

Exhibit I

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The Antelope Valley Accord

A Statement of Agreed Principles for Settlement of the Antelope Valley Groundwater Adjudication

Introduction

This *Antelope Valley Accord -- A Statement of Agreed Principles for Settlement* represents a comprehensive set of agreements establishing a physical solution for Antelope Valley groundwater management and providing a basis for final resolution of pending litigation over the amount and allocation of groundwater pumping rights in the Antelope Valley Area of Adjudication.

Litigation over groundwater rights has clouded the use of groundwater in the Antelope Valley for more than ten years. Known as the Antelope Valley Groundwater Cases (JCCP 4408, Superior Court of California, Santa Clara County), an initial dispute in 1999 between some urban and agricultural interests grew through filing of related lawsuits into a general adjudication of all groundwater rights in the basin. In addition to the original municipal and industrial purveyors (*i.e.*, urban and industrial water systems operated by cities and local water and community service districts – generally referred to as “purveyors” or “appropriators”) and active agricultural pumpers, the cases also involve local water recycling districts, Edwards Air Force Base (“EAFB”), the City of Los Angeles, an industrial user, and State Water Contractors. Two court-certified classes of groundwater rights holders are also litigants – a class including small landowners who pump relatively small amounts of groundwater, and a class including landowners who are not currently pumping but currently possess rights to do so. Under California law, landowners whose land holdings overlie an aquifer suitable for pumping groundwater but who are not yet pumping hold inchoate, equal rights with other landowners to pump available groundwater and put it to reasonable beneficial use on their land (“overlyers’ rights”).

In the *Antelope Valley Accord*, landowners who are pumping groundwater are generally referred to as “overlyers.” Landowners who have not yet pumped groundwater are generally referred to as “dormant overlyers” or “dormant landowners,” and by court order belong to the certified class known as the “Willis Class” unless they have separate representation before the Court.

In the first two phases of trial, the Court defined the geographic area of the basin being adjudicated (the Antelope Valley Adjudication Area; the “AVAA”), and determined that the

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6. Any water reserved for this purpose but unused shall be available for use by others as specified in the Settlement at no charge. The mutual water companies will receive no water credit from the allocation for the Dormant Landowners Class when a dormant landowner connects to a mutual water company system.
7. Groundwater rights allocated to the mutual water companies shall remain constant whether there is a downwards or an upwards adjustment of Total Sustainable Yield, and such companies shall not be assessed costs for replacement water if the estimated Total Sustainable Yield is reduced.

G. Dormant Landowners Class (Willis Class)

1. It is understood and agreed that the proposed settlement with the Willis Class is subject to Court approval following notice to the Class and a fairness hearing.
2. The parties agree to mediate the issue of fees and costs claimed by Willis Class counsel. If mediation fails the parties agree to petition the Court for an award of fees and costs.
3. Class rules will govern access to benefits for Class members when they begin to make actual reasonable beneficial use of groundwater. The administrative and ministerial implementation of the Class rules will be managed by the Watermaster, with the costs for such work covered via assessments.
4. Qualifying parcels of 20 acres or less shall be assigned groundwater rights according to the following principles:
 - a. For parcels that are being developed for a single family residence -
 - i. parcels located within, adjacent to, or in close proximity to the service area of a municipal water supplier or water district, such that they may be provided service by that district at nominal cost, will be entitled to a quantity of water free of a replacement assessment equal to the average use for a residence within that district, and if that supplier provides service to such parcels then that entitlement is transferred to the district;
 - ii. non-adjacent or distant parcels will be entitled to one acre-foot per single-family residence for domestic use free of any replacement assessment; and
 - iii. owners of parcels of 20 acres or less may divide such parcels to the extent consistent with applicable zoning requirements, except that an owner may not combine more than one such contiguous parcel to effectively form a project area exceeding 20 acres - such projects will be subject to the provisions in Paragraph III.G.5 below. Subject to that exception, each parcel of 20 acres or less shall be entitled to exercise the above right.
 - b. Parcels of 20 acres or less shall also receive an allocation of 0.1 AF/yr under the same terms as set forth in Paragraph III.G.5 below.
 - c. The expected quantities of groundwater involved in this category will be considered de minimis and will not adversely affect the Basin as a whole. The Watermaster will account for them but they will not be counted against the Class reserved right or reduce the allocation of any other party. Such rights will remain constant whether Total Sustainable Yield is adjusted downward or upward.
5. For qualifying Class parcels greater than 20 acres, a reserved groundwater right will be created for the use and benefit of members of the Class. Individual Class members will be allocated groundwater rights free of replacement assessment from this reserved

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right for actual reasonable beneficial use on the parcels that qualify them for Class membership.

- a. Each qualifying Class parcel of a size greater than 20 acres will be entitled to an allocation of groundwater rights from the Class reserved right when the owner begins to make actual reasonable beneficial use of groundwater on that parcel. 0.1 AF/yr per acre will be assigned to that parcel from the Class reserved right.
 - b. One single family residence on one of these parcels will also receive 1.0 AF/yr as described in Paragraph III.G.4 above.
 - c. Such rights will remain constant whether Total Sustainable Yield is adjusted downward or upward.
 - d. Any requirements on that parcel for water in excess of these allocations must be accommodated through purchase or other acquisition of water from other sources.
6. To the extent that the quantities of groundwater allocated to the Class reserved right have not been allocated according to Paragraph III.G.5 above, such quantities will be available for use by purveyors and other overlying landowners that are not members of a mutual water company or the Small Pumpers Class.
7. The impacts of the perfection of Class rights, thereby reducing the portion of Total Sustainable Yield available to other users, will be accommodated as follows:
- a. Such reductions will be borne pro rata (based on pumping rights) by appropriators and overlyers, but not members of the A.V. United Mutual Group, the Small Pumpers Class, or Edwards Air Force Base; and
 - b. A “leave-behind” percentage of 5% for the benefit of the Basin will be imposed on any transfer of water rights or contracts for the delivery of water by an overlyer to a location other than the overlying parcel per the provisions of Paragraph VII.C.3 below.
8. All groundwater rights assigned to a qualifying Class parcel per Paragraph III.G above will run with the land and will not be transferable.
9. Water put to actual reasonable beneficial use by Class members is transferable to the other Class members for use only on lands within the Class, and such transfers shall be exempt from leave-behind requirements.

IV. Groundwater Management Areas

The Watermaster will establish and use groundwater management areas to manage the AVAA groundwater resource in accordance with the physical realities of the Basin. The sub-basins identified by the United States Geological Survey will provide a starting point for development of the management area system, recognizing that the Watermaster may need to perform studies in the field to identify the actual boundaries and characteristics of some of the different regions of the AVAA and the physical interrelationships between them.

- A. Groundwater management areas within the AVAA will be identified and used in the future management of groundwater in the Basin.
- B. Groundwater management practices will be tailored to manage use of native groundwater within each management area on a sustainable basis, and on a basis that does not negatively impact groundwater resources in down-gradient management areas.