

EXHIBIT 2

STIPULATION EXHIBIT 1

1 **3.5.39 Replacement Obligation.** The obligation of a Producer to pay for
2 Replacement Water for Production of Groundwater from the Basin in any Year in excess of the
3 sum of such Producer's Production Right and Imported Water Return Flows.

4 **3.5.40 Replacement Water.** Water purchased by the Watermaster or
5 otherwise provided to satisfy a Replacement Obligation.

6 **3.5.41 Replacement Water Assessment.** The amount charged by the
7 Watermaster to pay for all costs incurred by the Watermaster related to Replacement Water.

8 **3.5.42 Responsible Party.** The Person designated by a Party as the
9 Person responsible for purposes of filing reports and receiving notices pursuant to the provisions
10 of this Judgment.

11 **3.5.43 Safe Yield.** The amount of annual extractions of water from the
12 Basin over time equal to the amount of water needed to recharge the Groundwater aquifer and
13 maintain it in equilibrium, plus any temporary surplus. [*City of Los Angeles v. City of San*
14 *Fernando* (1975) 14 Cal. 3d 199, 278.]

15 **3.5.44 Small Pumper Class.** All private (i.e., non-governmental)
16 Persons and entities that own real property within the Basin, as adjudicated, and that have been
17 pumping less than 25 acre-feet per Year on their property during any Year from 1946 to the
18 present. The Small Pumper Class excludes the defendants in *Wood v. Los Angeles Co.*
19 *Waterworks Dist. 40, et al.*, any Person, firm, trust, corporation, or other entity in which any such
20 defendants has a controlling interest or which is related to or affiliated with any such defendants,
21 and the representatives, heirs, affiliates, successors-in-interest or assigns of any such excluded
22 party. The Small Pumper Class also excludes all Persons and entities that are shareholders in a
23 mutual water company. The Small Pumper Class does not include those who opted out of the
24 Small Pumper Class.

25 **3.5.45 Small Pumper Class Members.** Individual members of the Small
26 Pumper Class who meet the Small Pumper Class definition, and for purposes of this Judgment
27 and any terms pertaining to water rights, where two or more Small Pumper Class Members reside
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1 **6.4 Injunction Against Transportation From Basin.** Except upon further
2 order of the Court, each and every Party, its officers, agents, employees, successors and assigns,
3 is ENJOINED AND RESTRAINED from transporting Groundwater hereafter Produced from the
4 Basin to areas outside the Basin except as provided for by the following. The United States may
5 transport water Produced pursuant to its Federal Reserved Water Right to any portion of Edwards
6 Air Force Base, whether or not the location of use is within the Basin. This injunction does not
7 prevent Saint Andrew's Abbey, Inc., U.S. Borax and Tejon Ranchcorp/Tejon Ranch Company
8 from conducting business operations on lands both inside and outside the Basin boundary, and
9 transporting Groundwater Produced consistent with this Judgment for those operations and for
10 use on those lands outside the Basin and within the watershed of the Basin as shown in Exhibit 9.
11 This injunction also does not apply to any California Aqueduct protection dewatering Produced
12 by the California Department of Water Resources. This injunction does not apply to the recovery
13 and use of stored Imported Water by any Party that stores Imported Water in the Basin pursuant
14 to Paragraph 14 of this Judgment.

15 **6.4.1 Export by Boron and Phelan Piñon Hills Community Services**
16 **Districts.**

17 **6.4.1.1** The injunction does not prevent Boron Community Services
18 District from transporting Groundwater Produced consistent with this Judgment for use outside
19 the Basin, provided such water is delivered within its service area.

20 **6.4.1.2** The injunction does not apply to any Groundwater Produced
21 within the Basin by Phelan Piñon Hills Community Services District and delivered to its service
22 areas, so long as the total Production does not exceed 1,200 acre-feet per Year, such water is
23 available for Production without causing Material Injury, and the District pays a Replacement
24 Water Assessment pursuant to Paragraph 9.2, together with any other costs deemed necessary to
25 protect Production Rights decreed herein, on all water Produced and exported in this manner.

26 **6.5 Continuing Jurisdiction.** The Court retains and reserves full jurisdiction,
27 power and authority for the purpose of enabling the Court, upon a motion of a Party or Parties
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1 noticed in accordance with the notice procedures of Paragraph 20.6 hereof, to make such further
2 or supplemental order or directions as may be necessary or appropriate to interpret, enforce,
3 administer or carry out this Judgment and to provide for such other matters as are not
4 contemplated by this Judgment and which might occur in the future, and which if not provided for
5 would defeat the purpose of this Judgment.

6 **III. PHYSICAL SOLUTION**

7 **7. GENERAL**

8 **7.1 Purpose and Objective.** The Court finds that the Physical Solution
9 incorporated as part of this Judgment: (1) is a fair and equitable basis for satisfaction of all water
10 rights in the Basin; (2) is in furtherance of the State Constitution mandate and the State water
11 policy; and (3) takes into account water rights priorities, applicable public trust interests and the
12 Federal Reserved Water Right. The Court finds that the Physical Solution establishes a legal and
13 practical means for making the maximum reasonable and beneficial use of the waters of the Basin
14 by providing for the long-term Conjunctive Use of all available water in order to meet the
15 reasonable and beneficial use requirements of water users in the Basin. Therefore, the Court
16 adopts, and orders the Parties to comply with this Physical Solution.

17 **7.2 Need For Flexibility.** This Physical Solution must provide flexibility and
18 adaptability to allow the Court to use existing and future technological, social, institutional, and
19 economic options in order to maximize reasonable and beneficial water use in the Basin.

20 **7.3 General Pattern of Operations.** A fundamental premise of the Physical
21 Solution is that all Parties may Produce sufficient water to meet their reasonable and beneficial
22 use requirements in accordance with the terms of this Judgment. To the extent that Production by
23 a Producer exceeds such Producer's right to Produce a portion of the Total Safe Yield as provided
24 in this Judgment, the Producer will pay a Replacement Water Assessment to the Watermaster and
25 the Watermaster will provide Replacement Water to replace such excess production according to
26 the methods set forth in this Judgment.

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1 Groundwater Production exempt from a Replacement Water Assessment under this Drought
2 Program in any Year in which the Drought Program Participant has placed water from such
3 sources described in this Paragraph 8.4.2 into storage or has transferred such water to another
4 Person or entity.

5 **8.4.3** During the Rampdown period, the Drought Program Participants
6 will be exempt from the requirement to pay a Replacement Water Assessment for Groundwater
7 Production in excess of their respective rights to Produce Groundwater under this Judgment up to
8 a total of 40,000 acre-feet over the Rampdown Period with a maximum of 20,000 acre-feet in any
9 single Year for District No. 40 and a total of 5,000 acre-feet over the Rampdown Period for all
10 other Drought Program Participants combined. During any Year that excess Groundwater is
11 produced under this Drought Program, all Groundwater Production by the Drought Program
12 Participants will be for the purpose of a direct delivery to customers served within their respective
13 service areas and will not be transferred to other users within the Basin.

14 **8.4.4** Notwithstanding the foregoing, the Drought Program Participants
15 remain subject to the Material Injury limitation as provided in this Judgment.

16 **8.4.5** Notwithstanding the foregoing, the Drought Program Participants
17 remain subject to a Balance Assessment as provided in Paragraph 9.3 of this Judgment.

18 **9. ASSESSMENTS.**

19 **9.1 Administrative Assessment.** Administrative Assessments to fund the
20 Administrative Budget adopted by the Watermaster shall be levied uniformly on an annual basis
21 against (1) each acre foot of a Party's Production Right as described in Paragraph 5.1, (2) each
22 acre foot of a Party's right to Produce Imported Water Return Flows as determined pursuant to
23 Paragraph 5.2, (3) each acre foot of a Party's Production for which a Replacement Water
24 Assessment has been imposed pursuant to Paragraph 9.2, and (4) during the Rampdown, each
25 acre foot of a Party's Production in excess of (1)-(3), above, excluding Production from Stored
26 Water and/or Carry Over water, except that the United States shall be subject to the
27 Administrative Assessment only on the actual Production of the United States. During the
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1 Rampdown the Administrative Assessment shall be no more than five (5) dollars per acre foot, or
2 as ordered by the Court upon petition of the Watermaster. Non-Overlying Production Rights
3 holders using the unused Production allocation of the Federal Reserved Water Right shall be
4 subject to Administrative Assessments on water the Non-Overlying Production Rights holders
5 Produce pursuant to Paragraph 5.1.4.1.

6 **9.2 Replacement Water Assessment.** In order to ensure that each Party may
7 fully exercise its Production Right, there will be a Replacement Water Assessment. Except as is
8 determined to be exempt during the Rampdown period pursuant to the Drought Program provided
9 for in Paragraph 8.4, the Watermaster shall impose the Replacement Water Assessment on any
10 Producer whose Production of Groundwater from the Basin in any Year is in excess of the sum of
11 such Producer’s Production Right and Imported Water Return Flow available in that Year,
12 provided that no Replacement Water Assessment shall be imposed on the United States except
13 upon the United States’ written consent to such imposition based on the appropriation by
14 Congress, and the apportionment by the Office of Management and Budget, of funds that are
15 available for the purpose of, and sufficient for, paying the United States’ Replacement Water
16 Assessment. The Replacement Water Assessment shall not be imposed on the Production of
17 Stored Water, In-Lieu Production or Production of Imported Water Return Flows. The amount of
18 the Replacement Water Assessment shall be the amount of such excess Production multiplied by
19 the cost to the Watermaster of Replacement Water, including any Watermaster spreading costs.
20 All Replacement Water Assessments collected by the Watermaster shall be used to acquire
21 Imported Water from AVEK, Littlerock Creek Irrigation District, Palmdale Water District, or
22 other entities. AVEK shall use its best efforts to acquire as much Imported Water as possible in a
23 timely manner. If the Watermaster encounters delays in acquiring Imported Water which, due to
24 cost increases, results in collected assessment proceeds being insufficient to purchase all Imported
25 Water for which the Assessments were made, the Watermaster shall purchase as much water as
26 the proceeds will allow when the water becomes available. If available Imported Water is
27 insufficient to fully meet the Replacement Water obligations under contracts, the Watermaster

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1 shall allocate the Imported Water for delivery to areas on an equitable and practicable basis
2 pursuant to the Watermaster rules and regulations.

3 **9.2.1** The Non-Pumper Class Stipulation of Settlement, executed by its
4 signatories and approved by the Court in the Non-Pumper Class Judgment, specifically provides
5 for imposition of a Replacement Water Assessment on Non-Pumper Class members. This
6 Judgment is consistent with the Non-Pumper Class Stipulation of Settlement and Judgment. The
7 Non-Pumper Class members specifically agreed to pay a replacement assessment if that member
8 produced “more than its annual share” of the Native Safe Yield less the amount of the Federal
9 Reserved Right. (See Appendix B at paragraph V., section D. Replacement Water.) In approving
10 the Non-Pumper Class Stipulation of Settlement this Court specifically held in its Order after
11 Hearing dated November 18, 2010, that “the court determination of physical solution cannot be
12 limited by the Class Settlement.” The Court also held that the Non-Pumper Class Stipulation of
13 Settlement “may not affect parties who are not parties to the settlement.”

