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April 26, 1996

BY FAX ONLYMaureen Stapleton, General Manager
SAN DIEGO COUNTY WATER AUTHORITY
3211 Fifth Avenue
San Diego, CA 92103**RE: San Luis Rey Indian Water Settlement**

Dear Maureen:

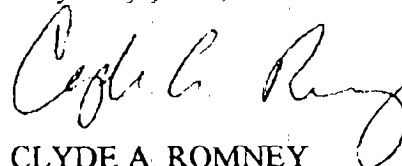
We have now received the draft AGREEMENT TO FACILITATE IMPLEMENTATION OF THE SAN LUIS REY INDIAN WATER RIGHTS SETTLEMENT ACT ("Agreement") dated April 25, 1996. While still subject to a final detailed review and approval by the respective governing boards of the Settlement Parties and the Metropolitan Water District, we represent to you that this document embodies all terms and conditions agreed upon in our negotiations with Metropolitan.

We respectfully request the support of the San Diego County Water Authority for approval of this Agreement at the Special Meeting of Metropolitan's Board of Directors on Tuesday, April 30, in Los Angeles. We further urge the Water Authority to support our efforts to forward the Agreement to the Department of the Interior for commencement of work on an Environmental Assessment concurrent with the Sofaer facilitation process.

I am enclosing an executive summary of the background and terms of the San Luis Rey Agreement which the Settlement Parties have asked Metropolitan to distribute to its directors at or prior to the April 30 meeting. Would you please consider providing copies to members of your Board of Directors as well?

Thank you for your courtesy and cooperation.

Very truly yours,


CLYDE A. ROMNEYCC: Metropolitan Water District
Settlement Parties

POSITION PAPER OF THE SAN LUIS REY
SETTLEMENT PARTIES SUMMARIZING BENEFITS
TO METROPOLITAN WATER DISTRICT AND
SAN DIEGO COUNTY WATER AUTHORITY
OF PROPOSED AGREEMENT AMONG
SAN LUIS REY SETTLEMENT PARTIES,
THE UNITED STATES AND METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA

1. Metropolitan would agree to provide the San Luis Rey Settlement parties with payments determined by a formula for 115 years.

a. Under the formula, the amount of the payment is determined by the difference between Metropolitan's normal price of water to its member agencies and a discounted price based on the assumed capital cost of water from the All American Canal Lining Project and incremental power, operation and maintenance costs. If the agreement were in place today, the first annual payment would be approximately \$2.9 million.

b. The annual payments are expected to increase gradually to \$4.9 million.

c. Once the \$4.9 million level is reached, if Metropolitan's normal price increases by more than 2% in any year, the payments will increase by 50% of the increase.

2. Metropolitan also would agree to provide water needed by the Indian Bands for use on their reservations (up to 16,000 acre feet per year) for which the Band(s) would pay Metropolitan's normal price to member agencies (excluding ad valorem taxes and annexation charges).

a. Most of the water provided by Metropolitan is expected to be delivered to the Pala Indian Reservation which has the largest potential need, is the most difficult and expensive to serve with local San Luis Rey River water and is located in close proximity to the portions of the San Diego Aqueducts which are owned and operated by Metropolitan.

b. The proposed agreement does not provide for the use of any facility of the County Water Authority and requires further separate agreement(s) for delivery of water to the Indian reservations. Any such agreement would provide an opportunity to address any issues regarding the possible use of County Water Authority facilities.

3. In return, the Secretary of the Interior would grant Metropolitan and other Colorado River water users the right to bank water in perpetuity in Lake Mead.

a. Metropolitan would be entitled to bank the water conserved under its 1989 agreement with Imperial Irrigation District.

b. Metropolitan would be entitled to bank the water conserved under its land fallowing agreement with the Palo Verde Irrigation District.

c. Metropolitan would be entitled to bank water made available when Metropolitan reduces its diversions from the Colorado River in order to reduce the salinity level of its blended supplies so that they can be used more effectively and beneficially for groundwater recharge and wastewater recycling.

d. Metropolitan would not be charged for banking.

e. Other Colorado River water users would be entitled to bank water made available by implementing extraordinary conservation measures, such as land fallowing, subject to the approval of the Secretary of the Interior.

f. The water banked in Lake Mead would bear its proportionate share of incremental evaporation losses and would be the first water to spill or to be released for flood control purposes (known as top-water banking).

