, charges to the District for Water System Facility Revenue Bond Financing Costs will be governed by Article 50(a).

(b) Redetermination of Delta Water Charges and Transportation Charges for Costs Incurred On or After the Billing Transition Date. The provisions of this subdivision (b) shall apply only to costs Incurred on or after the Billing Transition Date.

(1) Determinative Factors Subject to Retroactive Change. The State shall redetermine the values and amounts set forth in Tables B through F and Tables J through O of this contract each calendar year commencing on or after the Billing Transition Date in order that the Delta Water Charge and the Transportation Charge to the District for costs Incurred on or after the Billing Transition Date 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 Project Conservation Facilities and Project Transportation Facilities, Annual Table A Amounts, estimated deliveries, and all other factors

which are determinative of such charges. In addition, each such redetermination shall include an adjustment of the components of the Delta Water Charge and Transportation Charge to be paid by the District 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, as applicable. Such adjustment shall be computed by the State and paid by the District or credited to the District's account in the manner described in subdivisions (b)(2) and (b)(3) of this article.

(2) Adjustment: Delta Water Charge and Transportation Charge -- Capital Components for Costs Incurred On or After the Billing Transition Date. Adjustments for prior underpayments or overpayments of the capital component of the Delta Water Charge and the Transportation Charge to the District for costs Incurred on or after the Billing Transition Date shall be paid in the year following the redetermination.

(3) Adjustment: Delta Water Charge and Transportation Charge -- Minimum and Variable Components for Costs Incurred On or After the Billing Transition Date One-twelfth of the adjustments for prior underpayments or overpayments of the District's minimum operation, maintenance, power, and replacement component and variable operation, maintenance and power component of the Delta Water Charge and Transportation Charge 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.

29. Time and Method of Payment of Delta Water Charge and Transportation Charge.

The provisions of this article shall apply to costs Incurred both prior to and on or after the Billing Transition Date. References to the Delta Water Charge shall include the Delta Water Charge for costs Incurred prior to the Billing Transition Date and the Delta Water Charge for costs Incurred on or after the Billing Transition Date, separately, as applicable, and references to the Transportation Charge shall include the Transportation Charge for costs Incurred prior to the Billing Transition Date and the Transportation Charge for costs Incurred on or after the Billing Transition Date, separately, as applicable.

(a) Initial Payments.

(a1) Delta Water Charge. Payments by the District under the Delta Water Charge shall commence in the Year of Initial Water Delivery to the District.

(b2) Capital Component of the Transportation Charge. Payments by the District under the capital component of the Transportation Charge shall commence in the year following the year in which the State commences construction of the Project Transportation Facilities.

(e3) Minimum Operation, Maintenance, Power, and Replacement Component. Payments by the District 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.

(d4) Variable Operation, Maintenance, Power, and Replacement Component. Payments by the District under the variable operation, maintenance, power and replacement component of the Transportation Charge shall commence in the Year of Initial Water Delivery to the District.

(eb) Annual 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 District with a written statement of the following items:

(1) the charges to the District for the next succeeding year under the capital components and minimum operation, maintenance, power, and replacement components of the Delta Water ~~Charge~~Charges and Transportation ~~Charge~~Charges; provided that charges for Financing Costs shall be stated as separate items in the Statement of Charges;

(2) the unit charges to the District for the next succeeding year under the variable operation, maintenance, power and replacement components of ~~said~~the Delta Water Charge and Transportation Charge; and

(3) the total charges to the District for the preceding year under the variable operation, maintenance, power and replacement components of such 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~~Annual Table A Amounts, as provided in Article 22(b).

All such statements shall be accompanied by the latest revised copies of the ~~document~~documents amendatory to Article 22 and of the tables included in Articles 24 through 27, together with such other data and computations used by the State in determining the amounts of the above charges as the State deems appropriate.

(c) Monthly Statements. 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 District, furnish the District with a statement of the charges to the District 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 District, except as otherwise provided in those articles.

(fd) Semiannual Payments of Capital Components. The District 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 (1/2) of the charge to the District for the year under the capital component of the Delta Water Charge and one-half (1/2) of the charge to the District for the year under the capital component of the Transportation Charge, as such charges are stated pursuant to subdivision **(eb)** of this article; and shall pay the remaining one-half (1/2) of each of such charges on or before July 1 of that year.

(ge) Monthly Payments of Minimum Operation, Maintenance, Power, and Replacement Component. The District 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 District,~~ one-twelfth (1/12) of the sum of the charges to the District 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 **(eb)** of this article.

(hf) Monthly Payments of Variable Operation, Maintenance, Power, and Replacement Component. The District 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 District,~~ the charges to the District 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 District during the preceding month pursuant to subdivision **(ec)** of this article, as such charges are stated in such statement.

(ig) Contest of Charges. In the event that the District in good faith contests the accuracy of any statement submitted to it pursuant to subdivision **(eb)** or **(c)** 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 District's contentions regarding the statement to be correct, it shall revise the statement accordingly, and the District shall make payment of the revised amounts on or before the due date. To the extent that the State does not find the District's contentions to be correct, or where time is not available for a review of such contentions prior to the due date, the District 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. <Deleted>

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 District 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 District's account for the next succeeding year and the State shall notify the District thereof in writing.

32. Delinquency in Payment.

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

(b) Upon every amount of money required to be paid by the District 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 District hereby agrees to pay such interest: provided, that no interest shall be charged to or be paid by the District unless such delinquency continues for more than thirty (30) days.**33. Obligation of District to Make Payments.**

(a) The District'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 District 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 District, and any net revenues from such disposal shall be credited to the District's account hereunder.

(b) The District 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 District of assessments, tolls, or other charges levied by the District.

34. Obligation of District to Levy Taxes and Assessments.

(a) If in any year the District fails or is unable to raise sufficient funds by other means, the governing body of the District shall levy upon all property in the District 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) Taxes or assessments levied by the governing body of the District pursuant to subdivision (a) of this article shall be enforced and collected by all officers of the District charged with the duty of enforcing and collecting taxes or assessments levied by the District.

(c) 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 District charged with the safekeeping and disbursement of funds of the District, 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) In the event of failure, neglect, or refusal of any officer of the District to levy any tax or assessment necessary to provide payment by the District 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.
- 37. Reservation With Respect to State Laws.** Nothing herein contained shall be construed as estopping or otherwise preventing the District or any person, firm, association, corporation, or public body or agency claiming by, through, or under the District 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 District 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. No assignment or transfer of this contract or any part hereof, rights hereunder, or interest herein by the State shall be valid except as such assignment or transfer is made pursuant to and in conformity with applicable law.

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 District by its General Manager and Chief Engineer and his successors or their duly authorized representatives. 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, the District shall address all notices to the State as follows: <Address no longer valid and not included here> and the State shall address all notices to the District as follows: <Address no longer valid and not included here>.

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.

45. Contracts to be Uniform. Contracts executed by the State for a dependable supply of project water shall be substantially uniform with respect to basic terms and conditions, except as otherwise provided in this article with respect to payment of the capital cost component of the Transportation Charge. Schedules for all contractors for payment of the capital cost component of the Transportation Charge shall provide as a minimum for payment currently of interest on all allocated capital costs at the project interest rate, and for commencement of payment of the principal of such allocated costs in the year following the year in which capital costs allocated to the respective contractor are first incurred by the State, subject only to (1) through (4) below:

(1) The commencement of payment of the principal of such allocated costs may be deferred up to a maximum of nine (9) years following the year in which such costs are first incurred by the State, to the extent that in the judgment of the State such delay in commencement of payment is necessary to prevent unreasonable financial hardship on the contractor.

(2) The payment of such principal and interest may be made, subject to approval by the State, in installments which vary in magnitude during the project repayment period.

(3) In the case of any contractor to which the delivery of project water for agricultural use as of 1990 is estimated by the State to be in excess of twenty-five percent (25%) of such contractor's maximum annual entitlement, payment of any portion or all of the capital costs allocated to such contractor which are attributed by the State to agricultural use of project water, together with payment of interest on said capital costs, may be commenced by such contractor in the year of initial water delivery, to the extent that in the judgment of the State such delay

in commencing payment is necessary to prevent unreasonable financial hardship on such contractor.

(4) All unpaid interest shall be accumulated at the project interest rate, compounded annually, and added to the contractor's allocated capital costs.

Notwithstanding (1) through (4) above, all contractors shall completely pay their total allocated capital costs, together with interest thereon, within the project repayment period, and payments under the schedule of payment of capital costs for each contractor, including interest over the project repayment period, shall have a present value, when discounted at the project interest rate to the first day of the project repayment period, equal to the present value of the payments under that schedule which would be derived for such contractor on the bases provided in this contract when so discounted at the project interest rate to the same date.

46. Suit on Contract. Each of the parties hereto may sue and be sued with respect to this contract.

47. Amendatory Provisions.

(a) <Deleted>

(b) <Deleted>

(c) **Excess Capacity.**

The State shall provide: (i) in each reach of the project transportation facilities from Kettleman City to the South Portal of the Tehachapi Tunnels excess capacity in the amount of one-hundred eighty-eight (188) cubic feet per second, and (ii) in the reach of the project transportation facilities from Silverwood Lake to South Portal San Bernardino Tunnel excess capacity in the amount of seven-hundred eighty-seven (787) cubic feet per second. To the extent made possible by the excess capacity provided in accordance with the preceding sentence, the State shall comply with requests of the District to deliver from the project transportation facilities downstream from Tehachapi Pumping Plant in any one month of any year a total amount of project water greater than eleven percent (11%) of the District's annual entitlement for that year: Provided, That in any year the District may request, and, to the extent made possible by capacity provided by the State, the State shall comply with the requests of the District for delivery of water through the West Branch Aqueduct in an amount up to the District's annual entitlement for such year. In no event shall the State be obligated to deliver to the District from the project transportation facilities downstream from Tehachapi Pumping Plant in any one month of any year a total amount of project water greater than eleven percent (11%) of the District's annual entitlement for that year except insofar as the excess provided in accordance with the first sentence of this subdivision (c) makes possible such greater delivery: Provided further, That in any year the State shall not be obligated to deliver to the District through the main California Aqueduct and the West Branch Aqueduct in

combination an amount of water in excess of the District's annual entitlement for such year.

(d) Advance Payment for Excess Capacity.

The District shall furnish to the State each year, in advance of the construction of the aqueduct reaches from Kettleman City to the South Portal of the Tehachapi Tunnels, and from Silverwood Lake to South Portal San Bernardino Tunnel, funds sufficient to cover the costs incurred during that year in providing for the excess capacity described in subdivision (c) of this Article. Such yearly funds shall be in an amount which bears the same proportion to the total capital costs of each such reach to be incurred during that year, including the costs of providing for such excess capacity, as such excess capacity bears to the total capacity of such reach, including such excess capacity. Upon completion of construction of each aqueduct reach in which excess capacity is provided but prior to completion of all such aqueduct reaches, there shall be a determination as to such reach, of: (1) each annual cost attributable to such excess capacity, determined by the annual differences between the estimated cost which would have been incurred had no excess capacity been provided and the actual cost incurred, and (2) each annual payment as determined above. The amount by which each such annual payment exceeds the associated annual cost shall be credited to the installment for other excess capacities due January 1 of the following year, with interest on separate halves of such amount from the dates payments were made on the respective installments of such annual payment at the applicable apportionment rate of the Surplus Money Investment Fund, compounded semiannually. The amount by which each such annual cost exceeds the associated annual payment shall be debited to the installment for other excess capacities due January 1 of the following year, with interest on separate halves of such amount from January 1 and July 1, respectively, of the year such insufficient annual payment was made at the project interest rate, compounded annually. The State shall furnish the District, on or before July 1 of each year, a written statement of the charges to the District pursuant to this subdivision for the next year. Each such statement shall account for any change in the factors which are determinative of these charges. Included in each statement shall be a redetermination of charges, in compliance with the provisions of Article 28 of this contract, accounting for all accumulated overpayments or underpayments attributable to such proposed increase in capacity incurred in prior years, together with interest thereon from the respective dates of such payments. Overpayments by the District shall be credited to the installment for excess capacities due in the year following the year of the redetermination, with interest at the applicable apportionment rate of the Surplus Money Investment Fund, compounded semi-annually. Underpayments shall be debited to the installment for excess capacities due in the year following the year of the redetermination, with interest at the project interest rate, compounded annually. Statements submitted by the State on each July 1 for the estimated costs for the next year shall be payable in two equal installments, the first installment being due on January 1 of such next year and the second installment being due on July 1 of such next year. All adjustments for prior overpayments or underpayments together with interest thereon shall be credited to the installment due January 1 of such statement: Provided, That the annual charges included in Statement Nos. 68-128-T, dated June 30, 1967, and 69-166-T, dated June 30, 1968, shall incorporate adjustments to the extent necessary to include credits for

payments made by the District in prior years for capacity that by reason of this Amendment No. 7 will no longer be considered excess capacity, together with interest on such prior payments from the respective dates thereof at the applicable apportionment rate of the Surplus Money Investment Fund, compounded semiannually: Provided further, That if such credit, including interest, to be made by reason of this Amendment No. 7 is greater than the total of the first annual charge for excess capacity to be furnished the District following the date of this Amendment No. 7, the difference shall be credited to the District's annual payment of the Capital Cost Component of the Transportation Charge for the year of such first annual charge.

(e) Allocation of Capital Costs of Reaches in Which Excess Capacity is Provided.

The total capital costs of each aqueduct reach in which excess capacity is provided for the District pursuant to subdivision (c) of this article shall be allocated among all contractors entitled to delivery of project water from or through the reach in accordance with the provisions of Article 24(d). The values and amounts so allocated shall be subject to redetermination by the State in accordance with Article 28. Such redetermination shall include, without limitation as to other proper adjustments, a recalculation, based on actual costs incurred by the State, of both the estimated costs which would have been incurred had no excess capacity been provided and of the projected actual costs.

(f) Reconciliation of Advance Payments with Cost Allocation.

Upon completion of construction of the excess capacities provided pursuant to subdivision (c) of this Article and in the event that the funds advanced for such excess capacities by the District pursuant to subdivision (d) of this Article are more or less than the costs allocated to the District pursuant to subdivision (e) of this Article, the account of the District under the capital cost component of the Transportation Charge shall be credited or debited accordingly, together with interest on such resultant overpayment or required advance of funds at the appropriate interest rate in accordance with subdivision (d) of this Article.

(g) Allocation of Minimum Operation, Maintenance, Power, and Replacement Costs of Reaches in Which Excess Capacity is Provided.

Subject to the provisions of subdivision (i) of this article, the minimum operation, maintenance, power, and replacement costs for the respective year of each aqueduct reach of the project transportation facilities in which excess capacity has been provided pursuant to subdivision (c) of this article shall be allocated among contractors by the proportionate use of facilities method of cost allocation, in accordance with the provisions of Article 25: Provided, That in making such allocation with respect to all such costs other than those for any connected-load charges for power the capacity provided in each reach for the transport and delivery of project water to the District and

the total capacity provided in each reach shall include the excess capacity provided pursuant to subdivision (c) of this article.

(h) **Allocation of Variable Operation, Maintenance, Power, and Replacement Costs of Reaches in Which Excess Capacity is Provided.**

Subject to the provision of subdivision (i) of this article, the variable operation, maintenance, power, and replacement costs for the respective year of each aqueduct reach of the project transportation facilities in which excess capacity has been provided pursuant to subdivision (c) of this article shall be allocated among contractors in accordance with the provision of Article 26: Provided, That the District shall make such additional payments with respect to such variable component as may be necessary in order that the present value, when discounted at the project interest rate to the first day of the project repayment period, of payments of any other contractor under the variable operation, maintenance, power, and replacement component of the Transportation Charge will not be greater than the present value, when discounted at the project interest rate to the first day of the project repayment period, of payments under that component of the Transportation Charge that would have been derived for such contractor on the bases provided in its contract in the absence of subdivisions (c) to (i), inclusive, of this article in this contract.

(i) **Connected-Load Charges for Power.**

The connected-load charges for power resulting from the excess capacity provided pursuant to subdivision (c) of this article shall be paid entirely by the District and such costs shall not be included in the minimum operation, maintenance, power, and replacement component or the variable operation, maintenance, power, and replacement component of the Transportation Charge to be allocated among contractors: Provided, That such costs shall be paid by the District at the same times and under the same procedures as the minimum operation, maintenance, power, and replacement component as provided in Article 29.

(j) **Special Provisions Implementing Article 15(c) Upon Annexation of the City of West Covina by the District.**

The State shall credit the account of the District hereunder in the amounts of the payments made by the City of West Covina to the State pursuant to the water supply contract between such City and the State executed on December 2, 1963, as if such payments, in their respective amounts and on their respective dates, had been made by the District in satisfaction of obligations owing the State from the District hereunder.

The statement of charges furnished by the State to the District pursuant to Article 29(e) of this contract on July 1, 1965 shall be revised, and all future such statements shall be prepared, to take into account the increase in the District's annual entitlements and

maximum annual entitlement upon the annexation of the City of West Covina by the District.

The State shall deliver project water made available to the District pursuant to the increase in the District's annual entitlements and maximum annual entitlement upon the annexation of the City of West Covina by the District from such delivery structures on either the East Branch Aqueduct or West Branch Aqueduct as hereafter may be specified pursuant to Article 10(c) of this contract: Provided, the District shall specify maximum monthly delivery capabilities in each of said branch aqueducts in accordance with Article 17(a) of this contract.

(k) Acquisitions and Planning for Perris Reservoir Enlargement.

(1) As heretofore requested by the District, the State shall acquire all lands, easements, and rights-of-way which in its judgment are necessary for the construction of a reservoir with a capacity of up to five hundred thousand (500,000) acre-feet at the site of the Perris Reservoir, being the terminal reservoir on the East Branch of the California Aqueduct as specified in Section 12934(d)(2) of the Water Code. It is agreed that all lands in the watershed below the crest of the Bernasconi and other hills, which bound the reservoir site on three sides, and any other lands necessary in the opinion of the State for the construction of the dam and reservoir and for optimization of other project purposes associated with the reservoir, should be acquired.

(2) As heretofore requested by the District, the State shall commence immediately to do or prepare the necessary preliminary exploratory work, surveys, geologic studies, alternative designs, and any and all other engineering and administrative work required to enable the District to select and request an appropriate plan and schedule for the construction, in one or two stages, of a reservoir at the Perris Reservoir site to sizes to be designated by the District, which sizes may be larger than the optimum project size but not exceeding five hundred thousand (500,000) acre-feet.

(3) In furtherance of the work performed under paragraph (2), the State shall also do or prepare any necessary revision of studies, surveys, designs, plans and specifications for facilities associated with the Perris Reservoir project, including those for other project purposes, but excluding plans and specifications for construction of the dam.

(4) The District shall pay to the State, each year in advance, funds sufficient to cover all costs which the State estimates will be occasioned in such year by reason of the State's complying with the requests of the District covered by this subdivision. Within thirty (30) days after the date of this Amendment No. 4, the State shall furnish the District a written statement of such charges for costs attributable to such proposed increase in capacity in the year 1965 and in the year

1966, with all 1965 charges and one-half (1/2) of the 1966 charges payable on or before January 1, 1966, and the remaining one-half (1/2) of such 1966 charges payable on or before July 1, 1966. The State shall furnish the District on or before July 1 of each year, commencing in 1966, a written statement of such charges for the next year. Each such statement shall reflect all accumulated costs attributable to such proposed increase in capacity incurred in prior years, together with interest thereon at the project interest rate, compounded annually; and shall give credit for all payments by the District, together with interest thereon from the respective dates of such payments at the applicable apportionment rate of the Surplus Money Investment Fund, compounded semi-annually. Statements submitted by the State on each July 1 for the estimated costs for the next year shall be payable in two equal installments, the first installment being due on January 1 of such next year and the second installment being due on July 1 of such next year.

(5) The District may notify the State at any time after the date of this agreement that it does not wish Perris Reservoir to be enlarged to a capacity in excess of the optimum project size, and the State shall not thereafter incur costs occasioned by the requests of the District pertaining to such enlarged capacity, provided that the District shall remain liable for and shall reimburse the State for all costs of the State then made or committed in connection with the requests of the District covered by this subdivision.

(6) If, as a result of information developed pursuant to this subdivision, the District submits a request to the State for a change in the plan and schedule for the construction of Perris Reservoir, it is the intention of the District and the State that a subsequent contract amendment will be entered into for such change. If the District does not submit such a request prior to the date on which the State commences the final design of the dam for Perris Reservoir, the State shall design for a reservoir of a capacity of the optimum project size and shall not make any additional expenditures not then committed in connection with the enlargement of such reservoir to a capacity in excess of the optimum project size. The State shall notify the District in writing at least ninety (90) days prior to such date.

(7) If the District fails to request that Perris Reservoir be enlarged to a greater capacity than the optimum project size in accordance with paragraph (6), the State shall credit to the District any moneys advanced by the District for such enlargement which are then unexpended or uncommitted. Such unexpended and uncommitted moneys shall be credited to the next payment or payments (as they come due) of the capital cost component of the Transportation Charge. Such refund shall include interest from the dates of the respective advances of such moneys at the applicable apportionment rate of the Surplus Money Investment Fund, compounded semi-annually. If and when the State sells or otherwise

disposes of the excess lands acquired for the enlargement of the reservoir and not required for the reservoir actually constructed, including lands used for all project purposes, in addition to crediting the District with such unexpended and uncommitted moneys, the State shall credit to the District on the next payment or payments due of the capital cost component of the Transportation Charge all net amounts (after deducting all costs connected with the sale or disposal) received by the State. In the event the State utilizes all or part of such excess lands for purposes which would fall into the category of costs which are non-reimbursable by the District in accordance with the principles for allocating costs under this contract, the State shall credit the District in such manner with an amount equal to the purchase price (or condemnation award) paid for such lands, plus interest on such amount at the project interest rate compounded annually from the dates of the acquisition of the lands so utilized by the State.

(8) Notwithstanding anything in this subdivision to the contrary, it is understood that the State shall not be required to construct a dam and reservoir at the Perris site of a capacity in excess of that which it determines to be feasible under its standards of safety, nor to delay the construction of project transportation facilities necessary to meet the scheduled delivery dates as set forth in Article 6(a) of the water supply contracts for other contractors served through project facilities affected by the provisions of this subdivision.

(I) Option of District to Have Perris Reservoir Enlarged.

(1) The State agrees to modify its present design for Perris Reservoir Dam and to construct the dam in the manner and to the extent necessary so that when completed the dam will have the capability of being enlarged in two or more stages of construction to a size or sizes required for a reservoir with a capacity of up to and including five-hundred thousand (500,000) acre-feet.

(2) The State will continue the geological explorations instigated by and being conducted under the provisions of Amendment No. 4 to this contract to determine the location of all borrow materials required to construct Perris Reservoir with a storage capacity of up to and including five-hundred thousand (500,000) acre-feet, and will proceed to acquire those lands and other properties necessary to preserve and protect the availability and character of such borrow materials so that they can be used for the enlargement of the dam embankment, for saddle dams and for other related purposes at such time as it is deemed necessary to expand Perris Reservoir to a capacity of up to and including five-hundred thousand (500,000) acre-feet.

(3) At any time or times during the term of this contract, the District has the option, but not the duty, to require the State to increase the size and capability of the Perris Reservoir embankment and other necessary appurtenant facilities and to do other work required to create and maintain a reservoir at this

site which will have such storage capacity, not to exceed five-hundred thousand (500,000) acre-feet, as shall be designated by the District, and the State agrees to comply with the District's requirements in this respect: Provided, That the State shall not be required to enlarge the dam and reservoir at the Perris site to a capacity in excess of that which it determines to be feasible under its standards of safety.

(4) The State agrees to modify its present design for the reaches of the California Aqueduct from Devil Canyon Power Plant to Perris Reservoir and to construct such reaches in the manner and to the extent necessary so that when completed such reaches will have the capability which is required to convey that portion of the District's maximum annual entitlement which will be delivered from Perris Reservoir if and when such reservoir has been enlarged to a storage capacity of five-hundred thousand (500,000) acre-feet. The State further agrees that any capital costs incurred by reason of such modification and allocated to the District for payment shall be paid by the District in accordance with the provisions of subdivision (a), (b) and (c) of Article 24 of this contract: Provided, That at the same time as such payments are made, the District shall make such additional payments as may be necessary in order that the costs to any other contractor for its capacity in such reaches will not be greater than the costs that would have been derived for such contractor on the bases provided in its contract in the absence of this paragraph (4) of this subdivision (1) of this article.

(5) If and when the District requires the State to increase the size of Perris Reservoir to a capacity exceeding one-hundred thousand (100,000) acre-feet, the customary and reasonable costs of relocating recreational and visitor facilities and of constructing substitute facilities to replace those which will be rendered unusable by reason of such increased capacity, shall be included in the costs to be paid by the District in advance in accordance with paragraph (6) below.

(6) The capital costs for the modification of the California Aqueduct referred to in paragraph (4) above, shall be paid by the District in accordance with the provisions of subdivision (a), (b) and (c) of Article 24. The District shall pay to the State, each year in advance, funds sufficient to cover all costs which the State estimates will be occasioned in such year by reason of the provisions of paragraphs (1), (2) and (5) above and the requirements of the District covered by paragraph (3) above. Within sixty (60) days after the date of this Amendment No. 5, the State shall furnish the District a written statement of such charges for costs the State estimates will be attributable to such provisions and requirements in the year 1966 and in the year 1967, with all 1966 charges and one-half (1/2) of the 1967 charges payable on or before January 1, 1967, and the remaining one-half (1/2) of such 1967 charges payable on or before July 1, 1967. The State shall furnish the District on or before July 1 of each year, commencing in 1967, a

written statement of such charges for the next year. Each such statement shall reflect all accumulated costs so attributable which may have been incurred in prior years, together with interest thereon at the project interest rate, compounded annually; and shall give credit for all payments by the District, together with interest thereon from the respective dates of such payments at the applicable apportionment rate of the Surplus Money Investment Fund, compounded semiannually. Statements submitted by the State on each July 1 for the estimated costs for the next year shall be payable in two equal installments, the first installment being due on January 1 of such next year and the second installment being due on July 1 of such next year.

(7) If the District at any time notifies the State that it will not thereafter require that Perris Reservoir be enlarged or further enlarged under the terms of this subdivision (1), and relinquishes its option to have the reservoir enlarged or further enlarged, the State shall credit to the District any moneys advanced by the District for such enlargement which are then unexpended or uncommitted. Such unexpended and uncommitted moneys shall be credited to the next payment or payments (as they come due) of the capital cost component of the Transportation Charge. Such credit shall include interest from the dates of the respective advances of such moneys at the applicable apportionment rate of the Surplus Money Investment Fund, compounded semi-annually. If and when the State sells or otherwise disposes of the excess lands acquired for the enlargement of the reservoir and not required for the reservoir actually constructed, including lands used for all project purposes, in addition to crediting the District with such unexpended and uncommitted moneys, the State shall credit to the District on the next payment or payments due of the capital cost component of the Transportation Charge all net amounts (after deducting all costs connected with the sale or disposal) received by the State. In the event the State utilizes all or part of such excess lands for purposes which would fall into the category of costs which are non-reimbursable by the District in accordance with the principles for allocating costs under this contract, the State shall credit the District in such manner with an amount equal to the purchase price (or condemnation award) paid for such lands, plus interest on such amount at the project interest rate compounded annually from the dates of the acquisition of the lands so utilized by the State.

(8) Except as modified or otherwise affected by this Amendment No. 5, the provisions of subdivision (k) of Article 47, added by Amendment No. 4 to this contract, shall remain in full force and effect.

(m) Advance Payment of Capital Cost Component of the Transportation Charge.

At least twenty-four (24) months prior to the beginning of a calendar year in which the State desires that the District pay to the State an advance payment pursuant to

Article 24(c)(2) of the District's contract, the State shall transmit a written request to the District for such payment, and the District shall pay to the State at the same time and in the same manner as it makes payments on the capital cost component of the Transportation Charge, one-half (1/2) of the requested amount on or before January 1 of the calendar year in which payment is requested to be made, and shall pay the remaining one-half (1/2) of such amount on or before July 1 of that year: Provided, That the amounts to be paid in advance will not exceed sixteen million three hundred thousand dollars (\$16,300,000) prior to construction of the Pyramid Power Development and an additional amount not to exceed eight million dollars (\$8,000,000) if construction of the Pyramid Power Development is to be completed prior to 1976 with funds provided by the sale of bonds issued by the State under the bond act: Provided further, That such request from the State is made between December 1, 1969, and January 1, 1975, and no such payment or any portion thereof shall be requested to be made subsequent to July 1, 1977.

(n) Devil Canyon Power Plant Bypass.

(1) The Department shall construct for transport and delivery of water to the District, as part of the East Branch Aqueduct, a 300 cubic-foot-per-second bypass at Devil Canyon Power plant, designated as Reach 26B.

(2) The District shall be responsible for repayment of all capital costs of the bypass including financing costs, as well as payment of minimum operation, maintenance, power and replacement costs allocated to the bypass. Financing and repayment of capital costs shall be subject to Article 49(d). The construction costs portion of capital costs of the bypass shall be determined as the total construction costs of the bypass and Reach 26A East Branch Enlargement less the final estimated costs that would have been incurred had the bypass not been constructed. Minimum operation, maintenance, power and replacement costs shall be determined in the same manner as for other reaches of the East Branch Aqueduct.

(3) The bypass shall be constructed for emergency use. After the bypass is completed, the Department will conduct tests to determine whether the bypass could be operated on a regular basis for deliveries. If the State determines that the bypass increases the capacity available for deliveries to the District through Reach 25 and the portion of Reach 26A upstream of Reach 26B it shall so notify the District. If the District requests that a portion or all of such increase in capacity be available for deliveries on a non-emergency basis, the State shall make the requested capacity available and shall revise the allocation factors for Reach 25 and the portion of Reach 26A to reflect the increase in capacity made available for deliveries on a non-emergency basis to the District.

(4) Notwithstanding Subsection (b) of Article 26, the District shall not receive a power generation credit associated with Devil Canyon Power Plant for any water which is conveyed through the bypass.

48. Operation of East Branch Aqueduct from - Devil Canyon Powerplant to Perris Reservoir (Reaches 28G through 28J)

The State agrees to operate all actual capacity provided in the reaches of the East Branch Aqueduct from Devil Canyon Powerplant to Perris Reservoir, including that provided pursuant to Article 17, in accordance with the criteria for the East Branch facilities specified in Article 49(h).

49. Enlargement Capacity from Junction, West Branch, California Aqueduct through Devil Canyon Powerplant (Reaches 18A through 26A)

(a) Definitions

When used in this Article 49, the following terms shall have the meanings hereinafter set forth:

- (1) East Branch Enlargement Facilities-all of the following:
 - (A) The facilities remaining to be constructed as part of the East Branch Enlargement construction;
 - (B) 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;
 - (C) 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 18, 1984;
 - (D) 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;
 - (E) That portion of Reach 24 (Silverwood Lake) to be determined by a reallocation of Reach 24 to reflect the additional use to be made of that reach as a result of the East Branch Enlargement operation.
 - (F) That portion of Reach 25 (San Bernardino Tunnel) to be determined by an allocation of total delivery capability of Reach 25 between the basic East Branch facilities and the East Branch Enlargement as a result of East Branch Enlargement operation.
- (2) Participating Contractor - any contractor signing a contract amendment for participating in any East Branch Enlargement Facility.

(b) Sizing and Construction of Enlargement

(1) The State shall construct the East Branch Enlargement Facilities to accommodate flows to at least the capacities contracted for by the State and the Participating Contractors. Capacity provided in each reach of the enlargement for transport and delivery of project water to the District shall be as shown in the following table:

Reach ¹⁾	CFS of Capacity
18A	1,200
19	1,200
20A	1,200
20B	1,200
21	1,200
22A	1,200
22B	1,200
23	1,200
24	1,200 ²⁾
25	1,200 ³⁾
26A	1,200

- 1) These numbers apply to the reaches as set forth in Figure B-5 in DWR Bulletin 132-85.
- 2) Additional flow through capacity in this reach (Silverwood Lake) to be included in the reallocation of capacity as provided for by subsection (d)(7) of this article.
- 3) The 1,200 cfs Enlargement capacity in the Tunnel will be arrived at by an appropriate reallocation of basic and excess Tunnel capacity.

(2) The State shall construct the East Branch Enlargement Facilities in stages, with the first stage providing the District in each reach at least fifty percent of the capacity shown in the table set forth in Article 49(b)(1). The State shall determine the specific reach features to be enlarged in consultation with the Participating Contractors. All Participating Contractors which have capital cost repayment obligations in a reach shall be considered to have a minimum delivery capability in each stage. The minimum delivery capabilities of the Participating Contractors in each staged reach shall be in the same proportion as the Participating Contractor's proportion of the total enlargement capacity. The State shall not construct Reaches 18A through 23 and 26A of the East Branch Enlargement Facilities to capacities greater than shown in the following table provided that power facilities may be constructed to a larger capacity if found by the State to be economically or operationally justifiable after prior consultation with the Participating Contractors.

Reach	CFS of Capacity
18A	1,506
19	1,506
20A	1,541
20B	1,541
21	1,535
22A	1,535
22B	1,500
23	1,683
26A	1,600

(3) The State shall make all reasonable efforts to complete construction of the first stage of the East Branch Enlargement Facilities as specified above by July 1, 1991. If the State determines that construction of the first stage cannot be accomplished by July 1, 1991 without incurring extra costs, it shall consult with the Participating Contractors.

(4) The State shall make all reasonable efforts to complete construction of any East Branch Enlargement Facilities necessary to accommodate the total of the constructed amount which are not completed as part of the first stage. It shall undertake further construction activities upon the earliest of (1) the State's determination that delivery schedules submitted pursuant to Article 12 justify such action or (2) a request by The Metropolitan Water District of Southern California that such action be taken. If the State fails to complete construction of any portion or portions of the East Branch Enlargement Facilities one or more of the agencies may complete construction pursuant to the procedure in Article 17(f).

(5) Upon completion of each stage of construction, the State shall determine whether actual capacity of the East Branch Enlargement Facilities differs from contracted for capacity. If actual capacity differs from contracted for capacity, the capacity provided for transport and delivery of project water shall be proportionately adjusted by the State among the Participating Contractors.

(c) **East Branch Enlargement Transportation Charge**

The payments to be made by each Participating Contractor entitled to delivery of project water from or through the East Branch Enlargement Facilities shall include an annual charge under the designation East Branch Enlargement Transportation Charge. This charge shall return to the State during the repayment period associated with financing of East Branch Enlargement Facilities, those costs of the East Branch Enlargement Facilities which are allocated to the Participating Contractor in accordance with the cost allocation principles and procedures hereinafter set forth. Wherever reference is made, in connection with the computation, determination, or payment of the

East Branch Enlargement 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 Participating Contractors as determined by the State. The East Branch Enlargement Transportation Charge shall consist of a capital cost component; and a minimum operation, maintenance, power, and replacement component, as these components are defined in and determined under Articles 49(d) and 49(e), respectively. For the purpose of allocations of costs pursuant to said articles, the East Branch Enlargement Facilities shall be segregated into aqueduct reaches as set forth in Figure B-5 in State Bulletin 132-85, provided, however, that Reach 23 may be adjusted after consultation with the contractors as a result of a delivery point being changed.

(d) **East Branch Enlargement Transportation Charge - Capital Cost Component**

(1) Method of Computation.

Each Participating Contractor shall be allocated a capital cost component of the East Branch Enlargement Transportation Charge which shall be sufficient to return to the State those capital costs of the East Branch Enlargement Facilities which are allocated to the Participating Contractor pursuant to subdivision (d)(2) of this article. The amount of this charge shall be determined by an allocation of costs to the Participating Contractor and a computation of annual payments of such allocated costs and interest, if any, thereon to be made by the Participating Contractor pursuant to this article. The capital costs allocated to the District shall be reduced by payments advanced by the District pursuant to Article 49(d)(4).

(2) Allocation of Capital Costs Among Participating Contractors.

The total amount of capital costs of each reach of the enlargement to be returned to the State shall be allocated among all Participating Contractors on the basis of the ratio of the capacity provided in that reach of the East Branch Enlargement Facilities for the transport and delivery of project water to the Participating Contractor to the total capacity provided in that reach of the East Branch Enlargement Facilities for the transport and delivery of project water to all Participating Contractors served from or through the reach.

(3) Determination of Capital Cost Component.

The amount of this component shall be determined as follows:

(A) The total amount of capital costs allocated to a Participating Contractor shall be the sum of the products obtained when there is multiplied, for each enlargement reach, the total amount of the capital costs of the enlargement reach to be returned to the State under the capital cost component of the East Branch Enlargement Transportation Charge by the ratio of the East Branch Enlargement capacity provided to make deliveries to the District in the reach in cubic feet per second (cfs), as provided in subarticle 49(b)(1), to the total cfs capacity of the reach of enlargement.

(B) The projected amounts of capital costs to be allocated annually to the District under the capital cost component of the East Branch Enlargement Transportation Charge shall be determined by the State in accordance with the cost allocation principles and procedures set forth in Article 49(d)(3)(A), which principles and procedures shall be controlling as to allocations of capital costs to the Participating

Contractors. These amounts shall be subject to redetermination by the State in accordance with Article 49(g).

(4) Financing of Allocated Capital Costs by a Participating Contractor.

(A) The District may elect to pay a portion or all of the capital costs of the enlargement construction allocated to the District by furnishing funds to the State in advance of the State incurring the capital costs, provided that the total remaining costs to be financed by the State shall not be less than \$50 million. The District may elect in writing to use this option by June 15 of each year as to any portion of an East Branch Enlargement Facility not yet funded by the State. If the District does not elect this option by June 15 of a given year, it may, with the consent of the State elect the option at a later time in that year.

(B) For any year in which the District elects this option, the State shall, on or before July 1 furnish the District with a written statement of estimated amounts of funds needed by the State in the succeeding year and of the calendar dates by which the State will need the funds. During each succeeding year the State shall, on the first of each month, notify the District of funds needed within the succeeding month. The District shall pay to the State the requested funds within fifteen calendar days of receipt of notification. The District may elect to advance funds to the State on an accelerated schedule acceptable to the State. Unless otherwise agreed to by the District and the State, interest earned on any funds advanced pursuant to this paragraph shall be credited to reduce payments due from the District under this contract. To the extent practicable, interest earned shall be at the Surplus Money Investment Fund rate. The District may terminate its use of this option for a given year with the agreement of the State. If the District elects this option, subparagraphs (d)(5) and (d)(6) of this article shall not apply to any portion of capital costs to be paid pursuant to the option.

(C) If the District does not elect to pay all of the capital costs of the enlargement allocated to the District by furnishing funds to the State in advance, the State, after consultation with the District, shall prepare a plan for the State's financing of the East Branch Enlargement and shall give the District an opportunity to comment on the plan. The plan shall include but not be limited to the size of any revenue bond issuances and the form of necessary resolutions, articles and covenants.

(5) State Revenue Bond Financing of Allocated Capital Costs.

(A) Revenue Bond Charge

If the District does not pay all of the capital costs allocated to the District pursuant to subparagraph (3) and the State issues revenue bonds to finance the enlargement construction, the portion of the capital costs not

advanced pursuant to subparagraph (4) shall be recovered through a Revenue Bond Charge. The Revenue Bond Charges allocated to the Participating Contractors shall return to the State an amount equal to the financing costs the State incurs for that portion of the East Branch Enlargement Facilities constructed in whole or in part with funds from revenue bonds (including revenue bond anticipation notes). The elements of the financing costs shall include but not be limited to bond marketing expenses to the extent not financed from the proceeds of applicable revenue bond sales, interest expense during construction of the East Branch Enlargement Facilities to the extent not provided for from bond proceeds, annual premiums for insurance or other security obtained pursuant to Article 49(d)(5)(E), and all semi-annual East Branch Enlargement Facilities revenue bond requirements including principal and interest and, to the extent not funded in advance of any proposed bond sale, or at any time following such a sale, in accordance with Articles 49(d)(5)(C) and 49(d)(5)(D), any additional requirements for coverage and deposits to reserves as required under applicable resolutions for the issuance of East Branch Enlargement Facilities revenue bonds. Any credits which shall include, but not be limited to, interest earnings or other earnings of the State in connection with such bonds shall when and as permitted by the bond resolution first be utilized for East Branch Enlargement Facilities construction purposes and thereafter all realized earnings shall be paid the Participating Contractors at least semi-annually. Such earnings shall for the purpose of determining each non-defaulting Participating Contractor's portion of any remaining capital costs be credited and paid to each non-defaulting Participating Contractor on the same basis that the capital costs were allocated to each Participating Contractor.

(B) Revenue Bond Charge Computation

The Revenue Bond Charge for the East Branch Enlargement construction payable by the District shall be computed as follows. The capital costs allocable to the District pursuant to Article 49(d) shall be determined. Any amounts paid by the District pursuant to Article 49(d)(4) shall be subtracted. The resulting difference shall be divided by the total of all capital costs to be financed by revenue bonds. The ratio resulting from the division shall be applied to each element of the total revenue bond financing costs. Until such time as the actual costs to be used in the foregoing computation are known, such computation shall be based on estimates of such costs. The District's Revenue Bond Charge shall be paid by the District semiannually at least 40 days before the State is required to make the corresponding semi-annual payment to the bondholders.

(C) Excess Coverage

If the amount of coverage on any issue of revenue bonds, and interest earned on the coverage, is in excess of that required under the applicable bond resolution, articles or covenants, each participating contractor's share of the excess shall be in the same proportion as charges were paid by each participating contractor pursuant to Article 49(d)(5)(B) for the portion of the facilities financed by said issue of revenue bonds. When and as permitted by the terms of the bond resolution, the share of excess coverage together with any realized interest earnings, shall at the Participating Contractor's option be returned to the Participating Contractor or be utilized to fund remaining East Branch Enlargement construction costs to the extent not otherwise provided for. To the extent practicable, interest earned shall be at the Surplus Money Investment Fund rate.

(D) Reserves

The State shall maintain revenue bond reserve funds no greater than necessary, as required under the applicable bond resolution, articles or covenants. In determining the level of revenue bond reserves to be maintained the State may, to the extent allowable under the applicable bond resolution, articles, or covenants, take account of any restricted reserve funds, other than replacement reserve funds, maintained by the individual Participating Contractors for the payment of State water contract payment obligations. Interest earned on revenue bond reserves maintained by the State and any excess reserve funds shall be credited promptly thereon to each Participating Contractor by the State. Upon retirement of any issue of revenue bonds and in accordance with the terms of the bond resolution, reserves maintained by the State on account of such issue, together with interest earnings thereon, shall be used to pay the final net annual debt service for such issue. Any reserves maintained by the State on account of an issue of revenue bonds and remaining after retirement of such issue, shall be repaid to the Participating Contractors in proportion to the total reserves that each Participating Contractor paid. To the extent practicable, interest earned shall be at the Surplus Money Investment Fund rate.

(E) Insurance

To the extent economically justifiable, as determined by the State after consultation with the Participating Contractors, the State shall obtain insurance or maintain other security protecting bondholders and Participating Contractors against costs resulting from the failure of any Participating Contractor to make the payments required by this Article 49(d)(5).

(6) State Non-Revenue Bond Financing of Allocated Capital Costs.

The State may use any of its available funds other than revenue bonds, to finance all, or a portion of the capital costs of the enlargement construction. Until revenue bonds or other debt instruments are issued, the Participating Contractors shall pay interest at the Surplus Money Investment Fund rate on whatever funds are used. Any State debt instrument other than revenue bonds or bond anticipation notes shall only be used after consultation with the Participating Contractors.

(7) Reallocation of Costs.

No later than the date of completion of the first stage of the East Branch Enlargement Facilities, the State shall in consultation with the contractors participating in the repayment of the reaches, reallocate costs for Reach 24 (Silverwood Lake). Such reallocation of costs shall apply to years beginning with the date of completion of the first stage of the East Branch Enlargement Facilities. The State shall also reallocate at the same time the costs of Reach 25 (San Bernardino Tunnel) among all contractors participating in repayment of such reach, to reflect the redistribution of flow capacity necessary for the East Branch Enlargement Facilities. Such reallocation shall include historical as well as future costs as appropriate. By the same date the State, in consultation with the contractors participating in the repayment of the reaches, shall also reallocate all costs associated with the work done pursuant to the letter agreement between the State and The Metropolitan Water District of Southern California dated November 29, 1966, as described in Subarticle 49(a)(1)(B).

(8) Allocation of Improvement Costs.

Using the procedure provided in Article 24 (Transportation Charge - Capital Cost Component) the State shall, as of the effective date of Article 49, allocate among all contractors entitled to delivery of project water from or through the affected reaches those design and construction costs encompassed in letter agreements dated January 18, 1984; July 2, 1984; and May 15, 1985, between the State and The Metropolitan Water District of Southern California, which would have been incurred irrespective of East Branch Enlargement Facilities. The Metropolitan Water District of Southern California shall receive credits for principal and interest at the project interest rate. Interest at the project interest rate shall be paid on funds advanced by The Metropolitan Water District of Southern California, pursuant to the aforesaid letter agreements, in excess of the allocations made pursuant to this subparagraph.

(9) Reimbursement for Previously Advanced East Branch Enlargement Costs.

If additional contractors become participants in Reach 25, the Metropolitan Water District of Southern California shall, no later than the date of completion of the first stage of the East Branch Enlargement Facilities, receive credits with interest at a rate of 6 percent for funds previously paid by it to the State for excess capacity in Reach 25 allocated to such additional contractors. By the same time, all existing contractors in Reach 25 will receive credits with interest at the project interest rate for any payments previously made by them with interest at the project interest rate, for basic capacity costs of Reach 25 to the extent those payments exceed the amounts they would have been obligated to pay if this amendment had been in effect as of the date funds were first paid. Tables B-1 and B-2 as shown in State Bulletin 132-70 shall be appropriately adjusted.

(e) **East Branch Enlargement Transportation Charge - Minimum Operation, Maintenance, Power, and Replacement Component**

(1) The minimum operation, maintenance, power, and replacement component of the East Branch Enlargement Transportation Charge shall return to the State those minimum operation, maintenance, power, and replacement costs which in the judgment of the State are incurred solely because of construction, operation and maintenance of the East Branch Enlargement Facilities, and which are based on the proportional capital cost allocation to the District for such enlargement facilities, by reach. Other costs which cannot be attributed solely to East Branch facilities provided for pursuant to Article 17(a) shall be shared in accordance with a formula to be developed by the State in consultation with contractors participating in the repayment of the capital costs of the affected reaches. The State may establish reserve funds to meet anticipated minimum replacement costs in the same manner provided for in Article 25(a).

(2) The total projected minimum operation, maintenance, power and replacement costs of each reach of the East Branch Enlargement Facilities for the respective year shall be allocated among all Participating Contractors on the basis of the ratio of the capacity provided in the East Branch Enlargement Facilities reach for the transport and delivery of project water to each Participating Contractor to the total capacity provided in the East Branch Enlargement Facilities reach for the transport and delivery of project water to all Participating Contractors served from or through the reach.

(3) Notwithstanding the provisions of subdivisions (e)(1) and (e)(2) of this article, or of Article 1(u), the costs of off-aqueduct power facilities associated with deliveries of water through East Branch Enlargement Facilities shall be included in the determinations and allocations pursuant to Article 25(d). There shall be no separate off-aqueduct power facilities determination and allocation for East Branch Enlargement Facilities.

(f) East Branch Enlargement Variable Operation, Maintenance, Power, and Replacement Costs

The variable operation, maintenance, power, and replacement costs associated with deliveries of water through East Branch Enlargement Facilities shall be included in the determinations and allocations pursuant to Article 26. There shall be no separate variable operation, maintenance, power, and replacement component of the East Branch Enlargement Transportation Charge.

(g) Redetermination of Charges

(1) **Determinative Factors Subject to Retroactive Charge**

The State shall redetermine the values and amounts chargeable to Participating Contractors in 1988 or the year following the year in which this article is effective, whichever is later, and each year thereafter as needed in order that the East Branch Enlargement charges to the District accurately reflect the increases or decreases from year to year in projected costs, properly attributable to each Participating Contractor. In addition, each such redetermination shall include an adjustment of the components of the charges to be paid by each Participating Contractor 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 Participating Contractor or credited to the Participating Contractor's account in the manner described in Articles 49(g)(2) and 49(g)(3) below.

(2) **Adjustment: East Branch Enlargement Transportation Charge - Capital Cost Component**

Adjustments for prior underpayments or overpayments of the capital cost component of the East Branch Enlargement Transportation Charge to the

Participating Contractor, together with accrued interest charges or credits thereon computed at the then current Surplus Money Investment Fund 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.

(3) Adjustment: East Branch Enlargement Transportation Charge - Minimum Operation, Maintenance, Power, and Replacement Component

One-twelfth of the adjustments for prior underpayments or overpayments of the Participating Contractor's minimum operation, power, and replacement component of the East Branch Enlargement Transportation Charge for each year shall be added or credited and paid in the corresponding month of the year following the redetermination, together with accrued interest charges or credits thereon computed at the then current Surplus Money Investment Fund rate on the amount of the underpayment or overpayment and compounded annually for the number of years from the year when the underpayment or overpayment occurred to and including the year following the redetermination.

(h) East Branch Operation

Requests for delivery of water through the East Branch Enlargement Facilities shall be subject to Article 12. Except as otherwise provided, the East Branch Enlargement Facilities shall be operated as an integral part of the East Branch Aqueduct and shall be subject to the same criteria. To the extent that then-current deliveries involve rates of flow within the limitations of Article 12(b) or involve capacities less than those on which the contractor's capital charges are based, the State shall provide the deliveries with no power peaking charges. To the extent delivery capability is available to permit then-current deliveries at a rate of flow in excess of the lesser of that provided in (a) Article 12(b), or (b) of the sum of the capacities on which the District's capital charges are based in the basic East Branch Aqueduct Facilities and the District's proportional share of the operational capacity of the East Branch Enlargement Facilities, such deliveries will be allowed if such deliveries do not adversely affect the ability of other contractors to receive entitlement deliveries. However, if such excess deliveries would cause increased power costs to any other contractors, the District shall pay the power costs that would otherwise increase power costs to the other water contractors. These power costs resulting from such excess deliveries will be based upon administrative cost allocation procedures adopted by the Director of the Department of Water Resources after consultation with the contractors. Before beginning deliveries that would involve extra power peaking charges, the State shall consult with the District to determine if the District desires (a) a change in its delivery schedule or (b) modifications in East Branch Aqueduct or Enlargement operation to avoid the increased power costs.

(i) Failure to Meet Payment Obligations Under Article 49

(1) If a Participating Contractor defaults in payments due under Article 49 and the costs of other Participating Contractors would as a consequence be increased, the State shall, in addition to any actions taken pursuant to Articles 32 and 34, notify the defaulting Participating Contractor that if the Participating Contractor fails to cure the default within 30 days, the State will offer the capacity provided for the Participating Contractor to the other Participating Contractors. If the Participating Contractor fails to cure the default within thirty (30) days of notice by the State, the State shall offer to each Participating Contractor, in proportion to the contractor's degree of participation in the enlargement, the opportunity to assume responsibility for the capital charges and delivery capability on which the defaulting contractor's capital costs were based. If Participating Contractors fail to cure the default, The Metropolitan Water District of Southern California shall assume responsibility for the capital charges on which the defaulting contractor's capital costs were based, and shall receive the capacity associated with such capital charges. Article 49(b)(1) shall be appropriately adjusted.

(2) No credits shall be assigned to a Participating Contractor under this article while the Participating Contractor is in default of any payment to the State under this article for a period of more than thirty (30) days.

50. Water System Facility Revenue Bond Financing Costs:

(a) **Water System Facility Revenue Bonds to Finance Capital Costs Incurred Prior to the Billing Transition Date.** ~~Charges to the District for water system revenue bond financing costs shall be governed by provisions of this article. The provisions of this subdivision (a) shall apply to the Financing Costs of Revenue Bonds issued to finance Water System Facility Capital Costs Incurred prior to the Billing Transition Date.~~ Charges to all Contractors for such ~~water system revenue bond financing costs~~ **Financing Costs** shall return to the State each year an amount equal to the ~~annual financing costs~~ **Financing Costs** the State incurs in that year for such ~~water system revenue bonds~~ **Water System Facility 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.~~

(b1) Elements of Charge. Annual charges to recover ~~water system revenue bond financing costs~~ such Water System Facility Revenue Bond Financing Costs shall consist of two elements.

(1A) The first element shall be an annual charge to the District for repayment of Capital Costs of Water System Facilities as determined under Articles 22(a) and 24(a) 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 the provisions of Article 22(a) applicable to Capital Costs Incurred prior to the Billing Transition Date. For transportation facilities, the charge shall be a part of the capital ~~cost~~ component of the Transportation Charge in accordance with the provisions of Article 24(a) applicable to Capital Costs Incurred prior to the Billing Transition Date.

(2B) The second element shall be the District's share of a Water System Facility 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~~ related Water System Facility 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 District's transportation capital component charges for prior overpayments and underpayments shall be determined as if amortized over the remaining years of the Project Repayment Period.

(e2) Identification of Surcharge on Invoices. The ~~Water System Revenue Bond Surcharge~~ Water System Facility Revenue Bond Surcharge will be identified ~~by component and charge~~ in the District's invoice.

(d3) Timing of Surcharge Payments. Surcharge payments shall be made in accordance with Article 29(f) of this contract.

(e4) Termination of Surcharge. The Water System Facility Revenue Bond Surcharge under Article 50(~~ba~~)(21)(B) shall cease for each series of ~~water system revenue bonds~~ Water System Facility Revenue Bonds when that series is fully repaid. However, the annual charge determined pursuant to Article 50(~~ba~~)(1)(A) shall continue to be collected for the time periods otherwise required under Articles 22 and 24.

(5) Reduction of Charges. After the Department has repaid the California Water Fund in full and after each series of Water System Facility 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(ba)(1)(A) 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 District.

(b) Water System Facility Revenue Bonds to Finance Capital Costs Incurred On or After the Billing Transition Date. The provisions of this subdivision (b) shall apply to the Financing Costs of Revenue Bonds issued to finance Water System Facility Capital Costs Incurred on or after the Billing Transition Date. Charges to all Contractors for such Financing Costs shall return to the State each year an amount equal to the Financing Costs the State incurs in that year for such Water System Facility Revenue Bonds. The amount of this charge shall be calculated in two steps as follows:

(1) Allocation of Water System Facility Capital Costs. Capital Costs Incurred on or after the Billing Transition Date of Water System Facilities that are conservation facilities shall be allocated among all Contractors in proportion to each Contractor's Maximum Annual Table A Amount. Capital Costs Incurred on or after the Billing Transition Date of Water System Facilities that are transportation facilities shall be allocated among all Contractors in accordance with Article 24(c).

(2) Determination of Annual Financing Cost Amounts. The State shall determine and charge the District each year the amount of the Financing Costs the State incurs in that year for the Water System Facility Revenue Bonds issued to finance such Water System Facility Capital Costs allocated to the District.

(c) Provisions Applicable to All Water System Facility Revenue Bonds. The provisions of this article shall apply to all Water System Facility Revenue Bonds.

(1) Credits for Excess Amounts. 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 payment of the Financing Costs of such Water System Facility Revenue Bonds, when and as permitted by the applicable bond resolution or indenture. 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 of Water System Facility Revenue Bond Financing Costs from each Contractor. Reserves, bond debt service coverage, interest, and other earnings may be used to retire bonds.

(2) Allocation of Maturities Permitted. When calculating charges for Water System Facility Revenue Bond Financing Costs, the State may allocate

portions of particular maturities of Water System Facility Revenue Bonds and the Financing Costs associated with such maturities to particular Water System Facilities, in order to establish a reasonable relationship between the Economic Useful Life of such facilities and the term of bonds issued to finance such facilities, and may determine the Financing Costs allocated to the District on the basis of such maturity allocation.

(3) *Supplemental Bills for Unanticipated Financing Costs.* The State may submit a supplemental bill to the District for the year if necessary to meet unanticipated costs for Water System Facility Revenue Bond Financing Costs for which the State can issue a statement of charges under this article and any other article of this contract providing for payments that are pledged to the payment of Revenue Bonds issued to finance Project Facility Capital Costs allocated to the District. The relative amounts of any supplemental billing made to the District and to other Contractors for Revenue Bond purposes shall be governed by the otherwise applicable article. Payment of any supplemental billing shall be due thirty days after the date of the invoice.

(4) *Insurance on Contractor Obligations.* 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.

~~(g5)~~ *Consultation on Financing Plan.* Before issuing each series of ~~water system revenue bonds~~ Water System Facility Revenue Bonds, the State shall consult with the Contractors, prepare a plan for the State's future financing of ~~water system facilities~~ Water System Facilities, and give the District an opportunity to comment on the plan. The plan shall include but not be limited to the size of any ~~water system revenue bond~~ Water System Facility Revenue Bond issuances and the form of any necessary resolutions, indentures or supplements.

~~(h6)~~ *Defaults.*

~~(+A)~~ If a Contractor defaults partially or entirely on its payment obligations ~~calculated under this article~~ with respect to Water System Facility Revenue Bond Financing Costs and sufficient insurance or other security protecting the non-defaulting Contractors is not provided under ~~Article 50(f)~~ subdivision (c)(4) of this article, the State shall allocate a portion of the default to each non-defaulting Contractor. The District'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 District's ~~maximum Table A entitlement~~Maximum Annual Table A Amount bears to the total of the ~~maximum Table A entitlements~~Maximum Annual Table A Amounts of all non-defaulting Contractors. However, such amount shall not exceed in any year 25 percent of the Water System Facility Revenue Bond Financing Costs that are otherwise payable by the District 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.

(2B) 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~~Water System Facility Revenue Bond Financing Cost 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.

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

(4D) Except as otherwise provided in ~~Article 50(h)(3)~~Article 50(h)(3) subparagraph (c) of this article, 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)(6)~~(6). 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.

(5E) 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.

(6E) 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](#) [subparagraph \(a\) of this article](#).

(7G) Action taken pursuant to this [subarticle](#) [subdivision](#) 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 [inoperative].~~

~~(1) — The Department and the District 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 District 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 District 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 District 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(t). However, if the Department has borrowed any funds under Article 1(t)(7), Article 1(t)(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(t) shall read as it previously read as shown on Attachment Number 1 to this amendment. <Attachment 1 is included at the end of this contract.>~~

~~(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.~~

~~(j7) No Article 51 Reduction. Amounts of Water System Facility Revenue Bond Financing Costs payable under this article contract shall not be affected by any reductions in payments pursuant to Article 51.~~

~~(8) Contract Extension. In the event the Contract Extension Amendment takes effect, but not all Contractors sign the amendment, the following shall apply: If and to the extent that the charges under Article 50(b)(1) and 50(b)(2) of the water supply contracts of Contractors that have not executed the Contract Extension Amendment (“non-signing Contractors”) are not sufficient to recover the annual Financing Costs that relate to Revenue Bonds issued to finance capital costs that are Incurred after the Billing Transition Date and are allocable to such non-signing Contractors, the amount of the shortfall shall be determined. Such shortfall shall be charged to the Contractors that have executed the Contract Extension Amendment (“signing Contractors”) in proportion to each such signing Contactor’s total Water System Facility Revenue Bond Financing Cost charges under Article 50(b) of this contract.~~

51 Financial Adjustments.

(a) Article Expiration

This Article 51 shall be effective through December 31, 2035 and shall be of no further effect on and after January 1, 2036; provided, however, that the provisions of this Article 51 may, to the extent applicable, continue to be used and applied on and after January 1, 2036 for the purpose of truing up amounts owed

by the District to the State or by the State to the District for the calendar years up to and ending with calendar year 2035.

~~(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 District. 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 District, 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 (e)(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.

(4) Five years following the Contract Extension Amendment Effective Date, the SWRDS Finance Committee shall review the State Water Facilities Capital Account to determine whether to recommend to the Director that this account be closed. If the Director determines to close the account, the State shall transfer any balance in the account to the SWRDS Support Account.

(5) Unless closed sooner, the State Water Facilities Capital Account shall terminate on December 31, 2035 and the State shall transfer any balance in such account to the SWRDS Support Account.

(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~~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; provided that the reduction in annual charges in the aggregate for all contractors shall not exceed \$48 million in any year beginning with the first calendar year following the Contract Extension Amendment Effective Date. The provisions regarding the reduction in annual charges that were in effect prior to the Contract Extension Amendment Effective Date shall continue to apply to the entire calendar year in which the Contract Extension Amendment Effective Date occurs. 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. To determine whether the reduction in annual charges in the aggregate for all contractors equals the \$48 million limit specified in this subdivision (c)(3), it shall be assumed that all contractors have executed the Contract Extension Amendment and will share in the available rate reductions consistent with the proportions as provided in this contract, regardless of whether one or more contractors do not receive a reduction under their respective Water Supply Contracts.

(4) The supplemental billing provisions authorized under this Article 51(c)(4) shall remain in effect through December 31, 2035, unless the Director determines in his or her discretion to eliminate the use of supplemental billing prior to that date or the Director in his or her discretion accepts a recommendation from the SWRDS Finance Committee to eliminate the use of supplemental billing prior to that date.

(i) The State shall inform the SWRDS Finance Committee if the available System cash balances are projected by the State to fall during the succeeding one hundred twenty (120) days to an amount below an amount equal to ninety (90) days operating expenditures. The SWRDS Finance Committee shall make a recommendation in light of such circumstances to the Director.

(4*ii*) The State may submit a supplemental billing to the District 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, subject to the following procedures and limitations:

(a) The State may only issue supplemental bills pursuant to the provisions of this Article 51(c)(4) when available System cash balances are projected to be less than the amount equal to 90 days operating expenditures.