14 **9.2.2** Evidence presented to the Court demonstrates that Production by
15 one or more Public Water Suppliers satisfies the elements of prescription and that Production by
16 overlying landowners during portion(s) of the prescriptive period exceeded the Native Safe Yield.
17 At the time of this Judgment the entire Native Safe Yield is being applied to reasonable and
18 beneficial uses in the Basin. Members of the Non-Pumper Class do not and have never Produced
19 Groundwater for reasonable beneficial use as of the date of this Judgment. Pursuant to *Pasadena*
20 *v. Alhambra* (1949) 33 Cal 2d 908, 931-32 and other applicable law, the failure of the Non-
21 Pumper Class members to Produce any Groundwater under the facts here modifies their rights to
22 Produce Groundwater except as provided in this Judgment. Because this is a comprehensive
23 adjudication pursuant to the McCarran Amendment, consistent with the California Supreme Court
24 decisions, including *In Re Waters of Long Valley Creek Stream System* (1979) 25 Cal. 3d 339,
25 this Court makes the following findings: (1) certainty fosters reasonable and beneficial use of
26 water and is called for by the mandate of Article X, section 2; (2) because of this mandate for
27 certainty and in furtherance of the Physical Solution, any New Production, including that by a
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1 member of the Non-Pumper Class must comply with the New Production Application Procedure
2 specified in Paragraph 18.5.13; (3) as of this Judgment no member of the Non-Pumper Class has
3 established a Production Right to the reasonable and beneficial use of Groundwater based on their
4 unexercised claim of right to Produce Groundwater; (4) if in the future a member of the Non-
5 Pumper Class proposes to Produce Groundwater for reasonable and beneficial use, the
6 Watermaster as part of the New Production Application Procedure, has the authority to determine
7 whether such a member has established that the proposed New Production is a reasonable and
8 beneficial use in the context of other existing uses of Groundwater and then-current Basin
9 conditions; and (5) the Watermaster's determinations as to the approval, scope, nature and priority
10 of any New Production is reasonably necessary to the promotion of the State's interest in fostering
11 the most reasonable and beneficial use of its scarce water resources. All provisions of this
12 Judgment regarding the administration, use and enforcement of the Replacement Water
13 Assessment shall apply to each Non-Pumper Class member that Produces Groundwater. Prior to
14 the commencement of Production, each Producing Non-Pumper Class member shall install a
15 meter and report Production to the Watermaster. The Court finds that this Judgment is consistent
16 with the Non-Pumper Stipulation of Settlement and Judgment.

17 **9.3 Balance Assessment.** In order to ensure that after Rampdown each Party
18 may fully exercise its Production Right, there may be a Balance Assessment imposed by the
19 Watermaster. The Balance Assessment shall be assessed on all Production Rights, excluding the
20 United States' actual Production, but including that portion of the Federal Reserved Right
21 Produced by other Parties, in an amount determined by the Watermaster. A Balance Assessment
22 may not be imposed until after the end of the Rampdown. In determining whether to adopt a
23 Balance Assessment, and in what amount, the Watermaster Engineer shall consider current Basin
24 conditions as well as then-current pumping existing after Rampdown exclusive of any
25 consideration of an effect on then-current Basin conditions relating to Production of Groundwater
26 pursuant to the Drought Program which occurred during the Rampdown, and shall only assess a
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1 Balance Assessment or curtail a Party's Production under section 9.3.4 below, to avoid or
2 mitigate Material Injury that is caused by Production after the completion of the Rampdown.

3 **9.3.1** Any proceeds of the Balance Assessment will be used to purchase,
4 deliver, produce in lieu, or arrange for alternative pumping sources of water in the Basin, but shall
5 not include infrastructure costs.

6 **9.3.2** The Watermaster Engineer shall determine and collect from any
7 Party receiving direct benefit of the Balance Assessment proceeds an amount equal to that Party's
8 avoided Production costs.

9 **9.3.3** The Balance Assessment shall not be used to benefit the United
10 States unless the United States participates in paying the Balance Assessment.

11 **9.3.4** The Watermaster Engineer may curtail the exercise of a Party's
12 Production Right under this Judgment, except the United States' Production, if it is determined
13 necessary to avoid or mitigate a Material Injury to the Basin and provided that the Watermaster
14 provides an equivalent quantity of water to such Party as a substitute water supply, with such
15 water paid for from the Balance Assessment proceeds.

16 **10. SUBAREAS.** Subject to modification by the Watermaster the following Subareas
17 are recognized:

18 **10.1 Central Antelope Valley Subarea.** The Central Antelope Valley Subarea
19 is the largest of the five Subareas and underlies Rosamond, Quartz Hill, Lancaster, Edwards AFB
20 and much of Palmdale. This Subarea also contains the largest amount of remaining agricultural
21 land use in the Basin. The distinctive geological features of the Central Antelope Valley Subarea
22 are the presence of surficial playa and pluvial lake deposits; the widespread occurrence of thick,
23 older pluvial lake bed deposits; and alluvial deposits from which Groundwater is produced above
24 and below the lake bed deposits. The Central Antelope Valley Subarea is defined to be east of the
25 largely buried ridge of older granitic and tertiary rocks exposed at Antelope Buttes and extending
26 beyond Little Buttes and Tropic Hill. The Central Subarea is defined to be southwest and
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1 **18.4 Powers and Duties of the Watermaster.** Subject to the continuing
2 supervision and control of the Court, the Watermaster shall have and may exercise the following
3 express powers and duties, together with any specific powers and duties set forth elsewhere in
4 this Judgment or ordered by the Court:

5 **18.4.1 Selection of the Watermaster Engineer.** The Watermaster shall
6 select the Watermaster Engineer with the advice of the Advisory Committee described in
7 Paragraph 19.

8 **18.4.2 Adoption of Rules and Regulations.** The Court may adopt
9 appropriate rules and regulations prepared by the Watermaster Engineer and proposed by the
10 Watermaster for conduct pursuant to this Judgment. Before proposing rules and regulations, the
11 Watermaster shall hold a public hearing. Thirty (30) days prior to the date of the hearing, the
12 Watermaster shall send to all Parties notice of the hearing and a copy of the proposed rules and
13 regulations or amendments thereto. All Watermaster rules and regulations, and any amendments
14 to the Watermaster rules and regulations, shall be consistent with this Judgment and are subject to
15 approval by the Court, for cause shown, after consideration of the objections of any Party.

16 **18.4.3 Employment of Experts and Agents.** The Watermaster may
17 employ such administrative personnel, engineering, legal, accounting, or other specialty services,
18 and consulting assistants as appropriate in carrying out the terms of this Judgment.

19 **18.4.4 Notice List.** The Watermaster shall maintain a current list of
20 Parties to receive notice. The Parties have an affirmative obligation to provide the Watermaster
21 with their current contact information. For Small Pumper Class Members, the Watermaster shall
22 initially use the contact information contained in the list of Small Pumper Class members filed
23 with the Court by class counsel.

24 **18.4.5 Annual Administrative Budget.** The Watermaster shall prepare a
25 proposed administrative budget for each Year. The Watermaster shall hold a public hearing
26 regarding the proposed administrative budget and adopt an administrative budget. The
27 administrative budget shall set forth budgeted items and Administrative Assessments in sufficient
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1 detail to show the allocation of the expense among the Producers. Following the adoption of the
2 budget, the Watermaster may make expenditures within budgeted items in the exercise of powers
3 herein granted, as a matter of course.

4 **18.4.6 Investment of Funds.** The Watermaster may hold and invest any
5 funds in investments authorized from time to time for public agencies in the State of California.
6 All funds shall be held in separate accounts and not comingled with the Watermaster's personal
7 funds.

8 **18.4.7 Borrowing.** The Watermaster may borrow in anticipation of
9 receipt of proceeds from any assessments authorized in Paragraph 9 in an amount not to exceed
10 the annual amount of assessments.

11 **18.4.8 Transfers.** On an annual basis, the Watermaster shall prepare and
12 maintain a report or record of any transfer of Production Rights among Parties. Upon reasonable
13 request, the Watermaster shall make such report or record available for inspection by any Party.
14 A report or records of transfer of Production Rights under this Paragraph shall be considered a
15 ministerial act.

16 **18.4.9 New Production Applications.** The Watermaster shall consider
17 and determine whether to approve applications for New Production after consideration of the
18 recommendation of the Watermaster Engineer.

19 **18.4.10 Unauthorized Actions.** The Watermaster shall bring such action
20 or motion as is necessary to enjoin any conduct prohibited by this Judgment.

21 **18.4.11 Meetings and Records.** Watermaster shall provide notice of and
22 conduct all meetings and hearings in a manner consistent with the standards and timetables set
23 forth in the Ralph M. Brown Act, Government Code sections 54950, et seq. Watermaster shall
24 make its files and records available to any Person consistent with the standards and timetables set
25 forth in the Public Records Act, Government Code sections 6200, et seq.

26 **18.4.12 Assessment Procedure.** Each Party hereto is ordered to pay the
27 assessments authorized in Paragraph 9 of this Judgment, which shall be levied and collected in
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1 study, review and make recommendations on all discretionary determinations made or to be made
2 hereunder by Watermaster Engineer which may affect that subarea.

