

BPOU PROJECT AGREEMENT

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EXHIBITS

- Exhibit A: Project Agreement Scope of Work: Revised Preliminary Design Report; Baldwin Park Operable Unit.
- Exhibit B: EPA Letter dated July 2, 2001 (modifying Statement of Work dated April 24, 2001)
- Exhibit C: Project Agreement Scope of Work; Suburban Water Systems 139 and 140 Wellfields(SWS SOW)
- Exhibit D: Project Agreement Scope of Work; California Domestic Water Company; Bassett Wellfield(CDWC SOW)
- Exhibit E: EPA Letter confirming NCP consistency etc.
- Exhibit F: Chemicals of Concern list
- Exhibit G: BPOU Escrow Agreement
- Exhibit H: Irrevocable Environmental Escrow Fund Agreement
- Exhibit I: BPOU Trust Agreement
- Exhibit J: Low-Pressure UV/OX Demonstration Project Agreement dated June 11, 2001
- Exhibit K: Approved Project Capital Costs Budgets (Subarea One, B-5, B-6, CDWC and SWS)
- Exhibit L: Approved Initial Subproject O&M Cost Budgets for LPVCWD, SWS, CDWC, Subarea One and B-6 Subprojects (from Effective Date through 2002)
- Exhibit M: Approved Initial Subproject O&M Cost Budget for B-5 Subproject (from the expected start-up of operations through the end of the subsequent calendar year)
- Exhibit N: Approved Initial Project and Subproject Administrative Costs budget
- Exhibit O: Memorandum from J. Byerrum dated June 5, 2001 re "Production Well & Booster Pump Station Maintenance Costs"
- Exhibit P: Documentation of agreement between SGVWC and City of Industry
- Exhibit Q: Interim Project Costs Payments made by Cooperating Respondents
- Exhibit R: Form of Parent Company Release and Tolling Agreement
- Exhibit S: Board resolution authorizing WQA to enter into Project Agreement
- Exhibit T: Board resolution authorizing VCWD to enter into Project Agreement
- Exhibit U: Board resolution authorizing LPVCWD to enter into Project Agreement
- Exhibit V: Notice information

BPOU PROJECT AGREEMENT

This BPOU Project Agreement (the "Agreement") is dated as of March 29, 2002, by and between the Main San Gabriel Basin Watermaster, the San Gabriel Basin Water Quality Authority, La Puente Valley County Water District, San Gabriel Valley Water Company, Suburban Water Systems, California Domestic Water Company and Valley County Water District, collectively, the "Water Entities," on the one hand, and Aerojet-General Corporation, Azusa Land Reclamation Co., Inc., Fairchild Holding Corporation, Hartwell Corporation, Huffey Corporation, Oil & Solvent Process Company, Reichhold, Inc., and Wynn Oil Company, collectively, the "Cooperating Respondents," on the other hand. At times, the Cooperating Respondents and the Water Entities are referred to collectively as the "Parties" and each Cooperating Respondent and Water Entity is referred to individually as a "Party."

RECITALS

A. The United States Environmental Protection Agency ("EPA") has named the Cooperating Respondents and several other persons and entities as potentially responsible parties ("PRPs") with respect to contamination of the groundwater in the Baldwin Park Operable Unit ("BPOU") of the San Gabriel Valley Superfund Sites in Los Angeles County, California. In June 2000, EPA issued Unilateral Administrative Order No. 2000-13 ("UAO") to the Cooperating Respondents and several other BPOU PRPs. Under the UAO, EPA has directed the Cooperating Respondents and the other UAO recipients to (1) develop a remedial design for the interim remedy described in the Record of Decision for the Baldwin Park Operable Unit of the San Gabriel Valley Superfund Sites dated March 31, 1994 ("ROD") and the EPA Explanation of Significant Differences ("ESD") dated May 1999 (collectively, "ROD/ESD"), and (2) implement the design by performing the interim remedial action.

B. In order to address water supply and distribution needs within the BPOU area, the Water Purveyors (defined below), together with Watermaster and WQA, have participated in a cooperative plan for the design, construction, operation and maintenance of water supply/treatment projects in the BPOU area. The Water Entities have filed lawsuits against, and have asserted claims and/or intend to assert claims against, the Cooperating Respondents and other persons and entities for costs allegedly incurred in meeting their water supply and distribution needs and for claims for damages allegedly suffered as a result of the involuntary conversion of their property and rights due to contamination of the groundwater and water supply wells in the BPOU area. In the pending lawsuits and otherwise, the Water Entities claim a taking of and damage to their property and rights by the Cooperating Respondents and others. The Cooperating Respondents, and each of them, dispute these claims.

