Appendix B-1

Interruptible Water Sale Procedure

BRAZOS RIVER AUTHORITY
INTERRUPTIBLE WATER SALE PROCEDURE

Section I. Definition of Interruptible Water

Interruptible Water is water available for diversion under Brazos River Authority ("BRA") water right permits that is not sold under a System Water Availability Agreement. Interruptible Water currently includes the following components:

1. Sediment Yield. Reservoir yield resulting from storage reserved to accommodate future sediment accumulation which is available for a limited period of time as sediment accumulation reduces reservoir yield; and

2. Unused Water. Water made available in previous years under any contract, but not used and remaining in storage.

Additional sources of water may be added as they become available.

Section II. Relationship to Firm-Yield Water

BRA's management of Interruptible Water will be performed in a manner that does not negatively affect the availability of water for those customers who purchase water under a System Water Availability Agreement or other long-term contract.

Section III. Determination of Amount Available

The amount of Interruptible Water shall be determined annually for each River Segment as defined in the following table:

Segment No.	Extent of Segment
1	Lake Aquilla to the confluence of Aquilla Creek and the Brazos River
2	Little River System a. Lake Proctor to Lake Belton b. Lake Belton to the confluence of the Little River and the Brazos River c. Lake Stillhouse Hollow to the confluence of the Lampasas River and the Leon River d. Lake Georgetown to Lake Granger e. Lake Granger to the confluence of the San Gabriel River and the Little River
3	Lake Limestone to the confluence of the Navasota River and the Brazos River
4	Lake Somerville to the confluence of Yegua Creek and the Brazos River
5	Brazos River Main Stem a. Possum Kingdom Reservoir to Lake Granbury

	b. Lake Granbury to Lake Whitney c. Lake Whitney to the confluence of the Brazos River and Aquilla Creek d. The confluence of the Brazos River and Aquilla Creek to the confluence of the Brazos River and the Little River e. The confluence of the Brazos River and the Little River to the confluence of the Brazos River and Yegua Creek f. The confluence of the Brazos River and Yegua Creek to the Gulf of Mexico

The amount of Interruptible Water available for each River Segment will be determined according to the following equation:

Segment Interruptible Water = [(Reservoir Yield – Water Used) x Safety Factor] + Yield of Sediment Pool – Water in Short Term Agreements

Where:

"Segment Interruptible Water" is the amount of water that is available during the next year from the upstream reservoirs within that segment

"Reservoir Yield" is the current yield of the reservoir

"Yield of Sediment Pool" is the remaining yield of the reservoir reserved for sediment.

"Water Used" is the sum of:

1. Maximum water used lakeside from the reservoir in the past three years; and
2. The three year average of the downstream releases from the reservoir.

"Safety Factor" is a factor set by the Board of Directors of the Brazos River Authority ("Board") that ensures protection of all long-term contracts.

"Water in Short-Term Agreements" is the amount of water that is currently obligated under Short-Term Agreements, all of which will terminate by December 31, 2012.

The Total Interruptible Water for a point below more than one reservoir is the sum of Segment Interruptible Water at all upstream segments.

Section IV. Application for Interruptible Water

If BRA anticipates Interruptible Water will be available for the following calendar year, BRA may, through whatever form it deems most appropriate, solicit interest among entities who may desire to enter into an Interruptible Water Availability Agreement ("IWAA") for the following calendar year. Prospective purchasers of Interruptible Water may submit applications, on a form provided by BRA, by no later than October 31st of each year. An application shall not be considered submitted for the purpose of the October 31st deadline until a deposit, if required, is received. Potential customers of Interruptible Water may include both current contract holders desiring to increase their contracted amounts, as well as new customers desiring to enter into a new IWAA.

Section V. Deposit

Applications for amounts of Interruptible Water in excess of five hundred (500) acre-feet shall include a deposit equal to ten (10) percent of the estimated first year payment that would be due under an IWAA. The deposit shall be applied against the amount of the first annual payment due under that agreement, except as follows:

1. If BRA is unable to make available the amount of Interruptible Water requested by a prospective customer, and that prospective customer decides not to purchase any Interruptible Water for that year, BRA shall refund the full amount of the deposit.

