

DUPLICATE ORIGINAL

Contract No. 06-XX-30-W0452

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION

LOWER COLORADO WATER SUPPLY PROJECT

CONTRACT AMONG
THE UNITED STATES, THE CITY OF NEEDLES, AND
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
FOR DELIVERY OF LOWER COLORADO WATER SUPPLY PROJECT WATER

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FOR DELIVERY OF LOWER COLORADO WATER SUPPLY PROJECT WATER

1. PREAMBLE: This Contract No. 06-XX-30-W0452, hereinafter called "Contract," is made this 26th day of March, 2007, pursuant to the Act of Congress approved June 17, 1902 (32 Stat. 388), and Acts amendatory thereof or supplementary thereto, and particularly pursuant to the Lower Colorado Water Supply Act, approved November 14, 1986 (100 Stat. 3665), as amended on November 19, 2005, and the Boulder Canyon Project Act approved December 21, 1928 (45 Stat. 1057), all of which are commonly known and referred to as the Federal Reclamation laws, among the United States of America (hereinafter referred to as "United States") through the Bureau of Reclamation (hereinafter referred to as "Reclamation"); the City of Needles, California, a charter city duly organized and existing under and by virtue of the laws of the State of California (hereinafter referred to as "Needles"); and The Metropolitan Water District of Southern California, a metropolitan water district duly organized and existing under and by virtue of the laws of the State of California (hereinafter referred to as "MWD"). The United States, Needles, and MWD are sometimes referenced as the "Parties" collectively or as a "Party" individually.

2. EXPLANATORY RECITALS:

2.1 WHEREAS, the Lower Colorado Water Supply Act (hereinafter referred to as “Act”), authorized the Secretary of the Interior (hereinafter referred to as “Secretary”), through Reclamation, to construct, operate, and maintain the Lower Colorado Water Supply Project, comprised of a well field and appurtenant works (hereinafter referred to as the "Project");

2.2 WHEREAS, the Project is authorized to have sufficient capacity to annually supply up to 10,000 acre-feet of water for the beneficial use by persons or entities as defined in Section 2(b) of the Act;

2.3 WHEREAS, the Secretary is authorized to contract for the delivery of all or a portion of Project Water to the Project Beneficiaries in accordance with the provisions of the Act;

2.4 WHEREAS, the Act authorized the Secretary to enter into a water exchange contract whereby an equivalent quantity of ground water withdrawn by the Project (which is located in Imperial County, California) would be delivered into the All-American Canal in exchange for a portion of the Colorado River water taken by Imperial Irrigation District (hereinafter referred to as “IID”) and Coachella Valley Water District (hereinafter referred to as “CVWD”) pursuant to their respective Colorado River water delivery contracts;

2.5 WHEREAS, on May 22, 1992, the United States, IID, and CVWD entered into an exchange contract entitled Contract No. 2-07-30-W0277;

2.6 WHEREAS, the quality of the Project Water to be accepted is as specified in Exhibit A, Amendment No. 1 to Contract No. 2-07-30-W0277, as it may be further amended, and such Exhibit A, Amendment No. 1 is Exhibit B to this Contract;

2.7 WHEREAS, on September 10, 1992, Needles and Reclamation entered into Contract No. 2-07-30-W0280, which provides, among other things, that Needles assume the administrative responsibility for Non-Federal Project Beneficiaries within San Bernardino County who are authorized to contract with the United States pursuant to the Act;

2.8 WHEREAS, on October 13, 1995, IID and Reclamation entered into Contract No. 5-07-30-W0323, which provides, among other things, that IID assume certain financial administrative responsibilities, establish and maintain a Project well field replacement and emergency account, and submit an annual budget projecting IID's costs to administer the Project and operate and maintain the Project well field facilities;

2.9 WHEREAS, Stage 1 of the Project has been constructed and was determined to be complete on October 1, 1996;

2.10 WHEREAS, Stage 1 of the Project was constructed with a design capacity of 5,000 acre-feet per year; however it can be pumped to produce more than 5,000 acre-feet per year;

2.11 WHEREAS, Reclamation and the Bureau of Land Management (hereinafter referred to as "BLM") entered into Interagency Agreement No. 8-07-30-W0375, dated September 30, 1998, which, among other things, provides for repayment of the Project construction costs and for payment of the operation, maintenance and replacement costs and administration costs of the Project facilities that are allocable to BLM in return for delivery of water to BLM-administered lands;

2.12 WHEREAS, Amendment No. 1 to Contract No. 2-07-30-W0280, dated July 3, 2002, provides that Needles also assume administrative responsibilities for Non-Federal Project

Beneficiaries in Riverside and Imperial Counties who are authorized to contract with the United States pursuant to the Act;

2.13 WHEREAS, by reservation dated December 29, 2004, Reclamation reserved a portion of Project Water for Federal uses;

2.14 WHEREAS, Public Law 109-103, approved on November 19, 2005, amended the Act to authorize the Secretary to enter into an agreement or agreements with Needles or IID for the design and construction of the remaining stage of the Project;

2.15 WHEREAS, by letter dated November 27, 2006, IID stated it is not interested in participating in the construction of Stage II of the Project; therefore, Needles and Reclamation intend to enter into a separate contract for the construction of Stage II of the Project;

2.16 WHEREAS, Public Law 109-103 also amended the Act to authorize the Secretary to contract with additional persons or entities which hold Boulder Canyon Project Act Section 5 contracts for municipal and industrial uses within the State of California for the use or benefit of Project Water under such terms as the Secretary determines will benefit the interest of Project users along the Colorado River;

2.17 WHEREAS, MWD holds a Boulder Canyon Project Act Section 5 contract for municipal and industrial uses within the State of California;

2.18 WHEREAS, the Parties desire to enter into this Contract to provide for the diversion by MWD of Mainstream Water available from Unused Project Capacity each year for as long as such Unused Project Capacity is available;

2.19 WHEREAS, Needles is willing to establish a trust fund account into which Needles will deposit funds received from MWD for other than OMRA Charges or the OM&R

Charge and the Administrative Fee whichever is applicable in a particular year, to be used for certain purposes as described in Sections 15, 16, and 17 of this Contract; and

2.20 WHEREAS, with oversight by Reclamation, this Contract will be administered by Needles in accordance with its administrative responsibilities pursuant to Contract No. 2-07-30-W0280, as amended, as such administrative responsibilities are provided in Section 5 of this Contract.

NOW, THEREFORE, in consideration of the mutual and dependent covenants contained herein, the United States, Needles, and MWD agree as follows:

3. DEFINITIONS: For the purposes of this Contract, the following definitions shall apply:

3.1 Act means the Lower Colorado Water Supply Act approved November 14, 1986, as amended on November 19, 2005, which authorized the United States to construct, operate, and maintain the Lower Colorado Water Supply Project.

3.2 Administrative Fee means the reasonable annual administrative cost added by Needles to the OM&R Charge to Other Project Beneficiaries and MWD for administration of the Project, as determined pursuant to Exhibit D.

3.3 BLM means the Bureau of Land Management of the United States Department of the Interior.

3.4 Bureau of Reclamation or Reclamation means the Bureau of Reclamation of the United States Department of the Interior.

3.5 Capital Costs mean costs for construction of the Project.

3.6 Colorado River Aquifer is the aquifer that consists of permeable, partly saturated sediments and sedimentary rocks that are hydraulically connected to the Colorado River so that water can move between the Colorado River and the aquifer in response to withdrawal of water

from the aquifer or differences in water-level elevations between the Colorado River and the aquifer.

3.7 Colorado River Compact means the document signed November 24, 1922, at Santa Fe, New Mexico, pursuant to an Act of Congress approved August 19, 1921 (42 Stat. 171). The Colorado River Compact was approved in section 13(a) of the Boulder Canyon Project Act.

3.8 Consolidated Decree means the Consolidated Decree of the Supreme Court of the United States in the case of Arizona v. California, et al., entered March 27, 2006, (547 U.S. ___(2006)).

3.9 Consumptive Use means both diversions from the Colorado River, including diversions by underground pumping, less such return flow thereto as is available for consumptive use in the United States or in satisfaction of the Mexican Treaty obligation, and evaporative or other losses from the Colorado River resulting from actions taken subsequent to March 9, 1964 (the date of the Supreme Court decree in Arizona v. California, et al.), by entities other than the Bureau of Reclamation which results in a net increase in the Consumptive Use of Mainstream Water.

3.10 Contracting Officer means the Regional Director of the Lower Colorado Region, Bureau of Reclamation, or his or her duly authorized representative or successor. Unless deemed otherwise, the Contracting Officer shall be the Secretary's authorized representative.

3.11 CRB means the Colorado River Board of California, or its successor, a State board that represents the State of California to protect its interests and rights in the water and power resources of the Colorado River system.

3.12 CVWD means the Coachella Valley Water District, a county water district duly organized and existing under and by virtue of the laws of the State of California.

3.13 Domestic Use means the use of water for household, stock, municipal, mining, milling, industrial and other like purposes including recreation but excluding the use of water for commercial agriculture or the release of water solely for generation of hydroelectrical power.

3.14 Exhibit A is a copy of the Agreement for Water Quality Maintenance Trust Fund, between the City of Needles and Zions First National Bank, as trustee.

3.15 Exhibit B is a copy of "Exhibit A, Amendment 1" dated April 26, 2004, of Contract No. 2-07-30-W0277, dated May 22, 1992, among the United States, IID, and CVWD for Exchange of Water from the Lower Colorado Water Supply Project Well Field for Colorado River Water.

3.16 Exhibit C is a copy of the form of written certification by Reclamation, in accordance with Section 17 herein.

3.17 Exhibit D is a copy of subsection 12.2 and 12.2.1 from Needles' standard form of subcontract which explains how the Project's annual OMRA Charges per acre-foot are determined.

3.18 Functional means having the operational capability to economically provide Project Water in compliance with both the water quantity and quality provisions of the Act.

3.19 IID means the Imperial Irrigation District, an irrigation district duly organized and existing under and by virtue of the laws of the State of California.

3.20 Mainstream Water means the water of the Colorado River within the United States downstream from Lee Ferry, including reservoirs thereon, and the water withdrawn from the Colorado River Aquifer which originated from the Colorado River or would be replaced by water from the Colorado River upon withdrawal, as determined by the Contracting Officer. This

definition is not meant to either conflict with the right of Needles to use tributary flow within the lower Colorado River system nor does this definition interpret what constitutes tributary flow.

3.21 Mexican Water Treaty means Executive A, Seventy-eighth Congress, second session, a treaty between the United States of America and the United Mexican States, signed at Washington, D.C., on February 3, 1944, relating to the utilization of the waters of the Colorado and Tijuana Rivers and of the Rio Grande from Fort Quitman, Texas, to the Gulf of Mexico; and Executive H, Seventy-eighth Congress, second session, a protocol signed at Washington, D.C., on November 14, 1944, supplementary to the treaty.

3.22 Non-Federal Project Beneficiaries means those non-federal persons or entities in San Bernardino, Riverside, or Imperial Counties who are entitled to receive Mainstream Water in exchange for Project Water pursuant to the Act.

3.23 Operation, Maintenance, and Replacement (OM&R) Charge means the annual charge for operation, maintenance, and replacement as established by the Operating Agency and approved by Reclamation under Contract No. 5-07-30-W0323, dated October 13, 1995.

3.24 Operation, Maintenance, Replacement, and Administrative (OMRA) Charges means the annual cost per acre-foot of water to Other Project Beneficiaries, and MWD for delivery of the Project Water, as calculated pursuant to subcontracts with Needles issued pursuant to Contract No. 2-07-30-W0280, as shown in Exhibit D of this Contract.

3.25 Operating Agency means IID which assumed the operation, maintenance, and replacement responsibilities of the Project well field facilities pursuant to Contract No. 5-07-30-W0323, dated October 13, 1995.

3.26 Other Project Beneficiaries mean those non-federal persons or entities in San Bernardino, Riverside, or Imperial Counties who are subcontractors of Needles and who are

entitled to receive Mainstream Water in exchange for Project Water pursuant to Contract No. 2-07-30-W0280.

3.27 Present Perfected Right(s) means a perfected right(s) defined by the Consolidated Decree, existing as of June 25, 1929, the effective date of the Boulder Canyon Project Act. All Present Perfected Rights are listed in the Appendix to the Consolidated Decree.

3.28 Project means one or more well fields and appurtenant works constructed pursuant to the Act with sufficient capacity to annually supply up to 10,000 acre-feet of water for beneficial use which will benefit persons or entities as defined in Section 2(b) of the Act.

3.29 Project Beneficiaries mean those persons or entities that are entitled to receive the use of Mainstream Water in exchange for Project Water pursuant to contracts and subcontracts authorized by the Act, including Non-Federal Project Beneficiaries, Other Project Beneficiaries, BLM, MWD, and Reclamation.

3.30 Project Beneficiary means one of the Project Beneficiaries.

3.31 Project Water means all water produced by Project wells and delivered into the All-American Canal.

3.32 Regulations means any regulations adopted by the Secretary for administering entitlements to the use of Mainstream Water or for administering the Colorado River in Arizona, California, and Nevada.

3.33 Return Flow means Mainstream Water that has been diverted or pumped pursuant to the terms and conditions of this Contract which flows or percolates back to the main channel of the Colorado River and to the Colorado River Aquifer and is available for use in the United States or in satisfaction of the Mexican Treaty obligation in a manner approved by the Contracting Officer.

3.34 Secretary means the Secretary of the Interior or a duly authorized representative.

3.35 Stage I means the construction of the first 5,000 acre-feet of designed capacity of the Project.

3.36 Stage II means the construction of the second 5,000 acre-feet of designed capacity of the Project.

3.37 Trust Fund Account means the Water Quality Maintenance Trust Fund Account contemporaneously established with the execution of this Contract in accordance with Exhibit A attached hereto.

3.38 Uncontrollable Force means any cause beyond the control of the Party affected. Uncontrollable forces shall include, but are not necessarily limited to, inadequacy of Project Water supply, failure of facilities, flood, earthquake, storm, lightning, fire, epidemic, war, riot, civil disturbance, labor disturbance, sabotage, and restraint by court or public authority which by exercise of due diligence and foresight such Party could not reasonably have been expected to avoid.

3.39 Unused Project Capacity means all Project Water that the Project is reasonably capable of producing up to a maximum of 10,000 acre-feet per year, less (1) all Project Water that is used by all Project Beneficiaries excluding MWD in that calendar year and (2) less any Project Water that Reclamation chooses to withhold from pumping in accordance with Section 13 of this Contract.

4. TERM OF CONTRACT: Subject to the terms, conditions, and provisions set forth herein, this Contract shall become effective on the date first written above and shall remain in effect until the earlier of the following:

4.1 Termination of Contract No. 2-07-30-W0280 in accordance with the following:

4.1.1 Expiration of a period of fifty (50) years beginning with the year when the Contracting Officer issued a Notice of Completion of construction of the Project which was October 1, 1996, and ending on December 31, 2045.

4.1.2 Issuance of written notice that the Contracting Officer has determined that the Project is no longer Functional. Such notice shall be in writing and shall specify the termination date of this Contract concurrent with the termination of Contract No. 2-07-30-W0280. If possible, the Contracting Officer will attempt to provide Needles and MWD with an advance notice of a termination date.

4.2 Termination in accordance with the provisions of Section 16.5 of this Contract.

4.3 If Needles elects to exercise its option under Section 4.2 of Contract No. 2-07-30-W0280 to renew such contract for an additional term of fifty (50) years ending on December 31, 2095, MWD shall have the option to renew this Contract for an additional term of fifty (50) years ending on December 31, 2095, subject to Sections 4.1.2 and 4.2 of this Contract, upon written request to Needles and the Contracting Officer, on or before one (1) year prior to the expiration of this Contract.

5. ADMINISTRATIVE RESPONSIBILITIES OF NEEDLES: The Parties agree that Needles shall assume the administrative responsibility for MWD pursuant to this Contract. Needles agrees that it shall submit in a timely manner, on behalf of itself and MWD, all required charges and fees, and other required information requested by the Contracting Officer, in accordance with this Contract and Contract No. 2-07-30-W0280.

6. DETERMINATION OF CHARGES AND TRUST FUND ACCOUNT DEPOSIT:

6.1 MWD shall pay Needles for each acre-foot of Mainstream Water delivered to MWD resulting from Unused Project Capacity the lesser of: (1) the OMRA Charges; or (2)

MWD's pro rata share, on an acre-foot basis, of the OM&R Charge and the Administrative Fee. The OMRA Charges are calculated pursuant to Exhibit D of this Contract. In addition, MWD shall pay Needles one-hundred and twelve dollars (\$112) per acre-foot for Needles to deposit into the Trust Fund Account as further described in Section 15 herein for each acre-foot of Mainstream Water delivered to MWD resulting from Unused Project Capacity. The \$112 per acre-foot deposit into the Trust Fund Account will be adjusted in subsequent years as described in Section 16 herein.

6.2 In order that Needles may meet its obligations pursuant to this Contract to make in full all payments required on or before the date such payments become due, Needles shall levy all charges and fees specified in this Contract and shall use all of the authority and resources available to Needles to collect the charges and fees from MWD.

6.3 MWD shall accept such charges as part of its total charges subject to audit in accordance with Section 19 of this Contract.

7. DELIVERY OF WATER BY RECLAMATION:

7.1 Stage 1 of the Project was determined to be complete on October 1, 1996. Stage 1 may be pumped to its fullest capabilities without jeopardizing the Project, to allow MWD to receive delivery of as much Unused Project Capacity as is available pursuant to the terms and conditions of this Contract. If Stage II is constructed, MWD shall also be entitled to receive delivery of as much Unused Project Capacity as is available pursuant to the terms and conditions of this Contract.