C. While disputing the Water Entities' claims, and without admitting or acknowledging any fault or liability, the Cooperating Respondents propose to settle the Water Entities' lawsuits and claims, to the extent provided in this Agreement, and to satisfy the Cooperating Respondents' obligations under the UAO by funding the reasonable and necessary costs of design, construction, operation, maintenance and management of groundwater extraction, treatment and distribution facilities within the scope of the Project, as described in the UAO Statement of Work attached as Exhibits A and B hereto and the SWS Statement of Work and the CDWC Statement of Work attached as Exhibits C and D hereto respectively (collectively referred to herein as the "SOW," as defined more particularly below), and by paying compensation as described in this Agreement. In paying compensation, the Cooperating Respondents are not making voluntary payments, but rather are settling lawsuits brought, claims made, and proceedings initiated (and imminently to be initiated) against the Cooperating Respondents.

D. The Parties intend to implement the Water Entities' water supply and treatment plan and to incorporate the EPA groundwater remedy into a Project (defined below) that shall be designed, constructed, installed, owned, operated, maintained and managed by the Water Entities in accordance with the SOW. The Project will consist of six subprojects that are composed of extraction, treatment, and distribution facilities (the "Subprojects," as defined more particularly below), and monitoring wells. The respective Water Purveyor, in coordination with the respective Subproject Committee (defined below), will own, operate and maintain its Subproject. Watermaster and the Technical Coordinating Committee (defined below) will coordinate Subproject activities. The Cooperating Respondents will be responsible, jointly and severally, for funding for the Project, as described in Article 4.

E. EPA has confirmed by the letter attached hereto as Exhibit E that (1) the Project as described, if constructed and operated in accordance with plans and specifications approved by EPA, is necessary and consistent with the 1990 National Oil and Hazardous Substances Pollution Contingency Plan (55 Federal Register 8666, March 8, 1990, as amended from time to time and codified at 40 Code of Federal Regulations Part 300) ("NCP") and constitutes compliance with the ROD/ESD and UAO by the Cooperating Respondents; and (2) a Force Majeure event (as defined herein) affecting a Party's performance under this Project Agreement shall also excuse the corresponding obligation of the Cooperating Respondents pursuant to the UAO.

NOW, THEREFORE, the Water Entities and the Cooperating Respondents, acting in good faith and desiring to settle the existing lawsuits, and otherwise resolve their claims against each other, to the extent provided in this Agreement with respect to the currently known groundwater contamination in the BPOU, and desiring to implement the Project and in

consideration of the execution of this Agreement and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, agree as follows:

AGREEMENT

ARTICLE 1. DEFINITIONS

In addition to terms defined elsewhere in this Agreement, the following terms shall have the following meanings:

“Brine Capital Costs” means and refers to those Project Capital Costs described in Section 2.2.2(a) that are incurred by the Water Entities for the acquisition, construction, and installation of Brine Technology as defined in Section 2.2.2(a)(2).

“BPOU” means the Baldwin Park Operable Unit of the San Gabriel Valley Superfund Sites in Los Angeles County, California.

“CDWC” means California Domestic Water Company. CDWC is a California corporation and a mutual water company.

“CERCLA” means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, 42 U.S.C. § 9601 et seq., as amended from time to time.

“Chemicals of Concern” means those chemicals listed in Exhibit F attached hereto, and those chemicals added to the Project by a Modification (as defined in Section 2.3.1).

“Cooperating Respondents” means Aerojet-General Corporation, Azusa Land Reclamation Co., Inc., Fairchild Holding Corp., Hartwell Corporation, Huffy Corporation, Oil & Solvent Process Company, Reichhold, Inc., and Wynn Oil Company, and their respective successors and permitted assigns.

“Day” means a calendar day unless expressly stated to be a Working Day.

“DHS” means the California Department of Health Services and any successor department or agency of the State of California.

