

Arizona Water Banking Authority

3550 N. Central Avenue, Phoenix, Arizona 85012

Telephone 602-771-8487

Fax 602-771-8686



AUTHORITY MEMBERS

Herbert R. Guenther, Chairman
Maureen R. George, Vice Chairman
Tom Buschatzke, Secretary
Lisa A. Atkins
John Mawhinney

EX OFFICIO MEMBERS

Honorable Steve Pierce
Honorable Kirk Adams

December 8, 2010

Ms. Patricia Mulroy
General Manager
Southern Nevada Water Authority
1001 South Valley View Blvd.
Las Vegas, NV 89153

RE: Second Amended Agreement for Interstate Water Banking

Dear Ms. Mulroy:

The Agreement for Interstate Water Banking originally signed in July of 2001 has been amended twice. The latest amendment, executed April 1, 2009 ("Second Amended Agreement"), includes Subarticle 5.2, which allows the flexibility to modify certain subarticles of the Second Amended Agreement, including the payment schedules, to accommodate changing circumstances. For the last two years, SNWA and AWBA have agreed that the likelihood of AWBA storing water for the benefit of SNWA was minimal and agreed to modify the Operating Account payment schedule. Recognizing that the hydrologic conditions in the Colorado River Basin have not improved and that reservoir elevations will continue to decline in the immediate term, AWBA believes that it is appropriate to evaluate the storage of water for the benefit of SNWA over the next several years in the context of these hydrologic conditions and other changed circumstances.

Current projections by the Bureau of Reclamation indicate a strong probability that the elevation of Lake Mead will continue to decline over at least the next two years. Under the Interim Operating Guidelines, the Secretary of the Interior will declare a first-level shortage when Lake Mead's elevation drops below 1075 feet. If a shortage is declared, both Nevada and Arizona's normal-year water supplies will be reduced. In addition to the reduced supplies due to shortages, Nevada is at risk of further reductions if Lake Mead's elevation drops below 1050 feet (the elevation that impairs the operational capability of SNWA intake facilities). SNWA is currently constructing a lower intake to alleviate this problem.

To address these conditions, parties within Nevada, California and Arizona are working together to more effectively manage available Colorado River water. These measures have included requests to the Bureau of Reclamation to leave unused water in Lake Mead to minimize the mutual risk of shortage during the next several years and the joint funding of the pilot run of the Yuma Desalting Plant and the construction of the Brock Reservoir to allow water that was previously delivered to Mexico in excess of the amount it is entitled to receive under the 1944 Treaty to be retained in Lake Mead for the benefit of the entire system.

Given the dire condition of Lake Mead, the ongoing efforts of many parties in the lower basin to preserve water within Lake Mead to the extent possible, and the need for SNWA to focus its financial resources on the completion of a lower intake in Lake Mead, AWBA believes it is prudent at this juncture for it to forego storing additional water for SNWA through the end of calendar year 2014 and for SNWA to forego requiring the development of ICUA during this period in order to reduce the amount of water that would be delivered from Lake Mead. AWBA believes that these operational adjustments to the Second Amended Agreement will provide greater certainty for AWBA as it develops its Annual Plan of Operation and Ten-year Plan during this period and will allow the parties to the Second Amended Agreement to reevaluate the overall goals of the banking arrangement between Nevada and Arizona and determine whether any amendments or other modifications to that arrangement are appropriate.

Additionally, in order to accommodate these operational adjustments to the Second Amended Agreement, and unless otherwise agreed to by AWBA and SNWA, AWBA proposes that the payment dates specified in Subarticle 2.4.1.2 be extended by six years. This means that SNWA's obligation under Subarticle 2.4.1.2 to make ten payments of \$23 million each by January 10 of each year would resume in 2015 and end in 2024. SNWA would be credited for payments made under Subarticle 2.4.1.2 prior to 2015.

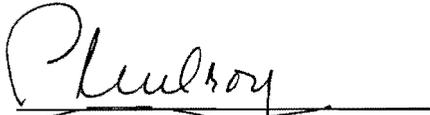
Please indicate your acceptance of the operational adjustments to the Second Amended Agreement and the modification of the payment schedule specified in Subarticle 2.4.1.2 described above by signing below and providing a duplicate copy of this letter agreement for our files. When signed by SNWA's General Manager, this letter agreement will supersede the previous letter agreements dated April 2, 2009, December 17, 2009, and June 15, 2010. Thank you.

Sincerely,



Herbert R. Guenther
Chairman, AWBA

By signing below I agree to the operational adjustments outlined above and to the modification of the payment schedule specified in Subarticle 2.4.1.2 of the Second Amended Agreement.


~~Patricia Mulroy~~
General Manager, SNWA

12-9-10
Date

cc: Ms. Lorri Gray-Lee, USBR
Mr. John Entsminger, SNWA
Mr. William Rinne, SNWA
Mr. George Caan, CRCN
AWBA Commission Members
Ms. Kim Mitchell, AWBA
Mr. David Modeer, CAWCD
Mr. Larry Dozier, CAWCD
Mr. Chris Harris, CRBC