2. If BRA is able to make the full amount of Interruptible Water requested by a prospective customer available, and that prospective customer subsequently decides either to contract for less water than requested or does not enter into an IWAA, then BRA will retain: (1) a percentage of the deposit determined by dividing the amount requested by the amount actually contracted for; or (2) the full amount of the deposit if no IWAA is executed.

   For example, if a prospective customer desires to enter into an IWAA equal to 1,000 acre-feet per year, the prospective customer shall remit a non-refundable deposit of $5,450 (10% of the product of 1,000 acre feet per year times the current Interruptible Water Rate, which for 2008 is $54.50 per acre-foot). In this example, if BRA makes the full 1,000 acre-feet available to the customer and the customer decides to only purchase 800 acre-feet, $4,360 (80% of the deposit) will be applied to the first payment due under the IWAA, and $1,090 (20% of the deposit) will be retained by BRA. By contrast, if BRA is only able to

make 900 acre-feet available and the customer decides not to enter into an IWAA, the customer is entitled to a refund of the full $5,450.

Section VI. Annual Allocation of Interruptible Water

By October 31st of each year, the Board shall determine the amount, if any, of Interruptible Water available for the following calendar year.

1. Sufficient Interruptible Water available to satisfy current IWAA's. If it is determined that sufficient Interruptible Water is available to meet all current IWAAs on a particular segment of the basin, current customers on that segment of the basin may continue to divert and use Interruptible Water under the terms and conditions of their existing agreements.

2. Insufficient Interruptible Water available to satisfy current IWAA's. If it is determined that insufficient Interruptible Water is available to meet current IWAAs on a particular segment of the basin, current customers on that segment of the basin will be notified of the reduced amount that they may divert and use under their existing agreements. A customer shall have thirty (30) days to determine whether they will accept the reduced amount for the following calendar year or cancel their contract. If a customer decides to cancel its contract, that customer shall lose any right to future Interruptible Water given in that contract; however, a customer who has cancelled a contract shall not be prohibited from entering into a new IWAA provided Interruptible Water is available for purchase in subsequent years. Interruptible Water that becomes available due to a cancellation shall first be proportionately allocated to other IWAA holders whose amounts were reduced on that segment of the basin. Thereafter, any remaining water will be offered as surplus Interruptible Water.

   For example, if currently outstanding IWAAs in a particular segment of the basin equal 50,000 acre-feet per year, and the Board determines that 40,000 acre-feet will be available for that segment of the basin in the next calendar year, current IWAA holders will be entitled to receive 80% of the water originally contracted for which is the percentage produced by dividing 40,000 acre-feet (the amount available) by 50,000 acre-feet (the total amount of current agreements). In this example, a current IWAA holder

who contracted for 1,000 acre-feet per year would receive 800 acre-feet for the next calendar year.

3. Surplus Interruptible Water available after current IWAA's are satisfied. If it is determined that surplus Interruptible Water is available on a particular segment of the basin once the contractual requirements of current customers have been satisfied, BRA shall determine whether there is a sufficient amount of Interruptible Water available to satisfy the additional requests made by potential customers who submitted applications and deposits in a timely manner. Those potential customers shall be notified that sufficient Interruptible Water is available to contract for the full amount requested, or in the alternative, the amount of Interruptible Water which will be available to contract for.

If sufficient Interruptible Water is available, BRA will execute IWAAs with applicants by January 31st, and will offer any remaining Interruptible Water for sale on a first-come, first-served basis until such time as there is no Interruptible Water available or October 1 of the current calendar year.

For example, if currently outstanding IWAAs equal 50,000 acre-feet per year on a particular segment of the basin, and the Board determines that 60,000 acre-feet will be available for that segment of the basin in the next calendar year, all current Interruptible Water Availability Agreements will be satisfied, and an additional 10,000 acre-feet per year will be offered to potential customers of Interruptible Water who submitted applications and deposits in a timely manner. Additional IWAAs will be executed until there is either no more Interruptible Water available, or October 1 of the current calendar year.

