

EXHIBIT 1

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

ANTELOPE VALLEY-EAST KERN WATER AGENCY

Disclaimer: This document integrates Antelope Valley-East Kern Water Agency's State Water Project water supply contract with the many amendments to the contract entered into since 1962. It is intended only to provide a convenient reference source, and the Department of Water Resources is unable to provide assurances that this integrated version accurately represents the original documents. For legal purposes, or when precise accuracy is required, users should direct their attention to original source documents rather than this integrated version.

(as of May 28, 2003)

EXPLANATORY NOTES

< >	This symbol encloses material supplied to assist the reader but not contained in the basic or amended contract.
<i>Provided</i>	Italics have been added for consistency even though not used in every amendment.
Amendments	Amendments to the contract are indicated by footnotes.
Recitals	In addition to recitals contained in the basic contract, recitals from each contract amendment have also been included. For convenience, an index to recitals by amendment is included on page iii.

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STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

CONTRACT
BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND
ANTELOPE VALLEY-EAST KERN WATER AGENCY
FOR A WATER SUPPLY

THIS CONTRACT, made this 20th day of September <1962> pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California, between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State", and Antelope Valley-East Kern Water Agency, a public agency in the State of California, duly organized, existing, and acting pursuant to the laws thereof with its principal place of business in Lancaster, California, herein referred to as the "Agency",

WITNESSETH, That:

<Following in Basic Contract>

WHEREAS, the State is authorized to construct and operate facilities for the storage and conveyance of water, certain of which facilities will make water available to the Agency; <similar provisions in Amendments No. 1, 2, 3, and 4> and

WHEREAS, funds will be provided under the California Water Resources Development Bond Act for the construction of said facilities; and

WHEREAS, the Agency is desirous of obtaining a supply of water from the State;

<Following added by Amendment No. 1>

WHEREAS, the State and the Agency have entered into a water supply contract, dated September 20, 1962, providing that the State shall supply certain quantities of water to the Agency, and providing that the Agency shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment; <similar provision also in Amendments No. 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20, and 21> and

WHEREAS, the maximum annual entitlements under all contracts executed by the State on or before December 31, 1963, did not aggregate the amount of the minimum project yield as defined in such water supply contract; and

WHEREAS, the Agency has elected to become entitled to a certain amount of the uncontracted for portion of the minimum project yield under the provisions of Article 8 of the

above-mentioned contract and the State has determined that the Agency can put the water involved to beneficial use within a reasonable period of time; and

WHEREAS, the State and the Agency are desirous of making certain other changes and additions to such contract, while otherwise continuing the contract in full force and effect; <similar provision also in Amendments No. 2, 12, and 13>

<Following added by Amendment No. 3>

WHEREAS, Amendment No. 2, previously referred to, revised subdivision (c) of Article 12 to provide for a rate of delivery of project water to the Agency that does not permit peaking delivery rates, revised subdivision (d) <(b)> of Article 45 to state that the State will provide only a continuous rate of delivery, and removed the Agency's participation in the East Branch Aqueduct downstream from a turnout in the vicinity of Fairmont Reservoir; and

WHEREAS, the Agency has requested that the State reconsider the changes in its water supply contract that were accomplished by said Amendment No. 2 as hereinabove stated so as to reinstate the provisions requiring the State to provide peaking service to the Agency; and

WHEREAS, the Agency has also requested that such peaking service be provided through a reservoir facility located at a specific site between the Fairmont Buttes and Antelope Buttes, called the Buttes reservoir site; and

WHEREAS, with such a reservoir facility it would be possible for the State to provide emergency service to the Agency in addition to peaking service, which emergency service heretofore had not been contemplated to be provided said Agency; and

WHEREAS, the Agency has requested that such reservoir be designed and constructed to provide the same degree of emergency service that the Department is providing to other water contracting agencies using reservoirs for such emergency service; and

WHEREAS, the Agency has requested that it be provided with capacity in that portion of the Aqueduct from which it had withdrawn in the aforementioned Amendment No. 2 downstream to the vicinity of Pearblossom Pumping Plant; and

WHEREAS, provided construction of Buttes reservoir is technically and financially feasible, the State is willing to approve such requests and to reinstate the Agency to the position of service it would have held in the absence of Contract Amendment No. 2, and to enable the Agency to make the most effective use of the California Aqueduct for location of its distribution facilities; and

WHEREAS, it is the intent of the State and the Agency that such peaking and emergency service shall be provided only if construction of a dam at the Buttes reservoir site is found to be feasible;

<Following added by Amendment No. 4>

WHEREAS, Article 12(b) of such contract provides that the State shall not be obligated to deliver to any contractor from the project transportation facilities in any one month of any year a total amount of project water greater than certain named percentages of such contractor's annual entitlement for that year, but said article further provides that such percentages may be revised by amendment of Article 12(b); and

WHEREAS, Article 17(b) of such contract provides that the State shall design and construct the project transportation facilities so as to provide certain capacity in such facilities; and

WHEREAS, Article 24(d) of such contract provides a procedure to be followed 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 said Article 12(b); and

WHEREAS, the Agency has requested that such contract be amended to provide for excess capacity in certain reaches of project transportation facilities; and

WHEREAS, the State is willing to approve such request upon the terms and conditions of this agreement; and

WHEREAS, the Agency is willing to advance to the State funds sufficient to cover any additional cost of the project transportation facilities occasioned by the Agency's request, as provided in Article 24(d); and

WHEREAS, it is the intent of the State and the Agency that no part of such additional costs shall be borne by any contractor other than the Agency;

<Following added by Amendment No. 5>

WHEREAS, Article 22(b) of such water supply contract provides that for each year through the year 1969 the Delta Water Charge shall be the product of \$3.50 and the Agency's annual entitlement for the respective year and that beginning in the year 1970, the Delta Water Charge shall be the sum of the capital cost component, minimum operation, maintenance, power and replacement component, and variable operation, maintenance, power and replacement component computed in accordance with Articles 22(c) and (d) of the water supply contract; and

WHEREAS, Articles 22(e) and (g) of such water supply contract provide that the Delta Water Charge as computed in accordance with Articles 22(c) and (d) shall include all projected costs of additional project and supplemental conservation facilities commencing in the years in which the State first incurs capital costs for such facilities after the facilities are authorized; <similar provision in Amendments No. 6 and 7> and

WHEREAS, the parties desire that all water supply contracts be amended to postpone inclusion of the projected costs of any authorized additional project and supplemental conservation facilities in the computation of the Delta Water Charge until after the year 1970 and to fix the rate for computing the Delta Water Charge for the year 1970 at \$6.65; and

WHEREAS, the payments to be made by the Agency to the State include interest calculated at the "project interest rate" defined in Article 1(r) of such water supply contract to mean the weighted average of the interest rates paid by the State on bonds issued under the Water Resources Development Bond Act (Bond Act) disregarding premiums received on the sale of such bonds; and

WHEREAS, the underlying assumption upon which the "project interest rate" was established was that all of the initial facilities of the State Water Resources Development System (Project) would be financed principally with proceeds of bonds issued under the Bond Act or from other sources on which the interest rate would not exceed that of the bonds issued under the Bond Act; and

WHEREAS, the State already has financed the Oroville-Thermalito power facilities through Central Valley Project Revenue Bonds and may finance other portions of the project facilities through additional revenue bond issues, bonds issued under other authority granted by the Legislature or the voters, bonds issued by other state agencies, advances from contractors, and other methods under which the financing costs relate to interest rates that may exceed the interest rate of the bonds issued under the Bond Act; and

WHEREAS, either the State or contractors making advances to the State may be subject to interest rates, or other financing costs that relate to interest rates, which will be greater than the "project interest rate" as presently defined in the contracts; and

WHEREAS, the parties desire that (1) the interest costs hereafter incurred by or on behalf of the State in financing the construction of project facilities by means other than the use of moneys provided under the Bond Act will be reflected in appropriate adjustments of the "project interest rate" (excepting the interest costs incurred for the Central Valley Project Revenue Bonds issued prior to the date of this amendment); (2) appropriate credit will be given to any contractor having made an advance of funds to the State corresponding to the bond service obligation payable by such contractor by reason of such advance or if bonds were not used to obtain funds for such advance, then to the net interest cost which would have resulted if the contractor had sold bonds for the purpose of funding the advance; and (3) if any sources of funds other than those provided under the Bond Act are employed to finance the construction of specific project facilities and the interest or other costs of such financing are greater than the cost would have been if bonds issued under the Bond Act had been used, appropriate adjustments to the charges to contractors will be made with respect to such facilities so that the charges to contractors taking water through reaches which include such facilities will be the same after such adjustments as such charges would have been if such facilities had been financed by the use of proceeds of bonds issued under the Bond Act, except insofar as the "project interest rate" has been adjusted pursuant to (1) in this recital:

<Following added by Amendment No. 6>

WHEREAS, Article 22(b) of such water supply contract, as amended, provides that for each year through the year 1969 the Delta Water Charge shall be the product of \$3.50 and the Agency's annual entitlement for the respective year, that for the year 1970 the Delta Water Charge shall be the product of \$6.65 and the Agency's annual entitlement for that year, and that beginning in the year 1971 the Delta Water Charge shall be the sum of the capital cost component, minimum operation, maintenance, power and replacement component, and variable operation, maintenance, power and replacement component computed in accordance with Articles 22(c) and (d) of the water supply contract; and

WHEREAS, the parties desire that all water supply contracts be amended to postpone inclusion of the projected costs of any authorized additional project and supplemental conservation facilities in the computation of the Delta Water Charge until after the year 1971 and to fix the rate for computing the Delta Water Charge for the year 1971 at \$7.24;

<Following added by Amendment No. 7>

WHEREAS, Article 22(b) of such water supply contract, as amended, provides that for each year through the year 1969 the Delta Water Charge shall be the product of \$3.50 and the Agency's annual entitlement for the respective year, that for the year 1970 the Delta Water Charge shall be the product of \$6.65 and the Agency's annual entitlement for that year, that for the year 1971 the Delta Water Charge shall be the product of \$7.24 and the Agency's annual entitlement for that year, and that beginning in the year 1972 the Delta Water Charge shall be the sum of the capital cost component, minimum operation, maintenance, power and replacement component, and variable operation, maintenance, power and replacement component computed in accordance with Articles 22(c) and (d) of the water supply contract; and

WHEREAS, the parties desire that all water supply contracts be amended to postpone inclusion of the projected costs of any authorized additional project and supplemental conservation facilities in the computation of the Delta Water Charge until the happening of certain events;

<Following added by Amendment No. 8>

WHEREAS, the Amended Contract provides for a surcharge equivalent to the power credit per acre-foot of water to be charged to water users, other than the United States or the State of California, for each acre-foot of project water determined to have been put to agricultural or manufacturing uses on excess land, for collection by the Agency either itself or through a retail agency or another agency, for payment to the State of such surcharge, and for the allowance, on specified terms and conditions, of the amount of such surcharge as a credit to the Agency; and

