

September 21, 2007

**WATERMASTER RESOLUTION
NO. 07-05**

**RESOLUTION OF THE CHINO BASIN WATERMASTER
REGARDING THE PEACE II AGREEMENT AND
THE OBMP IMPLEMENTATION PLAN**

WHEREAS, the Judgment in the Chino Basin Adjudication, *Chino Municipal Water District v. City of Chino, et al.*, San Bernardino Superior Court No. 51010, created the Watermaster and directed it to perform the duties as provided in the Judgment or ordered or authorized by the court in the exercise of the Court's continuing jurisdiction;

WHEREAS, Watermaster has the express powers and duties as provided in the Judgment or as "hereafter" ordered or authorized by the Court in the exercise of the Court's continuing jurisdiction" subject to the limitations stated elsewhere in the Judgment;

WHEREAS, Watermaster, with the advice of the Advisory and Pool Committees has discretionary powers to develop an OBMP for Chino Basin, pursuant to Paragraph 41 of the Judgment;

WHEREAS, in June of 2000, the Parties to the Judgment executed the Peace Agreement providing for the implementation of the OBMP and Watermaster adopted Resolution 00-05 whereby it agreed to act in accordance with the Peace Agreement;

WHEREAS, the Court ordered Watermaster to proceed in accordance with the Peace Agreement and the OBMP Implementation, Exhibit "B" thereto;

WHEREAS, Watermaster adopted and the Court approved Chino Basin Watermaster Rules and Regulations in June of 2001;

WHEREAS, the Peace Agreement, the OBMP Implementation Plan and the Chino Basin Watermaster Rules and Regulations reserved Watermaster's discretionary powers in accordance with Paragraph 41 of the Judgment, with the advice from the Advisory and Pool Committees, and contemplated further implementing actions by Watermaster;

WHEREAS, the Judgment requires that Watermaster in implementing the Physical Solution, and the OBMP have flexibility to consider and where appropriate make adjustments after taking into consideration technological, economic, social and institutional factors in maximizing the efficient use of the waters of the Basin.

WHEREAS, the Parties to the Judgment provided input into the creation of a "Stakeholder Non-Binding Term Sheet" that articulated methods to maximize beneficial use of the Basin ("Peace II measures") was distributed to and considered by each of the Pools, the Advisory Committee and the Watermaster Board and subsequently transmitted to the Court;

WHEREAS, Watermaster will continue to require that to the extent any of the Peace II Implementing Measures constitute "projects" within the meaning of the California Environmental Quality Act ("CEQA"), compliance with CEQA will be required as a pre-condition of Watermaster's issuance of any final, binding approvals; and

WHEREAS, the actions articulated in the "Stakeholder Non-Binding Term Sheet" and contemplated herein to maximize the beneficial use of the groundwater and the Basin benefit the Basin and the Parties to the Judgment.

NOW, THEREFORE, IT IS HEREBY RESOLVED AND DETERMINED THAT:

1. Watermaster caused the completion of a preliminary engineering, hydrogeologic, and technical evaluation of the physical impacts to the Basin and to the Parties to the Judgment that may result from implementation of the Peace II measures. The preliminary evaluation was conducted by Mark Wildermuth of Wildermuth Environmental.

2. The Assistant to the Special Referee, Joe Scalmanini of Luhdorff & Scalmanini Consulting Engineers, transmitted his technical review in March of 2007 ("Report"). In relevant part, the Report states:

"For planning level analysis, the existing model is a useful and applicable tool to simulate approximate basin response to management actions that involve the quantities and distribution of pumping and recharge in the basin. For example, for the most notable of its applications to date, which has been to conduct a planning level analysis of intended future hydraulic control, the model can be confidently utilized to examine whether groundwater conditions (levels) will form in such a way that hydraulic control will be achieved as result of basin re-operation and, if not, what other changes in basin operation are logically needed to achieve it." (Report at p. 37)

3. Watermaster caused the preparation of a specific project description set forth in Attachment "A" hereto for the purpose of conducting a more refined engineering, hydrogeologic and technical evaluation of the physical impacts to the Basin and to the Parties to the Judgment that may result from implementation of the Peace II measures.

4. Watermaster caused the completion of a macro socioeconomic analysis by Dr. David Sunding, a PhD in economics and professor at the University of California Berkeley set forth in Attachment "B" hereto. The macro analysis provided an evaluation of the macro costs and benefits to the parties as a whole that may be attributable to the Peace II measures.

