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STATUS REPORT

ON

PROGRESS OF
SETTLEMENT NEGOTIATIONS
IN QSA COORDINATED CASES

APRIL 1, 2013

Matt Dessert, President
James C. Hanks, Vice President
Norma Sierra Galindo, Director
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EXHIBIT 1

BACKGROUND

On February 22, 2013, this Court issued a Minute Order proposing a stay of its tentative decision in the above-captioned matter until June 3, 2013. The Court confirmed its proposal on March 6, 2013. See Order Staying Issuance of Decision Until 6/3/2013. In conjunction with that Stay, the Court directed the Imperial Irrigation District (hereafter, "IID") to file monthly Status Reports regarding the progress of the negotiations. The IID respectfully submits the following Status Report in response to the Court's March 6, 2013 Order.

The ("IID"), County of Imperial (hereafter, the "County") and the Imperial County Air Pollution Control District (hereafter, "Air District") have undertaken the task of arriving at a global settlement in a vigorous manner. Elected officials, staff, and legal counsel have been involved in numerous discussions as detailed below. This Status Report contains five provisions: a description of the members of the Negotiation Teams from each entity, the schedule of meetings and activities, efforts at engaging staff and consultants to provide technical assistance, primary activities during this first phase, and finally, proposals for future involvement of other parties.

I. SELECTION OF NEGOTIATION TEAM MEMBERS

The IID, the County and the Air District immediately appointed members to their Negotiation team reflecting a combination of elected/appointed officials to report back to their political institutions. Management personnel were selected to integrate the elected officials' feedback into the existing programs and capacities for implementation of the existing institutions. Finally, staff members were tasked with providing data for evaluating options and providing a baseline of factual background. It became evident that additional technical consultants will be required to help shape the contours of solutions that could serve as a

workable settlement in lieu of continued litigation. The Negotiation Teams are in the process of retaining these consultants. The Negotiation Team members are:

For the IID:

Matthew Dessert, President of the IID Board of Directors, Division 1
James C. Hanks, Vice President of the IID Board of Directors, Division 3
Kevin E. Kelley, IID General Manager
Charles T. DuMars, Facilitator
Joanna M. Smith, IID Assistant Counsel

For the County:

Michael W. Kelley, Imperial County Supervisor for District 3
Ryan E. Kelley, Imperial County Supervisor for District 4
Ralph Cordova, Jr., Imperial County Executive Officer
Michael L. Rood, County of Imperial County Counsel
Geoffrey Holbrook, County of Imperial Senior Deputy County Counsel

II. SETTLEMENT TEAM NEGOTIATION MEETINGS

The Negotiation Teams have met four times: March, 11, 18, 20 and 26, 2013. In addition to these formal meetings, there has been frequent communication among Team members to clarify issues. Communication is continuing and all parties have agreed upon an open, transparent exchange of information with the understanding that these exchanges cannot be allowed to alter or waive privileges among the parties related to litigation. The goal of open, transparent exchange has been the paramount focus of the entire effort.

III. INITIAL NEGOTIATION FOCUS

It became readily apparent to the Negotiation Teams that the Court was prescient when it observed that the viability of QSA implementation in the long-term appears to be intricately intertwined with Salton Sea restoration and that a negotiated global settlement is more likely to produce a practical and workable resolution than a judgment entered in the Coordinated Cases. Accordingly, the Negotiation Teams reached consensus early on that any solution must result in a commitment by the parties to ensure mitigation of the effects on the Valley of the continued

exposure of playa as the Salton Sea declines, development of a plan for restoration of the remaining wetlands, waters and ecosystems of the Salton Sea and development of a plan to secure funding of these plans at their actual costs and not at some assumed cost that is not reflective of the need for resolution.

IV. REPRESENTATIVE ISSUES THAT HAVE SURFACED AND WILL NEED TO BE ADDRESSED

The following areas of consensus have been developed:

- * The developing environmental impacts of reduced inflows to the Salton Sea, unless properly addressed, will create an untenable health hazard for the inhabitants of the region. Each agency has common constituents in some form, including water and energy. All County regulations must be adhered to and met along with maintaining the IID's water rights and existing contracts. Agencies cannot place our constituents, and by extension joint agencies, adverse to themselves.