4. The proposed agreement provides for the sharing of the risk of Metropolitan being enjoined from banking or from a court declaring that the banking provisions are invalid.

a. Payments received by the Settlement Parties would be refunded to Metropolitan in proportion to 50% of the banked water which was lost. Provision is made for a portion of the payments to be held in escrow by Metropolitan to cover the potential liability of the Indian Water Authority and the five Indian Bands.

b. Future payments to the Settlement Parties would be reduced by 75% if the right to bank water under the 1989 agreement with Imperial is lost, and by 25% if the right to bank water under the salinity control or Palo Verde land fallowing programs are lost.

5. The banking provisions of the proposed agreement are extremely valuable to Metropolitan and all of its member agencies.

a. Metropolitan has attempted, without success, to implement its right to bank under its 1931 contract with the Secretary. That right was made subject to the Secretary's terms and conditions.

b. Under present conditions, Metropolitan receives little return on its large capital investment to conserve about 100,000 acre feet of water annually within the Imperial Irrigation District. In the absence of banking, that conserved water becomes system water, available to all Colorado River water users, even though it was made possible by Metropolitan's investment. With banking, that water would become available to meet the needs of Metropolitan's member agencies during times when the Colorado River Aqueduct would not otherwise be full, i.e., dry years when the San Diego County Water Authority and its member agencies bear the highest risk of disproportionate shortages.

c. The same is true of the right to bank salinity control water. Under present conditions, to achieve salinity control, Metropolitan forgoes diversions of Colorado River water when they would otherwise be available. (Salinity control promotes groundwater replenishment and wastewater recycling.) In the absence of banking, the Colorado River water that Metropolitan otherwise would divert becomes system water, available to all Colorado River water users, even though it was made possible by Metropolitan's decision to divert more expensive water from the State Water Project. With banking, that Colorado River water would become available to meet the needs of Metropolitan's member agencies during times when the Colorado River Aqueduct would not otherwise be full, i.e., dry years when the San Diego County Water Authority and its members agencies bear the highest risk of disproportionate shortages.

d. The proposed agreement would enable Metropolitan to keep its Colorado River Aqueduct full or to divert more water through its Aqueduct in dry years. The additional water supplies are cheap because they are already bought and paid for. The only additional cost incurred by Metropolitan would be for the annual payments to the San Luis Rey Settlement Parties.

6. The proposed agreement also would be beneficial to member agencies of the San Diego County Water Authority.

a. The proposed agreement would lead to the settlement of the longstanding San Luis Rey River water rights dispute between the five Indian Bands (and the United States on their behalf) and the Vista Irrigation District and the City of Escondido. This litigation has been ongoing for almost thirty years. Escondido and Vista strongly support the proposed agreement and the ultimate settlement which would remove the cloud of uncertainty hanging over their local water supply and avoid the risks and costs of litigation. It would also correct an historic injustice and eliminate a continuing source of conflict between Escondido and Vista and their Indian neighbors.

b. The proposed agreement also potentially could benefit two other nearby member agencies of the County Water Authority, the Yuima and Valley Center Municipal Water Districts. These agencies have facilities and serve water to lands near four of the five Indian Reservations. The proposed agreement and the ultimate settlement would provide the opportunity for the Indian Bands and Yuima and Valley Center to enter into mutually advantageous arrangements for the sharing of local water supplies and facilities.

7. The proposed agreement also benefits the County Water Authority and all of its member agencies by insulating them from any potential adverse impacts of the San Luis Rey water rights litigation. If that litigation results in Escondido and Vista losing up to 16,000 acre feet of local San Luis Rey River water, they would increase their use of imported water by a like amount. That would increase the shortages borne by the Water Authority and all of its member agencies. Under the proposed agreement, deliveries of imported water to the five Indian Reservations would be the responsibility of Metropolitan. The County Water Authority and its members would not be subject to any increased shortages which otherwise might result from the litigation.

8. The proposed agreement would not obviate the need for the importation of additional Colorado River water to the Southern California coastal plain and would enhance the value of that water.

a. Southern California will need to import more water from the Colorado River; the only questions are how and when. The proposed agreement would give Metropolitan, the County Water Authority and their member agencies more time to plan for such additional transfers and would postpone whatever capital investments are required.

b. Since the Colorado River is more than fully appropriated and California's contractors are utilizing more than California's full entitlement, any additional, reliable, imports of water from the Colorado River will result from land fallowing or other conservation measures. Under the proposed agreement, this conserved water would be eligible for banking by any Colorado River contractor. Banking would substantially enhance the value of any new source of imported Colorado River water.

9. The proposed agreement benefits the State of California and the country by relieving pressure on the extremely important and environmentally sensitive Bay/Delta estuary, particularly in dry years. It also encourages significant water conservation efforts by enhancing the value of conserved water through banking.

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