“Effective Date” means the date, following satisfaction of the condition precedent in Section 5.2.1(j), on which written notice is provided to the Parties that the Los Angeles County Superior Court with continuing jurisdiction over the Judgment has approved the Agreement.

“EPA” means the United States Environmental Protection Agency and any successor department or agency of the United States.

“Escrow Agreement” means the Escrow Agreement, in substantially the form set forth in Exhibit G attached hereto, entered into by and among the Water Entities, the Cooperating Respondents and the Escrow Agent, to establish the escrow account.

“Irrevocable Escrow Account” means the account established with Bankers Trust Company pursuant to an agreement dated September 26, 2001, between and among Aerojet-General Corporation (“Aerojet”), EPA, and Bankers Trust Company entitled "Irrevocable Environmental Escrow Fund Agreement," which is attached hereto as Exhibit H. Pursuant to the September 26, 2001 agreement, Aerojet deposited \$40 million into the Irrevocable Escrow Account.

“Judgment” means the judgment by the Los Angeles County Superior Court in the matter of Upper San Gabriel Valley Municipal Water District v. City of Alhambra, et al. (Case # 924128). The Judgment was entered in 1972 and amended in 1991.

“LPVCWD” means the La Puente Valley County Water District. LPVCWD is a public entity organized and existing under Water Code Section 30000 et seq.

“Major Contract” means all Project contracts with a value greater than \$750,000.

“MWD” means the Metropolitan Water District of Southern California.

“Ordinary Operating Costs” means all costs incurred by Water Entities in the normal course of their respective businesses but do not include costs arising from and allocable to the existence, migration control, treatment, or removal of Chemicals of Concern as reflected in the methodology used to create the Subproject O&M Cost Budgets attached hereto as Exhibits L and M.

“Other Funding Sources” means funding provided for the implementation of the UAO Subprojects by EPA or by third parties (i.e., persons or entities not party to this Agreement) that are respondents to the UAO or have otherwise been ordered by EPA to perform work in the BPOU and are acting pursuant to such order.

“Project” means the project described in the SOW, including the design, construction, operation, maintenance, regulatory compliance and management of the groundwater extraction, treatment and distribution facilities and monitoring wells described in the SOW.

“Project Administrative Costs” means all reasonable and necessary costs (including reasonable and necessary attorney fees), incurred by Watermaster or WQA in administering, managing, and coordinating the Project and supervising groundwater monitoring and reporting required by the SOW, including the cost of the Cost Consultant and the Risk Manager and certain costs of insurance, but not including any Subproject Administrative Costs.

“Project Capital Costs” means all reasonable and necessary costs (including reasonable and necessary attorney fees) associated with the design, construction, and installation of the Project Facilities.

“Project Costs” means the reasonable and necessary costs of the Project, including Project Capital Costs, Project Administrative Costs, Subproject O&M Costs and Subproject Administrative Costs. Project Costs do not include Ordinary Operating Costs.

“Project Facilities” means the groundwater extraction, treatment, and distribution facilities and monitoring wells designed, constructed, operated, maintained and/or managed as part of the Project, as described in detail in the SOW.

“Public Funding Sources” means U.S. Bureau of Reclamation (“BOR”) funds and funding provided pursuant to Public Law 106-554, App. D, Section 110, the San Gabriel Basin Water Quality Initiative introduced by U.S. Congressman David Dreier (“Restoration Funds,” sometimes also referred to as “Dreier Funds”), and any other federal or state funds available for groundwater remediation projects in the San Gabriel Basin.

“PUC” means the California Public Utilities Commission.

“ROD/ESD Performance Standards” means the migration control and treatment standards and other measures of achievement of the goals of the interim remedial action in the ROD/ESD.

“SGVWC” means the San Gabriel Valley Water Company. SGVWC is a California corporation and a public utility water company regulated by the PUC and the DHS.