5. Watermaster caused an update of the previously completed socioeconomic analysis conducted pursuant to the Judgment. The analysis was completed by Dr. Sunding, and it considered the positive and negative impacts of implementing the OBMP, the Peace Agreement, and the Peace II measures, including Watermaster assessments. The analysis also addressed the potential distribution of costs and benefits among the parties that were initiated

September 21, 2007

with the approval of the Peace Agreement. The study was completed in final draft form on September 13, 2007 and is set forth in Attachment "C" hereto. Each of the Parties to the Judgment has had the opportunity to comment on earlier drafts of the report and on the final draft of the report and to consider the analyses contained therein prior to Watermaster's approval of this Resolution 07-05.

9. Watermaster has caused the preparation of the 2007 Supplement to the Optimum Basin Management Program ("OBMP") addressing Watermaster's efforts to, among other things; pursue Hydraulic Control through Basin Re-Operation as set forth in Attachment "D" hereto.

10. Watermaster has prepared a summary of the cumulative total of groundwater production and desalting from all authorized Desalters and other activities authorized by the 2007 Supplement to the OBMP Implementation Plan as amended as provided in the Peace Agreement in a schedule that: (i) identifies the total quantity of groundwater that will be produced through the proposed Basin Re-Operation to obtain Hydraulic Control, and (ii) characterizes and accounts for all water that is projected to be produced by the Desalters for the initial Term of the Peace Agreement (by 2030) as dedicated water, New Yield, controlled overdraft pursuant to the Physical Solution or subject to Replenishment. This schedule is set forth in Attachment "E" hereto. Watermaster will modify its projections from time to time, as may be prudent under the circumstances.

11. More than fifteen months have passed since the Non-Binding Term Sheet was initially published by Watermaster in its current form and transmitted to the Court for its consideration and more than six months have passed following Watermaster's declaration that any party interested in participating in the development and construction of Future Desalters should identify their interest in making a proposal and no party has stepped forward and made a responsive proposal in lieu of the Western Municipal Water District proposal.

12. The Peace II measures collectively consist of:

(a) Watermaster's election to exercise its reserved discretion as provided in the Judgment, the Peace Agreement and the OBMP Implementation Plan, to amend the Watermaster Rules and Regulations as more fully set forth in Attachment "F" attached hereto and incorporated herein by this reference;

(b) Watermaster's execution and Court approval of the proposed Purchase and Sale Agreement with the Non-Agricultural (Overlying) Pool as more fully set forth in Attachment "G" attached hereto and incorporated herein by this reference;

(c) Watermaster's and the Court's approval of the proposed amendments to the Judgment as more fully set forth in Attachment "H", Attachment "I" and Attachment "J" attached hereto and incorporated herein by this reference;

(d) Watermaster's approval of and further agreement to act in accordance with the Peace II Agreement, including the provisions related to Future Desalters, as more fully set forth in Attachment "K" attached hereto, upon a further order of the

September 21, 2007

Court directing Watermaster to proceed in accordance with its terms;

(e) Watermaster's and the Court's approval of the 2007 Supplement to the OBMP Implementation Plan as they are more fully set forth in Attachment "D" attached hereto and incorporated herein by this reference; and

(f) Execution of the proposed Second Amendment to the Peace Agreement as more fully set forth in Attachment "L" attached hereto and incorporated herein by this reference, approval by Watermaster and a further order of the Court directing Watermaster to proceed in accordance with its terms.


13. The Overlying (Non-Agricultural), the Overlying (Agricultural) Pool, and the Appropriative Pool have approved the Peace II measures and recommended Watermaster's adoption of this Resolution 07-05

14. The Advisory Committee has approved the Peace II measures and recommended Watermaster's adoption of this Resolution 07-05.

15. In adopting this Resolution and by its agreement to implement the Peace II measures, Watermaster is not committing to carry out any project within the meaning of CEQA unless and until CEQA compliance has been demonstrated for any such project.

16. The Watermaster Board will transmit this Resolution 07-05, and the Peace II implementing measures, and the referenced Attachments to the Court along with other supporting materials and request the Court to approve the proposed Judgment Amendments and to further order that Watermaster proceed to further implement the 2007 Supplement to the OBMP as provided in the Peace II measures.

Date: 10-25-07



for CHINO BASIN WATERMASTER