7.2 Water will be pumped from the Project into the All-American Canal by the Operating Agency in amounts necessary to offset the Consumptive Use of Mainstream Water delivered to MWD resulting from Unused Project Capacity. MWD shall accept delivery of all

Mainstream Water resulting from Unused Project Capacity in any given calendar year except when either a flood control release or anticipatory flood control release is being made from Lake Mead.

7.3 The Contracting Officer may temporarily discontinue or reduce the amount of water to be pumped from the Project whenever such discontinuance or reduction is necessary to investigate, inspect, replace, maintain, or repair any works whatsoever which, in the opinion of the Contracting Officer, are necessary to ensure that the Project will be in compliance with both the water quantity and quality provisions of the Act.

7.4 During the period the Project is Functional, Reclamation will deliver from available storage the quantities of Mainstream Water that MWD is entitled to divert based on the Unused Project Capacity each year. The place of delivery will be Lake Havasu.

7.5 The obligation of Reclamation to deliver Mainstream Water pursuant to this Contract is subject to the following conditions:

7.5.1 Water from the Project shall be pumped into the All-American Canal in exchange for an equal amount of Mainstream Water consumptively used by the Project Beneficiaries, as long as the Project Water use is in accordance with the provisions of the Act.

7.5.2 The availability of Mainstream Water for use in California pursuant to the provisions of the Colorado River Compact, the Boulder Canyon Project Act, and the Consolidated Decree, as supplemented or amended.

7.5.3 The availability of Mainstream Water pursuant to the Mexican Water Treaty.

7.5.4 The availability of Mainstream Water to IID and CVWD pursuant to water delivery contracts with Reclamation.

7.5.5 The express understanding and agreement by MWD and Needles that this Contract is subject to the condition that Hoover Dam and Lake Mead will be used in the following manner: first, for river regulation, improvement of navigation, and flood control; second, for irrigation and Domestic Use and satisfaction of Present Perfected Rights pursuant to Article VIII of the Colorado River Compact approved by section 13(a) of the Boulder Canyon Project Act; and third, for power. MWD and Needles further understand and agree that this Contract is made upon the express condition and with the express covenant that all rights hereunder will be subject to and controlled by the Colorado River Compact and that MWD and Needles will observe and be subject to and controlled by the Colorado River Compact and the Boulder Canyon Project Act in the construction, management, and operation of Hoover Dam, Lake Mead, canals and other works, and the storage, diversion, delivery, and use of water to be delivered to MWD pursuant to this Contract.

7.5.6 The other terms, conditions, and provisions set forth in this Contract.

7.6 Reclamation reserves the right to temporarily discontinue or reduce the amount of Mainstream Water to be delivered hereunder whenever such discontinuance or reduction is necessary to investigate, inspect, replace, maintain, or repair any works whatsoever which affect, utilize or, in the opinion of the Secretary, are necessary for the delivery of Mainstream Water pursuant to this Contract. As far as feasible, Reclamation will give reasonable notice in advance of such temporary discontinuance or reduction.

8. NOTICE OF AVAILABILITY AND REPORTING OF MAINSTREAM WATER DELIVERIES:

8.1 Prior to November 1 of each calendar year, Needles, in consultation with the Operating Agency and Reclamation, following consultation by Reclamation with BLM, shall

provide to MWD written notice, with a copy to the Operating Agency and Reclamation, of the estimated amount of Mainstream Water available from Unused Project Capacity to be delivered to MWD and which MWD is obligated to pay for in the following calendar year based on projected Unused Project Capacity.

8.2 Needles or Reclamation may amend such annual notice provided by Needles to MWD at any time to adjust the estimated amount of Mainstream Water available if the Unused Project Capacity changes due to changes in water delivery schedules or water use by Project Beneficiaries other than MWD.

8.3 MWD shall maintain a monthly record of water diversions at the Whitsett Pumping Plant and a monthly record of Return Flows.

8.4 On or before the fifteenth (15th) day of the month, MWD shall file a full written report to Reclamation of the volume of water diverted at the Whitsett Pumping Plant and the volume of Return Flows for the preceding month.

8.5 The total amount of Project Water to be diverted by MWD each year under this Contract shall not exceed the total amount of projected Unused Project Capacity, as determined by Needles, in consultation with the Operating Agency and Reclamation, following consultation by Reclamation with BLM.

8.6 The diversion of any Mainstream Water estimated to be available from Unused Project Capacity not previously scheduled and paid for in advance by MWD in accordance with the provisions of this Contract or the diversion in any calendar year of any Mainstream Water in excess of the scheduled quantity of water available pursuant to this Contract may be deemed to constitute a material breach of this Contract as well as interference with the performance of the Secretary's functions and responsibilities pursuant to the Colorado River Compact, the Boulder

Canyon Project Act, the Act of June 28, 1946 (60 Stat. 338) as well as the functions and obligations of the United States arising from the Mexican Water Treaty.

9. DIVERSION AND USE OF MAINSTREAM WATER:

9.1 The amount of Mainstream Water diverted or pumped by MWD pursuant to this Contract shall be limited by the amount of Unused Project Capacity available each year, as determined by Needles, in consultation with the Operating Agency and Reclamation, following consultation by Reclamation with BLM.

9.2 MWD shall divert the Mainstream Water to be delivered by Reclamation pursuant to this Contract at the Whitsett Pumping Plant and shall perform all acts required by law or custom in order to maintain control over such water and to secure and maintain the water's lawful and proper diversion from the Colorado River.

9.3 MWD shall maintain in a manner satisfactory to the Contracting Officer all turnouts, gates, checks, pumps, pipelines, equipment, meters, and appurtenances of whatever nature necessary to divert, pump, and transport the Mainstream Water available from Unused Project Capacity from the point of diversion to the place of use. The pumping, diversion and conveyance of Mainstream Water pursuant to this Contract by MWD to the place of use shall be without any expense to or obligation of Reclamation.

9.4 Mainstream Water available from Unused Project Capacity shall be used by MWD only for Domestic Use and only within MWD's service area.

10. MEASUREMENT OF MAINSTREAM WATER:

10.1 All diversions of Mainstream Water pursuant to this Contract shall be measured at MWD's point of diversion as specified in Section 9.2 of this Contract by measuring devices acceptable to the Contracting Officer.

10.2 All measuring and controlling devices or automatic gages shall be maintained in a manner satisfactory to the Contracting Officer and without any expense to Reclamation.

10.3 If for any reason the measuring devices shall, in the opinion of the Contracting Officer, fail to operate satisfactorily, the Contracting Officer will determine from the best information available the amount of Mainstream Water diverted at the point of diversion pursuant to this Contract.

10.4 The Contracting Officer or authorized representative may inspect the measuring devices to determine the accuracy and the condition of the measuring devices. The expense of the inspection shall be paid by MWD within thirty (30) days following receipt of a bill for collection from Reclamation. If the measuring devices are found to be defective or inaccurate, MWD shall, upon notification by the Contracting Officer, promptly make any and all necessary repairs or replacement of the measuring devices. If MWD neglects or fails to make the necessary repairs or replacement, the Contracting Officer may cause the repairs to be made and the cost thereof shall be paid by MWD within thirty (30) days following receipt of a bill for collection.

11. CALCULATION OF CONSUMPTIVE USE OF MAINSTREAM WATER: The method to calculate the Consumptive Use of Mainstream Water available from Unused Project Capacity shall be determined by the Contracting Officer after consultation with MWD and CRB, and shall be consistent with the Consolidated Decree and based upon the amount of water diverted by MWD less Return Flow.

12. NO GUARANTEE OF AVAILABILITY OF WATER: Neither Reclamation nor Needles assume responsibility with respect to the quantity of water the Project is able to produce or the

quality of the Project Water. MWD acknowledges that the long-term function of the Project is not assured.

13. WITHHOLDING OF WATER BY RECLAMATION: Reclamation may determine to withhold the delivery to MWD of all, or any portion, of Mainstream Water available pursuant to this Contract in any year. MWD and Needles will be notified in writing by Reclamation of such determination. Such action by Reclamation will follow a determination of the need to withhold water delivery to protect the contractual delivery rights of Project Beneficiaries, other than MWD, and to ensure the continuing integrity of the Project.

14. QUALITY OF MAINSTREAM WATER: Reclamation and Needles do not warrant the quality of the Mainstream Water available from Unused Project Capacity delivered to MWD and are under no obligation to construct or furnish water treatment facilities to maintain or improve the quality of water.

15. TRUST FUND ACCOUNT:

15.1 Needles shall set up the Trust Fund Account to provide for the long-term economic viability of the Project or its replacement.

15.2 The Trust Fund Account is more specifically described in the separate document called the "Agreement for Water Quality Maintenance Trust Fund" which is Exhibit A to this Contract.

15.3 The United States shall not be a party to or a direct beneficiary of the Trust Fund Account or the Agreement for Water Quality Maintenance Trust Fund.

16. DEPOSITS INTO THE TRUST FUND ACCOUNT:

16.1 Needles shall deposit the monies received from MWD under this Contract, less the OMRA Charges or the OM&R Charge and Administrative Fee for the same period, into the

Trust Fund Account within five (5) days of receipt of the monies. The Trust Fund Account deposit per acre-foot for 2007 is one-hundred and twelve dollars (\$112).

16.2 In accordance with Contract No. 2-07-30-W0280, Needles is entitled to 800 acre-feet of Stage I Consumptive Use capacity per year for current use and is further entitled to additional Stage I Consumptive Use capacity for future use in excess of 800 acre-feet, not to exceed a total of 3,500 acre-feet per year, to the extent such capacity is not subcontracted to Other Project Beneficiaries. In accordance with subcontracts entered into under Contract No. 2-07-30-W0280, Other Project Beneficiaries are entitled to 361.4 acre-feet of Stage I Consumptive Use capacity per year for current use and an additional 803.2 acre-feet of Stage I Consumptive Use capacity per year for future use. Beginning in the year in which Needles utilizes Stage I Consumptive Use capacity in excess of 800 acre-feet, Needles shall deposit into the Trust Fund Account a per acre-foot reimbursement rate for remaining Stage I Capital Costs in accordance with subsection 16.4 of this Contract. The reimbursement rate shall be \$386.81 per acre-foot in 2007 and shall increase at a rate of 5.54 percent compounded annually for any deposits subsequent to December 31, 2007.

16.3 Beginning in the year 2007, Needles shall require in any new subcontracts with Other Project Beneficiaries the same reimbursement rate for the remaining Stage I Capital Costs as set forth in subsection 16.2 above. Needles, when receiving the reimbursement rate payments for remaining Stage I Capital Costs from Other Project Beneficiaries in 2007 or thereafter, will deposit the same amount it receives from each of the Other Project Beneficiaries into the Trust Fund Account within five (5) days of receipt of such reimbursement rate payments.

16.4 Needles, in the first calendar year it consumptively uses more than 800 acre-feet of water from the Project by exchange, will deposit an amount of money equal to the

reimbursement rate multiplied by the number of acre-feet it consumptively uses in excess of 800 acre-feet into the Trust Fund Account by January 15 of the calendar year immediately following the calendar year in which it consumptively uses in excess of 800 acre-feet. Upon such deposit, Needles' entitlement to Consumptive Use capacity is increased from 800 acre-feet per calendar year by the number of acre-feet it has consumptively used in excess of 800 acre-feet in the preceding calendar year. The procedure set forth in this Section 16.4 is to be followed in each calendar year in which Needles consumptively uses more than the amount of water from the Project by exchange than it is entitled to as of the last deposit to the Trust Fund Account.

16.5 If, based upon the studies described in Sections 16.6 and 16.7, Needles determines that the amount of funds that will be accumulated in the Trust Fund Account in the future pursuant to Section 16.6 through 16.10 of this Contract will be less than the amount needed to enable the Trust Fund Account to provide full funding for the purposes described in Sections 17.1 through 17.4, Needles may provide written notice to MWD by December 31, 2031, that it wishes to renegotiate the percentage of the 2007 Trust Fund Account deposit specified in Section 16.8 for the years 2032 through 2045. Should Needles and MWD reach an agreement to amend this Contract to specify new percentages for the years 2032 through 2045, Reclamation shall not unreasonably withhold its consent to such an amendment of this Contract. Should Needles and MWD be unable to reach an agreement to amend this Contract to specify new percentages for the years 2032 through 2045 by June 30, 2032, or once having reached an agreement to amend this Contract, should such an amendment not be fully executed by September 30, 2032, Needles may terminate this Contract effective January 1, 2033.

16.5.1 If MWD has provided the written request specified in Section 4.3 and if pursuant to the studies described in Sections 16.6 and 16.7 Needles determines that the amount

of funds that will be accumulated in the Trust Fund Account in the future pursuant to Sections 16.6 through 16.10 of this Contract will be less than the amount needed to enable the Trust Fund Account to provide full funding for the purposes described in Sections 17.1 through 17.4 of this Contract, Needles may provide written notice to MWD by December 31, 2045 that it wishes to negotiate the percentage of the 2007 Trust Fund Account deposit for the years 2046 through 2095. Should Needles and MWD reach an agreement to amend the renewed Contract to specify percentages for the years 2046 through 2095, Reclamation shall not unreasonably withhold its consent to such an amendment of the renewed Contract. If Needles and MWD are unable to reach an agreement to amend the renewed Contract to specify percentages for the years 2046 through 2095 by June 30, 2046, or once having reached an agreement to amend this renewed Contract, should such an amendment not be fully executed by September 30, 2046, Needles may terminate the renewed Contract effective January 1, 2047.

16.6 Determination of Trust Fund Account Deposits Needed. Beginning January 2008, the 2007 Trust Fund Account deposit of \$112 per acre-foot will be increased by two percent annually for five years. The Trust Fund Account deposit per acre-foot will be adjusted beginning in 2013 based on the Trust Fund Account balance needed for its purpose in the future. In order to determine the Trust Fund Account deposit needed, Needles shall enter into a contract with an expert, after such expert has been approved by the Parties, to complete a study not later than December 31, 2012, using the Economic and Environmental Principles and Guidelines for Water and Related Land Resources Implementation Studies of the U.S. Water Resources Council to:

16.6.1 forecast the future total dissolved solids concentration of Project Water and determine if desalting is necessary to not exceed the total dissolved solids concentration shown in Exhibit B herein prior to December 31, 2070,

16.6.2 evaluate the cost of desalting Project Water on a present value basis using the discount rate for Federal water resources planning published annually in the Federal Register, if desalting is necessary to not exceed the total dissolved solids concentration as shown in Exhibit B herein prior to December 31, 2070,

16.6.3 determine the potential feasible alternatives to Project Water that would be less expensive than desalting Project Water, if desalting is necessary to not exceed the total dissolved solids concentration as shown in Exhibit B herein prior to December 31, 2070,

16.6.4 estimate the cost of implementing and using the water supply from potential feasible alternatives on a present value basis using the discount rate for Federal water resources planning published annually in the Federal Register, and

16.6.5 determine the Trust Fund Account deposit per acre-foot, expressed as a percentage of the 2007 Trust Fund Account deposit per acre-foot, necessary each year over the estimated remaining term of this Contract for the least expensive feasible solution to the total dissolved solids concentration projection exceeding the concentration as shown in Exhibit B based on the projected Unused Project Capacity.

16.7 Adjustment of Trust Fund Account Deposit. Should the study conducted in 2012 forecast that desalting is not necessary to not exceed the total dissolved solids concentration shown in Exhibit B prior December 31, 2070, MWD's Trust Fund Account deposit per acre-foot for the period 2013 to 2017 shall be the same amount as in 2012. Otherwise, MWD's Trust Fund Account deposit per acre-foot for the period 2013 to 2017 shall be the percentage of the 2007 Trust Fund Account deposit per acre-foot specified by the results of the study, provided that the Trust Fund Account deposit per acre-foot shall not exceed the following amount for the years shown:

2013 113 percent of 2007 amount
2014 115 percent of 2007 amount
2015 117 percent of 2007 amount
2016 120 percent of 2007 amount
2017 122 percent of 2007 amount.

The Parties recognize that the results of the study could show that the Trust Fund Account deposit per acre-foot in one or more years during the period 2013 to 2017 will be less than the Trust Fund Account deposit per acre-foot in 2012.

16.8 The study shall be updated every five years beginning in 2017 using the same procedures. Should a study update forecast that desalting is not necessary to not exceed the total dissolved solids concentration as shown in Exhibit B prior to December 31, 2070, MWD's Trust Fund Account deposit per acre-foot in each year of the subsequent five-year period shall be the same amount as in the final year of the previous five-year period.

16.9 If any such study indicates that desalting is necessary to not exceed the total dissolved solids concentration as shown in Exhibit B, prior to December 31, 2070, MWD's Trust Fund Account deposit per acre-foot for a particular year shall except as provided in Section 16.10, be the percentage of the 2007 Trust Fund Account deposit per acre-foot specified by the results of the study, provided that the Trust Fund Account deposit per acre-foot shall not exceed the following amount for the years shown:

2018 124 percent of 2007 amount
2019 127 percent of 2007 amount
2020 129 percent of 2007 amount
2021 132 percent of 2007 amount
2022 135 percent of 2007 amount
2023 137 percent of 2007 amount
2024 140 percent of 2007 amount
2025 143 percent of 2007 amount
2026 146 percent of 2007 amount
2027 149 percent of 2007 amount
2028 152 percent of 2007 amount
2029 155 percent of 2007 amount

2030	158	percent of 2007 amount
2031	161	percent of 2007 amount
2032	164	percent of 2007 amount
2033	167	percent of 2007 amount
2034	171	percent of 2007 amount
2035	174	percent of 2007 amount
2036	178	percent of 2007 amount
2037	181	percent of 2007 amount
2038	185	percent of 2007 amount
2039	188	percent of 2007 amount
2040	192	percent of 2007 amount
2041	196	percent of 2007 amount
2042	200	percent of 2007 amount
2043	204	percent of 2007 amount
2044	208	percent of 2007 amount
2045	212	percent of 2007 amount

The Parties recognize that the results of the study could show that the Trust Fund Account deposit per acre-foot in one or more years during the period 2018 to 2045 will be less than the Trust Fund Account deposit per acre-foot in a previous year. Should the Trust Fund Account deposit per acre-foot needed be less than the maximum in any of the years from 2013 to 2045, for future reference, Needles shall document the difference in dollars between the maximum and the Trust Fund Account deposit for each year and cumulatively for the Project Water exchanged for Mainstream Water for MWD.

16.10 Should the needed Trust Fund Account deposit per acre-foot exceed the maximum for a particular year, Needles shall determine the number of dollars needed in excess of the maximum for the amount of Project Water to be exchanged for Mainstream Water for MWD. Should the cumulative difference in dollars between the maximums and the actual Trust Fund Account deposits in previous years be greater than the number of dollars needed in excess of the maximum for the particular year under consideration, MWD's Trust Fund deposit shall be the maximum for the particular year under consideration per acre-foot multiplied by the amount

of Project Water to be exchanged for Mainstream Water for MWD (expressed in acre-feet), plus the number of dollars needed in excess of the maximum for a particular year. The previously documented difference in dollars between the maximums and the Trust Fund Account deposits in previous years shall be reduced by the number of dollars needed in excess of the maximum for the particular year under consideration and documented for future reference. Should the needed Trust Fund Account deposit per acre-foot be greater than the maximum for a particular year, and the difference in dollars between the maximums and the Trust Fund Account deposits in previous years be less than the number of dollars needed in excess of the maximum for the particular year under consideration, MWD's Trust Fund Account deposit shall be the maximum for the particular year under consideration per acre-foot multiplied by the amount of Project Water to be exchanged for Mainstream Water for MWD (expressed in acre-feet), plus a quantity equal to the previously documented cumulative difference in dollars between the maximums and the Trust Fund Account deposits in previous years divided by the number of years remaining in the Contract term. The previously documented difference in dollars between the maximums and the Trust Fund Account deposits in previous years shall be reduced by a quantity equal to the previously documented cumulative difference in dollars between the maximums and the Trust Fund Account deposits in previous years divided by the number of years remaining in the Contract term.

16.11 Approval of Deposit. The adjusted Trust Fund Account deposit based on the study or studies cited in Section 16 of this Contract shall be approved by the Parties and when approved, shall be accepted by MWD subject to audit in accordance with Section 19 of this Contract.

17. DISBURSEMENTS FROM THE TRUST FUND ACCOUNT:

17.1 At the election of Needles, monies from the Trust Fund Account may be disbursed to Needles:

17.1.1 if Needles and Reclamation enter into a separate contract for the construction of Stage II of the Project, to advance or be reimbursed for costs associated with the construction of Stage II of the Project, as approved by Reclamation in the manner specified herein;

17.1.2 to reimburse Needles \$503,841.51 for the remaining Stage I Capital Costs, paid by Needles for Consumptive Use capacity in excess of 800 acre feet and not paid by Other Project Beneficiaries prior to execution of this Contract or previously reimbursed from the Trust Fund Account, plus interest at an annual rate of 5.54 percent from December 31, 2004, to when such reimbursement is made;

17.1.3 to conduct the studies described in Sections 16.6 and 16.7 of this Contract;
and

17.1.4 if, in accordance with Section 19.2 herein an audit reveals that MWD is due a refund of the Trust Fund deposits, to refund MWD pursuant to the audit.

17.2 If the studies described in Sections 16.6 and 16.7 forecast that desalting is necessary to not exceed the total dissolved solids concentration shown in Exhibit B, monies in the Trust Fund Account may be disbursed to Needles to expend for costs associated with implementing a solution to reduce the total dissolved solids concentration of Project Water after all disbursements from the Trust Fund Account due have been made in accordance with Section 17.1 of this Contract, unless Reclamation, in consultation with the Parties, determines that the

Project is no longer Functional or at a future date will be no longer Functional and a less expensive alternative supply has been identified.

17.3 In the event that Reclamation determines that the Project is no longer Functional or at a future date will be no longer Functional and a less expensive alternative supply has been identified, monies in the Trust Fund Account may be disbursed to Needles to expend for costs associated with acquisition of the least expensive alternative supply to replace the Project after all disbursements from the Trust Fund Account due have been made in accordance with Section 17.1 of this Contract.

17.4 If a solution to reduce the total dissolved solids concentration of Project Water is implemented within twenty-five years of the termination of Contract No. 2-07-30-W0280 or any renewal, extension, or amendment of that contract, the balance remaining in the Trust Fund Account may be disbursed to Needles to expend within thirty-five years of the termination of Contract No. 2-07-30-W0280 or any renewal, extension, or amendment of that contract, to defray any incremental increase in OMRA Charges necessary to operate and maintain the solution above those OMRA Charges which would otherwise be incurred had the solution not been implemented.

17.4.1 If the solution is implemented, and the reimbursement rate deposits pursuant to Section 16.3 and 16.4 herein from Other Project Beneficiaries and from Needles into the Trust Fund Account are less than the amount reimbursed to Needles pursuant to Section 17.1.2 herein (the "Shortfall"), then the amount equal to any incremental increase in the OMRA Charges due to implementation of the solution shall be disbursed to Needles from the Trust Fund Account to the credit of BLM and Reclamation for any such increase BLM and Reclamation may have in the OM&R Charge, until such time as an amount equal to the Shortfall has been

paid on their behalf. Subsequently, payments from the Trust Fund Account for incremental increases in OMRA Charges shall be made on behalf of all Project Beneficiaries. The intent is that BLM and Reclamation not be burdened by any reimbursement to Needles of Stage I Capital Costs.

17.5 Funds shall be retained in the Trust Fund Account during such time as it is reasonably possible that within thirty-five years of the termination of Contract No. 2-07-30-W0280 or any renewal, extension, or amendment of that contract, those funds will be needed to fund the expenditures provided for in Sections 17.1, 17.2, 17.3, and 17.4 (collectively “Trust Fund Account Obligations”). If at any time Needles and MWD agree that it is reasonably certain that the funds, or any portion of the funds, will not be needed for Trust Fund Account Obligations within thirty-five years of the termination of Contract No. 2-07-30-W0280 or any renewal, extension, or amendment of that contract, the portion of funds that will not be needed that were deposited by Needles due to payments made by MWD shall be refunded to MWD. The obligation of this subsection to refund to MWD unneeded funds shall be an ongoing obligation until such time as all funds deposited by MWD are either disbursed for Trust Fund Account Obligations or refunded to MWD and shall survive the termination of this Contract.

17.6 All disbursements of monies from the Trust Fund Account shall be made by submission of a requisition from Needles to the Trustee of the Trust Fund Account in accordance with the provisions of the Agreement for Water Quality Maintenance Trust Fund.

17.7 Prior to submitting a requisition for disbursement of funds to the Trustee under the Agreement for Water Quality Maintenance Trust Fund for the purposes described in Section 17.1.1 of this Contract, Needles shall obtain a written certification from Reclamation that the construction costs for which Needles requests funds are approved by Reclamation, and shall

submit such written certification to the Trustee together with such requisition. Such written certification by Reclamation shall be in substantially the same form as Exhibit C attached hereto.

17.8 Prior to submitting a requisition for disbursement of funds to the Trustee under the Agreement for Water Quality Maintenance Trust Fund for the purposes described in Section 17.1.2 of this Contract, Needles shall obtain a written certification from Reclamation that the amount requested by Needles for reimbursement of remaining Stage I Capital Costs paid by Needles for Consumptive Use capacity in excess of 800 acre feet and not previously reimbursed, plus interest payment of construction costs, as determined under Section 17.1.2, is accurate. Such written certification by Reclamation shall be in substantially the same form as Exhibit C attached hereto.

17.9 Prior to submitting a requisition for disbursement of funds to the Trustee under the Agreement for Water Quality Maintenance Trust Fund for the purposes described in Section 17.1.3 of this Contract, Needles shall obtain a written certification from Reclamation that the costs of studies for which Needles requests payment are approved by Reclamation. Such written certification by Reclamation shall be in substantially the same form as Exhibit C attached hereto.

17.10 Prior to submitting a requisition for disbursement of funds to the Trustee under the Agreement for Water Quality Maintenance Trust Fund for the purposes described in Section 17.2 or 17.4 of this Contract, Needles shall obtain a written certification from Reclamation that the costs associated with reducing the total dissolved solids concentration of Project Water or the costs to defray any incremental increase in OMRA Charges necessary to operate and maintain the solution above those OMRA Charges which would otherwise be incurred had the solution not been implemented, for which Needles requests payment are approved by Reclamation. Such

written certification by Reclamation shall be in substantially the same form as Exhibit C attached hereto.

17.11 Prior to submitting a requisition for disbursement of funds to the Trustee under the Agreement for Water Quality Maintenance Trust Fund for the purposes described in Section 17.3 of this Contract, Needles shall obtain a written certification from Reclamation that Reclamation has determined that the Project will be no longer Functional and that the costs associated with the acquisition of an alternative supply of water to replace the Project for which Needles requests payment appear to Reclamation to be reasonable. Such written certification by Reclamation shall be in substantially the same form as Exhibit C attached hereto.

17.12 In the event Needles is advanced any funds from the Trust Fund Account for the purposes described in this Section 17 prior to the incurrence of related costs, Needles shall redeposit any unspent advanced funds within 30 days of completion of the activity for which such funds were advanced. In the event any activity for which funds were advanced remains uncompleted one year from the date of the advance, Needles shall redeposit any funds which remained unspent on that anniversary date within 30 days of that date. Needles may request additional advances for the costs of activities which exceed the amount of funds advanced, including activities which exceed the calendar year timeframe, in accordance with the procedures outlined in this Section 17 for initial advances.

18. INVOICING AND PAYMENT OF CHARGES BETWEEN NEEDLES AND MWD:

18.1 Invoicing. Within five days of the date that Unused Project Capacity is first made available to MWD as a result of the Project, and thereafter prior to December 5th of each calendar year, Needles shall, by certified mail, send an invoice to MWD for MWD's share of the

charges and fees, determined in accordance with Section 6 of this Contract, for the following calendar year. The invoices shall be submitted to:

The Metropolitan Water District of Southern California
Attention: Accounts Payable
P.O. Box 54153
Los Angeles, California 90054-0153

18.2 Payment. Within thirty (30) days of receipt of an invoice from Needles in 2007, MWD shall pay to Needles MWD's proportionate monthly share of the charges and deposit for all of the Unused Project Capacity that is scheduled to be delivered to MWD during 2007 based on the cost per acre-foot cited in Section 6 of this Contract. The proportionate monthly share shall be equal to the total charges and deposit divided by the number of months remaining in the calendar year.

18.3 Within thirty (30) days of receipt of an invoice from Needles for every year following 2007, MWD shall pay to Needles one-twelfth of the charges and deposit for all of the Unused Project Capacity that is scheduled to be delivered by MWD during the year and shall pay an additional one-twelfth by the same day for each succeeding month. Should the scheduled amount of water to be delivered be reduced in any calendar year or should less than the scheduled amount of water be delivered in any calendar year, Needles shall credit MWD an amount equal to the charges and deposit paid, expressed per acre-foot, multiplied by the amount of water in acre-feet not delivered. Such credit shall be applied toward the next payment(s) due from MWD until the credit is exhausted. Should this Contract be projected to terminate prior to the credit being exhausted, Needles shall provide to MWD 90 days prior to termination of this Contract funds in an amount equal to the remaining credit. In the event that any payment is delinquent, an additional charge equal to one percent of such delinquent payment for each month

or portion thereof that such payment remains delinquent shall be assessed, and the delinquent Party shall pay such charge in addition to the amount of such delinquent payment.

18.4 Notwithstanding the above, if the total period of delinquency does not exceed five business days, the additional charge shall be equal to one-sixth of one percent of such delinquent payment. Needles shall mail invoices for delinquencies including additional charges not later than the tenth day of the month.

18.5 If in any year in which MWD pays the Administrative Fee, the amount budgeted by Needles for the Administrative Fee leaves a surplus at the end of the year due to the amount budgeted exceeding actual expenditures, Needles shall credit MWD a pro-rata share of the surplus in determining the Administrative Fee to be paid by MWD in the next following year in which MWD pays the Administrative Fee. If in any year in which MWD pays the Administrative Fee, the amount budgeted by Needles for the Administrative Fee is insufficient to provide funds to administer the Project, Needles may submit a revised budget in the same manner as the original budget and, with the approval of the Contracting Officer, include a pro-rata share of the shortfall in the Administrative Fee to be paid by MWD in the next following year in which MWD pays the Administrative Fee.

18.6 Deposit of Funds. Needles shall deposit the funds received from MWD except for OMRA Charges or the OM&R Charge and the Administrative Fee as specified in Section 6.1 of this Contract, within five calendar days of receipt in the Trust Fund Account cited in Section 16 of this Contract.

19. AUDIT AND LIMITATION ON USE OF FUNDS:

19.1 Annually, upon 10 days' written notice, MWD may audit or cause to be audited records of expenditures of funds provided by MWD. Needles shall keep separate records of such

funds and expenditures thereof for the OMRA Charges, the OM&R Charge, the Administrative Fee, and the Trust Fund Account deposits in accordance with generally accepted accounting practices.

19.2 Should the audit reveal that MWD paid an amount(s) greater than that which was proper, Needles shall refund within 30 days the difference between the amount paid and the amount calculated by MWD, with accrued interest earned or resolve the dispute pursuant to Section 20 of this Contract. To the extent such funds had been deposited into the Trust Fund Account, monies may be disbursed to Needles from that account to be refunded to MWD.

19.3 Unless MWD challenges the expenditures within three calendar years after submittal of the records by Needles, the expenditures shall be deemed to have been accepted by MWD.

20. DISPUTE RESOLUTION:

20.1 Informal Resolution. The Parties shall attempt to resolve any dispute relating to this Contract through a meeting of the Parties. A Party requesting resolution of a dispute shall send written notice to all other Parties, which shall set forth in detail the position of the Party requesting resolution.

20.2 Within 30 days of the notice being sent the Regional Director of Reclamation's Lower Colorado Region, City Manager of Needles, the General Manager of MWD, or each of their respective authorized representatives shall meet and attempt to resolve the dispute by a unanimous decision. In the event that all Parties' representatives are not present, a letter with the proposed action, signed by all the attending Parties' representatives, shall be sent to each absent Party's representative by certified mail, postage prepaid, return receipt requested.

20.3 If no written protest from an absent Party's representative is sent to the other Parties within 30 days of the date of receipt of the letter with the proposed action, the decision shall be deemed unanimous and become final. Any written protest shall be mailed to each other Party's representative, and to each of the Parties by certified mail, postage prepaid, return receipt requested. Each Party shall bear its own expense for the dispute resolution process. Any resolution shall be in writing and be binding on the Parties. To the extent the dispute is not resolved by the Parties' representatives within 40 days of the conclusion of the dispute resolution meeting, the Parties shall try in good faith to settle the dispute in accordance with Section 20.4, 20.5, or 20.6 herein before resorting to litigation.

20.4 Mediation. To the extent any dispute to which the United States is not a party other than a dispute involving the determination of costs is not resolved by a meeting or following the meeting, written communication among the Parties' representatives in accordance with Section 20.1 herein, the non-federal Parties shall try in good faith to settle the dispute by mediation under the Commercial Mediation Rules of the American Arbitration Association, each party to bear its own costs.

20.5 Arbitration. Any dispute to which the United States is not a party involving the determination of costs shall be submitted to binding arbitration under the Commercial Arbitration Rules of the American Arbitration Association except as otherwise provided herein if not resolved under Section 20.1 herein, each party to bear its own costs. Judgment upon the award rendered by the arbitrators (arbitrator in Expedited Procedures) may be entered in any court having jurisdiction thereof.

20.5.1 Positions on Issues. Within 15 days after receipt of a notice for request for arbitration, MWD and Needles shall each select one person to act as arbitrator within 45 days

after the receipt of a notice for request for arbitration. The two arbitrators so selected shall select a third arbitrator within 30 days following the selection of the last of the two arbitrators. If the arbitrators selected by MWD and Needles are unable or fail to agree upon a third arbitrator, the American Arbitration Association shall select the third arbitrator. The third arbitrator shall act as chairperson of the arbitration panel and shall be independent from all Parties, having no past, present, or pending relationship with any of the Parties unless unanimously consented thereto by the Parties to the dispute.

20.5.2 Arbitration Limitation. The arbitration shall be limited to the consideration and resolution of the issue(s) submitted. The panel of arbitrators shall not rewrite, change, or amend this Contract.

20.5.3 Award of Arbitrators and Allocation of Expenses of Arbitration. The award of the arbitrators shall be in writing, shall be accompanied by a reasoned opinion, shall be signed by at least two of the arbitrators, and shall be rendered within 30 days after the arbitration hearing. Each party shall bear the expense of its own counsel, experts, witnesses, and preparation and presentation of evidence. The administrative fees of arbitration and arbitrators' fees shall be borne 50 percent by MWD and 50 percent by Needles.

20.6 Disputes Involving the United States. Disputes under this Contract involving the United States shall be presented first to the Regional Director of the Lower Colorado Region of Reclamation. The Regional Director shall be deemed to have denied the other Party's or Parties' contention(s) or claim(s) if the Regional Director does not act upon those contention(s) or claim(s) within 30 days of their date of receipt. The decision of the Regional Director shall be subject to appeal to the Commissioner of Reclamation by a notice of appeal accompanied by a statement of reasons filed with the Commissioner of Reclamation within 30 days after such

decision. Unless otherwise provided in the Commissioner's decision, the Commissioner's decision will be deemed final agency action for purposes of judicial review under the Administrative Procedures Act, 5 U.S.C. 704.37.