WHEREAS, the Amended Contract establishes the power credit per acre-foot of water as two dollars until all of the facilities for generation of electrical energy in connection with

operation of initial project conservation facilities are installed and in operation, and provides for a redetermination of such credit thereafter to reflect accurately increases or decreases from year to year in the power credit; and

WHEREAS, the provisions of the Amended Contract providing for or related to the power credit, surcharge and surcharge credit have been suspended as to water deliveries during the years prior to 1972 pending redetermination of the power credit and a reevaluation of the merits of such contract provisions; and

WHEREAS, estimates indicate that the power credit will be relatively negligible in amount and that administrative costs associated with the power credit, surcharge and surcharge credit provisions will be excessively burdensome to the State, the Agency and its water users; and

WHEREAS, the power credit, surcharge and surcharge credit provisions rest on unclear, confused or mistaken premises and should no longer be retained;

<Following added by Amendment No. 9>

WHEREAS, Article 28 of such water supply contract provides that the State shall redetermine the annual amounts of the Transportation Charge in order that the charges to the Agency may accurately reflect increases or decreases from year to year in projected costs, outstanding reimbursable indebtedness of the State, annual entitlements, estimated deliveries, project interest rate, and all other factors which are determinative of such charges; and

WHEREAS, Article 28 also provides that each such redetermination shall include an adjustment of the components of the Transportation Charge to be paid by the Agency for succeeding years which shall account for differences, if any, between projections used by the State in determining the amounts of such components for all preceding years and actual costs incurred by the State during such years, but does not specify the computational details or the method of payment of such adjustments; and

WHEREAS, the State has been including such adjustments as "one-shot" credits or additional charges to be subtracted from or added to the Transportation Charge to be paid by the Agency in the year following the redetermination; and

WHEREAS, the magnitude of such adjustments together with changes in other determinants of charges may be significantly different in comparison with the amounts projected by the State under previous determinations and could impair the planned fiscal operations of the Agency, depending on the method of payment, and the parties desire to amend the contract to provide a method of amortizing the payment of the amounts of such differences over two or more years, depending on the magnitude of the differences; and

WHEREAS, bookkeeping will be simplified if the amortization of the payments of the amounts of such differences is reflected solely in the capital cost component of the Transportation Charge; and

WHEREAS, the method of payment should apply regardless of whether the adjustments tend to increase or to decrease the Transportation Charge;

<Following added by Amendment No. 10>

WHEREAS, the State and the Agency included in such contract a subarticle, hereinafter referred to as the agricultural and ground water replenishment provision, which entitles the Agency to obtain from the State a supply of surplus water for agricultural and ground water replenishment use when available; and

WHEREAS, Article 21 of such contract also provides for the sale by the State of a supply of surplus water when available; and

WHEREAS, the State and the Agency desire to amend the provisions of such contract related to the sale and purchase of surplus water;

<There is no Amendment No. 11.>

<Following added by Amendment No. 14>

WHEREAS, the annual entitlement for the twelfth year (1983) of water deliveries under the Agency's contract is 87,700 acre-feet; and

WHEREAS, the Agency has requested, under the provisions of Article 7(a) of the Agency's contract, a reduction in Table A amounts for the five-year period 1984-1988 to their requested delivery amounts; and

WHEREAS, the Department has determined that approving the Agency's request would not impair the financial feasibility of the Project facilities;

<Following added by Amendment No. 15>

WHEREAS, the Metropolitan Water District of Southern California has requested the State to enlarge the East Branch Aqueduct from Junction, West Branch, California Aqueduct through Devil Canyon Power Plant by different capacity amounts;

WHEREAS, the Agency has expressed interest in receiving increased deliveries through the East Branch Aqueduct;

WHEREAS, the State is willing to enlarge reaches of the East Branch Aqueduct from Junction, West Branch, California Aqueduct through Devil Canyon Power Plant;

WHEREAS, other East Branch contractors may choose to participate in the facilities to be enlarged;

WHEREAS, the State is willing to operate the East Branch Aqueduct reaches from Junction, West Branch California Aqueduct through Perris Reservoir to provide deliveries on a basis that permits full utilization of available capacity;

<Following added by Amendment No. 16>

WHEREAS, the State and the Agency wish to provide financing for project facilities with water system revenue bonds and provide for repayment of water system revenue bonds;

WHEREAS, the State and the Agency wish to clarify the definition of the project interest rate without changing the interpretation of Article 1(r), except for the addition of item (7), and to specify that financing costs of water system facilities and East Branch Enlargement facilities shall not be included in calculating the project interest rate; and

WHEREAS, the State is willing to amortize over the remaining repayment period of the contract, the "one-shot" adjustment applied to previous payments resulting from revisions in the project interest rate under conditions defined in this amendment.

<Following added by Amendment No. 17>

WHEREAS, a more efficient use of entitlement water may be achieved by deferral of its use from October, November and December of one calendar year into the first three months of the next year.

WHEREAS, the State and the Agency desire to amend the provisions of such contract related to the delivery and scheduling of entitlement water to allow, under certain conditions, the carry-over of a portion of the Agency's entitlement deliveries from a respective year into the first three months of the next calendar year.

WHEREAS, the carry-over of entitlement by the Agency is not intended to adversely impact current or future project operations.

WHEREAS, the State Water Project contractors and the Department are aware that the carry-over of entitlement water from one year into the next may increase or decrease the costs to other SWP contractors in either year. The tracking of those costs may be too complex and expensive and does not warrant special accounting procedures to be established; however, any significant identifiable cost shall be charged to those contractors causing such cost, as determined by the Department;

WHEREAS, the carry-over of entitlement water is not to affect the payment provisions of the contract.

<Following added by Amendment No. 18>

WHEREAS, the State and the Agency included in such contract an article which entitles the Agency to obtain from the State deliveries of surplus water when available;

WHEREAS, the State and the Agency desire to amend the provisions of such contract related to the deliveries of surplus water; and

WHEREAS, beginning January 1, 1991, the Agency desires to be charged for the power used for pumping surplus water at the Melded Power Rate as provided herein for the remainder of the project repayment period.

WHEREAS, the parties to this Amendment, and those approving the Amendment, intend no impact upon their positions with respect to the interpretation of any existing contractual provisions.

<Following added by Amendment No. 19>

WHEREAS, on December 1, 1994, representatives of the contractors and the State executed a document entitled "Monterey Agreement – Statement of Principles – By the State Water Contractors and the State of California Department of Water Resources For Potential Amendment To The State Water Supply Contracts" (the "Monterey Agreement"); <similar provision also in Amendment No. 21> and

WHEREAS, the contractors and the State have negotiated an amendment to the water supply contracts to implement provisions of the Monterey Agreement (the "Monterey Amendment"); and

WHEREAS, the State and the District desire to implement such provisions by incorporating this Monterey Amendment into the water supply contract;

<Following added by Amendment No. 20>

WHEREAS, Tulare Lake Basin Water Storage Distract, herein referred to as "Tulare," and the State have entered into and subsequently amended a Water Supply Contract (the "Tulare Water Supply Contract") providing that the State will supply certain quantities of water to Tulare, and providing that Tulare shall make certain payments to the State, and setting forth the terms and conditions of such supply and such payment.

WHEREAS, the Agency and Tulare will enter into an agreement entitled "State Water Project Entitlement Water Right Transfer Agreement" to provide for the permanent transfer to the Agency of 3,000 acre-feet of Tulare's annual entitlement.

WHEREAS, the State and the Agency wish to set forth their agreement as to such matters as (i) the 3,000 acre-feet per year increase in the Agency's annual entitlement, (ii) the transfer of related transportation repayment obligations, and (iii) the revision of proportionate use of facilities factors set forth in the Water Supply Contract.

WHEREAS, the State and Tulare are simultaneously, with the execution and delivery of this Amendment, entering into Amendment No. 27 to Tulare's Water Supply Contract in

order to reflect (i) the transfer of annual entitlement described herein, (ii) the transfer of related transportation repayment obligation, and (iii) the revision of proportionate use of facilities factors.

WHEREAS, an Initial Study and Negative Declaration was prepared in compliance with the California Environmental Quality Act, and a Notice of Determination was posted by the Agency on September 13, 2001 in Ventura County, on September 11, 2001 in Kern County, and on September 27, 2001 in Los Angeles County. No significant impacts on the environment will result from this transfer.

<Following added by Amendment No. 21>

WHEREAS, the State, the Central Coast Water Authority ("CCWA") and those contractors intending to be subject to the Monterey Agreement subsequently negotiated an amendment to their contracts to implement provisions of the Monterey Agreement, and such amendment was named the "Monterey Amendment."

WHEREAS, in October 1995, an environmental impact report ("EIR") for the Monterey Amendment was completed and certified by CCWA as the lead agency, and thereafter the Agency and the State executed the Monterey Amendment.

WHEREAS, the EIR certified by the CCWA was challenged by several parties (the "Plaintiffs") in the Sacramento County Superior Court and thereafter in the Third District Court of Appeal, resulting in a decision in Planning and Conservation League, et al. v. Department of Water Resources, 83 Cal.App.4th 892 (2000), which case is hereinafter referred to as "PCL v. DWR."

WHEREAS, in its decision, the Court of Appeal held that (i) the Department of Water Resources ("DWR"), not CCWA, had the statutory duty to serve as lead agency, (ii) the trial court erred by finding CCWA's EIR sufficient despite its failure to discuss implementation of Article 18, subdivision (b) of the State Water Project contracts, as a no-project alternative, (iii) said errors mandate preparation of a new EIR under the direction of DWR, and (iv) the trial court erroneously dismissed the challenge to DWR's transfer of title to certain lands to Kern County Water Agency (the "Validation Cause of Action") and execution of amended State Water Project contracts for failure to name and serve indispensable parties. The Court of Appeal remanded the case to the trial court, ordering it to take the following five actions: (1) vacate the trial court's grant of the motion for summary adjudication of the Validation Cause of Action; (2) issue a writ of mandate vacating the certification of the EIR; (3) determine the amount of attorney fees to be awarded Plaintiffs; (4) consider such orders it deems appropriate under Public Resources Code Section 21168.9(a) consistent with the views expressed in the Appellate Court's opinion; and (5) retain jurisdiction over the action until DWR, as lead agency, certifies an environmental impact report in accordance with CEQA standards and procedures, and the Superior Court determines that such environmental impact report meets the substantive requirements of CEQA.

WHEREAS, the State, the contractors, and the Plaintiffs in PCL v. DWR reached an agreement to settle PCL v. DWR, as documented by that certain Settlement Agreement dated May 5, 2003 (the "Settlement Agreement"), and in such Settlement Agreement have agreed that the contracts should be amended, for clarification purposes, to delete terms such as "annual entitlement" and "maximum annual entitlement" so that the public, and particularly land use planning agencies, will better understand the contracts.

WHEREAS, pursuant to the Settlement Agreement, the State and the Agency desire to so amend the Agency's contract, with the understanding and intent that the amendments herein with respect to subsections (k), (l), and (m) of Article 1, subsection (b) of Article 6, and subsection (a) of Article 16, and to Table A of the Agency's contract are solely for clarification purposes and that such amendments are not intended to and do not in any way change the rights, obligations or limitations on liability of the State or the Agency established by or set forth in the contract.

