

<p>RANCHO PAUMA MUTUAL WATER COMPANY</p> 	<p>BOARD POLICIES</p>	<p>Section 6.0 4/10/2015</p>
<p>POLICY REGARDING THE TRANSFER OF UNDERUTILIZED WATER ALLOCATIONS</p>		<p>Revision Date: 11/04/2015</p>

RECITALS:

- A. Rancho Pauma Mutual Water Company (“RP” or “Company”) is a California mutual water company organized under California law to exercise the overlying and riparian water rights conveyed in trust to the Company by its shareholders, and to provide water, at cost, to the riparian and overlying properties of its shareholders in accordance with shares held appurtenant to such parcels.
- B. RP’s Articles and Bylaws assign ownership of shares in the Company (“Share(s)”) to landowning shareholders approximately in accordance with the amount of land each shareholder owns within the Company’s service area. Ownership of shares entitles the shareholder to receive water from the Company for domestic, agricultural or other beneficial uses—provided such use is not wasteful.
- C. RP is not a public utility, and users of water within the Company’s service area are entitled by their shares to obtain water from the Company only if they are RP shareholders, or the tenants of RP shareholders.
- D. RP’s Bylaws and Articles of Incorporation grant the RP Board of Directors (“Board”) significant discretion in allocating water within the Company service area, and neither document restricts the Board from permitting shareholders to transfer or otherwise assign their underutilized allocations to water to other shareholders of the Company.
- E. The RP Bylaws, Section VI.1, further provides that any water to which any share is entitled, which is not taken by the owner of said share at the time or times provided for delivery thereof, may be delivered upon the lands of any or all other outstanding shares in accordance with the By-Laws, Regulations and Policies of the Company.
- F. RP urges water conservation and wise water usage that maximizes the overall benefit from this scarce and limited commodity, and allowing transfers of underutilized rights to the Company’s available water will maximize the beneficial use of water by the Company consistent with Article X, Section 2 of the California Constitution.

POLICY:

1. Based on the foregoing recitals, RP's Board of Directors has determined that it is in the best interests of its Shareholders and the Company to adopt the following policy, detailed in paragraphs 2-10 below, with regard to proposed transfers of underutilized allocations of water between RP shareholders.
2. At its discretion, the Board of Directors of RP may accept and approve, for purposes of water allocation per share and billing of water usage per share, agreements between shareholders ("Transfer Agreements") that memorialize transfers of allocations to use water that are determined by the RP Board to be consistent with this Policy and in the best interests of the Company. Transfer Agreements shall contain terms consistent with the eligibility requirements set forth herein provided that each party to a Transfer Agreement provides an indemnity in favor of RP and its directors against all costs or losses that they may suffer or incur arising directly or indirectly from the approval of the Transfer Agreement by the RP Board, or by virtue of any future action taken by RP in furtherance of the Transfer Agreement.
3. The discretion afforded the RP Board of Directors by the Company Bylaws allows the Board considerable discretion in allocating water for use within the Company's service area. Accordingly, should the Board deem approval of a Transfer Agreement to be in the best interests of the Company, the Board may authorize RP shareholders to contract with other RP shareholders for the temporary transfer of water that is otherwise available for delivery as a result of underutilized allocations on parcels entitled to greater deliveries than they actually use. "Transfers" of under-utilized allocations between willing shareholders may be considered and approved by the Board, in its sole discretion, where:
 - a. both the transferor and transferee parcels are entirely within the Company's service area, and both are at least 10 acre parcels;
 - b. both parcels are entitled to receive water from the Company as a result of shares that have been made appurtenant to the transferor and transferee parcels;
 - c. the transferor parcel is not taking, or agrees not to take, water that it would otherwise be entitled to take by virtue of the number of shares appurtenant to the transferor parcel, thereby creating "surplus" water available for transfer;
 - d. the transferor and transferee agree to the transfer for a term of at least five years during which time the transferor agrees that the transferred allocation will be used on the parcel belonging to the transferee during the term of their agreement;
 - e. both transferor and transferee agree to be bound by any future reduction of water that might be required by RP in response to water shortage, system upset, or other legal/regulatory driver;
 - f. all water use on both parcels occurs on lands that overlie the Rincon Groundwater Basin, as that Basin has been described in the 1953 Stipulated Judgment in *Strub v. Palomar Mutual Water Company*;
 - g. the Transfer Agreement provides that the transferor and transferee will be billed based upon the amount of water actually used on each parcel—as determined by the Company's meters, and each party shall then be responsible for paying the Company for the amount used on their respective parcel based on then applicable rates and charges.

- h. the Transfer Agreement provides that entitlement to additional water allocations created in the Transferee shall revert to the parcel of the Transferor upon termination, or unauthorized modification, of the Transfer Agreement;
4. Transfers under this Policy shall be for a period of not less than five years, with the possibility of subsequent renewal upon approval of the Company's Board of Directors. Renewals of transfer agreements shall be preceded by reasonable notice to the Company, and shall be approved by the Board unless the Board determines, based upon evidence then available to it, that such renewal is not in the best interests of the Company or would otherwise harm the interests of other Company shareholders.
5. Transfer Agreements between shareholders shall provide that: (a) they may not be modified in a manner that changes the obligations of the Company without the prior approval of RP;(b) RP shall be indemnified and held harmless by signatories of the Transfer Agreement, jointly and severally, from and against any loss, cost or damage due to any disagreement, claims or counterclaims between or among such signatories, or between such signatories and RP, in a writing acceptable to RP; (c) at the end of the initial period of the Transfer Agreement, unless otherwise extended by the RP Board, the allocations transferred shall revert to the current owner of the land to which the transferred allocation would otherwise be appurtenant, and shall thereafter entitle the owner of the transferor parcel to water deliveries in accordance the number of shares owned.
6. Water delivered by RP for agricultural use under this Policy may be potable or non-potable in the sole discretion of RP, notwithstanding that either parcel subject to the Transfer Agreement may have previously taken only potable water.
7. Notwithstanding the foregoing, the Board of Directors, in its sole discretion, may accept and approve a Transfer Agreement that does not satisfy all of the requirements set forth in this policy if the Board of Directors determines that the Transfer Agreement is otherwise in the best interest of RP and its Shareholders. This Policy may be amended by the Board of Directors of RP, and water allocations to Shareholders may be revised from time to time to account for water availability and the operational requirements of the Company, provided that any such amendment to this Policy shall not modify the express terms of any pre-existing agreements unless such modifications are necessitated by water shortage, system upset, or other legal/regulatory driver beyond the control of RP.

ADOPTED by the Board of Directors of the Rancho Pauma Mutual Water Company at a meeting held on the **4th day of November, 2015**, the vote to wit:

Yay: Bandy, Mathews, Smith, Turnbull, Westwater

No:

Abstain:

Absent: