MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Executive Office

December 11, 2006

Mr. Herbert R. Guenther
Chairman
Arizona Water Banking Authority
3550 N. Central Avenue
Phoenix, AZ 85012

Dear Mr. Guenther:

Recovery and Creation of Intentionally Created Unused Apportionment with
Credits Created Under the 1992 Demonstration Agreement between CAWCD and MWD

In 1992, The Metropolitan Water District of Southern California (Metropolitan) entered into an agreement with the Central Arizona Water Conservation District (CAWCD) to demonstrate the feasibility of CAWCD storing Colorado River water in central Arizona for the benefit of an entity outside the State of Arizona (the Demonstration Agreement). The Demonstration Agreement was amended in 1994 and is included with this letter.

Pursuant to the Demonstration Agreement, CAWCD created 80,909 acre-feet of long-term storage credits (LTSC) that may be recovered for Metropolitan from 89,000 acre-feet of Colorado River water consumptive use. These credits are held in CAWCD's Long-term Storage Account. It is our understanding that the Arizona Water Banking Authority (AWBA) is expressly authorized to enter into contracts necessary to cause a decrease in Arizona diversions from the Colorado River, ensuring that Arizona will use less than its full apportionment of Colorado River water in years in which Metropolitan calls on the LTSC held on its behalf pursuant to the Demonstration Agreement. By letters dated April 12, 1993, and May 18, 1995, the Secretary approved the Demonstration Agreement and agreed to honor Metropolitan's right to withdraw LTSC by treating water recovered by CAWCD under the terms of the agreement as Arizona's unused apportionment made available to Metropolitan under its Colorado River water delivery contract.

It is proposed that Metropolitan, CAWCD, and AWBA enter into this letter agreement to facilitate appropriate accounting of Colorado River consumptive use by the Secretary of the Interior (Secretary) for water recovered and delivered pursuant to the terms of the Demonstration Agreement. Our collective signatures will constitute our agreement of the terms and conditions described as follows:

700 N. Alameda Street, Los Angeles, California 90012 • Mailing Address: Box 54153, Los Angeles, California 90054-0153 • Telephone (213) 217-6000

1. By August 1st of each year, Metropolitan and CAWCD will agree on the amount of LTSC to be recovered in the following calendar year. Metropolitan and CAWCD shall report that information to the U.S. Bureau of Reclamation (Reclamation) for inclusion in its Annual Operating Plan (AOP). Metropolitan and CAWCD may change the quantity of LTSC to be recovered in any year by mutual agreement.

2. By December 15th of each year, CAWCD will notify AWBA as to the amount of LTSC to be recovered in the following year and its plans for recovery.

3. By December 31st of each year that Intentionally Created Unused Apportionment (ICUA) is requested for the following year, the AWBA will notify Reclamation and Metropolitan as to the amount of ICUA to be created in the following year. The amount of ICUA to be created shall be equal to the amount of LTSC to be recovered.

4. By June 1st of the year following the year ICUA was created, the AWBA shall, if requested by Reclamation, submit written notice certifying the quantity of ICUA and method used to create the ICUA to Reclamation, Metropolitan and CAWCD.

5. Costs associated with recovering water and creating ICUA with LTSC shall be as provided in the Demonstration Agreement between CAWCD and Metropolitan. No costs associated with this agreement and/or the Demonstration Agreement shall be borne by AWBA.

6. The terms of this Agreement will remain in effect until 80,909 acre-feet of ICUA is created by the AWBA for the benefit of Metropolitan.

By letter dated September 28, 2006, Metropolitan requested the recovery of 15,000 acre-feet of LTSC for the 2007 calendar year. CAWCD has agreed to recover 15,000 acre-feet for Metropolitan in 2007 in accordance with this agreement. Reclamation has agreed to make ICUA available to Metropolitan in 2007.

If you agree with these terms, please sign below and return one duplicate original to Metropolitan and CAWCD at your earliest convenience.

Mr. Herbert Guenther
Page 3
December 11, 2006

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

By:_____
Jeffrey Kightlinger
General Manager

Date: 12/13/06

CENTRAL ARIZONA WATER
CONSERVATION DISTRICT

By:_____
David S. "Sid" Wilson, Jr.
General Manager

Date: 12-15-06

ACCEPTED AND AGREED TO:

ARIZONA WATER BANKING AUTHORITY

By:_____
Herbert R. Guenther
Chairman

Date:_____

HMR:tt
o:\a\s\c\HMR_AWBA_121106_MWD RECOVERY AGREEMENT_FINAL.doc

Enclosures (2)