21. COUNTING DAYS: Days shall be counted by excluding the first day and including the last day, unless the last day is not a business day, and then it shall be excluded. Any act required by this Contract to be performed by a certain day shall be timely performed if it is completed before 5:00 p.m. Pacific Time on that date, unless otherwise specified. If the day for performing any obligation under this Contract is not a business day, then the time for performing that obligation shall be extended to 5:00 p.m. Pacific Time on the next business day.

22. NON-WAIVER: None of the provisions of this Contract shall be considered waived by any Party, except when such waiver is given in writing. The failure of a Party to insist in any one or more instances upon strict performance of any of the provisions of this Contract or to take advantage of any of its rights hereunder shall not be construed as a waiver of any such provisions or its relinquishment of any such rights for the future, but such provisions and rights shall continue and remain in full force and effect.

23. REPRESENTATIONS AND WARRANTIES:

23.1 Legal Power and Authority. Each Party warrants that it has the authority to enter into this Contract and to perform its obligations hereunder and that the person executing this Contract on behalf of that Party has the authority to do so.

23.2 Valid and Binding Contract. This Contract constitutes a valid and binding Contract of each Party, enforceable against each Party in accordance with its terms.

24. GOVERNING LAW: This Contract shall be interpreted, governed by and construed under the laws of the State of California and any applicable Federal law. In case of conflict between Federal law and California state law, Federal law controls.

25. MODIFICATION: This Contract 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 all Parties.

26. RIGHTS-OF-ACCESS: MWD hereby grants a right of access to Reclamation and its authorized employees, agents, subcontractors, successors, and assigns to enter any lands of MWD for the purpose of inspecting and checking any diversion facilities associated with pumping Mainstream Water pursuant to this Contract.

27. RELEASE AND INDEMNITY:

27.1 MWD agrees to indemnify and hold Needles and the United States, their employees, agents, subcontractors, successors, or assigns harmless from any loss or damage and from any liability on account of personal injury, death, or property damage or claims of loss or damage or claims for personal injury, death, or property damage of any nature whatsoever for the delivery of Mainstream Water pursuant to this Contract.

27.2 Needles and the United States, their employees, agents, subcontractors, successors, or assigns shall not be liable for damages when suspensions or reductions in delivery of Mainstream Water pursuant to this Contract occur for any reason.

27.3 In the event Reclamation determines that the Project is no longer Functional, MWD agrees to release Needles and the United States from any liability arising from any resulting reduction in MWD's access to Project Water.

27.4 Needles, on behalf of itself, agrees to indemnify and hold the United States, its employees, agents, subcontractors, successors, or assigns harmless from any loss or damage and from any liability on account of personal injury, death, or property damage or claims of loss or damage or claims for personal injury, death, or property damage of any nature whatsoever for the delivery of Unused Project Capacity to MWD.

28. INSPECTION OF WORKS BY RECLAMATION: Reclamation, its employees, agents, subcontractors, successors, or assigns shall at all times have the right to inspect all works utilized by MWD or by any water company or other person, firm, or corporation representing MWD in the diversion, processing, storage, and distribution of Mainstream Water delivered pursuant to this Contract.

29. GENERAL OBLIGATION--BENEFITS CONDITIONED UPON PAYMENT: The payment of charges becoming due hereunder is a condition precedent to receiving benefits under this Contract. Mainstream Water made available pursuant to this Contract shall not be furnished to MWD if MWD is in arrears in the advance payment of applicable charges due to be collected by Needles or Reclamation.

30. CHARGES FOR DELINQUENT PAYMENTS TO RECLAMATION:

30.1 MWD shall be subject to interest, administrative, and penalty charges on delinquent installments or payments to Reclamation as identified in Section 10.4 of this Contract for Mainstream Water made available pursuant to this Contract. If a payment is not received by the due date, MWD shall pay an interest charge on the delinquent payment for each day the payment is delinquent beyond the due date. If a payment becomes 60 days delinquent, in addition to the interest charge, MWD shall pay an administrative charge to cover additional costs of billing and processing the delinquent payment. If a payment is delinquent 90 days or more, in addition to the interest and administrative charges, MWD shall pay a penalty charge for each day the payment is delinquent beyond the due date, based on the remaining balance of the payment due at the rate of 6 percent per year. MWD shall also pay any fees incurred for debt collection services associated with a delinquent payment.

30.2 The interest charge rate shall be the greater of either the rate prescribed quarterly in the Federal Register by the Department of the Treasury for application to overdue payments or

the interest rate of 0.5 percent per month. The interest charge rate will be determined as of the due date and remain fixed for the duration of the delinquent period.

30.3 When a partial payment on a delinquent account is received, the amount received shall be applied first to the penalty charges, second to the administrative charges, third to the accrued interest, and finally to the overdue payment.

31. EFFECT OF WAIVER OF BREACH OF THIS CONTRACT: All rights of action for breach of any of the provisions of this Contract are reserved to the United States as provided in section 3737 of the Revised Statutes of the United States. The waiver of a breach of any of the provisions of this Contract shall not be deemed to be a waiver of any provision hereof, or of any other subsequent breach of any provisions hereof.

32. WATER AND AIR POLLUTION CONTROL: Needles and MWD, in carrying out the provisions of this Contract, shall comply with all applicable water and air pollution laws and regulations of the United States and the State of California and shall obtain all required permits or licenses from the appropriate Federal, State, or local authorities.

33. WATER CONSERVATION: MWD shall at all times use Mainstream Water made available pursuant to this Contract in a manner that is reasonable, beneficial and not wasteful, as determined by the Contracting Officer.

34. RULES, REGULATIONS, AND DETERMINATIONS:

34.1 The Parties agree that the delivery of Mainstream Water made available pursuant to this Contract or the use of Federal facilities pursuant to this Contract is subject to Reclamation law, as amended and supplemented, and the rules and Regulations promulgated by the Secretary under Reclamation law.

34.2 The Contracting Officer shall have the right to make determinations necessary to administer this Contract that are consistent with the expressed and implied provisions of this Contract, the laws of the United States and the State of California, and the rules and regulations promulgated by the Secretary. Such determinations shall be made in consultation with MWD and Needles.

35. CONTINGENT ON APPROPRIATION OR ALLOTMENT OF FUNDS: The expenditures or advance or any money or the performance of any obligation by the United States under this Contract shall be contingent upon appropriation or allotment of funds. Absence of appropriation or allotment of funds shall not relieve MWD or Needles from any obligations

under this Contract. No liability shall accrue to the United States in case funds are not appropriated or allotted.

36. ASSIGNMENT LIMITED – SUCCESSORS AND ASSIGNS OBLIGATED: The provisions of this Contract shall apply to and bind the successors and assigns of the Parties, but no assignment or transfer of this Contract or any right or interest therein shall be valid until approved in writing by the Contracting Officer.

37. AUTHORIZED REPRESENTATIVES: Each Party shall designate an authorized representative in writing within 30 days following the execution of this Contract. The authorized representatives shall serve as communication links among the Parties on all matters relating to this Contract. The Parties shall notify each other in writing when they change their authorized representative.

38. NOTICES: Any notice, demand, or request authorized or required by this Contract shall be deemed to have been given, on behalf of any Party, when mailed, postage prepaid, or delivered to the other Parties at the following addresses:

38.1 Bureau of Reclamation
Lower Colorado Region
Attention: Regional Director
P.O. Box 61470
Boulder City, NV 89006-1470

38.2 The Metropolitan Water District
of Southern California
Attention: General Manager
700 North Alameda Street
Los Angeles, CA 90012-2944
or/ P.O. Box 54153
Los Angeles, CA 90054-0153

38.3 Bureau of Reclamation
Yuma Area Office
Attention: Area Manager
7301 Calle Agua Salada
Yuma, AZ 85364

38.4 City of Needles
Attention: City Manager
817 Third Street
Needles, CA 92363-2933

38.5 The designation of the addressee or the address may be changed by notice given in the same manner as provided in this section for other notices.

39. AVAILABILITY OF INFORMATION: All information and data obtained or developed with the performance of duties mentioned in this Contract shall be available upon request to a

Party, except where prohibited by law. However, use of said reports, data and information shall appropriately reference the source for the respective documents.

40. OFFICIALS NOT TO BENEFIT: No Member or Delegate to Congress, Resident Commissioner or official of Needles or MWD shall benefit from this Contract other than as a water user or landowner in the same manner as other water users or landowners.

41. UNCONTROLLABLE FORCES: None of the Parties shall be considered to be in default in respect to any obligation hereunder, if prevented from fulfilling such obligation by reason of an Uncontrollable Force. Any Party rendered unable to fulfill any obligation by reason of an Uncontrollable Force shall give prompt written notice of such fact to the Party to whom the obligation is owed and shall exercise due diligence to remove such inability with all reasonable dispatch.

42. DEVELOPMENT AND COMPILATION OF RECORDS AND REPORTS:

42.1 MWD shall establish and maintain accounts and other books and records pertaining to administration of the terms and conditions of this Contract, including, but not limited to the following information: Mainstream Water and Return Flow Water financial transactions, water facilities operation, maintenance, and replacement logs of Mainstream Water facilities. Reports shall be furnished to Reclamation in such form and on such date or dates as Reclamation may require.

42.2 Subject to applicable Federal laws and regulations, each Party to this Contract shall have the right during office hours to examine and make copies of the other Party's books and records relating to matters covered by this Contract.

43. EQUAL EMPLOYMENT OPPORTUNITY: During the performance of this Contract, MWD for itself and Needles for itself and on behalf of the Other Project Beneficiaries agree as follows:

43.1 Needles and MWD will not discriminate respectively, against any employee or applicant for employment because of race, color, religion, sex, or national origin. Needles and MWD will take affirmative action, respectively, to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to, the following: Employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. Needles and MWD agree, respectively to post in conspicuous places, available to employees and

applicants for employment, notices to be provided by the Contracting Officer setting forth the provisions of this nondiscrimination clause.

43.2 Needles and MWD will, respectively, in all solicitations or advertisements for employees, state that all qualified applicants will receive consideration for employment without discrimination because of race, color, religion, sex, or national origin.

43.3 Needles and MWD will send, respectively, to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the Contracting Officer, advising said labor union or workers' representative of Needles and MWD's respective commitments under Section 202 of Executive Order 11246 of September 24, 1965, as amended, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

43.4 Needles and MWD will comply respectively, with all provisions of Executive Order No. 11246 of September 24, 1965, as amended, and of the rules, regulations, and relevant orders of the Secretary of Labor.

43.5 Needles and MWD will furnish respectively, all information and reports required by said amended Executive Order and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the Contracting Officer and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

43.6 In the event of Needles' or MWD's noncompliance with the nondiscrimination clauses of this Contract or with any of such rules, regulations, or orders, this Contract may be canceled, terminated, or suspended, in whole or in part, and Needles or MWD may be declared respectively, ineligible for further Government contracts in accordance with procedures authorized in said amended Executive Order, and such other sanctions may be imposed and remedies invoked as provided in said amended Executive Order, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

43.7 Needles and MWD respectively, will include the provisions of Sections 43.1 through 43.7 in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of said amended Executive Order, so that such provisions will be binding upon each subcontractor or vendor. Needles and MWD will take such action with respect to any subcontract or purchase order as may be directed by the Secretary of Labor as a means of enforcing such provisions, including sanctions for noncompliance; Provided, however, That in the event Needles or MWD becomes respectively, involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction, Needles or MWD, respectively, may request the United States to enter into such litigation to protect the interests of the United States.

44. COMPLIANCE WITH CIVIL RIGHTS LAWS AND REGULATIONS:

44.1 Needles and MWD shall comply respectively with Title VI of the Civil Rights Act of 1964 (42 U.S.C. 142000d), Section 504 of the Rehabilitation Act of 1975 (Public Law 93-112, as amended), the Age Discrimination Act of 1975 (42 U.S.C. 6101, et seq.) and any other applicable civil rights laws, as well as with their respective implementing regulations and guidelines imposed by the Department of the Interior and/or Reclamation.

44.2 These statutes require that no person in the United States shall, on the grounds of race, color, national origin, handicap, or age, be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under any program or activity receiving financial assistance from Reclamation. By executing this Contract, Needles and MWD agree respectively to immediately take any measures necessary to implement this obligation, including permitting officials of the United States to inspect premises, programs, and documents.

44.3 Needles and MWD make this Contract in consideration of and for the purpose of obtaining any and all Federal grants, loans, contracts, property discounts or other Federal financial assistance extended after the date hereof to MWD by Reclamation, including installment payments after such date on account of arrangements for Federal financial assistance which was approved before such date. MWD recognizes and agrees that such Federal assistance will be extended in reliance on the representations and agreements made in this Article, and that the United States reserves the right to seek judicial enforcement thereof.

45. REMEDIES UNDER CONTRACT NOT EXCLUSIVE: Nothing in this Contract shall be construed in any manner to abridge, limit, or deprive any Party of any means to enforce any remedy either at law or in equity for the breach of any of the provisions hereof, or any other remedy which it would otherwise have.

46. NO THIRD PARTY RIGHTS: This Contract is made solely for the benefit of the Parties and their respective permitted successors and assigns. Except for such permitted successors or assigns, no other person or entity may have or acquire any right by virtue of this Contract.

47. EXHIBITS MADE PART OF CONTRACT: Inasmuch as the information in the attachments may change during the term of this Contract, they will be set forth on the exhibits as formulated or modified from time to time. The initial Exhibits A, B, C, and D are attached hereto and made part of this Contract, and each is incorporated into this Contract in accordance with its respective provisions until superseded by a subsequent exhibit executed by the Parties.

Subsequent revisions of the exhibits shall become effective upon the approval of the Contracting Officer.

48. CONTRACT DRAFTING CONSIDERATIONS: Sections 1 through 48 of this Contract have been drafted, negotiated, and reviewed by the Parties hereto, each of whom is sophisticated in the matters to which this Contract pertains, and no one Party shall be considered to have drafted the stated sections.

IN WITNESS WHEREOF, the Parties have executed this Contract, including Exhibits A, B, C, and D hereto the day and year first above written.

THE UNITED STATES OF AMERICA

By: *Larry McElhonn*
ACTING Regional Director
Lower Colorado Region

Approved as to form:

By: *Katherine Ott Verburg*
Field Solicitor

CITY OF NEEDLES

By: *Jeff H. W. [Signature]*
Mayor

DB Approved as to form: Attest:

By: *Dale Jones*
City Clerk

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

By: *[Signature]*
General Manager

Approved as to form:

By: *[Signature]*
City Attorney

APPROVED AS TO FORM
Karen L. Tachiki
General Counsel

Peter von Haam 3-7-07
By: PETER E. von HAAM
Sr. Deputy General Counsel

AGREEMENT FOR WATER QUALITY MAINTENANCE TRUST FUND BETWEEN THE
CITY OF NEEDLES AND ZIONS FIRST NATIONAL BANK, AS TRUSTEE

1. This Exhibit A, made this ~~26th~~ day of ~~March~~, 2007, to be effective under and as a part of Contract No. 06-XX-30-W0452, hereinafter called "Contract," shall become effective on the date of the Contract's execution and shall remain in effect until superseded by another Exhibit A; Provided, That this Exhibit A or any superseding Exhibit A shall survive the termination of this Contract until such time as all funds deposited by MWD are either disbursed for Trust Fund Obligations or refunded to MWD.
2. The following is a copy of the "Agreement for Water Quality Maintenance Trust Fund Between the City of Needles and Zions First National Bank, as Trustee."

AGREEMENT FOR
WATER QUALITY MAINTENANCE TRUST FUND

This Agreement for Water Quality Maintenance Trust Fund, dated _____, 2007 (the "Trust Agreement"), is made by and between THE CITY OF NEEDLES, a charter city organized and existing under the laws of the State of California (hereinafter referred to as "Needles") and ZIONS FIRST NATIONAL BANK, as Trustee (hereinafter referred to as "Trustee").

RECITALS

A. The Lower Colorado Water Supply Act approved November 14, 1986 (100 Stat. 3665), as amended on November 19, 2005, (hereinafter referred to as the "Act"), authorized the Secretary of the Interior, acting through the Bureau of Reclamation (hereinafter referred to as "Reclamation"), to construct, operate and maintain a well field and appurtenant works known as the Lower Colorado Water Supply Project (hereinafter referred to as the "Project"), and to contract for delivery of Project water.

B. Pursuant to Contract No. 2-07-30-W0280 between the United States of America and Needles, dated September 10, 1992, and amended July 3, 2002, Needles assumes administrative responsibility for non-Federal Other Project Beneficiaries (as defined in Contract No. 2-07-30-W0280) within San Bernardino, Riverside, and Imperial counties who are authorized to contract with the United States pursuant to the Act.

C. Needles, The Metropolitan Water District of Southern California, a special district organized and existing under the laws of the State of California (hereinafter referred to as "MWD") and the United States of America, acting through Reclamation, have entered into the Contract Among the United States of America, the City of Needles and The Metropolitan Water District of Southern California for Delivery of Lower Colorado Water Supply Project Water, dated March 26, 2007 (hereinafter referred to as the "Delivery Contract"), to provide for delivery of water from the Project to MWD by exchange and funding for construction of Stage II of the Project by Needles and other purposes.

D. Under the Delivery Contract, Needles and MWD have elected to use the trust fund established by this Trust Agreement to accumulate payments from MWD and other users of Project water, to:

(1) advance monies or reimburse costs from such payments for the construction of Stage II of the Project;

(2) reimburse Needles for certain remaining Stage I Capital Costs that Needles has paid;

(3) expend monies for studies described in Sections 16.6 and 16.7 of the Delivery Contract;

(4) expend monies to reduce, as necessary, the total dissolved solids concentration of Project groundwater to permit such water to continue to be discharged into the All-American Canal; and

(5) expend monies to obtain an alternative water supply should the cost of reducing the total dissolved solids concentration of Project groundwater be more expensive than the alternative.

Funds under this Trust Agreement may be used in conjunction with one or more other trust funds established for related purposes under separate agreements.

ARTICLE I

TRUST FUND

1.01 Establishment of Trust Fund. The Trustee shall establish the Water Quality Maintenance Trust Fund (hereinafter referred to as the "Trust Fund") as provided in this Trust Agreement. The Trustee shall keep such fund separate and apart from all other funds and moneys held by the Trustee and shall administer such fund as provided herein. The moneys and investments held by the Trustee under this Trust Agreement shall be irrevocably held in trust for the benefit of Needles, MWD, and other users of Project water, and for the purposes specified in this Trust Agreement. The United States is not a party to or a direct beneficiary of this Trust Agreement or the Trust Fund. Such moneys and any income or interest earned thereon shall be expended only as provided in this Trust Agreement.

1.02 Deposits. There shall be deposited in the Trust Fund all amounts paid by MWD as Water Quality Maintenance Trust Fund deposits under the Delivery Contract. Under the Delivery Contract, Needles is required to deposit all such amounts with the Trustee within five (5) days of its receipt of such moneys. There shall be deposited in the Trust Fund all amounts paid by Other Project Beneficiaries in accordance with the terms of Section 16.3 of the Delivery Contract. Under the Delivery Contract, Needles is required to deposit all such amounts with the Trustee within five (5) days of its receipt of such moneys. There shall be deposited in the Trust Fund all amounts paid by Needles in accordance with the terms of Section 16.4 of the Delivery Contract. Under the Delivery Contract, Needles is required to deposit all such amounts with the Trustee by January 15 of each calendar year. Any other moneys required to be deposited therein pursuant to the Delivery Contract or pursuant to this Trust Agreement shall be deposited in the Trust Fund. Under the Delivery Contract, if an audit reveals that MWD is due a refund for excess deposits into the Trust Fund, monies may be disbursed to Needles to refund MWD pursuant to the audit.

1.03 Investments Authorized. Moneys held by the Trustee in the Trust Fund shall, upon written order of a City Representative (defined in Section 1.06 below), be invested and reinvested by the Trustee, to the maximum extent practicable, in Permitted Investments (defined below). If a City Representative shall fail to so direct investments, the Trustee shall invest the affected moneys in Permitted Investments described in paragraph (f) of the definition thereof. Investments, if registrable, shall be registered in the name of and held by the Trustee or its nominee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by this Section 1.03. Such investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available. The Trustee may act as principal or agent in the making or disposing of any investment. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with this Section 1.03. The Trustee shall be entitled to rely conclusively upon the written instructions of a City Representative directing investments as to the fact that each investment is permitted by the laws of the State of California and constitutes a Permitted Investment hereunder, and the Trustee shall not be required to make further investigation with respect thereto.

For purposes of this Section 1.03, "Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein, provided that the same are of appropriate maturity and acquired at fair market value:

(a) Direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury) the United States of America, or obligations the timely payment of principal of and interest on which are guaranteed by, the United States of America;

(b) bonds, debentures or notes issued by any of the following: Banks or Cooperatives, Federal Land Banks or Federal National Mortgage Association (including participation certificates and Federal Farm Credit Banks Consolidated System Bonds);

(c) bonds or obligations of the State of California which are rated "AA" or better by Standard & Poor's Corporation ("S&P") or "Aa" or better by Moody's Investors Service ("Moody's");

(d) interest bearing demand or time deposits (including certificates of deposit) in national banks, state banks, federal savings and loan associations or state chartered savings and loan associations, which have deposits insured by the Federal Deposit Insurance Corporation (the "FDIC"); provided, however, that the portion of such certificates of deposit in excess of the amount insured by the FDIC, if any, shall be with a provider whose short term S&P or Moody's rating is "A-1+" or better;

(e) repurchase agreements of any securities authorized in clauses (a) through (d) of this definition of Permitted Investments, provided that such repurchase agreements

meet the criteria for eligible repurchase agreements in California Government Code Section 53601(i); and

(f) money market funds consisting of obligations described in clause (a) of this definition of Permitted Investments, which are rated in the highest rating category by S&P and Moody's.

1.04 Allocation of Earnings. All interest or income received by the Trustee on investment of the Trust Fund shall, as received, be retained in the Trust Fund. The Trustee shall collect and deposit in the Trust Fund the principal of and interest on all investments held for the account of the Trust Fund promptly as such principal matures and such interest becomes due.

1.05 Accounting. The Trustee shall keep complete and accurate records of all moneys received and disbursed under this Trust Agreement, which shall be available for inspection by Needles and MWD. The Trustee shall furnish to Needles and MWD semi-annual accounting of all investments, transactions and disbursements made by the Trustee.

1.06 Advances or Reimbursements for Stage II Construction Costs.

(a) Disbursements from the Trust Fund shall be made by the Trustee as advances or reimbursements for costs of constructing Stage II of the Project upon receipt of a requisition, a form of which is attached as Exhibit A, requesting disbursement, and executed by a City Representative. Attached to such a requisition shall be a written certification by Reclamation on a form substantially the same as Attachment 2 to Exhibit A.

(b) The Trustee shall be responsible for the safekeeping and investment (in accordance with Section 1.03 hereof) of the moneys held in the Trust Fund and the payment thereof in accordance with this Section 1.06, but the Trustee shall not be responsible for such requisitions.

(c) "City Representative" means any person authorized to act on behalf of Needles under or with respect to this Trust Agreement and identified as such to the Trustee in writing.

1.07 Payments for Remaining Stage I Capital Costs.

(a) A disbursement from the Trust Fund shall be made by the Trustee as a reimbursement for the remaining Stage I Capital Costs that Needles has paid for Consumptive Use capacity in excess of 800 acre-feet and not paid by Other Project Beneficiaries prior to execution of the Delivery Contract or previously reimbursed by the Trust Fund plus interest at a rate of 5.54 percent per year from December 31, 2004 to when such reimbursement is made. Such disbursement shall be made upon receipt of a requisition, a form of which is attached as Exhibit B, requesting disbursement, and executed by a City Representative. Attached to such a requisition shall be a written

certification by Reclamation on a form substantially the same as Attachment 2 to Exhibit B.

(b) The Trustee shall be responsible for the safekeeping and investment (in accordance with Section 1.03 hereof) of the moneys held in the Trust Fund and the payment thereof in accordance with this Section 1.07, but the Trustee shall not be responsible for such requisitions.

1.08 Payments for Studies.

(a) Disbursements from the Trust Fund shall be made by the Trustee for costs of studies conducted pursuant to Sections 16.6, 16.7, and 17.1.3 of the Delivery Contract upon receipt of a requisition, a form of which is attached as Exhibit C, requesting disbursement, and executed by a City Representative. Attached to such a requisition shall be a written certification by Reclamation in a form substantially the same as Attachment 2 to Exhibit C.

(b) The Trustee shall be responsible for the safekeeping and investment (in accordance with Section 1.03 hereof) of the moneys held in the Trust Fund and the payment thereof in accordance with this Section 1.08, but the Trustee shall not be responsible for such requisitions.

1.09 Payments for Costs of Reducing Total Dissolved Solids.

(a) Disbursements from the Trust Fund shall be made by the Trustee for costs of reducing the total dissolved solids concentration of Lower Colorado Water Supply Project Water or to defray incremental increases in the OMRA Charges due to implementation of such upon receipt of a requisition, a form of which is attached as Exhibit D, requesting disbursement, and executed by a City Representative. Attached to such a requisition shall be a written certification by Reclamation in a form substantially the same as Attachment 2 to Exhibit D.

(b) The Trustee shall be responsible for the safekeeping and investment (in accordance with Section 1.03 hereof) of the moneys held in the Trust Fund and the payment thereof in accordance with this Section 1.09, but the Trustee shall not be responsible for such requisitions.

1.10 Payments for Acquisition of Alternative Supply.

(a) Disbursements from the Trust Fund shall be made by the Trustee for costs of acquisition of an alternative supply upon receipt of a requisition, a form of which is attached as Exhibit E, requesting disbursement, and executed by a City Representative. Attached to such a requisition shall be a written certification by Reclamation in a form substantially the same as Attachment 2 to Exhibit E.

(b) The Trustee shall be responsible for the safekeeping and investment (in accordance with Section 1.03 hereof) of the moneys held in the Trust Fund and the payment thereof in accordance with this Section 1.10, but the Trustee shall not be responsible for such requisitions.

1.11 Payments for Refund to MWD.

(a) Disbursements from the Trust Fund shall be made by the Trustee for Needles to refund MWD for excess deposits into the Trust Fund in accordance with Sections 17.1.4 and 19.2 of the Delivery Contract upon receipt of a requisition, a form of which is attached as Exhibit F, requesting disbursement, and executed by a City Representative.

(b) The Trustee shall be responsible for the safekeeping and investment (in accordance with Section 1.03 hereof) of the moneys held in the Trust Fund and the payment thereof in accordance with this Section 1.11, but the Trustee shall not be responsible for such requisitions.

1.12 Surplus. Any surplus remaining in the Trust Fund, after disbursements in accordance with Section 17.1 through 17.4 of the Delivery Contract are made, and payment of any applicable fees, costs and expenses to the Trustee, or provision for such prepayment or payment having been made to the satisfaction of the Trustee, shall be withdrawn by the Trustee and remitted as directed in written instructions executed by a City Representative pursuant to Section 17.5 of the Delivery Contract.

1.13 Termination. This Trust Agreement shall terminate immediately following the later to occur of (i) the payment of all amounts required to be paid pursuant to the Delivery Contract, (ii) the payment of the Trustee's fees and costs hereunder, and (iii) the transfer of all surplus funds pursuant to Section 1.12 hereof.

ARTICLE II

THE TRUSTEE

2.01 Appointment of Trustee. The Trustee is hereby appointed by Needles for the purpose of receiving all moneys required to be deposited with the Trustee hereunder and to allocate, use and apply the same as provided in this Trust Agreement.

2.02 Duties. The Trustee shall keep accurate records of all funds administered by it and of all disbursements from the Trust Fund. The Trustee shall be compensated for its services rendered pursuant to the provisions of this Trust Agreement and shall be reimbursed for costs and expenses, incurred in connection therewith.

2.03 Removal and Resignation. Needles may, with the written consent of MWD, remove the Trustee initially appointed, and any successor thereto, on thirty (30) days written notice and thereafter appoint a successor or successors thereto; provided that any such successor

shall be a bank or trust company organized and doing business under the laws of any state or the United States of America, authorized under such laws to exercise corporate trust powers, which shall have (or, in the case of a company included in a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least fifty million dollars (\$50,000,000), and be subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority above referred to then for the purpose of this Section 2.03 the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal of the Trustee shall not be effective until written acceptance of appointment by the successor Trustee.

The Trustee may at any time resign by giving written notice to Needles, with a copy to MWD. Upon receiving such notice of resignation, Needles, with the written consent of MWD, shall promptly appoint a successor Trustee by an instrument in writing. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee and receipt by the Trustee of any fees and expenses due and payable to it.

2.04 Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which any of them may be consolidated or any company resulting from any merger, conversion or consolidation to which any of them shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company shall be eligible under Section 2.03, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

2.05 Liability of Trustee. The recitals of facts, covenants and agreements herein shall be taken as statements, covenants and agreements of Needles, and the Trustee neither assumes any responsibility for the correctness of the same nor makes any representations as to the validity or sufficiency of this Trust Agreement; nor shall the Trustee incur any responsibility in respect thereof, other than in connection with the duties or obligations herein assigned to or imposed upon the Trustee.

2.06 Protection and Rights of the Trustee. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificates, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper person or party or to have been prepared and furnished pursuant to any of the provisions of this Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee may consult with counsel with regard to legal

questions and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith in accordance therewith.

The Trustee may execute any of the powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of its duty hereunder, and the Trustee shall not be liable for the default or misconduct of any such attorney, agent, or receiver selected by it with reasonable care. The Trustee shall not be liable for the exercise of any discretion or power under this Trust Agreement or for anything whatever in connection with the funds and accounts established hereunder, except only for its own willful misconduct or negligence.

The Trustee undertakes to perform such duties, and only such duties as are specifically set forth in this Trust Agreement and no implied duties or obligations shall be read into this Trust Agreement against the Trustee.

The Trustee shall not be accountable for the use or application by Needles or any other party of any funds which the Trustee has released under this Trust Agreement.

ARTICLE III

MISCELLANEOUS

3.01 Headings. The Section headings set forth in this Trust Agreement are inserted for convenience of reference only and shall be disregarded in the construction or interpretation of any of the provisions of this Trust Agreement.

3.02 Particular Words. Any word contained in the text of this Trust Agreement shall be read as the singular or plural and as the masculine, feminine, or neuter as may be applicable or permissible in the particular context. Unless otherwise specifically stated, the word "person" shall be taken to mean and include an individual, partnership, association, trust, company, or corporation.

3.03 Parties Interested Herein. MWD is a third party beneficiary of this Trust Agreement and the covenants contained herein. Nothing expressed or implied in this Trust Agreement is intended or shall be construed to confer upon, or to give to, any person or corporation, other than Needles, the Trustee and MWD, any right, remedy, or claim under or by reason of this Trust Agreement, or any covenant, condition or stipulation contained herein.

3.04 Notices. All written notices to be given under this Trust Agreement shall be given by mail first class, postage prepaid, to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other parties in writing from time to time. Any such notice shall be deemed to have been received 48 hours after deposit in the United States mail, with postage fully prepaid.

If to Needles:

City of Needles
Attention: City Manager
817 Third Street
Needles, CA 92363-2933

If to the Trustee:

Zions First National Bank
Corporate Trust Division
550 S. Hope Street, Suite 2650
Los Angeles, CA 90071

If to MWD:

The Metropolitan Water District of Southern California
Attention: Chief Financial Officer
700 North Alameda Street
Los Angeles, CA 90012-2944
or/
P.O. Box 54153
Los Angeles, CA 90054-0153

3.05 Amendment. This Trust Agreement and the rights and obligations of the parties hereto, may be modified or amended only in writing executed by both of the parties, with the written consent of MWD, and delivered to the Trustee.

3.06 Successors and Assigns. This Trust Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns.

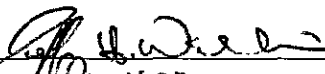
3.07 Severability. If any Section, paragraph, sentence, clause or provision of this Trust Agreement shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such Section, paragraph, sentence, clause or provision shall not affect any of the remaining provisions of this Trust Agreement.

3.08 Governing Law. This Trust Agreement shall be construed in accordance with and governed by the laws of the State of California.

3.09 Counterparts. This Trust Agreement may be executed and acknowledged in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the City of Needles and Zions First National Bank, as Trustee, have entered into this Trust Agreement as of the day and year first above written.

CITY OF NEEDLES

By: 
Title: MAYOR

ZIONS FIRST NATIONAL BANK, AS TRUSTEE

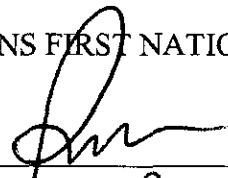
By: 
Title: Vice President

EXHIBIT A

WRITTEN REQUISITION NO. FOR
DISBURSEMENT FROM TRUST FUND - STAGE II CONSTRUCTION COSTS

The undersigned hereby states and certifies that:

(i) the undersigned is the duly appointed, qualified and acting _____ [title] and City Representative under the Trust Agreement for Water Quality Maintenance Trust Fund, dated _____, 2007 (the "Trust Agreement"), by and between Needles and Zions First National Bank, as Trustee, and as such, is familiar with the facts herein certified and is authorized and qualified to certify the same;

(ii) under Section 1.06 (a) of the Trust Agreement, the Trustee is hereby requested to disburse this date, from the Trust Fund established under the Trust Agreement, to the payees set forth on Attachment 1 attached hereto and by this reference incorporated herein, at the addresses identified thereon, the amount set forth opposite such payee;

(iii) the amounts to be disbursed are costs payable for construction of Stage II of the Project under Section 17.1.1 of the Contract Among the United States of America, City of Needles and The Metropolitan Water District of Southern California for Delivery of Lower Colorado Water Supply Project Water, dated March 26, 2007;

(iv) insofar as such requisition relates to payment for work, materials, equipment or supplies, such work was or will be actually performed, or such materials, equipment or supplies were or will be actually installed in furtherance of the construction of Stage II of the Project or have or will be delivered to the appropriate site for such purpose, or have or will be delivered for storage or fabrication at a place approved by Needles;

(v) if such requisition relates to payment to a contractor, that no liens have been imposed on the Project as a result of such construction except liens that have not yet ripened or that would attach by operation of law; and

(vi) the Trustee has no duty to ascertain the representations made in (iv) and (v) and that the Trustee can conclusively rely on the City Representative signature that all conditions have been complied with.

Dated: _____, _____

City Representative

By: _____
Title: _____

ATTACHMENT 1

<u>Payee Name and Address</u>	<u>Purpose of Obligation</u>	<u>Amount</u>
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ATTACHMENT 2

WRITTEN CERTIFICATION BY BUREAU OF RECLAMATION

The undersigned hereby states and certifies that:

- (i) the undersigned is the Bureau of Reclamation Contracting Officer designated under the Contract Among the United States of America, the City of Needles, and The Metropolitan Water District of Southern California for Delivery of Lower Colorado Water Supply Project Water (Contract); and
- (ii) pursuant to Section 17.7 of the Contract, the Bureau of Reclamation approves the costs of construction of Stage II of the Lower Colorado Water Supply Project as provided in Section 17.1.1 of the Contract in the amount of \$ _____, for which the City of Needles requests advance payment.

