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September 23, 2008

DOCKET	
07-AFC-3	
DATE	<u>SEP 23 2008</u>
RECD.	<u>OCT 10 2008</u>

Jeffrey Kightlinger, General Manager
Metropolitan Water District of Southern California
Post Office Box 54153
Los Angeles, CA 90054

**RE: DELIVERY AND EXCHANGE AGREEMENT BETWEEN
DESERT WATER AGENCY AND METROPOLITAN WATER DISTRICT**

Dear Mr. Kightlinger:

This letter agreement entered into through my signature on behalf of the Desert Water Agency (Desert), when accepted by you on behalf of Metropolitan Water District of Southern California (Metropolitan), will constitute Desert's and Metropolitan's agreement to the terms and conditions for the implementation of the Exchange Agreement (as defined below) concerning the delivery of water by Metropolitan to Desert at the Mission Creek Turnout on Metropolitan's Colorado River Aqueduct in exchange for Desert's delivery to Metropolitan at the California Aqueduct of Desert's purchased non-State Project water in addition to Desert's allocated State Water Project Table A amounts. Metropolitan will develop an accounting procedure with Desert to track the delivery and exchange of this water, as the delivery of Colorado River water to Desert will likely occur after Metropolitan's receipt of the non-State Project Water purchased by Desert.

Desert plans to acquire up to 36,000 acre-feet of non-State Water Project water during the period from 2008 through 2015 from entities in Kern County. Desert will make arrangements with the Department of Water Resources (DWR) to move the water in Desert's share of capacity in the California Aqueduct for delivery to Metropolitan at the Devil Canyon Afterbay on the East Branch of the State Water Project. If the water is made available to Metropolitan pursuant to the terms and conditions of this agreement, Metropolitan will accept delivery of the water from the California Aqueduct and exchange an equal quantity of Colorado River Aqueduct water to Desert during the term of this agreement.

If you concur with the following agreement terms, please sign the Acknowledgement and return in the enclosed envelope at your earliest convenience.

The terms and conditions of this agreement are as follows:

1. Upon concurrence from the DWR, Metropolitan and Desert will schedule with DWR the delivery of Desert's non-State Project water from Kern County to the Devil Canyon Afterbay located on the California Aqueduct's East Branch. This water will be considered as State Project Water for purposes of the 1983 Metropolitan-Desert Exchange Agreement, as amended by the 1984 Advance Delivery Agreement, the 2003 Exchange Agreement, the short-term operating criteria agreed upon by letter agreement dated November 9, 2004, and the Implementation of 2003 Exchange Agreement – Establishment of Long-Term Operating Criteria dated November 19, 2007 (collectively, the “Exchange Agreement”).
2. Metropolitan will develop a separate account to track the receipt and delivery of the non-State Project water exchanged for Colorado River water under this agreement. This account will be separate from the existing Advanced Delivery Account that Metropolitan currently reports. As soon as water under this agreement is provided to Metropolitan, Desert will receive a delivery credit, which will indicate a future delivery obligation to Desert by Metropolitan. The credit will only be reduced by deliveries of water to the Mission Creek turnout. This agreement will be in effect until all delivery credits due to the non-State Project water amounts identified in paragraph 4 have been delivered to Desert.
3. Subject to the availability of delivery credits pursuant to paragraph 2, unless otherwise agreed to by Metropolitan and Desert, Metropolitan will deliver a minimum of 500 acre-feet by December 31, 2008 and an additional 700 acre feet for a total of 1,200 acre-feet of water to the Mission Springs turnout by August 31, 2009. Metropolitan will deliver an additional minimum of 600 acre-feet (1,800 acre-feet accumulated minimum amount) by July 1, 2010, and an additional 1,200 acre-feet (3,000 acre-feet accumulated minimum amount) by December 31, 2010. Metropolitan will also ensure that the accumulated deliveries through the following dates are in excess of the following schedule (unless amended by Metropolitan and Desert):

Year ending	Minimum Accumulated Deliveries
2010	3,000 AF
2011	4,200 AF
2012	5,400 AF
2013	6,600 AF
2014	8,800 AF
2015	10,000 AF
2016- Completion	Amount increases by 1,200 AF/yr

Notwithstanding the minimum delivery amounts and delivery schedule provided in this paragraph 3, Metropolitan is not required to deliver water in excess of the amount of non-State Project water it receives under this agreement.

4. Metropolitan agrees to accept delivery of 8,350 AF during 2008. Between 2009 and 2015, Metropolitan agrees to accept delivery of additional supplies, up to the 36,000 acre-foot total limit, provided that accepting such deliveries does not adversely impact Metropolitan's operations. Examples of such adverse impacts could include, but are not limited to, delivery during times when Article 21 supplies are available, delivery during years in which the State Water Project Table A allocation is 80% or greater, or deliveries that could adversely affect Metropolitan's water quality.

5. Desert will execute all agreements with DWR for the delivery of Desert's non-State Project water from Kern County to the Devil Canyon Afterbay pursuant to its State Water Project Water Supply Contract with the DWR, and will pay all charges imposed by DWR to do so.
6. Desert and Metropolitan agree any costs incurred to implement this exchange will be borne by the parties in accordance with their existing Exchange Agreement.
7. All provisions of the Exchange Agreement and any other existing agreements between Metropolitan and Desert providing for usage of the Colorado River Aqueduct shall remain in full force and effect. Water delivered to Desert pursuant to this letter agreement shall be considered Exchange Water for purposes of Section 16(a)(Liability) of the Exchange Agreement.
8. Metropolitan and Desert will coordinate implementation of this agreement through participation in their existing Operating Committee to manage the Exchange Agreement. Metropolitan and Desert may amend terms and conditions of this agreement by mutual written concurrence.

If you have any questions, please contact me at (760) 323-4971.

Sincerely,

DESERT WATER AGENCY




David K. Luker
General Manager- Chief Engineer

Enclosure/1/as

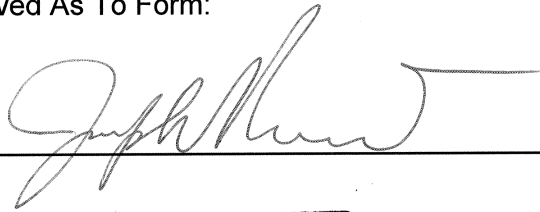
CC: Bill Hasencamp, MWD

ACKNOWLEDGEMENT

The terms and conditions set forth in the District's letter dated September 23, 2008, are hereby acknowledged and accepted.

Date: 10/8/08 By 
Jeffrey Kightlinger
General Manager
Metropolitan Water District of Southern California

Approved As To Form:


By: _____
JOSEPH A. VANDERHORST
Sr. Deputy General Counsel