“Statement of Work” or **“SOW”** means the work as substantially described in (1) for the UAO Subprojects, the document titled “Project Agreement Scope of Work; Revised Preliminary Design Report; Baldwin Park Operable Unit”; (attached hereto as Exhibit A) subject to and consistent with EPA’s letter dated July 2, 2001 (attached hereto as Exhibit B) (Exhibits A and B collectively are referred to herein as the “UAO SOW”); (2) for the SWS Subproject, the document titled “Project Agreement Scope of Work; Suburban Water Systems 139 and 140 Wellfields” (attached hereto as Exhibit C and referred to herein individually as the “SWS SOW”); and (3) for the CDWC Subproject, the document titled “Project Agreement Scope of Work; California Domestic Water Company; Bassett Wellfield (attached hereto as Exhibit D and referred to herein individually as the “CDWC SOW”). The SOW may be modified in accordance with Section 2.1.2(c) and Section 2.3.1. With respect to the operation and maintenance (“O&M”) phase of work for each UAO Subproject, the SOW means that work substantially described in the HLA Performance Standards Evaluation Plan dated September 8, 2000 and submitted to EPA, the DHS operating permits as to the specific Subproject, and any specific

O&M manual for part or all of the treatment trains as drafted by specific contractors and approved by the relevant Subproject Committee. For the SWS/CDWC Subprojects, the SOW for the O&M phase of work means that work substantially described in the DHS operating permits as to the specific Subproject.

“Subproject Administrative Costs” means all reasonable and necessary costs (including reasonable and necessary attorney fees) incurred by Watermaster or WQA in connection with their administration, management and coordination of the Project that are attributed solely to any Subproject.

“Subproject O&M Costs” means all reasonable and necessary costs (including reasonable and necessary attorney fees) incurred by Water Purveyors for the operation, maintenance, regulatory compliance, and management of their respective Subprojects, including the cost of an alternative water supply as provided in this Agreement.

“SWS” means Suburban Water Systems. SWS is a California corporation and a public utility water company regulated by the PUC and the DHS.

“Trust Agreement” means the Trust Agreement attached hereto as Exhibit “I”.

“VCWD” means the Valley County Water District. VCWD is a public entity organized and existing under Water Code Section 30000 et seq.

“Watermaster” means the Main San Gabriel Basin Watermaster. The Main San Gabriel Basin Watermaster is an entity created by the Judgment with the authority and responsibility set forth therein.

“Water Entities” means the Main San Gabriel Basin Watermaster, the San Gabriel Basin Water Quality Authority, La Puente Valley County Water District, San Gabriel Valley Water Company, Suburban Water Systems, California Domestic Water Company and Valley County Water District, and, as to La Puente Valley County Water District, San Gabriel Valley Water Company, Suburban Water Systems, California Domestic Water Company and Valley County Water District only, their respective successors.

“Water Purveyor” means any of the following water entities: La Puente Valley County Water District, San Gabriel Valley Water Company, Suburban Water Systems, California Domestic Water Company or Valley County Water District. Each of the Water Purveyors produces water from wells in the BPOU and other locations and serves customers located within the geographical boundaries of the San Gabriel Basin and elsewhere.

“Working Day” means a day other than a Saturday, Sunday, or federal or California state holiday.

“WQA” means the San Gabriel Basin Water Quality Authority. The WQA is an entity formed by special act of the California Legislature (1992 Senate Bill 1679, Russell, codified at California Water Code Appendix Chapter 134, § 134-101 et seq.) (“WQA Act”). The WQA Act gives WQA authority, *inter alia*, to plan for and to coordinate among several agencies with authority affecting cleanup of the San Gabriel Basin.

ARTICLE 2. THE PROJECT

2.1 Project Description

2.1.1 Subprojects

The Project consists of six Subprojects, as defined below. EPA has approved four of the Subprojects, the LPVCWD, Subarea One, B-5 and B-6 Subprojects (“the UAO Subprojects”), as satisfying the Cooperating Respondents’ obligations under the UAO. The SWS and CDWC Subprojects (the “SWS/CDWC Subprojects”) are included in the Project for purposes of water supply and controlling and limiting migration of Chemicals of Concern. To the extent the descriptions in this Section conflict with the SOW, as set forth in Exhibits A through D, the UAO SOW description shall control the UAO Subprojects and the respective SOWs for the SWS Subproject and CDWC Subproject shall control those Subprojects.

(a) The La Puente Valley County Water District Subproject (“LPVCWD Subproject”) has been built and is owned and operated by LPVCWD. The maximum design capacity is 2,500 gallons per minute (gpm) and the estimated average operating capacity is 2,250 gpm. It is anticipated that the LPVCWD Subproject will run on a continuous (24 hours per day / 7 days per week, or “24/7”) basis in accordance with the SOW, except during routine maintenance. The water shall be primarily for the use of LPVCWD. LPVCWD has agreed to transfer to SWS, and SWS has agreed to accept, any water produced at the LPVCWD Subproject in excess of LPVCWD’s customer needs.

(b) The Valley County Water District Subarea One Subproject (“Subarea One Subproject”) shall be owned and operated by VCWD. The maximum design capacity is 7,800 gpm and the estimated average operating capacity is 7,000 gpm. It is anticipated that the Subarea One Subproject will run on a continuous (24/7) basis in accordance with the SOW, except during routine maintenance. VCWD has agreed to transfer to SWS, and SWS has agreed to accept, a minimum of 5,500 gpm of water produced at the Subarea One Subproject.

(c) The San Gabriel Valley Water Company B-5 Subproject (“B-5 Subproject”) shall be owned and operated by SGVWC. The maximum design capacity is 7,800 gpm and the estimated average operating capacity is 7,000 gpm. It is anticipated that the B-5 Subproject will run on a continuous (24/7) basis in accordance with the SOW, except during

routine maintenance. The water shall be primarily for the use of SGVWC. SGVWC has agreed to transfer to CDWC, and CDWC has agreed to accept, in an amount not to exceed 6,000 gpm, any water produced at the B-5 Subproject in excess of SGVWC's customer needs. SGVWC has agreed to transfer and City of Industry has agreed to accept an average of 1,100 gpm continuously. Documentation of such agreement is attached hereto as Exhibit P.

(d) The San Gabriel Valley Water Company B-6 Subproject ("B-6 Subproject") shall be owned and operated by SGVWC. The maximum design capacity is 7,800 gpm and the estimated average operating capacity is 7,000 gpm. It is anticipated that the B-6 Subproject will run on a continuous (24/7) basis in accordance with the SOW, except during routine maintenance. The water shall be for the use of SGVWC.

(e) California Domestic Water Company has constructed and owns and operates six water production wells and treatment and blending facilities at its Bassett Wellfield (collectively with the additional treatment facility described below the "CDWC Subproject"). The six water production wells have the capacity to extract a total of 25,000 gpm. The treatment facilities presently have a maximum design capacity of 10,000 gpm for treatment of volatile organic compounds ("VOCs") by air stripping and 5,000 gpm for treatment of N-Nitrosodimethylamine ("NDMA") by ultraviolet light (UV). In addition, CDWC has the capacity to further treat VOCs and NDMA, and to treat perchlorate, by blending, and will be constructing and will own and operate an additional treatment facility that is expected to have a maximum design capacity of 5,000 gpm for treatment of VOCs by air stripping. The CDWC Subproject shall run on an as-needed basis for CDWC customer needs and for plume migration control.

(f) SWS has constructed and owns and operates a treatment facility at the 140 Wellfield, which has a maximum design capacity of 3,000 gpm, and will drill, construct and operate two new wells (collectively the "SWS Subproject"). The SWS Subproject shall be run on an as-needed basis for SWS's customer needs and for plume migration control.

2.1.2 Performance of SOW

Each Water Entity responsible for a Subproject, as described in Section 2.1.1 hereof, shall design, construct, operate, maintain and otherwise implement its respective Subproject(s) as set forth in the SOW for that Subproject, including any changes to that SOW to which the Parties have agreed pursuant to Section 2.1.2(c), and in accordance with its operating permits, this Agreement, and all applicable laws and regulations.

(a) As to the UAO Subprojects, EPA has approved the UAO SOW and this Agreement as satisfying the ROD/ESD Performance Standards and the UAO, and the Cooperating Respondents believe, upon the advice and consent of EPA, that implementation of

the UAO Subprojects as set forth in the UAO SOW will satisfy the ROD/ESD Performance Standards and the requirements of the UAO. The Water Entities do not guarantee, warrant or represent that the design, construction, operation, maintenance and management of the UAO Subprojects will achieve the ROD/ESD Performance Standards or satisfy the requirements of the UAO.

(b) As to the SWS/CDWC Subprojects, DHS has approved (or is expected to approve) final operating permits for each of the Project Facilities. The Water Purveyors responsible for these Subprojects shall operate their respective Project Facilities in a manner that complies with all requirements of the DHS final permit. The inclusion in this Agreement of the SWS/CDWC Subprojects does not subject them to ROD/ESD Performance Standards or the requirements of the UAO.