Dated: _____, _____

Bureau of Reclamation

By: _____

Title: _____

EXHIBIT B

WRITTEN REQUISITION NO. _____ FOR
DISBURSEMENT FROM TRUST FUND – PAYMENTS FOR REMAINING STAGE I
CAPITAL COSTS

The undersigned hereby states and certifies that:

(i) the undersigned is the duly appointed, qualified and acting _____
[title] and City Representative under the Trust Agreement for Water Quality Maintenance Trust
Fund, dated _____, 2007 (the "Trust Agreement"), by and between Needles and Zions
First National Bank, as Trustee, and as such, is familiar with the facts herein certified and is
authorized and qualified to certify the same;

(ii) under Section 1.07 (a) of the Trust Agreement, the Trustee is hereby requested to
disburse this date, from the Trust Fund established under the Trust Agreement, to the payee set
forth on Attachment I attached hereto and by this reference incorporated herein, at the address
identified thereon, the amount set forth opposite such payee;

(iii) the amount to be disbursed is a reimbursement in accordance with Section 17.1.2
for the remaining Stage I Capital Costs, paid by Needles for Consumptive Use capacity in excess
of 800 acre-feet and not paid by Other Project Beneficiaries prior to execution of the Contract
Among the United States of America, the City of Needles and The Metropolitan Water District
of Southern California for Delivery of Lower Colorado Water Supply Project Water, dated
March 26, 2007, or previously reimbursed by the Trust Fund.

Dated: _____, _____

City Representative

By: _____
Title: _____

ATTACHMENT I

<u>Payee Name and Address</u>	<u>Purpose of Obligation</u>	<u>Amount</u>
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ATTACHMENT 2

WRITTEN CERTIFICATION BY BUREAU OF RECLAMATION

The undersigned hereby states and certifies that:

- (i) the undersigned is the Bureau of Reclamation Contracting Officer designated under the Contract Among the United States of America, the City of Needles, and The Metropolitan Water District of Southern California for Delivery of Lower Colorado Water Supply Project Water (Contract); and
- (ii) pursuant to Section 17.8 of the Contract, the Bureau of Reclamation certifies that the amount of \$ _____, for which the City of Needles requests reimbursement pursuant to Section 17.1.2 of the Contract which provides that the City of Needles may receive from the Trust Fund Account monies for reimbursement to Needles of \$503,841.51 for the remaining Stage I Capital Costs, paid by the City of Needles for Consumptive Use capacity in excess of 800 acre-feet and not previously reimbursed by the Trust Fund or paid by Other Project Beneficiaries prior to execution of the Contract, plus interest at an annual rate of 5.54 percent from December 31, 2004, to when such reimbursement is made.

Dated: _____, _____

Bureau of Reclamation

By: _____

Title: _____

EXHIBIT C

WRITTEN REQUISITION NO. _____ FOR
DISBURSEMENT FROM TRUST FUND – PAYMENTS FOR STUDIES

The undersigned hereby states and certifies that:

(i) the undersigned is the duly appointed, qualified and acting _____ [title] and City Representative under the Trust Agreement for Water Quality Maintenance Trust Fund, dated _____, 2007 (the "Trust Agreement"), by and between Needles and Zions First National Bank, as Trustee, and as such, is familiar with the facts herein certified and is authorized and qualified to certify the same;

(ii) under Section 1.08 (a) of the Trust Agreement, the Trustee is hereby requested to disburse this date, from the Trust Fund established under the Trust Agreement, to the payee set forth on Attachment I attached hereto and by this reference incorporated herein, at the address identified thereon, the amount set forth opposite such payee;

(iii) the amount to be disbursed is for costs of studies conducted in accordance with Section 17.1.3 of the Contract Among the United States of America, the City of Needles and The Metropolitan Water District of Southern California for Delivery of Lower Colorado Water Supply Project Water, dated March 26, 2007.

Dated: _____, _____

City Representative

By: _____
Title: _____

ATTACHMENT I

<u>Payee Name and Address</u>	<u>Purpose of Obligation</u>	<u>Amount</u>
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ATTACHMENT 2

WRITTEN CERTIFICATION BY BUREAU OF RECLAMATION

The undersigned hereby states and certifies that:

- (i) the undersigned is the Bureau of Reclamation Contracting Officer designated under the Contract Among the United States of America, the City of Needles, and The Metropolitan Water District of Southern California for Delivery of Lower Colorado Water Supply Project Water (Contract); and
- (ii) pursuant to Section 17.9 of the Contract, the Bureau of Reclamation approves the costs of conducting studies as provided in Sections 16.6, 16.7, and 17.1.3 of the Contract in the amount of \$ _____, for which the City of Needles requests payment.

Dated: _____, _____

Bureau of Reclamation

By: _____

Title: _____

EXHIBIT D

WRITTEN REQUISITION NO. _____ FOR
DISBURSEMENT FROM TRUST FUND – REDUCING TOTAL DISSOLVED SOLIDS

The undersigned hereby states and certifies that:

(i) the undersigned is the duly appointed, qualified and acting _____ [title] and City Representative under the Trust Agreement for Water Quality Maintenance Trust Fund, dated _____, 2007 (the "Trust Agreement"), by and between Needles and Zions First National Bank, as Trustee, and as such, is familiar with the facts herein certified and is authorized and qualified to certify the same;

(ii) under Section 1.09 (a) of the Trust Agreement, the Trustee is hereby requested to disburse this date, from the Trust Fund established under the Trust Agreement, to the payees set forth on Attachment 1 attached hereto and by this reference incorporated herein, at the addresses identified thereon, the amount set forth opposite such payee;

(iii) the amounts to be disbursed are costs payable for reducing the total dissolved solids concentration of Lower Colorado Water Supply Project Water under Section 17.2 or to defray incremental increases in the OMRA Charges due to implementation of such in accordance with 17.4 of the Contract Among the United States of America, City of Needles and The Metropolitan Water District of Southern California for Delivery of Lower Colorado Water Supply Project Water, dated March 26, 2007;

(iv) insofar as such requisition relates to payment for work, materials, equipment or supplies, such work was or will be actually performed, or such materials, equipment or supplies were or will be actually installed in furtherance of reducing the total dissolved solids concentration of Lower Colorado Water Supply Project water;

(v) if such requisition relates to payment to a contractor, that no liens have been imposed on the Project as a result of such construction except liens that have not yet ripened or that would attach by operation of law; and

(vi) the Trustee has no duty to ascertain the representations made in (iv) and (v) and that the Trustee can conclusively rely on the City Representative signature that all conditions have been complied with.

Dated: _____, _____

City Representative

By: _____
Title: _____

ATTACHMENT 1

<u>Payee Name and Address</u>	<u>Purpose of Obligation</u>	<u>Amount</u>
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ATTACHMENT 2

WRITTEN CERTIFICATION BY BUREAU OF RECLAMATION

The undersigned hereby states and certifies that:

- (i) the undersigned is the Bureau of Reclamation Contracting Officer designated under the Contract Among the United States of America, the City of Needles, and The Metropolitan Water District of Southern California for Delivery of Lower Colorado Water Supply Project Water (Contract); and
- (ii) pursuant to Section 17.10 of the Contract, the Bureau of Reclamation approves the costs of reducing the total dissolved solids concentration in Lower Colorado Water Supply Project water as provided in Section 17.2 of the Contract or to defray incremental increases in the OMRA Charges due to implementation of such in accordance with Section 17.4 of the Contract in the amount of \$ _____, for which the City of Needles requests payment.

Dated: _____, _____

Bureau of Reclamation

By: _____

Title: _____

EXHIBIT E

WRITTEN REQUISITION NO. _____ FOR
DISBURSEMENT FROM TRUST FUND – ACQUISITION OF ALTERNATIVE SUPPLY

The undersigned hereby states and certifies that:

(i) the undersigned is the duly appointed, qualified and acting _____ [title] and City Representative under the Trust Agreement for Water Quality Maintenance Trust Fund, dated _____, 2007 (the "Trust Agreement"), by and between Needles and Zions First National Bank, as Trustee, and as such, is familiar with the facts herein certified and is authorized and qualified to certify the same;

(ii) under Section 1.10 (a) of the Trust Agreement, the Trustee is hereby requested to disburse this date, from the Trust Fund established under the Trust Agreement, to the payee set forth on Attachment 1 attached hereto and by this reference incorporated herein, at the address identified thereon, the amount set forth opposite such payee;

(iii) the amounts to be disbursed are costs payable for acquisition of an alternative supply under Section 17.3 of the Contract Among the United States of America, City of Needles and The Metropolitan Water District of Southern California for Delivery of Lower Colorado Water Supply Project Water, dated March 26, 2007;

(iv) insofar as such requisition relates to payment for work, materials, equipment or supplies, such work was or will be actually performed, or such materials, equipment or supplies were or will be actually installed in furtherance of acquisition of an alternative supply;

(v) if such requisition relates to payment to a contractor, that no liens have been imposed on the Project as a result of such construction except liens that have not yet ripened or that would attach by operation of law; and

(vi) the Trustee has no duty to ascertain the representations made in (iv) and (v) and that the Trustee can conclusively rely on the City Representative signature that all conditions have been complied with.

Dated: _____, _____

City Representative

By: _____
Title: _____

ATTACHMENT I

<u>Payee Name and Address</u>	<u>Purpose of Obligation</u>	<u>Amount</u>
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ATTACHMENT 2

WRITTEN CERTIFICATION BY BUREAU OF RECLAMATION

The undersigned hereby states and certifies that:

- (i) the undersigned is the Bureau of Reclamation Contracting Officer designated under the Contract Among the United States of America, the City of Needles, and The Metropolitan Water District of Southern California for Delivery of Lower Colorado Water Supply Project Water (Contract); and
- (ii) pursuant to Section 17.11 of the Contract, the Bureau of Reclamation certifies that it has determined that the Lower Colorado Water Supply Project (Project) is no longer Functional or at a future date will be no longer Functional and that the costs of obtaining an alternative supply of water to replace Project Water as provided in Section 17.3 of the Contract in the amount of \$ _____, for which the City of Needles requests payment, appear to be reasonable.

Dated: _____, _____

Bureau of Reclamation

By: _____

Title: _____

EXHIBIT F

WRITTEN REQUISITION NO. _____ FOR
DISBURSEMENT FROM TRUST FUND – REFUND TO MWD

The undersigned hereby states and certifies that:

(i) the undersigned is the duly appointed, qualified and acting _____ [title] and City Representative under the Trust Agreement for Water Quality Maintenance Trust Fund, dated _____, 2007 (the "Trust Agreement"), by and between Needles and Zions First National Bank, as Trustee, and as such, is familiar with the facts herein certified and is authorized and qualified to certify the same;

(ii) under Section 1.11 (a) of the Trust Agreement, the Trustee is hereby requested to disburse this date, from the Trust Fund established under the Trust Agreement, to the payee set forth on Attachment 1 attached hereto and by this reference incorporated herein, at the address identified thereon, the amount set forth opposite such payee;

(iii) the amounts to be disbursed are costs payable for refund to MWD under Section 17.1.4 and 19.2 of the Contract Among the United States of America, City of Needles and The Metropolitan Water District of Southern California for Delivery of Lower Colorado Water Supply Project Water, dated March 26, 2007;

Dated: _____, _____

City Representative

By: _____
Title: _____

ATTACHMENT I

<u>Payee Name and Address</u>	<u>Purpose of Obligation</u>	<u>Amount</u>
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EXHIBIT A, AMENDMENT NO. 1, DATED APRIL 26, 2004, OF
CONTRACT NO. 2-07-30-W0277, DATED MAY 22, 1992

1. This Exhibit B, made this 26th day of March, 2007, to be effective under and as a part of Contract No. 06-XX-30-W0452, hereinafter called "Contract," shall become effective on the date of the Contract's execution and shall remain in effect until superseded by another Exhibit B; Provided, That this Exhibit B or any superseding Exhibit B shall survive the termination of this Contract until such time as all funds deposited by MWD are either disbursed for Trust Fund Obligations or refunded to MWD.

2. The following is a copy of "Exhibit A, Amendment No. 1, dated April 26, 2004, of Contract No. 2-07-30-W0277, dated May 22, 1992, among the United States, IID, and CVWD for Exchange of Water from the Lower Colorado Water Supply Project Well Field for Colorado River Water."

QUALITY OF PROJECT WELL FIELD WATER TO BE EXCHANGED

1
2
3
4 1. This Amendment No. 1 to Exhibit A, made this 26th day of April, 2004,
5 hereinafter called "Amendment," supersedes the Exhibit A to Contract No. 2-07-30-W0277 dated
6 May 22, 1992, hereinafter called "Contract," shall be effective on the date of its execution and shall
7 remain in effect until superseded; Provided, That this Amendment or any superseding Exhibit A
8 amendment shall terminate by the termination of the Contract.

9 2. The overall quality of the delivered Project well field water and the Colorado River water
10 will be tested by the United States at no cost to the Contractors. The quality of the Colorado River
11 water will be determined by the water quality tests conducted in accordance with Minute 242 of the
12 International Boundary and Water Commission dealing with the quality of water to the
13 United Mexican States. The quality of the Project well field water that is delivered to the
14 All-American Canal shall be tested from samples taken at the delivery points (well discharge) of
15 each well on a monthly basis. The testing criteria shall be the same as that applied to the samples
16 of Colorado River water. The units of the test of water from each source shall be determined on an
17 average annual flow-weighted basis.

18 3. If the overall salinity of the Project well field water, determined during the calendar year by
19 an average annual flow-weighted basis, at the delivery point(s) is less than 879 milligram per
20 liter \pm 30 milligram per liter, the exchange water from the Project well field shall be deemed to be
21 acceptable pursuant to the terms and conditions of the Contract.

22 4. At the sole discretion of Coachella Valley Water District and Imperial Irrigation District,
23 Project well field water pumped into the All-American Canal may be rejected in whole or in part
24 if the overall salinity of the Project well field water, determined on an average annual flow-weighted
25 basis, does not meet the criterion set forth in item 3 above.

26 5. The criterion in item 3 assumes only the effect of the salinity of the Project well field. It is

understood that the quality of the Project well field water should not significantly impact the quality of the All-American Canal water from the Colorado River. In the future, if the water quality of the Project well field becomes a concern for Coachella Valley Water District and Imperial Irrigation District, compared to the quality of the Colorado River water, this Exhibit A may be amended to address those concerns.

IN WITNESS WHEREOF, the Parties have caused this Amendment No. 1 to Exhibit A to Contract No. 2-07-30-W0277 to be executed the date first written above.

THE UNITED STATES OF AMERICA

Legal review and approval

Katherine Ott Verburg
Field Solicitor, Phoenix Arizona

Robert W. Johnson
Regional Director, Lower Colorado Region
Bureau of Reclamation

IMPERIAL IRRIGATION DISTRICT

By [Signature]
Title General Manager

Address P.O. Box 937
Imperial CA 92251

ATTEST:

Rosa A Rivera
Secretary, Board of Directors
Title

COACHELLA VALLEY WATER DISTRICT

By [Signature]
Title General Manager-Chief Engineer

Address Post Office Box 1058
Coachella, CA 92236

ATTEST:

Celia Hernandez
Board Secretary
Title

FORM OF WRITTEN CERTIFICATION BY RECLAMATION

1. This Exhibit C, made this 26th day of March, 2007, to be effective under and as a part of Contract No. 06-XX-30-W0452, hereinafter called "Contract," shall become effective on the date of the Contract's execution and shall remain in effect until superseded by another Exhibit C; Provided, That this Exhibit C or any superseding Exhibit C shall survive the termination of this Contract until such time as all funds deposited by MWD are either disbursed for Trust Fund Obligations or refunded to MWD.
2. The following is a copy of the form that will be used to provide written certification by Reclamation for the purposes of the Trust Fund which will be attached to a requisition executed by a City of Needles representative.

WRITTEN CERTIFICATION BY THE BUREAU OF RECLAMATION

The undersigned hereby states and certifies that:

- (i) the undersigned is the Bureau of Reclamation Contracting Officer designated under the Contract Among the United States of America, the City of Needles, and The Metropolitan Water District of Southern California for Delivery of Lower Colorado Water Supply Project Water (Contract); and

- (ii) pursuant to Section (*insert appropriate clause*) [17.7 of the Contract, the Bureau of Reclamation approves the costs of construction of Stage II of the Lower Colorado Water Supply Project as provided in Section 17.1.1 of the Contract in the amount of \$ _____, for which the City of Needles requests payment] *or* [17.8 of the Contract, the Bureau of Reclamation certifies that the amount of \$ _____, for which the City of Needles requests reimbursement pursuant to Section 17.1.2 of the Contract, which provides that the City of Needles may receive from the Trust Fund Account monies for reimbursement to Needles of \$503,841.51 for the remaining Stage 1 Capital Costs, paid by the City of Needles for Consumptive Use capacity in excess of 800 acre-feet and not paid by Other Project Beneficiaries prior to execution of the Contract or previously reimbursed by the Trust Fund, plus interest at an annual rate of 5.54 percent from December 31, 2004, to when such reimbursement in made] *or* [17.9 of the Contract, the Bureau of Reclamation approves the costs of conducting studies as provided in Sections 16.6, 16.7, and 17.1.3 of the Contract in the amount of \$ _____, for which the City of Needles requests payment] *or* [17.10 of the Contract, the Bureau of Reclamation approves the costs of reducing the total dissolved solids concentration in Lower Colorado Water Supply Project Water as provided in Section 17.2 of the Contract or to defray incremental increases in the OMRA Charges due to implementation of such, as provided in Section 17.4 of the Contract in the amount of \$ _____, for which the City of Needles requests payment] *or* [17.11 of the Contract, the Bureau of Reclamation certifies that it has determined that the Lower Colorado Water Supply Project (Project) is no longer Functional or at a future date will be no longer Functional and that the costs of obtaining an alternative supply of water to replace Project Water as provided in Section 17.3 of the Contract in the amount of \$ _____, for which the City of Needles requests payment, appear to be reasonable].

Dated: _____, _____

Bureau of Reclamation

By: _____
Title: _____

COPY OF SUBSECTION 12.2 AND 12.2.1 OF NEEDLES STANDARD
FORM OF SUBCONTRACT

1. This Exhibit D, made this 26th day of March, 2007, to be effective under and as a part of Contract No. 06-XX-30-W0452, hereinafter called "Contract," shall become effective on the date of the Contract's execution and shall remain in effect until superseded by another Exhibit D; Provided, That this Exhibit D or any superseding Exhibit D shall terminate with termination of the Contract.
2. The following is a copy of subsection 12.2 and 12.2.1 of Needles standard form of subcontract which explains how the Project's annual OMRA Charges per acre-foot are determined.