(b) The term “available System cash balances,” for purposes of subdivision (a) of this Article 51(c)(4)(ii) shall mean available amounts in the following California Water Resources Development Bond Fund accounts: System Revenue Account (to the extent the funds in the System Revenue Account are not projected to be needed for payment of Burns-Porter General Obligation Bond debt service within the next two years), General Operating Account, SWRDS Reinvestment Account, and SWRDS Support Account (to the extent the funds in the SWRDS Support Account are not projected to be needed for non-reimbursable expenditures within the next two years).

(c) The term “operating expenditures” for purposes of subdivision (a) of this Article 51(c)(4)(ii) shall mean the costs described in California Water Code Section 12937(b) chargeable to the State Water Project as water supply.

(d) Any supplemental billing made to the [District] 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 District in that year bears to the total ~~reductions~~reduction 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 ~~District~~contractor by the amount of the supplemental bill to the ~~District~~contractor.

(5) The State may also submit a supplemental billing to the [District] 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 [District] 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~~ Commencing with the first calendar year following the Contract Extension Amendment Effective Date, the State shall apportion available reductions for each year in accordance with this ~~article~~ 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.~~

(42) ~~In 2001 and in each succeeding year~~ Annual reductions ~~equal to or in excess~~ in the aggregate amount of ~~\$40.5~~ \$48 million are projected to be available in the first calendar year following the Contract Extension Amendment Effective Date and each succeeding year through calendar year 2035 and shall be applied as follows:

(i) If reductions are available in an aggregate amount that equals ~~or exceeds \$40.5~~ \$48 million, ~~\$10 million~~ 11,856,000 of reductions shall be apportioned among the Agricultural Contractors, and ~~\$30.5 million~~ 36,144,000 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 aggregate amount less than ~~\$40.5~~ \$48 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.

~~(3) 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~~ No contractor shall be entitled to receive in any year any additional reductions.

including any additional reductions to make up for deficiencies in past projected reductions and any additional reductions above an aggregate annual amount of \$40.548 million-are available.

(4) Reductions in annual charges to a contractor 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~~this Article 51(d) shall only be made prospectively beginning with the later of the first calendar year following the Contract Extension Amendment Effective Date or the first calendar year following the date the contractor~~ executes the ~~Monterey~~Contract Extension 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~~Revenues and Reports

(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:~~ Each year, beginning with the first calendar year commencing after the Contract Extension Amendment Effective Date, the Director shall determine the amount of available Article 51(e) Amounts. The Director shall determine the aggregate amount that would have been charged to all contractors in any year but for this Article 51 and from that amount shall deduct the sum of

(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) and (v) of this article; plus~~

(ii) \$48 million.

The remaining amount, if any, shall be referred to herein as “Article 51(e) Amounts”.

(2) The State shall allocate available Article 51(e) Amounts as follows:

~~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 (e)(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.~~

The Director in his or her discretion shall allocate and transfer or deposit up to 80% of available Article 51(e) Amounts, as determined on a projected basis, and up to 100% of available Article 51(e) Amounts, as determined on an actual basis, into the General Operating Account, the SWRDS Support Account and/or the SWRDS Reinvestment Account. Any Article 51(e) Amounts determined on an actual basis to be remaining

in the Systems Revenue Account after the Director allocates and transfers such amounts to the General Operating Account, the SWRDS Support Account and/or the SWRDS Reinvestment Account shall remain in the Systems Revenue Account and shall be tracked separately in the State's Financial Information System. The Director shall have full discretion regarding the use of the amounts remaining in the Systems Revenue Account.

(3) The State shall prepare and distribute an Annual Rate Reduction Determination Report setting out the factors used to determine reductions in rates pursuant to Article 51(c). The report shall include a display of the distribution of gross annual revenues before, among other items, recreation and fish and wildlife expenditures, contributions to the State Water Facilities Capital Account and reduction in rates pursuant to Article 51(c). The report shall also include a display of the distribution and/or allocation of net annual revenues after reduction in rates pursuant to Article 51(c), to the General Operating Account, SWRDS Support Account, SWRDS Reinvestment Account, 51(e) Sub-Account of the Systems Revenue Account, Davis-Dolwig Fund, State Water Facilities Capital Account, and Suspended Costs, as applicable.

(4) The System Financial Activity Report, which is required to be prepared quarterly pursuant to Article 61(d), shall include annual and accumulated Article 51(e) Amounts and expenditure activity, including the beginning balance, the annual activity and the ending balance for the year for each fund or account into which Article 51(e) Amounts have been transferred or deposited. The System Financial Activity Report should also have sufficient detail to provide comprehensive accounting of annual Article 51(e) Amounts and the uses of the annual Article 51(e) Amounts to enable the SWRDS Finance Committee to assess the use of these amounts.

(f) **Apportionment of Reductions Among Urban Contractors,**

Reductions in annual charges apportioned to Urban Contractors under ~~subdivisions~~subdivision (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~~Table A amount. Each Urban Contractor's proportionate share shall be the same as the percentage of that contractor's maximum annual ~~entitlement~~Table A amount to the total of all Urban Contractors' maximum annual ~~entitlements~~Table A.

(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~~[Table A amount](#) associated with transfers of ~~entitlement~~[Table A amounts](#) 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~~[Table A Amounts](#) 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~~Table A amounts, the proportionate share of annual charge reductions associated with that ~~entitlement~~Table A amount shall be transferred with the ~~entitlement~~Table A amount to the buying contractor. In the case of an ~~entitlement~~ Table A amount 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~~Table A amount being retained by that agency which bears Coastal Branch Phase II transportation costs, (b) on the basis of that ~~entitlement~~Table A amount 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~~ Table A amount which also does not bear Coastal Branch Phase II transportation costs.

(g) Apportionment of Reductions Among Agricultural Contractors₂

(1) Reductions in annual charges apportioned to Agricultural Contractors under ~~subdivisions~~subdivision (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~~Annual Table A Amounts being permanently 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~~Annual Table A Amounts 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~~ Table A amount being permanently 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~~ Table A amount 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 Fund₂

(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~~ [Table A amount](#) 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~~ [Table A amount](#) 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~~848,130 acre-feet of its ~~entitlement~~Table A amount,
- (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~~134,600 acre-feet of its ~~entitlement~~Table A amount.

(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.

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.

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 NOIs 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 contractor s, 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.

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
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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.

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.

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 District 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 District 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 District 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 District’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 District from entering into bona fide exchanges of project water for use outside the District'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 District's service area. Also, nothing in this article shall be deemed to prevent the District 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.

57. <Intentionally Blank>

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.

59. <Does not exist>

60. <Does not exist>

61. Financial Accounts and Activities.

(a) General Operating Account

(1) The State shall maintain a General Operating Account to provide the moneys needed for the following purposes:

(i) To pay or provide for the payment of System costs which are reimbursable by one or more contractors under their respective Water Supply Contracts in the event System revenues available for such payment are insufficient for such purpose; or

(ii) To pay or provide for the payment of System costs for any System purpose in the event of a System emergency as defined in Article 61(a)(1)(iii).

(iii) A System Emergency, as used in this Article 61(a)(1)(ii) shall mean an immediate, urgent, critical, unexpected, or impending situation that, in the judgment of the Director may cause or pose a risk of causing injury, loss of life, damage to the property, impairment of the financial condition, and/or interference with the normal activities of the System which requires immediate attention and remedial action.

(2) The maximum amount in the General Operating Account shall be set, adjusted and funded as follows:

(i) Upon the Contract Extension Amendment Effective Date, the maximum amount shall be \$150 million.

(ii) On or before the first September 1 occurring five (5) years after the Contract Extension Amendment Effective Date and every five (5) years thereafter, the State shall present a business case analysis of the maximum amount reasonably necessary or appropriate to be maintained in the General Operating Account, including an evaluation of the maximum amount and its relationship to the business risks associated with the System cash flow, to the SWRDS Finance Committee for recommendation to the Director regarding a General Operating Account maximum amount adjustment, provided that the maximum amount shall not be less than \$150 million.

(iii) To fund the General Operating Account to its maximum amount, the Director may, in his or her discretion, transfer to the General

Operating Account (1) amounts determined to be available pursuant to Article 51(e); (2) earnings from the investment of amounts in the General Operating Account; (3) amounts in the SWRDS Reinvestment Account; and (4) amounts in the SWRDS Support Account.

(iv) If the Director determines to decrease the maximum amount pursuant to Article 61(a)(2)(ii), or the maximum amount is otherwise exceeded, the excess amount in the General Operating Account shall be transferred to the SWRDS Reinvestment Account.

(v) The State shall replenish the amounts used from the General Operating Account (1) through charges to the contractors to the extent the contractors are obligated to reimburse the State for the costs paid with such amounts and (2) from the SWRDS Support Account or other available revenues (including the sources described in subparagraph (iii) of this Article 61(a)(2)) for costs not reimbursable by the contractors under their respective Water Supply Contracts.

(vi) General Operating Account investment earnings shall be used to fund the General Operating Account to its maximum amount or, in the Director's discretion, transferred to the SWRDS Support Account and/or the SWRDS Reinvestment Account.

(3) The State shall prepare monthly reports on the balance in and use of the General Operating Account for the Director, and shall provide those reports to the SWRDS Finance Committee. The SWRDS Finance Committee may periodically review reporting frequency and make recommendations to the Director regarding reporting frequency.

(b) SWRDS Reinvestment Account

(1) Commencing with the Contract Extension Amendment Effective Date, the State shall establish and maintain a SWRDS Reinvestment Account to provide a continuing source of investment revenue to provide amounts to be transferred to or deposited in the General Operating Account, the SWRDS Reinvestment Account, and the SWRDS Support Account.

(2) To fund the SWRDS Reinvestment Account, the Director may, in his or her discretion, transfer to the SWRDS Reinvestment Account (i) amounts determined to be available pursuant to Article 51(e), (ii) earnings from the investment of amounts in the SWRDS Reinvestment Account, (iii) payments by the contractors for capital costs funded from the SWRDS Reinvestment Account, (iv) amounts from the SWRDS Support Account, and (v) amounts from the General Operating Account.

(3) Amounts in the SWRDS Reinvestment Account may be used and/or invested as follows:

(i) To pay capital costs of project facilities to the extent those costs are reimbursable by one or more contractors under their respective Water Supply Contracts. Such capital costs shall be reimbursed to the State in accordance with item 5 of this subparagraph (b) below.