WHEREAS, pursuant to the Settlement Agreement, the State, the contractors and the Plaintiffs in PCL v. DWR also agreed that the contracts should be amended to include a new Article 58 addressing the determination of dependable annual supply of State Water Project water to be made available by existing Project facilities, and the State and Agency desire to so amend the Agency's contract.

NOW THEREFORE, it is mutually agreed as follows:

A. INTRODUCTORY PROVISIONS

1. DEFINITIONS.

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

(a) "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.

(b) "System" shall mean the State Water Resources Development System as defined in Section 12931 of the Water Code.

(c) "Delta" shall mean the Sacramento-San Joaquin Delta as defined in Section 12220 of the Water Code on November 8, 1960.

(d) ¹"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.

(e) ²"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(h)(2) herein, and by conveying water to the Agency. Said project facilities shall consist specifically of "project conservation facilities" and "project transportation facilities", as hereinafter defined.

(f) "Project conservation facilities" shall mean such project facilities as are presently included, or as may be added in the future, under (g) and (h) below.

(g) "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.

¹ Amended: Amendment No. 19

² Amended: Amendment No. 13

(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 said 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.

(h) ³"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 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;

³ Amended: Amendment No. 13

(B) Ground water 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; and

(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(h) 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.

(i) "Project transportation facilities" shall mean those project facilities:

(1) Specified in Water Code Section 12934(d)(2) which are described in Table H of this contract;

(2) ⁴Facilities 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

⁴ Amended: Amendment No. 13

the State, which are economically competitive with alternative power supply sources as determined by the State.

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

(j) "Project water" shall mean water made available for delivery to the contractors by the project conservation facilities and by the transportation facilities included in the System.

(k) ⁵"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 conservational 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 water of the Delta or streams tributary thereto.

(l) ⁶"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 Agency at the delivery structures provided for the Agency. 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 Agency. The Annual Table A Amounts and the terms of this contract reflect an expectation that under certain conditions the Agency 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 Agency. 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.

⁵ Amended: Amendments No. 1, 19, and 21

⁶ Amended: Amendment No. 21

(m) ⁷"Maximum Annual Table A Amount"

"Maximum annual entitlement" shall mean the maximum annual amounts 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 Amounts."

(n) "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.

(o) "Supplemental water" shall mean water made available by supplemental conservation facilities, in excess of the minimum project yield.

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

(q) "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.

(r) ⁸"Project interest rate" shall mean 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:

(1) 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,

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

⁷ Amended: Amendment No. 21

⁸ Amended: Amendments No. 5, 13, 15, and 16

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

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

(5) 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,

(6) 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

(7) 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.

(s) "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 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, relocation work, and essential administrative work in connection therewith, all as shown upon the official records of the Department of Water Resources.

(t) ⁹"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

⁹ Amended: Amendment No. 12

extended to end on the date of the latest maturities of the bonds with which construction of such facilities is financed.

(u) "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.

(v) "Manufacturing use" shall mean any use of water primarily in the production of finished goods for market.

(w) "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.

(x) "Subject to approval by the State" shall mean subject to the determination and judgment of the State as to acceptability.

(y) "Area of origin statutes" shall mean Sections 10505 and 11460 through 11463 of the Water Code as now existing or hereafter amended.

<(z) No Such Subarticle Exists.>

<(aa) No Such Subarticle Exists.>

<(bb) No Such Subarticle Exists.>

(cc) ¹⁰"Water system revenue bonds" shall mean revenue bonds or revenue bond anticipation notes issued by the State under the Central Valley Project Act after January 1, 1987 for water system facilities identified in Article 1(hh).

<(dd) No Such Subarticle Exists.>

<(ee) No Such Subarticle Exists.>

<(ff) No Such Subarticle Exists.>

<(gg) No Such Subarticle Exists.>

(hh) ¹¹"Water System Facilities" shall mean the following facilities to the extent that they are financed with water system revenue bonds or to the extent that other financing of such facilities is reimbursed with proceeds from water system revenue bonds:

¹⁰ Amended: Amendment No. 16

¹¹ Amended: Amendments No. 16 and 19

- (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(h)(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),
 - (9) A project facilities corporation yard, and
 - (10) A project facilities operation center.
- (ii) ¹²"Carry-over Entitlement Water" shall mean water from a contractor's annual entitlement for a respective year which is made available for delivery by the State in the next year pursuant to Article 12(e).
- (jj) ¹³"Interruptible water" shall mean project water available as determined by the State that is not needed for fulfilling contractors' annual entitlement 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.
- (kk) ¹⁴"Nonproject water" shall mean water made available for delivery to contractors that is not project water as defined in Article 1(j).

¹² Amended: Amendment No. 17

¹³ Amended: Amendment No. 19

¹⁴ Amended: Amendment No. 19

(11) ¹⁵Monterey Amendments shall mean this amendment and substantially similar amendments to other contractors' water supply contracts that include, among other provisions, the addition of Articles 51 through 56.

2. ¹⁶**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
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 Agency 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 Agency 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. ¹⁷**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 Agency 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 Agency's maximum annual entitlement hereunder.
- (2) Service of water at no greater cost to the Agency than would have been the case had this contract continued in effect.

¹⁵ Amended: Amendment No. 19

¹⁶ Amended: Amendment No. 12

¹⁷ Amended: Amendment No. 19

(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 Agency 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 Bond Act, and the income and revenues derived from this contract are pledged to the purposes and in the priority set forth in that act.

B. WATER SERVICE PROVISIONS

6. ANNUAL ENTITLEMENTS.

(a) Year of Initial Water Delivery

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

(b) ¹⁸Agency's Annual Table A Amounts

Commencing with the year of initial water delivery to the Agency, the State each year shall make available for delivery to the Agency 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 Agency's Annual Table A Amounts.

¹⁸ Amended: Amendment No. 21

¹⁹TABLE A
ANNUAL ENTITLEMENT
ANTELOPE VALLEY-EAST KERN WATER AGENCY

Year	Total Annual Amount In Acre-feet
1 (1972)	20,000
2 (1973)	25,000
3 (1974)	30,000
4 (1975)	35,000
5 (1976)	44,000
6 (1977)	50,000
7 (1978)	57,000
8 (1979)	63,000
9 (1980)	69,200
10 (1981)	75,000
11 (1982)	81,300
12 (1983)	87,700
13 (1984)	35,000
14 (1985)	40,000
15 (1986)	42,000
16 (1987)	44,000
17 (1988)	46,000
18 (1989)	125,700
19 (1990)	132,100
20 (1991)	138,400
21 (1992)	138,400
22 (1993)	138,400
23 (1994)	138,400
24 (1995)	138,400
25 (1996)	138,400
26 (1997)	138,400
27 (1998)	138,400
28 (1999)	138,400
29 (2000)	138,400
30 (2001)	138,400
31 (2002)	141,400
and each succeeding year thereafter, for the term of this contract:	141,400

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) Obligation of State to Complete Facilities

¹⁹ Amended: Amendments No. 1, 14, 20, and 21

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 Agency 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 of this contract.

7. CHANGE IN ANNUAL ENTITLEMENTS; MAXIMUM ANNUAL ENTITLEMENT.

(a) ²⁰Changes in Annual Entitlements.

The Agency 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) Maximum Annual Entitlement of Agency

The maximum amount of project water to be made available to the Agency in any one year under this contract shall be that specified in Table A of this contract and in said table designated as the Agency's "Maximum Annual Entitlement." In no event shall such maximum amount of project water to be made available to the Agency be increased over this amount, except as is otherwise provided for in this contract.

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 Agency and all other contractors, and the Agency 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 Agency'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 Agency receives said notice from the State and shall remain in effect through September 30, 1964. If the full

²⁰ Amended: Amendment No. 19

amount of such uncontracted for portion of the minimum project yield is not preempted by the Agency under this option and by other contractors through the exercise of similar options on or before September 30, 1964, the Agency 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 Agency's maximum annual entitlement in Table A of this contract shall be increased by the amount of the additional entitlement thereby obtained by amendment of that table, and the Agency 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. DELIVERY POINTS.

Project water made available to the Agency pursuant to Article 6 shall be delivered to the Agency by the State at the delivery structures established in accordance with Article 10.

10. DELIVERY STRUCTURES.

(a) Determination of Size and Location of Delivery Structures

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

(b) Agency Requests as to Initial Delivery Structures

Pursuant to subdivision (a) of this article, the Agency 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) Requests by Agency for Additional Delivery Structures

From time to time the Agency may request delivery structures in addition to those requested pursuant to subdivision (b) of this article.

(d) Agency to Advance Funds for Delivery Structures

The Agency 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) Measurement by State

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

(b) Agency to Advance Funds for Measuring Devices

The Agency 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. ²¹PRIORITIES, AMOUNTS, TIMES AND RATES OF DELIVERIES.

(a) Procedure for Determining Water Delivery Schedule

²¹ Amended: Amendment No. 19

The amounts, times, and rates of delivery of project water to the Agency 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 Agency 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 Agency during each month of the succeeding five (5) years.

(2) ²²Upon receipt of a preliminary schedule the State shall review it and, after consultation with the Agency, shall make such modifications in it as are necessary to insure the delivery of the annual quantity allocated to the Agency in accordance with Article 18 and to insure that the amounts, times, and rates of delivery to the Agency 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 Agency the water delivery schedule for the next succeeding year which shall show the amounts of water to be delivered to the Agency during each month of that year.

(3) A water delivery schedule may be amended by the State upon the Agency's written request. Proposed amendments shall be submitted by the Agency 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) ²³In 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; or to deliver to any contractor from the project transportation facilities downstream from Pumping Plant VI (Tehachapi Pumping Plant) 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; or 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 put 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 put 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

²² Amended: Amendment No. 19

²³ Amended: Amendment No. 4

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 for a particular contractor by amendment of this subdivision after submission to the State of that 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 Agency from the project transportation facilities downstream from Pumping Plant VI the percentage of eleven percent (11%) is revised to the extent provided in Article 46(d) of this contract.

(c) ²⁴In no event shall the State be obligated to deliver water to the Agency through all delivery structures at a total combined instantaneous rate of flow exceeding one hundred ninety-five (195) cubic feet per second, except as this rate of flow may be revised by amendment of this article after submission to the State, the Agency's requests with respect to maximum flow capacities to be provided in said delivery structures, pursuant to Article 10.

(d) ²⁵Deleted

(e) ²⁶Delivery of Carry-over Entitlement Water

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

(1) scheduled or unscheduled outages of facilities within the Agency's service area; or

(2) a delay in the planned application of a contractor's annual entitlement water for pre-irrigation; or

²⁴ Amended: Amendment No. 1, 2, 3, and 20

²⁵ Amended: Amendment No. 19

²⁶ Amended: Amendment No. 17

(3) a delay in the planned spreading of the Agency'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 Agency 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 Agency 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 Agency 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 Agency will become a part of the current year's total project supply.

(f) ²⁷Priorities

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.

²⁷ Amended: Amendment No. 19

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) State Not Liable for Operation Beyond Delivery Structures

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

(b) Agency Not Liable for Operation Upstream From Delivery Structures

Neither the Agency 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. ²⁸CURTAILMENT OF DELIVERY.

(a) State May Curtail Deliveries

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

²⁸ Amended: Amendment No. 19

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. AREA SERVED BY AGENCY.

(a) State Approval of Sale of Water by Agency Outside Boundaries

Project water delivered to the Agency pursuant to this contract shall not be sold or otherwise disposed of by the Agency for use outside the Agency without the prior written consent of the State.

(b) State Approval of Change in Boundaries or Organization of Agency

While this contract is in effect no change shall be made in this Agency either by inclusion or exclusion of lands, by partial or total consolidation or merger with another district, by proceedings to dissolve, or otherwise, except with the prior written consent of the State or except by act of the Legislature.

(c) Map of the Agency

The Agency shall provide the State with a map satisfactory to the State indicating the major existing distribution facilities and the boundaries of the Agency at the time the contract is signed and supplementary maps whenever a boundary change is made.

16. CONTINUITY AND DEPENDABILITY OF WATER SUPPLY.

(a) ²⁹Limit on Total of all Maximum Annual Table A Amounts

The Agency'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) State to Perfect Water Rights

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) State to Report on Ability to Meet Future Water Demands

²⁹ Amended: Amendments No. 1, 19, and 21

Commencing within two (2) years from the year of initial project water delivery to the Agency, the State shall submit to the agency at not more than 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) Construction of Additional and Supplemental Conservation Facilities

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) Furnishing of Supplemental Water

In planning and designing supplemental conservation facilities the State shall give consideration to the requirements and demands for supplemental water of the Agency and others who have contracted for project water. Entitlements to supplemental water shall be obtained, and repayment therefor shall be arranged, in contracts separate from contracts for project water.

17. CONSTRUCTION OF PROJECT FACILITIES.

(a) Determination of Aqueduct Capacities

Subject to the rights of the Agency 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 such maximum monthly delivery capability for the transport and delivery of project water to the Agency as, in the judgment of the State, will best serve the interests of the Agency 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 the Agency 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.

(b) ³⁰The State shall design and construct the project transportation facilities so as to provide in each reach thereof, including reservoirs, the capacity necessary to enable delivery of project water in each year to the Agency 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 Agency shall be sufficient to enable delivery to the Agency in each month of any year of an amount of water up to but not exceeding eleven percent (11%) of the Agency's annual entitlement for the respective year and, upon completion of the project facilities, to enable delivery to the Agency in each month of any year of an amount of water up to but not exceeding eleven percent (11%) of the Agency'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 Agency 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 Agency for project water during the respective year: *Provided further*, That excess capacity shall be provided in accordance with Article 46(d) of this contract.

(c) Inspection of Project Plans and Specifications

The Agency shall have a reasonable opportunity to inspect and study the State's plans and specifications for all project facilities and may make comments and recommendations thereon to the State. Such privilege shall also extend to any plans and specifications in connection with 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) Restriction on Bond Sales

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

³⁰ Amended: Amendment No. 4

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) Failure to Complete Facilities

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 Agency as provided in this contract, and gives the Agency 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 (2-1/2) years, the Agency, 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 Agency 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 incompleated portion or portions of the project transportation facilities to the extent necessary for the transport and delivery of water to the Agency 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 Agency, 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 Agency shall be credited by the State against the Agency's payment obligation under the capital cost component of the Transportation Charge, but the Agency 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 Agency 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 Agency pursuant hereto shall thereafter be deemed to be located at such point of connection. Specific arrangements for acquiring, constructing, operating, maintaining, and replacing the Agency'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 Agency shall be and remain obligated to pay its proportionate share of the costs thereof.

(f) ³¹Adjustments 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 (not including delivery structures, measuring devices and excess capacity), 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. ³²**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

³¹ Amended: Amendment No. 5

³² Amended: Amendment No. 19

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

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

19. WATER QUALITY.

(a) Table of Water Quality Objectives

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 Agency, project water of such quality that the following constituents do not exceed the concentrations stated as follows:

**<WATER QUALITY OBJECTIVES FOR
ANTELOPE VALLEY-EAST KERN WATER AGENCY>**

Constituent	Unit	Monthly Average	Average for any 10-year Period	Maximum
Total Dissolved Solids	ppm.	440	220	—
Total Hardness	ppm	180	110	—
Chlorides	ppm.	110	55	—
Sulfates	ppm.	110	20	—
Boron	ppm.	0.6	—	—
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.	—	—	125.0
Copper	ppm.	—	—	3.0
Zinc	ppm.	—	—	15.0
Phenol	ppm.	—	—	0.001

(b) Records of Water Quality

The State shall regularly take samples of water at each delivery structure for delivery of project water to the Agency, 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 Agency at any time or times.

(c) No Liability for Failure to Meet Quality Objectives

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 Agency 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 Agency, suspend deliveries of water under this contract for so long as such default continues: *Provided*, That during such period the Agency 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. ³³INTERRUPTIBLE 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 Agency 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.

³³ Amended: Amendments No. 10, 18, and 19

C. PAYMENT PROVISIONS

22. DELTA WATER CHARGE.

(a) Payment of Reimbursable Costs of Project Conservation Facilities

The payments to be made by each contractor for project water shall include an annual charge designated as the Delta Water Charge. This charge, together with the total revenues derived during the project repayment period 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 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 during the project repayment period. 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.

(b) ³⁴For 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 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 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 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 shall consist and be the sum of the following components as these are computed in accordance with subdivisions (c) and (d) of this article: a capital cost component; a minimum operation, maintenance, power and replacement component; and a variable operation, maintenance, power and replacement component.

(c) Computation of the Components of the Delta Water Rate

The capital cost, the minimum operation, maintenance, power, and replacement, and the variable operation, maintenance, power, and replacement components of the Delta Water Charge, together with that portion of the revenues derived during the project repayment period from the sale or other disposal of

³⁴ Amended: Amendments No. 5 and 6

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) of this article: (1) capital costs; (2) operation, maintenance, power, and replacement costs incurred irrespective of the amount of project water delivered to the contractors; and (3) 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 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 of all contractors, will be sufficient, together with that portion of the revenues derived during the project repayment period 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 for 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 for the respective year of the project repayment period.

1, 2, and n
appearing
below

c and r = The respective year of the project repayment period for which costs are included in the respective category, 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 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 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 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.

(d) Application of Component Rates

The capital cost and minimum operation, maintenance, power, and replacement components of the Delta Water Charge shall be the product of the appropriate rate computed under subdivision (c) of this article, and the contractor's annual entitlement to project water for the respective year. The variable operation, maintenance, power, and replacement component of the charge shall be the product of the appropriate rate computed under subdivision (c) 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, said variable component during such period shall be the product of said 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.

(e) ³⁵Prior 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

³⁵ Amended: Amendment No. 7

(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.

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.

(f) Yearly Recomputation of Rates After 1970

The rates to be used in determining the components of the Delta Water Charge pursuant to subdivision (d) of this article and to become effective on January 1, 1970, shall be computed by the State in accordance with subdivision (c) 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 subdivision (c) and (d) 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 subdivision (e) of this article, annual entitlements, 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 said 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.

(g) ³⁶Upon the construction of 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 (e) 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 (e) 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 said subdivision (e), 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 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.

(h) ³⁷The 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 (c), (d) and (e) above, for all additional project conservation facilities as defined in Article 1(h) hereinabove. In the event a Local Project as defined in Article 1(h)(2) will, pursuant to written agreement between the State and the sponsoring contractor, be considered and treated as an additional project

³⁶ Amended: Amendment No. 7

³⁷ Amended: Amendment No. 13

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) has been entered into.

(i) ³⁸In calculating the rate for project water to be paid by each contractor for the Delta Water Charge under subdivisions (c), (d), and (e) above, 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.

(j) ³⁹Notwithstanding 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 Agency's share of the conservation portion of the water system revenue bond financing costs. Charges to the Agency 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 entitled to delivery of project water from the project transportation facilities shall include an annual charge under the designation Transportation Charge. This charge shall return to the State during the project repayment period those costs of all project transportation facilities necessary to deliver project water to the contractor, including capital, operation, maintenance, power, and replacement costs, which are allocated to the contractor during the project repayment period in accordance with the cost allocation principles and procedures herein after 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. The Transportation Charge shall consist of a capital cost component; a minimum operation, maintenance, power, and replacement component; and a variable operation, maintenance, power, and replacement component, as these components are defined in and determined under Articles 24, 25, and 26, respectively. For the purpose of allocations of costs pursuant to said articles, 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 Agency to the State pursuant to Article 17(a) of this contract, or

³⁸ Amended: Amendment No. 13

³⁹ Amended: Amendments No. 16 and 19

by reason of contracts entered into by the State with other contractors, the aqueduct reaches of the project transportation facilities are established as set forth in Table I of this contract: *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.

24. TRANSPORTATION CHARGE – CAPITAL COST COMPONENT.

(a) Method of Computation

The capital cost 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 shall be determined in two steps as follows: (1) an allocation of capital costs to the contractor, and (2) a computation of annual payment of such allocated capital costs and interest thereon, computed at the project interest rate and compounded annually, to be made by the contractor.

(b) Allocation of Capital Costs Among Contractors

⁴⁰In the first step, the total amount of capital costs 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 reach by the proportionate use of facilities method of cost allocation and in accordance with (1) and (2) below. The measure of the proportionate use of each contractor of each reach shall be the average of the following two ratios: (i) the ratio of the contractor's maximum annual entitlement to be delivered from or through the reach to the total of the maximum annual entitlements 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 (ii) 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 Agency pursuant hereto shall be on the basis of relevant values which will be set forth in Table B of this contract by the State as soon as designs and cost estimates are prepared by it subsequent to receipt of requests from the Agency 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 Agency, 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 Agency.

⁴⁰ Amended: Amendment No. 15 and 19

Proportionate use of facilities factors for prior years shall not be adjusted by the State in response to changes or transfers of entitlement 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.

(1) The total amount 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 to be returned to the State under the Transportation Charge by the average of the two foregoing ratios for such reach as said average is set forth in the appropriate table included in its contract.

(2) 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 to be supplied by such excess capacity, as determined by the State, shall be deemed to be contracted for by said 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) the maximum annual entitlement 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 to be delivered from or through the reach bears to the total of the maximum annual entitlements to be delivered from or through the reach under all contracts; and (ii) 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 to be delivered from or through the reach is increased pursuant to (i) above.

(3) The project amount of capital costs to be allocated annually to the Agency 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, which principles and procedures shall be controlling as to allocations of capital costs to the Agency. Such amounts will be set forth in Table C of this contract by the State as soon

as designs and cost estimates are prepared by it subsequent to receipt of requests from the Agency as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of project water to the Agency, pursuant to Article 17(a): *Provided*, That these amounts shall be subject to redetermination by the State in accordance with Article 28.

(c) Annual Payments of Allocated Capital Costs

In the second step, the Agency's annual payment of its allocated capital costs and interest thereon, computed at the project interest rate and compounded annually, shall be determined in accordance with a payment schedule established by the State and determined in accordance with the principles set forth in (1), (2), and (3) below, which principles shall be controlling as to the Agency's payment of its allocated capital costs. The Agency's payment schedule will be set forth in Table D by the State as soon as designs and cost estimates are prepared by it subsequent to receipt of requests from the Agency as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of project water to the Agency, pursuant to Article 17(a): *Provided*, That the amounts set forth in Table D shall be subject to redetermination by the State, pursuant to Article 28.

(1) The Agency's annual payment shall be the sum of the amounts due from the Agency on the Agency'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 Agency's allocated capital costs for the respective year and interest thereon, computed at the project interest rate and compounded annually.

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

(3) Such annual payments shall cease when all allocated capital costs and interest thereon, computed at the project interest rate and compounded annually, are repaid.

⁴¹BLANK PAGE FOR TABLE B

<Published as Table B-1 and B-2 in Bulletin 132.>

⁴¹ Amended: Amendments No. 2, 3, and 4

TABLE C
PROJECTED ALLOCATIONS OF CAPITAL COST OF
PROJECT TRANSPORTATION FACILITIES TO
ANTELOPE VALLEY-EAST KERN WATER AGENCY

<u>Year</u>	<u>Projected Allocation In Thousands of Dollars</u>
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* Year in which State commenced construction of project transportation facilities, 1959.

<Table C is published as Table B-14 in Bulletin 132.>

Table D
TRANSPORTATION CHARGE—CAPITAL COST COMPONENT
ANTELOPE VALLEY-EAST KERN WATER AGENCY
(in thousands of dollars)

<u>Year</u>	<u>Annual Payment of Principal</u>	<u>Annual Interest Payment</u>	<u>Total Annual Payment by District <Agency></u>
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Table D (continued)
TRANSPORTATION CHARGE—CAPITAL COST COMPONENT
ANTELOPE VALLEY-EAST KERN WATER AGENCY
(in thousands of dollars)

<u>Year</u>	<u>Annual Payment of Principal</u>	<u>Annual Interest Payment</u>	<u>Total Annual Payment by District <Agency></u>
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* Year in which State commenced construction of project transportation facilities, 1959.
** Year of first payment.

<DWR provides Table D with Antelope Valley-East Kern Water Agency's annual statement of charges. Table D is published in (unadjusted) summary form as Table B-15 in Bulletin 132.>

(d) Payment in Advance for Excess Peaking 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 said 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) 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:

(1) 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 said subdivision (b); and

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

(e) Costs Incurred Prior to Date of Contract

The Agency's allocated capital costs for the year preceding the year of initial payment of the capital component of the Transportation Charge, pursuant to subdivision (c) of this article, shall consist of the sum of the Agency's allocated capital costs for each year through such year preceding the year of initial payment, and interest thereon, computed at the project interest rate and compounded annually.

(f) ⁴²The capital costs of project aqueduct power recovery plants shall be charged and allocated in accordance with this Article 24. The capital costs of off-

⁴² Amended: Amendment No. 13

aqueduct power facilities shall be charged and allocated in accordance with Article 25(d).

(g) ⁴³Notwithstanding provisions of Article 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 cost 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).

(h) ⁴⁴Notwithstanding provisions of Article 24(a) through (d), the capital cost component of the Transportation Charge shall include an annual charge to recover the Agency's share of the transportation portion of the water system revenue bond financing costs. Charges to the Agency for these costs shall be calculated in accordance with the provisions of Article 50 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.

<Paragraph 19, page 16 of Amendment No. 19 amends Article 24(g), although the content of Paragraph 19 clearly refers to the water system bond revenue financing costs, which are covered in subarticle (h), not subarticle (g). To correct this problem, Paragraph 19 of Amendment No. 19 was applied to Article 24(h) instead of Article 24(g).>

25. TRANSPORTATION CHARGE – MINIMUM OPERATION, MAINTENANCE, POWER, AND REPLACEMENT COMPONENT.

(a) Method of Computation

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 (b) below: *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 of Costs

⁴³ Amended: Amendment No. 15 <Also Amendment No. 19 in error.>

⁴⁴ Amended: Amendments No. 16 and 19 <Paragraph 19 of Amendment No. 19, which refers to water system bond revenue financing costs, has been applied to subarticle (h), not (g) as shown in Amendment No. 19. See comment in text above.>

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 said 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 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) Payment Table

The amount to be paid each year by the Agency 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 B of this contract: *Provided*, That these values shall be subject to redetermination by the State in accordance with Article 28. Such amounts and any interest thereon shall be set forth by the State in Table E of this contract as soon as designs and cost estimates have been prepared by it subsequent to receipt of requests from the Agency as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of project water to the Agency, pursuant to Article 17(a): *Provided*, That the amounts set forth in Table E shall be subject to redetermination by the State in accordance with Article 28.

TABLE E
TRANSPORTATION CHARGE—MINIMUM OPERATION
MAINTENANCE, POWER, AND REPLACEMENT COMPONENT
ANTELOPE VALLEY-EAST KERN WATER AGENCY

<u>Year</u>	<u>Total Annual Payment By District <Agency>*</u> <u>(in thousands of dollars)</u>
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and each succeeding year thereafter, for the term of this contract.	

* 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 commenced construction of the project transportation facilities, 1959.

<Table E is published as Table B-16A in Bulletin 132.>

(d) ⁴⁵Notwithstanding the provisions of subdivisions (a) and (b) of this article, or of Article 1(s), 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, 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. 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 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) ⁴⁶An 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, 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 Agency and other contractors in the same manner

⁴⁵ Amended: Amendment No. 13

⁴⁶ Amended: Amendments No. 13 and 19

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 shall include appropriate interest at the project interest rate.

(e) ⁴⁷The 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) ⁴⁸Notwithstanding provisions of Article 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 [Article 49(e)].

26. TRANSPORTATION CHARGE – VARIABLE OPERATION, MAINTENANCE, POWER, AND REPLACEMENT COMPONENT.

(a) Method of Computation

The variable 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 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. The amount of this component shall be determined as follows:

(1) There shall be computed 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, power, and replacement costs of the reach for the respective year. This computation shall be made

⁴⁷ Amended: Amendment No. 13

⁴⁸ Amended: Amendment No. 15

by dividing said 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) The amount of the variable component shall be the sum of the products obtained when the charges per acre-foot of water, determined under (1) above, for each aqueduct reach necessary to deliver water to the contractor are multiplied by the number of acre-feet of project water delivered to the contractor from or through that reach during the 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, the amount of said 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.

(b) Revenue From Aqueduct Power Recovery Plants

There shall be credited against the amount of the variable 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 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 said projected net value that the number of acre-feet of project water delivered to the contractor through said plants during the year bears to the number of acre-feet of project water delivered to all contractors through said plants during the year.

(c) Payment Table

The amount to be paid each year by the Agency under the variable operation, maintenance, 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 of this contract. Such amounts and any interest thereon shall be set forth by the State in Table F of this contract as soon as designs and cost estimates are prepared by it subsequent to receipt of requests from the Agency as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of project water to the Agency, pursuant to Article 17(a): *Provided*, That the amounts set forth in Table F shall be subject to redetermination by the State in accordance with Article 28.

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

⁴⁹ Amended: Amendment No. 15

TABLE F
TRANSPORTATION CHARGE—ESTIMATED VARIABLE OPERATION,
MAINTENANCE, POWER, AND REPLACEMENT COMPONENT
ANTELOPE VALLEY-EAST KERN WATER AGENCY

<u>Year</u>	<u>Total Annual Payment by District <Agency>*</u> <u>(In thousands of dollars)</u>
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and each succeeding year thereafter, for the term of this contract.	

* Payments start with year of initial water delivery.

** Year in which State commenced construction of project transportation facilities, 1959.

<Table F is published as Table B-18 in Bulletin 132.>

27. **TRANSPORTATION CHARGE – PAYMENT SCHEDULE.**

The amounts to be paid by the Agency 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, power, and replacement component of said charge on the basis of then estimated deliveries, shall be set forth by the State in Table G of this contract as soon as designs and cost estimates have been prepared by it subsequent to receipt of requests from the Agency as to the maximum monthly delivery capability to be provided in each aqueduct reach for transport and delivery of project water to the Agency, pursuant to Article 17(a). Table G of this contract shall constitute a summation of Tables D, E, and F of this contract: *Provided*, That each of the amounts set forth in Table G 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 Agency in accordance with the provisions of Article 29.

TABLE G
PAYMENT SCHEDULE
ANTELOPE VALLEY-EAST KERN WATER AGENCY
(In thousands of dollars)

Year	Transportation Charge			Total
	Capital Cost Component	Minimum Component	Variable Component	
1*				
2				
3				
4				
5**				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
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28				
29				
30				
31				
32				
33				
34				
35				
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37				
38				
39				
40				
41				
42				
43				
44				
45				
46				

TABLE G (continued)
PAYMENT SCHEDULE
ANTELOPE VALLEY-EAST KERN WATER AGENCY
(In thousands of dollars)

Year	Transportation Charge			Total
	Capital Cost Component	Minimum Component	Variable Component	
47				
48				
49				
50				
51				
52				
53				
54				
55				
56				
57				
58				
59				
60				
61				
62				
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68				
69				
70				
71				
72				
73				
74				
75				
76				
77				
78				
68				
80				

* Year in which State commenced construction of project transportation facilities, 1959.
** Year of first payment.

<Table G is published in summary form as Table B-19 in Bulletin 132.>

⁵⁰TABLE H
PROJECT TRANSPORTATION FACILITIES
ANTELOPE VALLEY-EAST KERN WATER AGENCY

A San Joaquin Valley-Southern California Aqueduct extending to a turnout near ⁵¹Peace Valley Pipeline <the previous words replaced by Amendment No. 4> on the West Branch Aqueduct defined below, and extending to a turnout near the Pearblossom Pumping Plant on the East Branch Aqueduct defined below, to the extent such Aqueduct is determined by the State to be required for water transportation.

(1) "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 Junction of East and West Branches to a terminus in the vicinity of Perris, Riverside County.

(2) "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 Junction of East and West Branches to a terminus in the vicinity of Newhall, Los Angeles County.

