Contract No. 06-XX-30-W0451

Agreement
to Implement a Demonstration Program
for System Conservation of Colorado River Water

This Agreement to Implement a Demonstration Program for System Conservation of Colorado River Water (Agreement) is entered into this 15 day of August 2006, by and between The Metropolitan Water District of Southern California (Metropolitan) and the United States Bureau of Reclamation (Reclamation).

RECITALS

A. Reclamation adopted a Policy Establishing a Demonstration Program for System Conservation of Colorado River Water (Policy) on May 26, 2006 pursuant to authority granted by the Boulder Canyon Project Act of 1928 and the Colorado River Basin Salinity Control Act of 1974, all as amended.

B. The purpose of the Policy is to establish a program of voluntary agreements with eligible holders of Colorado River water entitlements to conserve a portion of their approved annual consumptive use of Colorado River water. This voluntary conservation would be one means for providing an interim, supplemental source of water to replace the drainage water from the Wellton-Mohawk Irrigation and Drainage District that is bypassed to the Cienega de Santa Clara and the reject stream from operation of the Yuma Desalting Plant.

C. Metropolitan holds an entitlement to Colorado River water by virtue of its Supplementary Contract for Delivery of Water dated September 28, 1931 with the Secretary of the Interior.

D. Metropolitan has executed a Forbearance and Fallowing Program Agreement dated August 18, 2004 with the Palo Verde Irrigation District (PIVD). This fallowing agreement establishes the 35-year Palo Verde Irrigation District Land Management, Crop Rotation and Water Supply Program (Program), by which Metropolitan contracts with the owners of land within the PVID service area that is eligible to receive Priority 1 water under California's Colorado River entitlement and that has historically been irrigated (Program Qualified Land).

E. PVID holds an entitlement to Colorado River water for the irrigation of the Palo Verde Valley lands within its service area by virtue of its Contract for Delivery of Water dated February 7, 1933 with the Secretary of the Interior.

F. Metropolitan has enrolled 25,947 acres of Program Qualified Land. In accordance with the terms of the Program, Metropolitan has the discretion to call for any portion of this land to be fallowed for each Program year, which runs from August 1 through July 31. Metropolitan is entitled to the diversion of the water conserved by the Program in accordance with its agreements with PVID and the participating landowners

and in accordance with the terms of the Colorado River Water Delivery Agreement of 2003.

G. Reclamation desires to utilize the Program to conserve 10,000 acre-feet of Colorado River water through voluntary supplemental fallowing above that already called for by Metropolitan, but not more than the maximum allowed under the Program. Metropolitan desires to accommodate and assist Reclamation in implementing its Policy through voluntary agreements with participating landowners under the Program.

NOW, THEREFORE, in consideration of the terms and conditions set forth herein, Reclamation and Metropolitan agree as follows:

AGREEMENT

1. Metropolitan has issued a notice to the participating landowners in the Program offering a voluntary increase in the acreage of Program Qualified Land to be fallowed for the period from August 1, 2006 through July 31, 2007, to conserve an additional 10,000 acre-feet of Colorado River water for purposes of implementing the Demonstration Program for System Conservation of Colorado River Water in accordance with the Policy.

2. Metropolitan will execute agreements (Voluntary Supplemental Fallowing Agreements) with participating landowners on a voluntary basis to fallow additional acreage within their Program Qualified Land for the period August 1, 2006 through July 31, 2007. In accordance with Section II.A.4 of the Policy, the amount of land fallowed in accordance with Voluntary Supplemental Fallowing Agreements will constitute less, when combined with fallowing pursuant to Metropolitan's current fallowing call, than 33 percent of the irrigated agricultural lands entitled to delivery of Priority 1 Colorado River water within PVID's service area.

3. For each participating landowner that executes a Voluntary Supplemental Fallowing Agreement, Metropolitan will cause the fallowing to be performed in accordance with the terms and conditions of Metropolitan's agreements with PVID and the participating landowners.