If BRA determines the amount of Interruptible Water available is less than the amount of Interruptible Water requested on any segment of the basin, the amount each prospective purchaser will be entitled to contract for will be prorated based on a ratio consisting of the total amount requested compared to the total amount available on that segment of the basin. Upon a reduction of the amount requested, a prospective purchaser may withdraw its application without penalty and receive a refund of its deposit.

For example, if 10,000 acre-feet per year of surplus Interruptible Water has been offered for sale and BRA has received requests for 12,500 acre-feet per year,

prospective purchasers will be able to contract for 80% (10,000 divided by 12,500) of the water they requested. In this example, a prospective purchaser who requested 1,000 acre-feet per year would be entitled to contract for 800 acre-feet per year (0.80 times 1,000).

Section VII. Reduction in Annual Contracted Amount

If it is determined that the availability of Interruptible Water at a customer's Diversion Point is less than that currently contracted for in a given year, BRA will reduce the amount of water that purchaser may divert and use under its IWAA. In the event of a reduction, payment for that year shall be based on the reduced amount. Additionally, a customer shall have the option to terminate its contract within thirty (30) days of notification from BRA that a reduction will take place.

If, however, additional water is available in subsequent years, a customer shall have the right to divert and shall be obligated to pay for the increased amount up to the amount originally contracted for.

Section VIII. Discontinuation in Use Based Upon Drought Conditions

BRA may require any or all customers of Interruptible Water to cease all diversion and use of water when a Stage 3 Drought Condition has been initiated for any reservoir or system of reservoirs pursuant to BRA's current Drought Contingency Plan. Copies of the most current Drought Contingency Plan will be made available for download on BRA's website (currently at http://www.brazos.org/DroughtContingency.asp) or by request at (254) 761-3111.

Section IX. Term

IWAAs shall not be issued for a term longer than five years. Customers of Interruptible Water shall not have any right or priority to contract for Interruptible Water after the expiration of their agreement. However, if Interruptible Water is available after expiration of an IWAA, those customers may request Interruptible Water pursuant to this Procedure, as it may be amended from time to time. The term of an IWAA shall not be amended.

Section X. Additional Diversion Points

A customer's ability to change an existing and/or to obtain an additional diversion point(s) may be limited by the location of the new diversion point(s). The determination of whether a customer may change and/or add a diversion point(s) will be made by BRA, in its sole discretion. A customer will be limited to no more than fifteen (15) diversion points under any one (1) IWAA and will be allowed an

amendment for the purposes of adding or changing a diversion point(s) only once per calendar year.

Section XI. Resale to a Third Party

Customers may resell Interruptible Water to a third-party provided notice of the sale is given to BRA and the third-party has been notified, prior to entering a legally binding contract, of the interruptible nature of the water made available under an IWAA. Notice to BRA shall include the subsequent purchaser's name, address, diversion point, and the amount of water sold. Notice to third-party customers of the interruptible nature of water made available under an IWAA shall be in the form of a letter, sent via certified mail with a copy of the customer's IWAA enclosed, that contains the following language:

> "Use of water made available under the Interruptible Water Availability Agreement by and between the Brazos River Authority and *(insert customer's name)* may be discontinued during drought conditions as they are defined in that Agreement. Further, the amount of water *(insert customer's name)* is authorized to divert may be reduced on an annual basis by BRA due to a variety of factors. Thus, there may be periods of varying frequency and duration where diversion and use of this water is prohibited and, as such, this water may not be appropriate for certain uses requiring a high degree of reliability. A copy of the Agreement is enclosed with this letter. Please read the Agreement carefully to understand the associated rights and obligations."

A copy of this letter shall be sent to BRA.

Section XII. Minimum Amount Required

The minimum amount of Interruptible Water a customer may contract for under an IWAA is ten (10) acre-feet.

Section XIII. Waiver Authority

The General Manager/CEO may make exceptions to this Operations Procedure when it is deemed in the best interests of the BRA in accordance with Board-approved policies.

Phillip J. Ford
General Manager/CEO