⁵²TABLE I
AQUEDUCT REACHES
ANTELOPE VALLEY-EAST KERN WATER AGENCY

<u>Aqueduct Reach</u>	<u>Major Features of Reach</u>
Delta through Bethany Forebay	Intake Channel, Fish Protective Facilities, Delta Pumping Plant, Aqueduct, Bethany Reservoir
Bethany Reservoir to San Luis Forebay	Aqueduct
San Luis Forebay to Mile 18 Pumping Plant	Forebay, Aqueduct, Los Banos Creek Detention Dam
18 Mile Pumping Plant to Panoche Creek	Mile 18 Pumping Plant, Aqueduct, Little Panoche Creek Detention Reservoir, Little Panoche Creek Siphon

⁵⁰ Amended: Amendments No. 2 and 3

⁵¹ Amended: Amendment No. 4

⁵² Amended: Amendments No. 2

Panoche Creek to Five Points	Panoche Creek Siphon, Aqueduct
Five Points to Arroyo Pasajero	Aqueduct
Arroyo Pasajero to Kettleman City	Aqueduct
Kettleman City to Avenal Gap	Aqueduct
Avenal Gap to Twisselman Road	Aqueduct
Twisselman Road to near Lost Hills	Aqueduct
Near Lost Hills to near Seventh Standard Road	Aqueduct
Near Seventh Standard Road to Elk Hills Road	Aqueduct
Elk Hills Road to Tupman	Aqueduct
Tupman to Buena Vista Pumping Plant	Aqueduct
Buena Vista Pumping Plant to Santiago Creek	Buena Vista Intake Channel and Pumping Plant, Sunset Railroad Siphon, Aqueduct
Santiago Creek to Old River Road	Aqueduct
Old River Road to Wheeler Ridge Pumping Plant	Old River Road Siphon, Maricopa Highway Siphon, Aqueduct
Sheeler (sic) Ridge Pumping Plant to Wind Gap Pumping Plant	Wheeler Ridge Intake Channel and Pumping Plant, Aqueduct
Wind Gap Pumping Plant to Tehachapi Pumping Plant	Wind Gap Intake Channel and Pumping Plant, Standard Oil Road Siphon, Grapevine Creek Siphon, Aqueduct
Tehachapi Pumping Plant to South Portal Tehachapi Tunnel No. 3	Tehachapi Forebay, Intake Channel and Pumping Plant, Peustocks, Tunnel No. 1,

South Portal Tehachapi Tunnel No. 3 to Junction, East and West Branches	Siphon No. 1, Tunnel No. 2, Pastoria Siphon, Tunnel No. 3
	Tehachapi Siphon No. 3, Carley V. Porter Tunnel, Tehachapi Afterbay, Junction West Branch Aqueduct
EAST BRANCH DIVISION	
Junction, East and West Branches Through Cottonwood Powerplant	Cottonwood Intake Channel, Powerplant and Tailrace Canal, Aqueduct
Cottonwood Powerplant to Fairmont	Neenach Fill, Aqueduct
⁵³ Buttes Junction (near Fairmont) thru Buttes reservoir	Siphon, Buttes Dam, Buttes Reservoir
Fairmont to 70 th Street West	Canal and siphons
70 th Street West to Palmdale	Canal and siphons
Palmdale to Littlerock Creek	Canal and siphons
Littlerock Creek to Pearblossom Pumping Plant	Canal and siphons
⁵⁴ WEST BRANCH	
Junction, East and West Branches thru Oso Pumping Plant	Oso Siphon, Oso Canal, Pumping Plant & Penstocks, Aqueduct
Oso Pumping Plant to Peace Valley Pipeline	Quail Canal, Quail Regulating Pool

⁵⁵The amendments to Tables B, H, and I of the contract as set forth in paragraphs numbered 3, 4, and 5 above shall in no way limit the right of the State to make subsequent modifications pursuant to the provisions of Article 23 of the contract.

28. ⁵⁶**TRANSPORTATION CHARGE - REDETERMINATION.**

(a) Determinative Factors Subject to Retroactive Change

⁵³ Amended: Amendment No. 3

⁵⁴ Amended: Amendment No. 4

⁵⁵ Amended: Amendment No. 2

⁵⁶ Amended: Amendment No. 9

The State shall redetermine the values and amounts set forth in Tables B, C, D, E, F, and 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 in order that the Transportation Charge to the Agency 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 the project transportation facilities described in Table I of this contract, annual entitlements, 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 Agency 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 Agency or credited to the Agency's account in the manner described in (b) and (c) below.

(b) Adjustment: Transportation Charge-Capital Cost Component

Adjustments for prior underpayments or overpayments of the capital cost component of the Transportation Charge to the Agency, 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 Agency 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 (c) 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 cost component for that year and paid or credited in accordance with the following schedule:

Percent that Transportation Charge 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 in 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, the variable operation, maintenance, 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).

(c) Adjustment: Transportation Charge-Minimum and Variable Components

One-twelfth of the adjustments for prior underpayments or overpayments of the Agency'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.

(d) Exercise of Option

The option provided for in subdivision (b) above shall be exercised in writing on or before the January 1 due date of the first payment of the capital cost 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.

(e) ⁵⁷ Notwithstanding the provisions of Article 28(b), 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 Agency's annual entitlement 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(r) except for Article 1(r)(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(hh). 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 bonds issued under the Central Valley Project Act. However, amortization of adjustments resulting from items 1(r)(4) through (7) 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.

⁵⁷ Amended: Amendment No. 16

(f) ⁵⁸Adjustment: Water System Revenue Bond Financing Costs

The use of water system revenue bonds for financing facilities listed in Article 1(hh) would result in adjustments for prior underpayments or overpayments of the capital cost component of the Transportation Charge to the Agency under the provisions of this article; however, in place of making such adjustments, charges to the Agency will be governed by Article 50.

29. TIME AND METHOD OF PAYMENT.

(a) Initial Payment—Delta Water Charge

Payments by the Agency under the Delta Water Charge shall commence in the year of initial project water delivery to the Agency.

(b) Initial Payment—Transportation Charge: Capital Component

Payments by the Agency under the capital cost component of the Transportation Charge shall commence in the year following the year in which the State commences construction of the project transportation facilities. If such construction has already commenced when this contract is executed, such payments shall begin in the year following the year of execution.

(c) Initial Payment—Transportation Charge: Minimum Component

Payments by the Agency 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.

(d) Initial Payment—Transportation Charge: Variable Component

Payments by the Agency under the variable operation, maintenance, power, and replacement component of the Transportation Charge shall commence in the year of initial water delivery to the Agency.

(e) 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 Agency with a written statement of: (1) the charges to the Agency for the next succeeding year under the capital cost and minimum operation, maintenance, power, and replacement components of the Delta Water Charge and

⁵⁸ Amended: Amendment No. 16

Transportation Charge; (2) the unit charges to the Agency for the next succeeding year under the variable operation, maintenance, power, and replacement components of said Delta Water Charge and Transportation Charge; and (3) the total charges to the Agency for the preceding year under the variable operation, maintenance, power, and replacement components of said 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, as provided in Article 22(b): *Provided further*, That the first such statement shall be provided by the State as soon after the execution of this contract as is feasible. All such statements shall be accompanied by the latest revised copies of the document amendatory to Article 22 and of Tables B, C, D, E, F, and G of this contract, together with such other data and computations used by the State in determining the amounts of the above charges as the State deems appropriate. 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 Agency, furnish the Agency with a statement of the charges to the Agency 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 Agency, except as otherwise provided in those articles.

(f) Times of Payment—Capital Components

The Agency 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 Agency for the year under the capital cost component of the Delta Water Charge and one-half (1/2) of the charge to the Agency for the year under the capital cost component of the Transportation Charge, as such charges are stated pursuant to subdivision (e) of this article; and shall pay the remaining one-half (1/2) of each of said charges on or before July 1 of that year.

(g) Times of Payment—Minimum Components

The Agency 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 Agency, one-twelfth (1/12) of the sum of the charges to the Agency 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 (e) of this article.

(h) Times of Payment—Variable Components

The Agency 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 Agency, the

charges to the Agency 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 Agency during the preceding month pursuant to subdivision (e) of this article, as such charges as stated in such statement.

(i) Contest of Accuracy of Charges

In the event that the Agency contests the accuracy of any statement submitted to it pursuant to subdivision (e) 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 Agency's contentions regarding the statement to be correct, it shall revise the statement accordingly, and the Agency shall make payment of the revised amounts on or before the due date. To the extent that the State does not find the Agency's contentions to be correct, or where time is not available for a review of such contentions prior to the due date, the Agency 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. ⁵⁹SURCHARGE FOR EXCESS USE OF PROJECT WATER. (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 Agency 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 Agency's account for the next succeeding year and the State shall notify the Agency thereof in writing.

32. DELINQUENCY IN PAYMENT.

(a) Agency to Provide for Punctual Payment

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

(b) ⁶⁰Interest on Overdue Payments

Upon every amount of money required to be paid by the Agency 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

⁵⁹ Amended: Amendment No. 8

⁶⁰ Amended: Amendment No. 13

monthly on the amount of such delinquent payment from and after the due date until it is paid, and the Agency hereby agrees to pay such interest: *provided*, that no interest shall be charged to or be paid by the Agency unless such delinquency continues for more than thirty (30) days.

33. OBLIGATION OF AGENCY TO MAKE PAYMENTS.

(a) Refusal of Water Does Not Affect Obligation

The Agency'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 Agency 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 Agency and any net revenues from such disposal shall be credited pursuant to Article 21.

(b) Character of Obligation

The Agency 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 Agency of assessments, tolls, or other charges levied by the Agency.

34. OBLIGATION OF AGENCY TO LEVY TAXES AND ASSESSMENTS.

(a) When Obligated

If in any year the Agency fails or is unable to raise sufficient funds by other means, the governing body of the Agency shall levy upon all property in the Agency 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) Enforcement by Officers of Agency

Taxes or assessments levied by the governing body of the Agency pursuant to subdivision (a) of this article shall be enforced and collected by all officers of the Agency charged with the duty of enforcing and collecting taxes or assessments levied by the Agency.

(c) Deposit in Separate Fund

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 Agency charged with the safe-keeping and disbursement of funds of the Agency, 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) Enforcement of Levy

In the event of failure, neglect, or refusal of any officer of the Agency to levy any tax or assessment necessary to provide payment by the Agency 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. The State shall promptly furnish the Agency with copies of all other contracts now or hereafter executed by the State for a dependable supply of project water, and of any amendments thereof.

37. AGENCY NOT ESTOPPED TO CHALLENGE STATE LAWS.

Nothing herein contained shall be construed as estopping or otherwise preventing the Agency or any person, firm, association, corporation, or public body or agency claiming by, through, or under the Agency 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 Agency 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.

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 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 Agency by such officer as it may, from time to time, authorize in writing to so act. 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 State Post Office for delivery by registered or certified mail. Unless and until formally notified otherwise, all notices shall be addressed to the parties at their addresses as shown on the signature page of this contract.

<Director of Water Resources

P.O. Box 942836

Sacramento, California 94236-0001>

<Antelope Valley-East Kern Water Agency

6500 West Avenue N

Palmdale, California 93551-2855>

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.

E. SPECIAL PROVISIONS AND TABLES

45. SPECIAL PROVISIONS.

(a) On or before June 30, 1963, the Agency shall furnish to the State its written request specifying whether the agency shall receive water in the year of initial water delivery from the East Branch Aqueduct or from the West Branch Aqueduct as defined in Table H of this contract, and specifying the year in which the first delivery of project water from the other Branch Aqueducts shall be as so requested by the Agency, *Provided*, That in the event said request 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 Agency and such other contractors from said Branch Aqueducts shall be as established by mutual agreement among the State, the Agency, 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 as located south of the South Portal of the Tehachapi Tunnels and which have executed contracts with the State on or before June 30, 1963, *Provided further*, That the Agency is not precluded from requesting, pursuant to Article 10 of this contract, water through delivery structures located in aqueduct reaches upstream from the junction of the East and West Branch Aqueducts.