- * As agreed to in the QSA, Restoration and Mitigation are inseparable components to resolving air quality (residential health) and water quality (environmental habitat) requirements. Historical and current inflows to the Salton Sea, as contemplated by the settlement, are beneficial to the community at large, the environmental community and the IID. Accordingly, it is vital to move toward recognition of this value in some institutional way.

- * The numbers of beneficiaries from restoration of the Salton Sea are massive. Not only would restoration aid the Imperial Valley, but the massive ecosystem created by the Sea and the Salton Sea's water quality appear to be impacted by increasing interstate saline flows and return flows of salient enhanced flows upstream in the Colorado River. The Salton Sea serves as the uninvited solution, if you will—a terminal point of interstate saline deposits (one ton salt per a/f), and qualifies for consideration of interstate mitigation of impacts.

* Degradation of air quality is increased dramatically by the design of agricultural entitlement-to-urban water transfers to aid in California sustaining its population within the 4.4 million acre-feet. The quantification of IID at 3.1 million acre-feet from 3.85 maf (less flows higher saline concentration) and subsequent agriculture to urban conserved transfers appropriately sustain the urban population. But, the transfers, the Salton Sea impacts, and the totality of the environmental hydro-commons created by the transfers provide benefits and corresponding costs to the urban areas and the State as a whole.

* Plainly, the QSA was a solution designed to meet the problem of overuse of water by the urban areas of California. The immediate effects of the response to this scarcity have caused a negative change to the social/economic conditions of the poorest segment in California and one of the highest unemployment regions in the Nation. Accordingly, the federal agencies and state agencies should be and likely will be a part of any solution to the problems created.

* Plainly, the local ratepayers and tax base cannot bear the burden of additional contributions to mitigation and restoration projects currently in the QSA/EIR. Given that the State has been unable to carry its burden, the consequences of the failure of the State to act are appropriate for evaluation in the QSA/EIR. Therefore, an adequate QSA/EIR should address the costs of impacts related to mitigation and restoration. It is evident that numerous Colorado River water users receive benefit from the transfers and the existing institutional mechanisms, but not all pay their appropriate share.

* It is unlikely the State has the ability or will to meet its QSA obligations, as recognized in the Legislative Budget Analysis report as being the contractual obligation of the QSA. The very existence of the QSA is threatened by this development and by the State's unwillingness and/or inability to timely meet its obligation to stave off an environmental

catastrophe at the Salton Sea. To this end, the parties believe that the State Government can participate in the implementation of a public/private master plan for the development of underused assets of Imperial County and IID assets whereby certain augmented revenues (or fees) are appropriated to regional environmental (Salton Sea) efforts. The goal is to develop a Master Plan for allocation of costs to share with all of the QSA partners that identifies possible funding sources and plans for implementation.

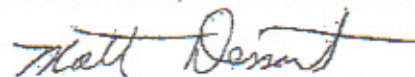
* The evolving changes and new revelations in environmental circumstances during the pursuit of validation cannot be resolved satisfactorily through litigation. Indeed, validation or invalidation with an EIR that does not operate prospectively is of little value. Absent a global settlement that ends in validation, it is anticipated that litigation will continue, with or without court validation, resulting in performance failure by a party or multiple parties and unmanageable risks for all stakeholders of the QSA.

V. INVOLVEMENT OF OTHER STAKEHOLDERS

The Negotiation Teams have focused primarily on the partners directly involved in solutions. However, it is anticipated that in April and May, other partners to the QSA will be encouraged to participate.

ACKNOWLEDGEMENT

I, Matt Dessert, hereby state that I am the President of the Imperial Irrigation District Board, and that the above document is a true and correct copy of the Report submitted by the Imperial Irrigation District in response to the Court's Order filed on March 6, 2013 in this matter.



Matt Dessert, President
Imperial Irrigation District
Board of Directors