12.2 Annual Operation, Maintenance, Replacement and Administration
(OMRA) Charge. Subcontractor shall pay its annual allocable share of the cost of the operation, maintenance, replacement, and administration of the Project.

12.2.1 Needles, with the review and approval of the Contracting Officer, shall annually set the Project's annual OMRA charge based on the Non-Federal Project Water Users' share of the total cost of operating and administering the Project and maintaining and replacing the Project's facilities.

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION

LOWER COLORADO WATER SUPPLY PROJECT

CONTRACT AMONG
THE UNITED STATES, THE CITY OF NEEDLES, AND THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA
FOR DELIVERY OF LOWER COLORADO WATER SUPPLY PROJECT WATER

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4.	Other Provisions Unaffected	12
	Signature Page	12

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION

LOWER COLORADO WATER SUPPLY PROJECT

CONTRACT AMONG
THE UNITED STATES, THE CITY OF NEEDLES, AND
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
FOR DELIVERY OF LOWER COLORADO WATER SUPPLY PROJECT WATER

1. PREAMBLE: THIS AMENDMENT, made this 3rd day of May, 2010, hereinafter called "Amendment No.1", pursuant to the Act of Congress approved June 17, 1902 (32 Stat. 388), and Acts amendatory thereof or supplementary thereto, and particularly pursuant to the Lower Colorado Water Supply Act, approved November 14, 1986 (100 Stat. 3665), as amended on November 19, 2005, and the Boulder Canyon Project Act approved December 21, 1928 (45 Stat. 1057), all of which are commonly known and referred to as the Federal Reclamation laws, among the United States of America (hereinafter referred to as "United States") through the Bureau of Reclamation (hereinafter referred to as "Reclamation"); the City of Needles, California, a charter city duly organized and existing under and by virtue of the laws of the State of California (hereinafter referred to as "Needles"); and The Metropolitan Water District of Southern California, a metropolitan water district duly organized and existing under and by virtue of the laws of the State of California (hereinafter referred to as "MWD"). The United States, Needles, and MWD are sometimes referenced as the "Parties" collectively or as a "Party" individually.

2. EXPLANATORY RECITALS:

2.1 WHEREAS, the Lower Colorado Water Supply Act, authorized the Secretary of the Interior, through Reclamation, to construct, operate, and maintain the Lower Colorado Water Supply Project, comprised of a well field and appurtenant works (hereinafter referred to as the "Project");

2.2 WHEREAS, Contract No. 06-XX-30-W0452 dated March 26, 2007, hereinafter called the "the Contract," provided, among other things, for Needles to enter into a contract with an expert, after such expert has been approved by the Parties, to complete a study not later than December 31, 2012, using the Economic and Environmental Principles and Guidelines for Water and Related Land Resources Implementation Studies of the U.S. Water Resources Council to:

a. forecast the future total dissolved solids concentration of Project Water and determine if desalting is necessary to not exceed the total dissolved solids concentration shown in Exhibit B of the Contract prior to December 31, 2070,

b. evaluate the cost of desalting Project Water on a present value basis using the discount rate for Federal water resources planning published annually in the Federal Register, if desalting is necessary to not exceed the total dissolved solids concentration as shown in Exhibit B of the Contract prior to December 31, 2070,

c. determine the potential feasible alternatives to Project Water that would be less expensive than desalting Project Water, if desalting is necessary to not exceed the total dissolved solids concentration as shown in Exhibit B of the Contract prior to December 31, 2070,

d. estimate the cost of implementing and using the water supply from potential feasible alternatives on a present value basis using the discount rate for Federal water resources planning published annually in the Federal Register, and

e. determine the Trust Fund Account deposit per acre-foot, expressed as a percentage of the 2007 Trust Fund Account deposit per acre-foot, necessary each year over the estimated remaining term of the Contract for the least expensive feasible solution to the total dissolved solids concentration projection exceeding the concentration as shown in Exhibit B of the Contract based on the projected Unused Project Capacity;

2.3 WHEREAS, the Parties have determined that it is infeasible to complete the study not later than December 31, 2012;

2.4 WHEREAS, Needles has entered into a U.S. Geological Survey Joint Funding Agreement to provide monies to complete “Phase 1 – Establishment of Monitoring Network and Initial Characterization of Ground-Water System” of the “Hydrologic Investigation to Forecast the Future Total Dissolved Solids Concentration of Water Pumped by the Lower Colorado Water Supply Project” by the end of federal fiscal year 2011;

2.5 WHEREAS, the complete three-phase investigation will result in a forecast of the future total dissolved solids concentration (salinity) of water pumped from Project wells near the All American Canal in southeastern California;

2.6 WHEREAS, the Parties have determined that it is feasible to complete the study referenced in Section 2.2 of this Amendment not later than December 31, 2019;

2.7 WHEREAS, the Parties desire to amend the Contract to address the delay in completion of the study and the consequences of the delay.

NOW, THEREFORE, in consideration of the mutual and dependent covenants contained herein, the United States, Needles, and MWD agree as follows:

3. AMENDMENT OF CONTRACT NO. 06-XX-30-W0452:

3.1 Subsection 16.6 of the Contract is hereby deleted and a revised subsection is substituted in lieu thereof, as follows:

“16.6 Determination of Trust Fund Account Deposits Needed. Beginning January 2008, the 2007 Trust Fund Account deposit of \$112 per acre-foot will be increased by two percent annually for five years. The Trust Fund account deposit per acre-foot will be adjusted beginning in 2013 as follows:

2013	113 percent of 2007 amount
2014	115 percent of 2007 amount
2015	117 percent of 2007 amount
2016	120 percent of 2007 amount
2017	122 percent of 2007 amount
2018	124 percent of 2007 amount
2019	127 percent of 2007 amount.

In order to determine the Trust Fund account deposit needed for its purpose in the future, Needles shall enter into a contract with one or more experts, after such expert(s) has (have) been approved by the Parties, to complete a study not later than December 31, 2019, using the Economic and Environmental Principles and Guidelines for Water and Related Land Resources Implementation Studies of the U.S. Water Resources Council to:

16.6.1 forecast the future total dissolved solids concentration of Project Water and determine if desalting is necessary to not exceed the total dissolved solids concentration shown in Exhibit B herein prior to December 31, 2070,

16.6.2 evaluate the cost of desalting Project Water on a present value basis using the discount rate for Federal water resources planning published annually in the Federal Register, if desalting is necessary to not exceed the total dissolved solids concentration as shown in Exhibit B herein prior to December 31, 2070,

16.6.3 determine the potential feasible alternatives to Project Water that would be less expensive than desalting Project Water, if desalting is necessary to not exceed the total dissolved solids concentration as shown in Exhibit B herein prior to December 31, 2070,

16.6.4 estimate the cost of implementing and using the water supply from potential feasible alternatives on a present value basis using the discount rate for Federal water resources planning published annually in the Federal Register, and

16.6.5 determine the Trust Fund Account deposit per acre-foot, expressed as a percentage of the 2007 Trust Fund Account deposit per acre-foot, necessary each year over the estimated remaining terms of this Contract for the least expensive feasible solution to the total dissolved solids concentration projection exceeding the concentration as shown in Exhibit B based on the Unused Project Capacity.”

3.2 Subsection 16.7 of the Contract is hereby deleted and a revised subsection is substituted in lieu thereof, as follows:

“16.7 Adjustment of Trust Fund Account Deposit. Should the study completed by 2019 forecast that desalting is:

16.7.1 Not necessary to not exceed the total dissolved solids concentration shown in Exhibit B prior to December 31, 2070, MWD’s Trust Account Deposit per acre-foot for the period 2020 through 2024 shall be \$123.66, subject to any credit calculated as follows. MWD shall receive a credit toward future Trust Fund Account deposits in an amount equal to the difference between: (a) the sum of the Trust Fund Account invoices from 2013 through 2019 which MWD actually paid plus interest earned on the amount paid, less (b) the amount that MWD would have paid at the rate of \$123.66 per acre-foot multiplied by the amount of Consumptive Use of Mainstream Water available from Unused Project Capacity by MWD from 2013 through 2019, plus interest that would have been earned on that amount at the rate earned on Trust Fund Account deposits for that time period. Such credit shall be applied by Needles toward the next Trust Fund Account payment(s) due from MWD until the credit is exhausted. Should this Contract be projected to terminate prior to the credit being exhausted, Needles shall provide to MWD 90 days prior to termination of this Contract funds in an amount equal to the remaining credit. Should MWD receive a credit toward future Trust Fund Account deposits, Needles shall document the credit for future reference.

16.7.2 Necessary to not exceed the total dissolved solids concentration shown in Exhibit B prior to December 31, 2070 and that MWD’s monthly payments deposited in the Trust Fund Account from 2013 to 2019, plus the interest earned, were, when added to MWD’s projected future monthly payments, greater than the amount

determined by the study performed pursuant to Section 16.6 to be necessary each year over the estimated remaining terms of this Contract for the least expensive feasible solution to the total dissolved solids concentration projection exceeding the concentration as shown in Exhibit B based on the Unused Project Capacity, MWD shall receive a credit toward future Trust Fund Account deposits in an amount equal to the difference between: (a) the sum of the Trust Fund Account invoices from 2013 through 2019 which MWD actually paid plus interest earned on the amount paid, less (b) the amount that MWD would have paid based on the study results, plus interest that would have been earned on that amount from 2013 through 2019. Such credit shall be applied by Needles toward the next Trust Fund Account payment(s) due from MWD until the credit is exhausted. Should this Contract be projected to terminate prior to the credit being exhausted, Needles shall provide to MWD 90 days prior to termination of this Contract funds in an amount equal to the remaining credit. Should MWD receive a credit toward future Trust Fund Account deposits, Needles shall document the credit for future reference. MWD's Trust Fund Account deposit per acre-foot for the period 2020 to 2024 shall be the percentage of the 2007 Trust Fund Account deposit per acre-foot specified by the results of the study, provided that the Trust Fund Account deposit per acre-foot shall not exceed the following amount for the years shown:

2020	129 percent of 2007 amount
2021	132 percent of 2007 amount
2022	135 percent of 2007 amount
2023	137 percent of 2007 amount
2024	140 percent of 2007 amount.

The Parties recognize that the results of the study could show that the Trust Fund Account deposit per acre-foot in one or more years during the period 2020 to 2024 will be less than the Trust Fund Account deposit per acre-foot in 2019.

16.7.3 Necessary to not exceed the total dissolved solids concentration shown in Exhibit B prior to December 31, 2070, and that MWD’s monthly payments deposited in the Trust Fund Account from 2013 to 2019, plus the interest earned, were, when added to MWD’s projected future monthly payments, less than the amount determined by the study performed pursuant to Section 16.6 to be necessary each year over the estimated remaining terms of this Contract for the least expensive feasible solution to the total dissolved solids concentration projection exceeding the concentration as shown in Exhibit B based on the Unused Project Capacity, MWD’s Trust Fund Account deposit per acre-foot for the period 2020 to 2024 shall be the percentage of the 2007 Trust Fund Account deposit per acre-foot specified by the results of the study, provided that the Trust Fund Account deposit per acre-foot shall not exceed the following amount for the years shown:

2020	129 percent of 2007 amount
2021	132 percent of 2007 amount
2022	135 percent of 2007 amount
2023	137 percent of 2007 amount
2024	140 percent of 2007 amount.”

3.3 Subsection 16.8 of the Contract is hereby deleted and a revised subsection is substituted in lieu thereof, as follows:

“16.8 The study shall be updated every five years beginning in 2024 using the same procedures. Should a study update forecast that desalting is not necessary to not

exceed the total dissolved solids concentration as shown in Exhibit B prior to December 31, 2070, MWD's Trust Fund Account deposit per acre-foot in each year of the subsequent five-year period shall be the same amount as in the final year of the previous five-year period.”

3.4 Subsection 16.9 of the Contract is hereby deleted and a revised subsection is substituted in lieu thereof, as follows:

“16.9 If any such study indicates that desalting is necessary to not exceed the total dissolved solids concentration as shown in Exhibit B, prior to December 31, 2070, MWD's Trust Fund Account deposit per acre-foot for a particular year shall except as provided in Section 16.10, be the percentage of the 2007 Trust Fund Account deposit per acre-foot specified by the results of the study, provided that the Trust Fund Account deposit per acre-foot shall not exceed the following amount for the years shown:

2025	143 percent of 2007 amount
2026	146 percent of 2007 amount
2027	149 percent of 2007 amount
2028	152 percent of 2007 amount
2029	155 percent of 2007 amount
2030	158 percent of 2007 amount
2031	161 percent of 2007 amount
2032	164 percent of 2007 amount
2033	167 percent of 2007 amount
2034	171 percent of 2007 amount
2035	174 percent of 2007 amount
2036	178 percent of 2007 amount
2037	181 percent of 2007 amount
2038	185 percent of 2007 amount
2039	188 percent of 2007 amount
2040	192 percent of 2007 amount
2041	196 percent of 2007 amount
2042	200 percent of 2007 amount
2043	204 percent of 2007 amount

2044	208 percent of 2007 amount
2045	212 percent of 2007 amount.

The Parties recognize that the results of the study could show that the Trust Fund Account deposit per acre-foot in one or more years during the period 2025 to 2045 will be less than the Trust Fund Account deposit per acre-foot in a previous year. Should the Trust Fund Account deposit per acre-foot needed be less than the maximum in any of the years from 2020 to 2045, for future reference, Needles shall document the difference in dollars between the maximum and the Trust Fund Account deposit for each year and cumulatively for the Project Water exchanged for Mainstream Water for MWD.”

3.5 Subsection 16.10 of the Contract is hereby deleted and a revised subsection is substituted in lieu thereof, as follows:

“16.10 It is the intent of the Parties that if MWD’s Trust Fund Account deposit in any year were less than the deposit which would have resulted from the use of the percentage of the 2007 amount shown in Subsection 16.6, 16.7.3, or 16.9 for that year, the difference between the annual maximum deposit resulting from the use of the percentage of the 2007 amount and the actual payment, accounting for any credit applied, would be recaptured over a period of time to fund the least expensive feasible solution should the percentage of the 2007 amount specified by the results of the study or study update exceed the percentage of the 2007 amount shown in these subsections in a future year. Consequently, should the needed Trust Fund Account deposit per acre-foot exceed the maximum for a particular year, Needles shall determine the number of dollars needed in excess of the maximum for the amount of Project Water to be exchanged for

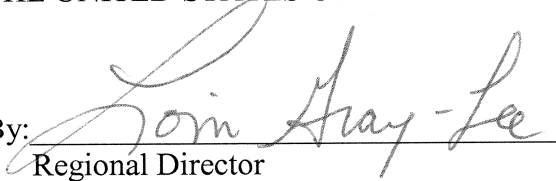
Mainstream Water for MWD. Should the cumulative amount in dollars by which the maximums exceed the actual Trust Fund Account deposits in previous years plus any credit applied by Needles to MWD's Trust Fund Account deposits in accordance with Section 16.7, be equal to or greater than the number of dollars needed in excess of the maximum for the particular year under consideration, MWD's Trust Fund Account deposit shall be the maximum for the particular year under consideration per acre-foot multiplied by the amount of Project Water to be exchanged for Mainstream Water for MWD (expressed in acre-feet), plus the number of dollars needed in excess of the maximum for a particular year. The previously documented cumulative amount in dollars by which the maximums exceed the Trust Fund Account deposits in previous years plus any credit applied by Needles to MWD's Trust Fund Account deposits in accordance with Section 16.7, shall be reduced by the number of dollars needed in excess of the maximum for the particular year under consideration and documented for future reference. Should the needed Trust Fund Account deposit per acre-foot be greater than the maximum for a particular year, and the cumulative amount in dollars by which the maximums exceed the Trust Fund Account deposits in previous years plus any credit applied by Needles to MWD's Trust Fund Account deposits in accordance with Section 16.7, be less than the number of dollars needed in excess of the maximum for the particular year under consideration, MWD's Trust Fund Account deposit shall be the maximum for the particular year under consideration per acre-foot multiplied by the amount of Project Water to be exchanged for Mainstream Water for MWD (expressed in acre-feet), plus a quantity equal to the previously documented cumulative amount in dollars by which the maximums exceed the Trust Fund Account deposits in previous

years plus any credit applied by Needles to MWD's Trust Fund Account deposits in accordance with Section 16.7, divided by the number of years remaining in the Contract term. The previously documented cumulative amount in dollars by which the maximums exceed the Trust Fund Account deposits in previous years plus any credit applied by Needles to MWD's Trust Fund Account deposits in accordance with Section 16.7, shall be reduced by a quantity equal to the previously documented cumulative amount in dollars by which the maximums exceed the Trust Fund Account deposits in previous years plus any credit applied by Needles to MWD's Trust Fund Account deposits in accordance with Section 16.7, divided by the number of years remaining in the Contract term."

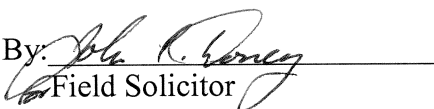
4. OTHER PROVISIONS UNAFFECTED: Except as expressly modified by this Amendment No. 1, all other terms and provisions of Contract No. 06-XX-30-W0452 remain in full force and effect.

IN WITNESS WHEREOF, the Parties have executed this Amendment No. 1 to Contract No. 06-XX-30-W0452, hereto the day and year first above written.

THE UNITED STATES OF AMERICA

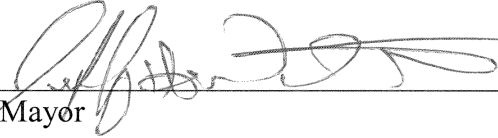
By: 
Regional Director
Lower Colorado Region

Approved as to form:

By: 
Field Solicitor

Signatures continued on next page.