(ii) To pay capital costs of project facilities pending reimbursement of the State with the proceeds of revenue bonds issued by the State; and

(iii) To make temporary investments in accordance with the statutory limitations on such investments.

(4) The State shall prepare regular reports on the SWRDS Reinvestment Account for the Director and shall provide those reports to the SWRDS Finance Committee. The State shall consult with the SWRDS Finance Committee about the investments and activities to be funded from the SWRDS Reinvestment Account.

(5) *Amortization of Costs Financed with Amounts in the SWRDS Reinvestment Account.* Charges to amortize Project Facility Capital Costs paid with amounts from the SWRDS Reinvestment Account shall return to the State, in equal annual amounts over an amortization period determined by the State, the amount of each such cost together with an interest charge on the unamortized balance thereof.

(i) The length of such amortization periods may be from ten (10) to fifty (50) years, provided that if the capital asset has an Economic Useful Life of less than ten (10) years, the amortization period may be a comparable period of less than ten (10) years.

(ii) The interest charge shall be at a rate equal to the market interest rate at the time the cost is Incurred on municipal Revenue Bonds with the following characteristics:

(a) the same rating as the rating on Revenue Bonds issued by the State to finance Project Facilities, and

(b) the same term as the length of the amortization period, all as determined by the State.

(iii) For the purposes of this subdivision (b)(5), the State may aggregate the Capital Costs of each project facility Incurred during each calendar year and determine a composite interest rate and a composite amortization period applicable to the amortization of such costs.

(iv) The amortization charges relating to the costs Incurred during each calendar year shall commence the calendar year starting one year after the end of the calendar year in which such costs were Incurred, and the amount to be amortized shall include capitalized interest for the period from the date or dates the costs are Incurred to the date of commencement of amortization.

(c) **SWRDS Support Account**

(1) Commencing with the Contract Extension Amendment Effective Date, the State shall establish and maintain a SWRDS Support Account to provide a source of funds to pay System costs that are not chargeable to the contractors under their respective Water Supply Contracts and for the payment of which there are no other monies available.

(2) To fund the SWRDS Support Account, the Director may, in his or her discretion, transfer to the SWRDS Support Account (i) amounts determined to be available pursuant to Article 51(e); (ii) amounts in the SWRDS Reinvestment Account, (iii) investment earnings in the General Operating Account; (iv) earnings from the investment of amounts in the SWRDS Support Account; and (v) other available revenues. The State shall not charge the [District] to replenish the SWRDS Support Account for costs not otherwise chargeable to the [District] under this contract.

(3) If the State is reimbursed or other amounts are appropriated and received for a cost paid from the SWRDS Support Account, the State shall deposit the amount reimbursed or received in the SWRDS Support Account.

(4) The State shall prepare regular reports on the SWRDS Support Account for the Director and shall provide those reports to the SWRDS Finance Committee. The State shall consult with the SWRDS Finance Committee about the investments and activities to be funded from the SWRDS Support Account.

(d) **System Financial Activity Report and Reporting Principles**

(1) The State shall prepare and distribute quarterly a System Financial Activity Report that contains the following information:

(i) By fund or account, the activity in the following funds and accounts: the General Operating Account, the SWRDS Support Account, the SWRDS Reinvestment Account, the 51(e) Sub-Account of the Systems Revenue Account, the Davis-Dolwig Fund, and the State Water Facilities Capital Account, and the activity with respect to suspended costs.

(ii) The data in the System Financial Activity Report shall be auditable, which includes an audit trail from the costing ledger (currently the Utility Cost Accounting Billing System, as of the Contract Extension Amendment Effective Date) to the general ledger (currently SAP, as of the Contract Extension Amendment Effective Date) or the Bulletin 132 estimates to the System Financial Activity Report.

(2) Appendix B, entitled System Reporting Principles, contains principles and guidelines which shall be followed, to the extent applicable, in the preparation of System financial reports and financial management reports.

(e) State Water Resources Development System Finance Committee

(1) The State shall establish a joint State and contractors finance committee, which shall be referred to as the State Water Resources Development System Finance Committee or SWRDS Finance Committee. The membership of the SWRDS Finance Committee shall include both representatives from the State and the contractors.

(2) The primary purpose of the SWRDS Finance Committee shall be to make recommendations to the Director concerning the financial policies of the System. The State and the contractors shall describe the scope of the SWRDS Finance Committee in a charter mutually agreeable to the State and the contractors.

(f) Cost Recovery

In general, the State should seek reimbursement for all System costs from the appropriate customers and users of System facilities. With respect to those System costs that are reimbursable by the contractors, the State should allocate financial responsibility for such costs in a manner that is both lawful and equitable, and which endeavors to recover such costs from the appropriate contractors. If the State proposes to not charge any contractor the full amount that the State is entitled to charge the contractor under the contract, the State shall present a written proposal to the SWRDS Finance Committee for purposes of developing a recommendation to the Director regarding the proposal. The State shall submit such proposal in writing to the SWRDS Finance Committee 90 days

in advance of the Director issuing any decision and within such 90 day period the SWRDS Finance Committee shall provide the Director with a recommendation regarding such proposal. Such proposals shall comply with the structure set out in the SWRDS Finance Committee charter referenced in Article 61(e)(2).

EXHIBIT A

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA ANNUAL TABLE A AND CAPACITY VALUES FOR EACH REACH (a) FOR COST ALLOCATION AND REPAYMENT ONLY

The values related to this transfer are estimated to be as follows:

Repayment Reach	Before Table A Transfer				Table A Transferred to DWA (AF) [5]	Capacity Transferred to DWA (cfs) [6]	After Table A Transfer	
	Maximum Annual Table A (AF) [1]	Table A Capacity (cfs) [2]	East Branch Enlargement Capacity (cfs) [3]	Total Capacity [2] + [3] (cfs) [4]			Total Annual Table A [1] - [5] (AF) [7]	Total Capacity [4] - [6] (cfs) [8]
California Aqueduct								
Reach 1	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 2A	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 2B	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 3	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 4	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 5	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 6	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 7	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 8C	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 8D	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 9	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 10A	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 11B	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 12D	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 12E	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 13B	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 14A	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 14B	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 14C	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 15A	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 16A	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 17E	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
Reach 17F	1,923,400	2,741		2,741	11,900	16	1,911,500	2,725
East Branch Aqueduct								
Reach 18A	468,400	732	1,200	1,932	11,900	16	456,500	1,916
Reach 19	468,400	732	1,200	1,932	11,900	16	456,500	1,916
Reach 20A	468,400	732	1,200	1,932	11,900	16	456,500	1,916
Reach 20B	468,400	732	1,200	1,932	11,900	16	456,500	1,916
Reach 21	468,400	732	1,200	1,932	11,900	16	456,500	1,916
Reach 22A	468,400	732	1,200	1,932	11,900	16	456,500	1,916
Reach 22B	468,400	732	1,200	1,932	11,900	16	456,500	1,916
Reach 23 (b)	468,400	732	1,200	1,932	11,900	16	456,500	1,916
Reach 24	468,400	(c)	1,200	(c)	11,900	(c)	456,500	(c)
Reach 25	468,400	773	1,200	1,973	11,900	16	456,500	1,957
Reach 26A	468,400	773	1,200	1,973	11,900	16	456,500	1,957
Reach 28G	184,400	255		255	11,900	16	172,500	239
Reach 28H	184,400	255		255	11,900	16	172,500	239
Reach 28J	184,400	(c)		(c)	11,900	(c)	172,500	(c)

(a) Does not include capacity for outages and losses.

(b) East Branch Enlargement costs in Reach 23 are split into Reach 23B (excluding Mojave Siphon Power Plant) and Reach 23C (Mojave Siphon Power Plant).

(c) Aqueduct capacity is not applicable to Silverwood Lake (Reach 24) and Lake Perris (Reach 28J).

State Water Project Analysis Office
October 8, 2003 (revised 12/30/03)

EXHIBIT B

SYSTEM REPORTING PRINCIPLES

- A. During the term of the water supply contracts, it is likely that financial reports and financial management reports will change in scope, nature, and frequency. Regardless of the exact reports used, such reports shall follow the below principles and guidelines to the extent applicable.
1. Principle 1: Financial reporting will be generated from the general ledger or data warehouse of the financial information system (system of record), such as SAP. The financial system of record is the authoritative source for financial reporting data values in a system. To ensure data integrity, there must be one, and only one, system of record for financial reporting values.
 2. Principle 2: Financial reporting is not limited to annual financial statements but will be developed for regular reporting periods.
 3. Principle 3: Financial management reporting generated from other financial systems, such as Utility Cost Accounting Billing System (UCABS), will identify and analyze significant variances from prior years or budgets.
 4. Principle 4: Financial reporting and financial management reporting will identify unusual items and exceptions, and these items will be documented, reviewed, and resolved by management.
 5. Principle 5: DWR will use standardized System-wide business rules and utilize a centralized financial system, such as SAP, UCABS, or other system, to provide controls/validations to ensure data integrity and reliable reporting.
 6. Principle 6: DWR will use standardized data integrity rules in the development and publication of reports, including but not limited to the following:
 - (1) Data integrity refers to the accuracy and consistency of data stored in a database, data warehouse, data mart or other construct.
 - (2) Data integrity processes verify that data has remained unaltered in transit from creation to reception or remains unaltered in transit from one system to the next. Data used outside of the Enterprise Resource Planning (ERP) systems to meet the reporting needs of Program will undergo any number of operations in support of decision-making, such as capture, storage, retrieval, update and transfer. It is important to have confidence that

during these operations, the data will be kept free from corruption, modification and remain unaltered.

- (3) Data with “integrity” has a complete or whole structure. Data values are standardized according to a data model and/or data type. All characteristics of the data must be correct – including business rules, relations, dates, definitions and lineage – for data to be complete.
- (4) Data integrity is imposed within an ERP database when it is created and is authenticated through the ongoing use of error checking and validation routines.
- (5) Data integrity state or condition is to be measured by the validity and reliability of the data values.
- (6) Data integrity service and security maintains information exactly as it was input, and is auditable to affirm its reliability.

The SWRDS Finance Committee is charged with providing financial policy recommendations to the Director, and the Director has final discretion on whether or not to accept the recommendations. While the SWRDS Finance Committee is not charged with reviewing the content of financial reports, timely and accurate financial reporting and financial management reporting provides technical committees access to useful information that can be used to formulate proposals on financial policy matters that may be brought to the SWRDS Finance Committee.