4. Metropolitan will request PVID to submit to Reclamation by August 1, 2006, a revised water order for 2006, and will request PVID to submit an initial water order for 2007 that reflects the Colorado River water that will be conserved by fallowing of the Program Qualified Land covered by Voluntary Supplemental Fallowing Agreements for the period August 1, 2006 through July 31, 2007. The amount of water conserved by the fallowing of this land shall be determined in accordance with the same verification and quantification procedures used by Reclamation to determine the amount of water conserved pursuant to the Forbearance and Fallowing Program Agreement.

5. Metropolitan hereby agrees that it will forbear the delivery and diversion for its own beneficial use of 3,000 acre-feet in 2006 and 7,000 acre-feet in 2007 of Colorado

River water conserved over the period August 1, 2006 through July 31, 2007 by the fallowing performed pursuant to the Voluntary Supplemental Fallowing Agreements.

6. Reclamation shall pay to Metropolitan the amount of $1,700,000 for the conservation of 10,000 acre-feet of Colorado River water by fallowing performed pursuant to the Voluntary Supplemental Fallowing Agreements that Metropolitan has agreed to forbear. This amount is based on reimbursing Metropolitan for the proportionate share of the annual payment made to the participating landowners for the fallowing during the period August 1, 2006 through July 31, 2007, a share of the initial payment made to the participating landowners for enrollment in the Program, and a proportionate share of the annual costs reimbursed to PVID for assisting in implementation and management of the Program.

7. On or before August 15, 2006, Metropolitan will deliver to Reclamation a written invoice for one-half of the amount due to Metropolitan in accordance with Section 6, above. The written invoice shall be accompanied by a statement that Metropolitan has satisfied the conditions of this Agreement necessary to conserve 10,000 acre-feet of Colorado River water and documentation that Metropolitan has executed the Voluntary Supplemental Fallowing Agreements in accordance with Section 2, above. Reclamation shall make the initial payment of one-half of the amount due to Metropolitan by September 30, 2006. The remaining balance of the amount due to Metropolitan shall be paid within sixty (60) days following the field inspection performed by Reclamation to verify the fallowing in accordance with the Voluntary Supplemental Fallowing Agreements. Reclamation shall complete the field inspection no later than March 1, 2007 unless Metropolitan agrees in advance to a later date. In the event that Reclamation determines that the voluntary supplemental fallowing is not implemented as required in this Agreement, Reclamation shall only make payment, at the rate of $170 per acre-foot, for the amount of Colorado River water actually conserved by the fallowing in accordance with the Voluntary Supplemental Fallowing Agreements and forborne by Metropolitan.

8. In the event that Reclamation fails to make the full payments required by this Agreement, Metropolitan shall have the right to cancel its forbearance under this Agreement and to schedule the delivery of an amount of water equal to the amount of conserved water for which payment has not been made by Reclamation for Metropolitan's own beneficial use. Metropolitan may schedule such delivery following the cancellation of its forbearance at any time during the year that the water is conserved.

9. The Forbearance and Fallowing Program Agreement provides that PVID will not divert, take delivery of, or authorize the diversion or use of, or transfer to third parties the water conserved through the Program. By letter dated October 10, 2003, the Imperial Irrigation District and Coachella Valley Water District consented to the diversion and consumptive use by Metropolitan of the water conserved by the Program. In accordance with Section II.A.8 of the Policy, Reclamation shall be responsible to obtain any further consents or forbearances required to ensure that the Colorado River water that is conserved by fallowing in accordance with the Voluntary Supplemental Fallowing Agreements remains in Colorado River system storage to serve the purposes of this Agreement. In the event that Reclamation receives a water delivery order from a third

party that would require the delivery of the Colorado River water conserved by fallowing in accordance with the Voluntary Supplemental Fallowing Agreements and forborne by Metropolitan, Reclamation shall notify Metropolitan. Metropolitan shall have the right within twenty (20) days of receipt of such notice to cancel its forbearance under this Agreement and to schedule the delivery of an amount of water equal to the amount of conserved water for its own beneficial use, provided that Metropolitan refunds to Reclamation the amounts paid pursuant to this Agreement to forbear the use of the conserved water.