3 **20. MISCELLANEOUS PROVISIONS.**

4 **20.1 Water Quality.** Nothing in this Judgment shall be interpreted as relieving
5 any Party of its responsibilities to comply with State or Federal laws for the protection of water
6 quality or the provisions of any permits, standards, requirements, or orders promulgated
7 thereunder.

8 **20.2 Actions Not Subject to CEQA Regulation.** Nothing in this Judgment or
9 the Physical Solution, or in the implementation thereof, or the decisions of the Watermaster
10 acting under the authority of this Judgment shall be deemed a "project" subject to the California
11 Environmental Quality Act (CEQA). See e.g., *California American Water v. City of Seaside*
12 (2010) 183 Cal.App.4th 471, and *Hillside Memorial Park & Mortuary v. Golden State Water Co.*
13 (2011) 205 Cal.App.4th 534. Neither the Watermaster, the Watermaster Engineer, the Advisory
14 Committee, any Subarea Management Committee, nor any other Board or committee formed
15 pursuant to the Physical Solution and under the authority of this Judgment shall be deemed a
16 "public agency" subject to CEQA. (See Public Resources Code section 21063.)

17 **20.3 Court Review of Watermaster Actions.** Any action, decision, rule,
18 regulation, or procedure of Watermaster or the Watermaster Engineer pursuant to this Judgment
19 shall be subject to review by the Court on its own motion or on timely motion by any Party as
20 follows:

21 **20.3.1 Effective Date of Watermaster Action.** Any order, decision or
22 action of Watermaster or Watermaster Engineer pursuant to this Judgment on noticed specific
23 agenda items shall be deemed to have occurred on the date of the order, decision or action.

24 **20.3.2 Notice of Motion.** Any Party may move the Court for review of an
25 action or decision pursuant to this Judgment by way of a noticed motion. The motion shall be
26 served pursuant to Paragraph 20.7 of this Judgment. The moving Party shall ensure that the
27 Watermaster is served with the motion under that Paragraph 20.7 or, if electronic service of the
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1 Watermaster is not possible, by overnight mail with prepaid next-day delivery. Unless ordered by
2 the Court, any such petition shall not operate to stay the effect of any action or decision which is
3 challenged.

4 **20.3.3 Time for Motion.** A Party shall file a motion to review any action
5 or decision within ninety (90) days after such action or decision, except that motions to review
6 assessments hereunder shall be filed within thirty (30) days of Watermaster mailing notice of the
7 assessment.

8 **20.3.4 De Novo Nature of Proceeding.** Upon filing of a motion to review
9 a decision or action, the Watermaster shall notify the Parties of a date for a hearing at which time
10 the Court shall take evidence and hear argument. The Court's review shall be *de novo* and the
11 Watermaster's decision or action shall have no evidentiary weight in such proceeding.

12 **20.3.5 Decision.** The decision of the Court in such proceeding shall be an
13 appealable supplemental order in this case. When the Court's decision is final, it shall be binding
14 upon Watermaster and the Parties.

15 **20.4 Multiple Production Rights.** A Party simultaneously may be a member
16 of the Small Pumper Class and hold an Overlying Production Right by virtue of owning land
17 other than the parcel(s) meeting the Small Pumper Class definition. The Small Pumper Class
18 definition shall be construed in accordance with Paragraph 3.5.44 and 3.5.45.

19 **20.5 Payment of Assessments.** Payment of assessments levied by Watermaster
20 hereunder shall be made pursuant to the time schedule developed by the Watermaster,
21 notwithstanding any motion for review of Watermaster actions, decisions, rules or procedures,
22 including review of assessments implemented by the Watermaster.

23 **20.6 Designation of Address for Notice and Service.** Each Party shall
24 designate a name and address to be used for purposes of all subsequent notices and service herein,
25 either by its endorsement on this Judgment or by a separate designation to be filed within thirty
26 (30) days after judgment has been entered. A Party may change its designation by filing a written
27 notice of such change with Watermaster. A Party that desires to be relieved of receiving notices
28