(b) ⁶¹The State shall provide sufficient capacity in the transportation facilities, subject to the provisions of Article 17(b), to deliver eleven percent (11%) of the Agency's annual entitlement in each of three and one-third (3-1/3) months in each year. Subject to the foregoing limitation, in scheduling deliveries under Article 12(a), the State will provide for up to eight point eighty-nine percent (8.89%) of the Agency's annual entitlement to be delivered in excess of a rate of eight and one-third percent (8-1/3%) per month: *Provided*, That the State shall not be obligated, by reason of this contract provision, to reduce the peaking service and/or emergency service heretofore provided for other agencies that have contracted for water service from the State Water Project, if the State determines that it is not feasible for any reason in the judgment of the State to build a dam at the Buttes reservoir site to provide such peaking and emergency service for the Agency: *Provided further*, That notwithstanding the State's determination, the Agency may notify the State at any time prior to the date the State commences final design of Buttes reservoir that the Agency does not desire the reservoir to be constructed, in which event the provisions of paragraph numbers 1, 2, and 3 of this amendment shall be of no further force and effect: *Provided further*, That, notwithstanding the fact that the dam is not constructed, the Agency shall remain liable for and shall be obligated to pay the State all costs incurred by the State by reason of this amendment prior to the date the State

⁶¹ Amended: Amendments No. 2 and 3

determines such construction is not feasible or the date the Agency notifies the State that the Agency does not desire the reservoir to be constructed, whichever shall be earlier.

(c) The annexations to the Agency, authorized by Resolution No. 62-64 of the Board of Directors dated August 28, 1962, are deemed to be approved by the department within the meaning of Article 15(b), and are generally described as follows:

(1) The Tejon-Kinsey annexation, comprising approximately 200 square miles at the western boundary of the Agency

(2) The Agua-Dulce annexation, comprising approximately 40 square miles at the southwestern boundary of the Agency

(3) The East Antelope Valley annexation, comprising approximately 100 square miles at the southeastern boundary of the Agency

(4) The Hoffman No. 2 annexation, comprising approximately 16 square miles at the northeastern boundary of the Agency.

(d) ⁶²In accordance with the Agency's Water Supply Contract, the Agency's annual entitlement is increased by 3,000 acre-feet beginning in year 2002 and each succeeding year thereafter for the term of the Water Supply Contract. As a result of this transfer, Table A as designed in Article 6 is amended as follows: <See Table A as amended by Amendment No. 20 in Appendix A.>

⁶³Increases in the Agency's Delta Water Charge, the Transportation Charges, and the Water System Revenue Bond Surcharge resulting from the increase in the Agency's annual entitlements for year 2002 and each year thereafter shall commence January 1, 2002, and be identified by the State and included in the annual Statement of Charges to the Agency.

⁶⁴Any over and under adjustments to payments made by Tulare for 2001 and prior years attributable to the 3,000 acre-feet of annual entitlements shall be paid by or credited to Tulare, including refunds or credits for Off-Aqueduct and Water System Revenue Bond reserves. Any over and under adjustments to payments made by the Agency for 2002 and future years attributable to the 3,000 acre-feet of annual entitlement shall be paid by or credit to the Agency.

⁶² Amended: Amendment No. 20

⁶³ Amended: Amendment No. 20

⁶⁴ Amended: Amendment No. 20

⁶⁵Transportation capital cost component charges attributable to reaches downstream of Tulare shall be redetermined and allocated to the Agency retroactively and prospectively according to the proportionate use of facilities method described in Article 24.

⁶⁶The capacity values in Exhibit A are for cost allocation and repayment purposes only and shall not be interpreted to change the flowrate limits in Article 12. Exhibit A attached hereto shows annual entitlement and capacity values for each aqueduct reach in which the Agency participates in repayment. These redetermined values shall be used to derive the proportionate use of facilities factors as set forth in Table B as designated in Article 24(b). The capacity values shown in Exhibit A are estimated values. Actual capacity amounts will be used by the State in implementing the terms of this Amendment and in redetermination of Table B of the Water Supply Contract under Article 28.

⁶⁷This Amendment is contingent upon the effectiveness of Water Supply Contract No. 27 between the State and Tulare. If either amendment ceases to be effective for any reason, the Agency agrees that the State may, at its discretion and consistent with the law then in effect as determined by the State, and after meeting and conferring with the Agency, identify the date on which this Amendment shall be deemed inoperative for the purpose of assuring timely repayment of contract obligations and orderly administration of the long-term water supply contracts.

⁶⁸The Agency's Water Supply Contract was amended to add the Monterey Amendment; the Monterey Amendment and the Environmental Impact Report for Implementation of the Monterey Agreement were challenged in a lawsuit and addressed by the Court of Appeal in Planning and Conservation League, et al. v. Department of Water Resources and Central Coast Water Authority, (2000) 83 Cal. App. 4th 892. The Agency acknowledges that this transfer is not conditioned on the Monterey Amendment being in effect. The Agency agrees not to rely upon the fact that the State is approving this transfer to assert the Monterey Amendment is in effect. The Agency further acknowledges that the allocation of water is different under pre-Monterey conditions, and that the availability of water associated with the permanent entitlement transfer would, in certain years, be materially different if the State allocated available water supply based on pre-Monterey conditions. Recognizing the foregoing, the State shall allocate the water associated with the transfer of this 3,000 acre-feet of annual entitlement in the same manner as the Agency's other Table A Entitlements.

⁶⁹This amendment shall not be used as precedent.

⁷⁰Except as amended herein, the provisions of the Water Supply Contract, including but not limited to Articles 12(b), 12(c), and 18(f) will remain in full force and effect.

⁶⁵ Amended: Amendment No. 20

⁶⁶ Amended: Amendment No. 20

⁶⁷ Amended: Amendment No. 20

⁶⁸ Amended: Amendment No. 20

⁶⁹ Amended: Amendment No. 20

⁷⁰ Amended: Amendment No. 20

⁷¹The Agency agrees not to assert any rights based on the special contract provision in Article 45(e) of Tulare's Water Supply Contract, which is entitled "Adjustment of Annual Entitlements."

⁷²Exhibit A

**ANTELOPE VALLEY - EAST KERN WATER AGENCY
ANNUAL ENTITLEMENT AND CAPACITY VALUES FOR COST ALLOCATION AND
REPAYMENT PURPOSES ^(a)**

Repayment Reach ^(b)	Before Transfer		Entitlement Transferred from TLBWSD (AF)	Capacity Transferred from TLBWSD ^(c) (cfs)	Additional Capacity Required ^(d) (cfs)	After Transfer	
	Annual Entitlement	Capacity				Annual Entitlement	Total Capacity
	(AF)	(cfs)				(AF)	(cfs)
California Aqueduct							
Reach 1	138,400	191	3,000	9		141,400	200
Reach 2A	138,400	191	3,000	9		141,400	200
Reach 2B	138,400	191	3,000	9		141,400	200
Reach 3	138,400	191	3,000	9		141,400	200
Reach 4	138,400	191	3,000	9		141,400	200
Reach 5	138,400	191	3,000	9		141,400	200
Reach 6	138,400	191	3,000	9		141,400	200
Reach 7	138,400	191	3,000	9		141,400	200
Reach 8C	138,400	191	3,000	9		141,400	200
Reach 8D	138,400	191	3,000	9		141,400	200
Reach 9	138,400	191	3,000			141,400	200
Reach 10A	138,400	191	3,000		4	141,400	195
Reach 11B	138,400	191	3,000		4	141,400	195
Reach 12D	138,400	191	3,000		4	141,400	195
Reach 12E	138,400	191	3,000		4	141,400	195
Reach 13B	138,400	191	3,000		4	141,400	195
Reach 14A	138,400	191	3,000		4	141,400	195
Reach 14B	138,400	191	3,000		4	141,400	195
Reach 14C	138,400	191	3,000		4	141,400	195
Reach 15A	138,400	191	3,000		4	141,400	195
Reach 16A	138,400	191	3,000		4	141,400	195
Reach 17E	138,400	191	3,000		4	141,400	195
Reach 17F	138,400	191	3,000		4	141,400	195
East Branch Aqueduct							
Reach 18A	138,400	191	3,000		4	141,400	195
Reach 19	138,400	191	3,000		4	141,400	195
Reach 20A	68,800	130 ^(e)	---		---	68,800	130 ^(e)
Reach 20B	21,700	65 ^(e)	---		---	21,700	65 ^(e)
Reach 21	21,700	65 ^(e)	---		---	21,700	65 ^(e)
Reach 22	10,900	50 ^(e)	---		---	10,900	50 ^(e)

- Does not include capacity for outages and losses.
- These numbers apply to the reaches as set forth in Bulletin 132, Figure B-4, "Repayment Reaches and Descriptions."
- Transfer of 18% peaking capacity for cost allocation and repayment purposes only.
- Use limited to 8-1/3% peaking capacity.
- Includes AVEK's share of East Branch Enlargement capacity. The repayment of the East Branch Enlargement costs is a separate charge.

⁷¹ Amended: Amendment No. 20

⁷² Amended: Amendments No. 20

46. ⁷³AMENDATORY PROVISIONS.

(a) ⁷⁴Surplus Water (deleted)

(b) ⁷⁵Surcharge Credit (Deleted)

(c) ⁷⁶The Agency may notify the State on or before January 1, 1968, as to whether or not it would desire the Buttes reservoir, contemplated to be constructed by the State to provide the peaking and emergency service to the Agency, to be placed in operation by the State later than the State is scheduling such service, and the State will then postpone the design and construction of said dam and reservoir for the period requested by the Agency: *Provided*, That such postponement will be granted only for a periodin (sic) which (1) the existing capacity of the State Water Project enables the State to make deliveries to the Agency on the peaking basis provided for by this contract without reduction in the service and water deliveries to be provided to other contractors during the period of the delayed construction, and (2) the Agency agrees to make any necessary adjustments in its payments to the State to provide compensation for the temporary usage by the Agency of facilities necessary to provide peaking service to other contracting agencies: *Provided further*, That the State may elect for reasons of financing to postpone the design and construction of such dam and reservoir so that the peaking service and/or emergency service for the Agency will require the temporary usage by the Agency of facilities necessary to provide peaking service to other contracting agencies, in which event the Agency agrees to make any necessary adjustments in its payments to the State to provide compensation for such usage, or, in lieu thereof, to notify the State that the Agency does not desire the reservoir to be constructed.