10. The Colorado River water conserved by fallowing in accordance with the Voluntary Supplemental Fallowing Agreements and forborne by Metropolitan will not be charged against Metropolitan's or PVID's use of Colorado River water or charged against the apportionment of the State of California. PVID's and California's consumptive use of Colorado River water will be reduced by 3,000 acre-feet in 2006 and 7,000 acre-feet in 2007.

11. In compliance with Section II.A.5 of the Policy, Metropolitan's outstanding inadvertent overrun obligations to the Colorado River system reservoirs will be paid back in accordance with Metropolitan's 2006 payback plan (submitted under separate cover).

12. Except as otherwise provided in this Agreement, Metropolitan hereby releases and agrees that it will indemnify and hold harmless the United States and its officers, agents, employees, and successors or assigns, from every claim for damages to persons or property, direct or indirect, and of whatever nature, arising by reason of the conservation of Colorado River water by fallowing in accordance with the Voluntary Supplemental Fallowing Agreements and the forbearance by Metropolitan under this Agreement. The United States shall be liable only for negligence on the part of its officers and employees in accordance with the Federal Tort Claims Act, as amended.

13. None of the provisions of this Agreement shall be considered waived, except when such waiver is given in writing. The failure of a party to this Agreement to insist in any one or more instances upon strict performance of any of the provisions, or to take advantage of any of its rights, hereunder shall not be construed as a waiver of any such provisions or that party's relinquishment of any such rights for the future, but such provisions and rights shall continue and remain in full force and effect.

14. This Agreement is not intended nor shall it be construed to create any third party beneficiary rights to enforce the terms of this Agreement in any person or entity that is not a party.

15. The parties do not intend that any right or remedy given to a party on the breach of any provision under this Agreement be exclusive; each such right or remedy is cumulative and in addition to any other remedy provided in this Agreement or otherwise available at law or in equity. If the non-breaching party fails to exercise or delays in exercising any such right or remedy, the non-breaching party does not thereby waive that right or remedy. In addition, no single or partial exercise of any right, power or privilege precludes any other or further exercise of a right, power or privilege granted by this Agreement or otherwise.

16. Each party to this Agreement represents that the person executing on behalf of such party has full power and authority to do so, and that his/her signature is legally sufficient to bind the party on whose behalf he/she is signing.

17. This Agreement constitutes a valid and binding agreement of each party, enforceable against each party in accordance with its terms. This Agreement is and will be binding upon and will inure to the benefit of the parties and, upon dissolution, the legal successors and assigns of their assets and liabilities.

18. This Agreement may be supplemented, amended, or modified only by the written agreement of the parties. No supplement, amendment, or modification will be binding unless it is in writing and signed by the parties.

19. Any notice, demand, or request shall be deemed properly served, given, or made if delivered in person; sent by registered or certified mail, postage prepaid; or overnight delivery, charges prepaid or charged to the sender's account: to the persons in the positions executing this Agreement.

20. All information and data obtained or developed with the performance of duties mentioned in this Agreement shall be available upon request to a party, subject to the provisions of the Freedom of Information Act or other applicable law. However, use of said reports, data and information shall appropriately reference the source for the respective documents.

21. The expenditure or advance of any money or the performance of any obligation by the United States under this Agreement shall be contingent upon the appropriation or allotment of funds. No monetary liability shall accrue to the United States in case funds are not appropriated or allocated.

22. No member of or Delegate to Congress, Resident Commissioner, or official of Metropolitan shall benefit from this Agreement other than as a water user or landowner in the same manner as other water users or landowners.

23. This Agreement is entered into under the Reclamation Act of 1902 as supplemented and amended and, in particular, Section 5 of the Boulder Canyon Project Act and contracts entered into thereunder. Nothing in this Agreement diminishes or abrogates the authority of the Secretary of the Interior under applicable federal law, regulations, or the Consolidated Decree.

24. This Agreement between Metropolitan and Reclamation shall become effective upon the date of its execution by both parties and will remain in effect until all terms and conditions are satisfied.

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

By: _____
Jeffrey Kightlinger
General Manager

Date: 7/28/06

UNITED STATES BUREAU OF RECLAMATION

ACTING FOR

By: _____
Robert W. Johnson
Regional Director

Date: 8/15/06