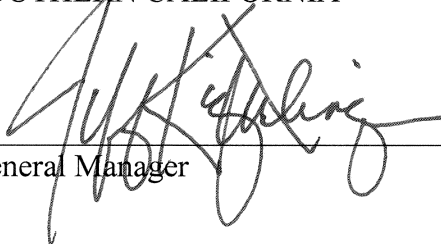
CITY OF NEEDLES

By: 
Mayor

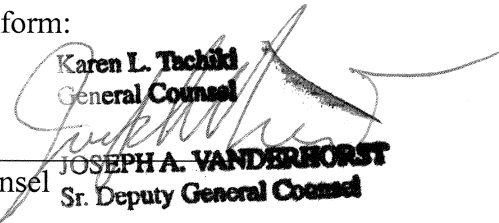
Attest:

By: 
City Clerk

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

By: 
General Manager

Approved as to form:

By: 
General Counsel

Karen L. Tschick
General Counsel
JOSEPH A. VANDERHORST
Sr. Deputy General Counsel

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION

LOWER COLORADO WATER SUPPLY

PROJECT CONTRACT AMONG
THE UNITED STATES, THE CITY OF NEEDLES, AND THE METROPOLITAN
WATER DISTRICT OF SOUTHERN CALIFORNIA
FOR DELIVERY OF LOWER COLORADO WATER SUPPLY PROJECT WATER

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UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION

LOWER COLORADO WATER SUPPLY PROJECT

CONTRACT AMONG
THE UNITED STATES, THE CITY OF NEEDLES, AND
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
FOR DELIVERY OF LOWER COLORADO WATER SUPPLY PROJECT WATER

1. PREAMBLE: THIS AMENDMENT, made this 27th day of January, 201~~9~~²⁰, hereinafter called "Amendment No. 2", pursuant to the Act of Congress approved June 17, 1902 (32 Stat. 388), and Acts amendatory thereof or supplementary thereto, and particularly pursuant to the Lower Colorado Water Supply Act, approved November 14, 1986 (100 Stat. 3665), as amended on November 19, 2005, and the Boulder Canyon Project Act approved December 21, 1928 (45 Stat. 1057), all of which are commonly known and referred to as the Federal Reclamation laws, among the United States of America (hereinafter referred to as "United States") through the Bureau of Reclamation (hereinafter referred to as "Reclamation"); the City of Needles, California, a charter city duly organized and existing under and by virtue of the laws of the State of California (hereinafter referred to as "Needles"); and The Metropolitan Water District of Southern California, a metropolitan water district duly organized and existing under and by virtue of the laws of the State of California (hereinafter referred to as "MWD"). The United States, Needles, and MWD are sometimes referenced as the "Parties" collectively or as a "Party" individually.

2. EXPLANATORY RECITALS:

2.1 WHEREAS, the Lower Colorado Water Supply Act authorized the Secretary of the Interior, through Reclamation, to construct, operate, and maintain the Lower Colorado Water Supply Project, comprised of a well field and appurtenant works (hereinafter referred to as the "Project");

2.2 WHEREAS, Contract No. 06-XX-30-W0452 dated March 26, 2007, hereinafter called "the Contract," provided, among other things, for Needles to enter into a contract with an expert, after such expert has been approved by the Parties, to complete a study not later than December 31, 2012, using the Economic and Environmental Principles and Guidelines for Water and Related Land Resources Implementation Studies of the U.S. Water Resources Council to:

a. forecast the future total dissolved solids concentration of Project Water and determine if desalting is necessary to not exceed the total dissolved solids concentration shown in Exhibit B of the Contract prior to December 31, 2070,

b. evaluate the cost of desalting Project Water on a present value basis using the discount rate for Federal water resources planning published annually in the Federal Register, if desalting is necessary to not exceed the total dissolved solids concentration as shown in Exhibit B of the Contract prior to December 31, 2070,

c. determine the potential feasible alternatives to Project Water that would be less expensive than desalting Project Water, if desalting is necessary to not exceed the total dissolved solids concentration as shown in Exhibit B of the Contract prior to December 31, 2070,

d. estimate the cost of implementing and using the water supply from potential feasible alternatives on a present value basis using the discount rate for Federal water resources planning published annually in the Federal Register, and

e. determine the Trust Fund Account deposit per acre-foot necessary each year over the estimated remaining term of the Contract for the least expensive feasible solution to the total dissolved solids concentration projection exceeding the concentration as shown in Exhibit B of the Contract based on the projected Unused Project Capacity;

2.3 WHEREAS, the Parties determined that it was infeasible to complete the study not later than December 31, 2012, and by Amendment No. 1 dated May 3, 2010 to the Contract agreed to extend the time for completion to not later than December 31, 2019;

2.4 WHEREAS, Needles has entered into a U.S. Geological Survey Joint Funding Agreement to provide monies to complete "Phase I – Establishment of Monitoring Network and Initial Characterization of Ground-Water System" of the "Hydrologic Investigation to Forecast the Future Total Dissolved Solids Concentration of Water Pumped by the Lower Colorado Water Supply Project," which is the first phase of a three-phase investigation of the Lower Colorado Water Supply Project;

2.5 WHEREAS, the complete three-phase investigation will result in a forecast of the future total dissolved solids concentration (salinity) of water pumped from Project wells near the All American Canal in southeastern California;

2.6 WHEREAS, the Parties have determined that it is infeasible to complete the study referenced in Section 2.2 of this Amendment not later than December 31, 2019;

2.7 WHEREAS, the Parties have not conclusively determined that it is feasible to complete the study/studies referenced in Section 2.2 of this Amendment not later than December 31, 2024, but are determined to proceed with the study/studies with all deliberate speed;

2.8 WHEREAS, the Parties desire to further amend the Contract to address the

delay in completion of the study and the consequences of the delay.

NOW, THEREFORE, in consideration of the mutual and dependent covenants contained herein, the United States, Needles, and MWD agree as follows:

3. AMENDMENT NO. 2 OF CONTRACT NO. 06-XX-30-W0452:

3.1 Subsection 16.6 of the Contract, as previously amended by Amendment No. 1, is hereby deleted and a revised subsection is substituted in lieu thereof, as follows:

"16.6 Determination of Trust Fund Account Deposits Needed. Beginning January 2008, the 2007 Trust Fund Account deposit of \$112 per acre-foot will be increased by two percent annually. The Trust Fund account deposit per acre-foot will be adjusted beginning in 2020 as follows:

2020	\$144.88
2021	\$147.78
2022	\$150.74
2023	\$153.75
2024	\$156.83

In order to determine the Trust Fund account deposit needed for its purpose in the future, Needles shall enter into a contract with one or more experts, after such expert(s) has (have) been approved by the Parties, to complete the studies required by Section 2.2 with all deliberate speed with the intent of completing such studies not later than December 31, 2024, if reasonably feasible, using the Principles, Requirements, and Guidelines for Water and Land Related Resources Implementation Studies of the Council on Environmental Quality to:

16.6.1 forecast the future total dissolved solids concentration of Project Water and determine if desalting is necessary to not exceed the total dissolved solids concentration shown in Exhibit B herein prior to December 31, 2070,

16.6.2 evaluate the cost of desalting Project Water on a present value basis using the discount rate for Federal water resources planning published annually in the Federal Register, if desalting is necessary to not exceed the total dissolved solids concentration as shown in Exhibit B herein prior to December 31, 2070,

16.6.3 determine the potential feasible alternatives to Project Water that would be less expensive than desalting Project Water, if desalting is necessary to not exceed the total dissolved solids concentration as shown in Exhibit B herein prior to December 31, 2070,

16.6.4 estimate the cost of implementing and using the water supply from potential feasible alternatives on a present value basis using the discount rate for Federal water resources planning published annually in the Federal Register, and

16.6.5 determine the Trust Fund Account deposit per acre-foot necessary each year over the estimated remaining terms of this Contract for the least expensive feasible solution to the total dissolved solids concentration projection exceeding the concentration as shown in Exhibit B based on the Unused Project Capacity."

3.2 Subsection 16.7 of the Contract, as previously amended by Amendment No. 1, is hereby deleted and a revised subsection is substituted in lieu thereof, as follows:

"16.7 Adjustment of Trust Fund Account Deposit. Should the study intended to be completed by 2024 forecast that desalting is:

16.7.1 Not necessary to not exceed the total dissolved solids concentration shown in Exhibit B prior to December 31, 2070, MWD's Trust Account Deposit per acre-foot for the period 2025 through 2029 shall be \$123.66, subject to any credit calculated as follows. MWD shall receive a credit toward future Trust Fund Account deposits in an

amount equal to the difference between: (a) the sum of the Trust Fund Account invoices from 2013 through 2024 which MWD actually paid plus interest earned on the amount paid, less (b) the amount that MWD would have paid at the rate of \$123.66 per acre-foot multiplied by the amount of Consumptive Use of Mainstream Water available from Unused Project Capacity by MWD from 2013 through 2024, plus interest that would have been earned on that amount at the rate earned on Trust Fund Account deposits for that time period. Such credit shall be applied by Needles toward the next Trust Fund Account payment(s) due from MWD until the credit is exhausted. Should this Contract be projected to terminate prior to the credit being exhausted, Needles shall provide to MWD 90 days prior to termination of this Contract funds in an amount equal to the remaining credit. Should MWD receive a credit toward future Trust Fund Account deposits, Needles shall document the credit for future reference.

16.7.2 Necessary to not exceed the total dissolved solids concentration shown in Exhibit B prior to December 31, 2070 and that MWD's monthly payments deposited in the Trust Fund Account from 2013 to 2024, plus the interest earned, were, when added to MWD's projected future monthly payments, greater than the amount determined by the study performed pursuant to Section 16.6 to be necessary each year over the estimated remaining terms of this Contract for the least expensive feasible solution to the total dissolved solids concentration projection exceeding the concentration as shown in Exhibit B based on the Unused Project Capacity, MWD shall receive a credit toward future Trust Fund Account deposits in an amount equal to the difference between:

(a) the sum of the Trust Fund Account invoices from 2013 through 2024 which

MWD actually paid plus interest earned on the amount paid, less (b) the amount that MWD would have paid based on the study results, plus interest that would have been earned on that amount from 2013 through 2024. Such credit shall be applied by Needles toward the next Trust Fund Account payment(s) due from MWD until the credit is exhausted. Should this Contract be projected to terminate prior to the credit being exhausted, Needles shall provide to MWD 90 days prior to termination of this Contract funds in an amount equal to the remaining credit. Should MWD receive a credit toward future Trust Fund Account deposits, Needles shall document the credit for future reference. MWD's Trust Fund Account deposit per acre-foot for the period 2025 to 2029 shall be the amount per acre-foot specified by the results of the study, provided that the Trust Fund Account deposit per acre-foot shall not exceed the amount calculated by escalating the 2007 Trust Fund Account deposit of \$112 per acre-foot by two percent annually. The calculated amount for the years shown is as follows:

2025	\$159.96
2026	\$163.16
2027	\$166.43
2028	\$169.75
2029	\$173.15

The Parties recognize that the results of the study could show that the Trust Fund Account deposit per acre-foot in one or more years during the period 2025 to 2029 will be less than the Trust Fund Account deposit per acre-foot in 2024.

16.7.3 Necessary to not exceed the total dissolved solids concentration shown in Exhibit B prior to December 31, 2070, and that MWD's monthly payments

deposited in the Trust Fund Account from 2013 to 2024, plus the interest earned, were, when added to MWD's projected future monthly payments, less than the amount determined by the study performed pursuant to Section 16.6 to be necessary each year over the estimated remaining terms of this Contract for the least expensive feasible solution to the total dissolved solids concentration projection exceeding the concentration as shown in Exhibit B based on the Unused Project Capacity, MWD's Trust Fund Account deposit per acre-foot for the period 2025 to 2029 shall be the amount specified by the results of the study, provided that the Trust Fund Account deposit per acre-foot shall not exceed the amount calculated by escalating the 2007 Trust Fund Account deposit of \$112 per acre-foot by two percent annually. The calculated amount for the years shown is as follows:

2025	\$159.96
2026	\$163.16
2027	\$166.43
2028	\$169.75
2029	\$173.15

3.3 Subsection 16.8 of the Contract, as previously amended by Amendment No. 1, is hereby deleted and a revised subsection is substituted in lieu thereof, as follows:

"16.8 The study shall be updated every five years beginning in 2029 using the same procedures. Should a study update forecast that desalting is not necessary to not exceed the total dissolved solids concentration as shown in Exhibit B prior to December 31, 2070, MWD's Trust Fund Account deposit per acre-foot in each year of the subsequent five-year period shall be the same amount as in the final year of the previous five-year period."

3.4 Subsection 16.9 of the Contract, as previously amended by Amendment No. 1, is hereby deleted and a revised subsection is substituted in lieu thereof, as follows:

"16.9 If any such study indicates that desalting is necessary to not exceed the total dissolved solids concentration as shown in Exhibit B, prior to December 31, 2070, MWD's Trust Fund Account deposit per acre-foot for a particular year shall except as provided in Section 16.10, be the amount specified by the results of the study, provided that the Trust Fund Account deposit per acre-foot shall not exceed the amount calculated by escalating the 2007 Trust Fund Account deposit of \$112 per acre-foot by two percent annually.

The calculated amount for the years shown is as follows:

2030	\$176.61
2031	\$180.14
2032	\$183.75
2033	\$187.42
2034	\$191.17
2035	\$194.99
2036	\$198.89
2037	\$202.87
2038	\$206.93
2039	\$211.07
2040	\$215.29
2041	\$219.60
2042	\$223.99
2043	\$228.47
2044	\$233.04
2045	\$237.70

The Parties recognize that the results of the study could show that the Trust Fund Account deposit per acre-foot in one or more years during the period 2030 to 2045 will be less than the Trust Fund Account deposit per acre-foot in a previous year. Should the Trust Fund Account deposit per acre-foot needed be less than the maximum in any of the years from

2030 to 2045, for future reference, Needles shall document the difference in dollars between the maximum and the Trust Fund Account deposit for each year and cumulatively for the Project Water exchanged for Mainstream Water for MWD.”

3.5 Subsection 16.10 of the Contract, as amended by Amendment No. 1, is hereby deleted and a revised subsection is substituted in lieu thereof, as follows:

"16.10 It is the intent of the Parties that if MWD's Trust Fund Account deposit in any year were less than the deposit which would have resulted from the use of the escalated 2007 amount shown in Subsection 16.6, 16.7.3, or 16.9 for that year, the difference between the annual maximum deposit resulting from the use of the escalated 2007 amount and the actual payment, accounting for any credit applied, would be recaptured over a period of time to fund the least expensive feasible solution should the amount specified by the results of the study or study update exceed the escalated 2007 amount shown in these subsections in a future year. Consequently, should the needed Trust Fund Account deposit per acre-foot exceed the maximum for a particular year, Needles shall determine the number of dollars needed in excess of the maximum for the amount of Project Water to be exchanged for Mainstream Water for MWD. Should the cumulative amount in dollars by which the maximums exceed the actual Trust Fund Account deposits in previous years plus any credit applied by Needles to MWD's Trust Fund Account deposits in accordance with Section 16.7, be equal to or greater than the number of dollars needed in excess of the maximum for the particular year under consideration, MWD's Trust Fund Account deposit shall be the maximum for the particular year under consideration per acre-foot multiplied by the amount of Project Water to be exchanged for Mainstream Water for MWD (expressed in acre-feet), plus the number of dollars needed in excess of the maximum for a particular

year. The previously documented cumulative amount in dollars by which the maximums exceed the Trust Fund Account deposits in previous years plus any credit applied by Needles to MWD's Trust Fund Account deposits in accordance with Section 16.7, shall be reduced by the number of dollars needed in excess of the maximum for the particular year under consideration and documented for future reference. Should the needed Trust Fund Account deposit per acre-foot be greater than the maximum for a particular year, and the cumulative amount in dollars by which the maximums exceed the Trust Fund Account deposits in previous years plus any credit applied by Needles to MWD's Trust Fund Account deposits in accordance with Section 16.7, be less than the number of dollars needed in excess of the maximum for the particular year under consideration, MWD's Trust Fund Account deposit shall be the maximum for the particular year under consideration per acre-foot multiplied by the amount of Project Water to be exchanged for Mainstream Water for MWD (expressed in acre-feet), plus a quantity equal to the previously documented cumulative amount in dollars by which the maximums exceed the Trust Fund Account deposits in previous years plus any credit applied by Needles to MWD's Trust Fund Account deposits in accordance with Section 16.7, divided by the number of years remaining in the Contract term. The previously documented cumulative amount in dollars by which the maximums exceed the Trust Fund Account deposits in previous years plus any credit applied by Needles to MWD's Trust Fund Account deposits in accordance with Section 16.7, shall be reduced by a quantity equal to the previously documented cumulative amount in dollars by which the maximums exceed the Trust Fund Account deposits in previous years plus any credit applied by Needles to MWD's Trust Fund Account deposits in accordance with Section 16.7, divided by the number

of years remaining in the Contract term.”

4. OTHER PROVISIONS UNAFFECTED: Except as expressly modified by this Amendment No. 2, all other terms and provisions of Contract No. 06-XX-30-W0452 remain in full force and effect.

IN WITNESS WHEREOF, the Parties have executed this Amendment No. 2 to Contract No. 06-XX-30-W0452, hereto the day and year first above written.


THE UNITED STATES OF AMERICA

By: 
Regional Director
Lower Colorado Region

CITY OF NEEDLES

By: 
Mayor

Attest:

By: 
City Clerk

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

By: 
General Manager

Approved as to form:
APPROVED AS TO FORM
Marcia L. Scully

By: 
General Counsel

By: Catherine M. Stites
Senior Deputy General Counsel