(d) ⁷⁷Excess Capacity

The State shall provide in each reach of the project transportation facilities from the Junction, West Branch, California Aqueduct to the beginning of the Peace Valley Pipeline on the West Branch Aqueduct, excess capacity in the amount of nineteen (19) cubic feet per second, which consists of capacity sufficient to carry in any one month of any year seventy-seven one hundredths of one percent (0.77%) of the Agency's maximum annual entitlement including in such increment for each reach capacity required for scheduled outages: *Provided*, That no such excess capacity shall be provided in regulatory storage reservoirs included in such reaches. To the extent made possible by the excess capacity provided in accordance with the preceding sentence, the State shall comply with requests of the Agency to deliver from the project transportation facilities downstream from Pumping Plant VI (Tehachapi Pumping Plant) in any one month of any year a total amount of project water greater

⁷³ Amended: Amendment No. 1

⁷⁴ Amended: Amendment No. 8 and 10

⁷⁵ Amended: Amendment No. 8

⁷⁶ Amended: Amendment No. 3

⁷⁷ Amended: Amendment No. 4

than eleven percent (11%) of the Agency's annual entitlement for that year. In no event shall the State be obligated to deliver to the Agency from the project transportation facilities downstream from Pumping Plant VI (Tehachapi Pumping Plant) in any one month of any year a total amount of project water greater than eleven percent (11%) of the Agency's annual entitlement for that year except insofar as the excess capacity provided in accordance with the first sentence of this subdivision (d) makes possible such greater delivery.

(e) ⁷⁸Advance Payment for Excess Capacity

The Agency shall each year furnish to the State, in advance of the construction of the aqueduct reaches from the Junction, West Branch Aqueduct, to the beginning of the Peace Valley Pipeline on the West Branch Aqueduct, funds sufficient to cover the costs of providing the excess capacity described in subdivision (d) of this article. Such funds shall be in an amount which bears the same proportion to the total capital costs of each such reach, including the costs of providing such excess capacity, as such capacity bears to the total capacity of such reach, including such excess capacity. The State shall, on or before July 1 of each year, furnish the Agency with a written statement of the charges to the Agency pursuant to this subdivision for the next year: *Provided*, That the first such charge shall include any accumulated capital costs attributable to such increased capacity in prior years, together with interest thereon at the project interest rate compounded annually. The Agency shall pay to the State on or before January 1 of each year one-half of such charge and shall pay the remaining one-half of such charge on or before July 1 of that year.

(f) ⁷⁹Allocation 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 Agency pursuant to subdivision (d) 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.

(g) ⁸⁰Reconciliation of Advance Payments with Cost Allocation

In the event that the funds advanced by the Agency pursuant to subdivision (e) of this article are more or less than the costs allocated to the Agency pursuant to

⁷⁸ Amended: Amendment No. 4

⁷⁹ Amended: Amendment No. 4

⁸⁰ Amended: Amendment No. 4

subdivision (f) of this article, the account of the Agency under the capital cost component shall be credited or debited accordingly, with interest thereon from the date of such advance at the application average interest rate of the fund in which such money is invested.

(h) ⁸¹Allocation of Minimum Operation, Maintenance, Power, and Replacement Costs of Reaches in Which Excess Capacity is Provided

Subject to the provisions of subdivision (j) 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 (d) 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 Agency and the total capacity provided in each reach shall include the excess capacity provided pursuant to subdivision (d) of this article.*

(i) ⁸²Allocation of Variable Operation, Maintenance, Power, and Replacement Costs of Reaches in Which Excess Capacity is Provided

Subject to the provisions of subdivision (j) 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 (d) of this article shall be allocated among contractors in accordance with the provisions of Article 26: *Provided, That the Agency 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 (d) to (j), inclusive, of this article in this contract.*

(j) ⁸³Connected-Load Charges for Power

The connected-load charges for power resulting from the excess capacity provided pursuant to subdivision (d) of this article shall be paid entirely by the Agency and such costs shall not be included in the minimum operation, maintenance,

⁸¹ Amended: Amendment No. 4

⁸² Amended: Amendment No. 4

⁸³ Amended: Amendment No. 4

power, and replacement (sic) 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 Agency at the same times and under the same procedures as the minimum operation, maintenance, power, and replacement component as provided in Article 29.

<47. NO SUCH ARTICLE EXISTS.>

<48. NO SUCH ARTICLE EXISTS.>

49. ⁸⁴ENLARGEMENT 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 Spring (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

⁸⁴ Amended: Amendment No. 15

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 Agency shall be as shown in the following table:

REACH ¹	CFS OF CAPACITY
20A	35
20B	35
21	35
22A	35

¹These numbers apply to the reaches as set forth in Figure B-5 in State Bulletin 132-85.

(2) The State shall construct the East Branch Enlargement Facilities in stages, with the first stage providing the Agency 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 20A through 22A 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
20A	1,541
20B	1,541
21	1,535
22A	1,535

(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 affected 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 Article 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 for Mojave Water Agency 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 capital 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 Agency shall be reduced by payments advanced by the Agency 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 Agency 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 Agency 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 Agency may elect to pay a portion or all of the capital costs of the enlargement construction allocated to the Agency 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 Agency 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 Agency 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 Agency elects this option, the State shall, on or before July 1 furnish the Agency 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 Agency of funds needed within the succeeding month. The Agency shall pay to the State the requested funds within fifteen calendar days of receipt of notification. The Agency may elect to advance funds to the State on an accelerated schedule acceptable to the State. Unless otherwise agreed to by the Agency and the State, interest earned on any funds advanced pursuant to this paragraph shall be credited to reduce payments due from the Agency under this contract. To the extent practicable, interest earned shall be at the Surplus Money Investment Fund rate. The Agency may terminate its use of this option for a given year with the agreement of the State. If the Agency 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 Agency does not elect to pay all of the capital costs of the enlargement allocated to the Agency by furnishing funds to the State in advance, the State, after consultation with the Agency, shall prepare a plan for the State's financing of the East Branch Enlargement and shall give the Agency 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 Agency does not pay all of the capital costs allocated to the Agency 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 Article 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 Agency shall be computed as follows. The capital costs allocated to the Agency pursuant to Article 49(d) shall be determined. Any amounts paid by the Agency 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 Agency's Revenue Bond Charge shall be paid by the Agency semi-annually 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 Articles 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) and Reach 26A (South Portal San Bernardino Tunnel through Devil Canyon Powerplant). 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 and Payment 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 Agency shall pay the State the charges as determined pursuant to this provision with interest at the project interest rate.

(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 Agency 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(s), 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 Agency 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 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 years 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 Agency's capital charges are based in the basic East Branch Aqueduct Facilities and the Agency'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 Agency 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 Agency to determine if the Agency 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. ⁸⁵WATER SYSTEM REVENUE BOND FINANCING COSTS.

(a) Charges to the Agency for water system revenue bond financing costs shall be governed by provisions of this article. Charges to all contractors for water system revenue bond financing costs shall return to the State an amount equal to the annual financing costs the State incurs in that year for water system 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.

(b) Annual charges to recover water system revenue bond financing costs shall consist of two elements.

(1) The first element shall be an annual charge to the Agency for repayment of capital costs of water system facilities as determined under Articles 22 and 24 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 Article 22. For transportation facilities, the charge shall be a part of the capital cost component of the Transportation Charge in accordance with Article 24.

(2) The second element shall be the Agency's share of a Water System 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

⁸⁵ Amended: Amendment No. 16

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. 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 Agency's Transportation capital cost component charges for prior overpayments and underpayments shall be determined as if amortized over the remaining years of the project repayment period.

(c) The Water System Revenue Bond Surcharge will be identified by component and charge in the Agency's invoice.

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

(e) Reduction in Charges. The Water System Revenue Bond Surcharge under Article 50(b)(2) shall cease for each series of water system revenue bonds when that series is fully repaid. However, the annual charge determined pursuant to Article 50(b)(1) shall continue to be collected for the time periods otherwise required under Articles 22 and 24.

After the Department has repaid the California Water Fund in full and after each series of Water System 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(b)(1) 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 Agency.

(f) 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 nondefaulting contractors against costs resulting from the failure of any contractor to make the payments required by this article.

(g) Before issuing each series of water system revenue bonds, the State shall consult with the contractors, prepare a plan for the State's future financing of water system facilities, and give the Agency an opportunity to comment on the plan. The plan shall include but not be limited to the size of any water system revenue bond issuances and the form of any necessary resolutions or supplements.

(h) Defaults.

(1) If a contractor defaults partially or entirely on its payment obligations calculated under this article and sufficient insurance or other security protecting the non-defaulting contractors is not provided under

Article 50(f), the State shall allocate a portion of the default to each non-defaulting contractor. The Agency'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 Agency's maximum Table A entitlement bears to the maximum Table A entitlements of all non-defaulting contractors. However, such amount shall not exceed in any year 25 percent of the Water System Revenue Bond financing costs that are otherwise payable by the Agency 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.

(2) 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 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.

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

(4) Except as otherwise provided in Article 50(h)(3), 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). 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.

(5) 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.

(6) 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(a).

(7) Action taken pursuant to this subarticle 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.

(1) The Department and the Agency 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 Agency 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 Agency 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 Agency 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(r). However, if the Department has borrowed any funds under Article 1(r)(7), Article 1(r)(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(r) shall read as it previously read as shown on Attachment Number 1 to this amendment.

(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.

(j) ⁸⁶Amounts payable under this article shall not be affected by any reductions in payments pursuant to Article 51.

51. ⁸⁷FINANCIAL ADJUSTMENTS.

(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 Agency. 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 Agency, 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 (c)(2)(ii) and (iii) of this article.

⁸⁶ Amended: Amendment No. 19

⁸⁷ Amended: Amendment No. 19

(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.

(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 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. 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.

(4) The State may submit a supplemental billing to the Agency 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. Any supplemental billing made to the Agency 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 Agency in that year bears to the total reductions 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 Agency by the amount of the supplemental bill to the Agency.

(5) The State may also submit a supplemental billing to the Agency 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 Agency 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 reductions for each year in accordance with this 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.

(4) In 2001 and in each succeeding year reductions equal to or in excess of \$40.5 million are projected to be available and shall be applied as follows:

(i) If reductions are available in an amount that equals or exceeds \$40.5 million, \$10 million of reductions shall be apportioned among the Agricultural Contractors, and \$30.5 million 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 amount less than \$40.5 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. 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 of \$40.5 million are available 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 executes the Monterey 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

(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:

(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) of this article;

(ii) 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 (c)(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.

(f) Apportionment of Reductions among Urban Contractors.

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

(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 associated with transfers of entitlement 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 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, the proportionate share of annual charge reductions associated with that entitlement shall be transferred with the entitlement to the buying contractor.

In the case of an entitlement 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 being retained by that agency which bears Coastal Branch Phase II transportation costs, (b) on the basis of that entitlement 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 which also does not bear Coastal Branch Phase II transportation costs.

(g) Apportionment of Reductions Among Agricultural Contractors

(1) Reductions in annual charges apportioned to Agricultural Contractors under subdivisions (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 being 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 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 being 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 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 Fund

(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 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 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 acre-feet of its entitlement,

(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 acre-feet of its entitlement.

(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. ⁸⁸KERN 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. ⁸⁹PERMANENT 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

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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 NOI's 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 contractors, 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. ⁹⁰USAGE 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

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

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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.