(c) The Cooperating Respondents and the affected Water Entities may from time to time agree to modify the SOW for a Subproject, following written notice of the proposed modification to all of the Water Entities and, with regard to any UAO SOW, to EPA. Any such modification shall be in writing, shall include the written assent of each Cooperating Respondent and each affected Water Entity, and shall be approved in writing by the Subproject Committee for that Subproject and, for any UAO SOW, by EPA. Any such modification to an SOW shall constitute an amendment to this Agreement but shall not be subject to the requirements of Section 10.5 of this Agreement.

2.1.3 Alternative Water Supplies

(a) Each Water Purveyor may require alternative water supplies to replace the flow of treated water from Project Facilities that has been reduced or discontinued as a result of any condition or occurrence for which the Cooperating Respondents are financially responsible to remedy pursuant to this Agreement, or to replace water otherwise not available for use from the CDWC Bassett Wellfield or SWS 139 or 140 Wellfields due to the effects of Chemicals of Concern. The costs of the selected alternative water supplies in excess of Ordinary Operating Costs shall be Subproject O&M Costs.

(b) To the extent that SGVWC's B-4 facility can operate using air stripping only, and the costs of producing and treating water at the B-4 facility meet the criteria specified in Section 2.1.3(e), then the water produced and treated at the B-4 facility may serve as an alternative water supply for the B-5 or B-6 Subprojects and the costs of producing and treating water from the SGVWC's B-4 facility, as determined in accordance with the categories and methodologies used to create the Subproject O&M Cost Budgets shall be Subproject O&M Costs for the B-6 or B-5 Subproject (as appropriate). To the extent that B-4 cannot be so

operated, then the provisions of Section 2.1.3(e) shall apply as to the selection of alternative water supplies for the B-5 or B-6 Subprojects.

(c) Due to the loss of the SWS 139 Wellfield, SWS presently has need for alternative water supplies to meet customer needs until the Subarea One Subproject is operating, and potentially thereafter. In addition, SWS may have need for alternative water supplies in the event the concentrations of Chemicals of Concern at its 140 Wellfield increase beyond the treatment and blending capacity of the SWS Subproject. The provisions of Section 2.1.3(e) apply to the selection of such alternative water supplies for SWS.

(d) CDWC may have need for alternative water supplies in the event the concentrations of Chemicals of Concern at its Bassett Wellfield increase beyond the treatment and blending capacity of the CDWC Subproject. The provisions of Section 2.1.3(e) apply to the selection of such alternative water supplies for CDWC.

(e) To the extent that a Water Purveyor seeks to obtain an alternative water supply under the circumstances described in this Section 2.1.3:

(i) such alternative water supply shall be obtained from the lowest cost source, considering the reliability of the source, the quality of the alternative water and its compatibility with existing water supplies, and the exigencies of the situation;

(ii) the selection of such alternative water supply shall be made in accordance with the procedures for incurring and auditing Project Costs set forth in Article 4, except in the event of an emergency situation requiring immediate action;

(iii) water from (1) the B-6, B-5, Subarea One and LPVCWD Subprojects and (2) SGVWC's El Monte Well 1F and SWS's two new wells (as may be permitted under applicable Watermaster or other rules) shall be priced for transfer at the cost provided in Section 4.6.6 and used for alternative water supplies to the extent it is excess of customer needs and is the lowest cost source.

2.1.4 Water Entities Not Potentially Responsible Parties

The Water Entities are participating in the Project in order to restore and protect drinking water supplies. The Water Entities are not, and shall not become, responsible parties or work parties under CERCLA or any other law or regulation by virtue of their implementation of the Project or performance of any obligations under this Agreement.

2.1.5 Standard for Removal of Chemicals of Concern

The Project Facilities shall be operated, maintained and managed to remove Chemicals of Concern to the lowest levels achievable through application of Best Available Technology as defined in 22 Cal. Code Regs. Sections 64447, 64447.2, and 64447.4.

2.2 Technology

2.2.1 Best Available Technology

The Project technologies identified in this Agreement and in the SOW constitute Best Available Technology.

2.2.2 Requirements for Certain Project Technologies

(a) Brine Disposal. Brine produced by treatment of perchlorate in the UAO Subproject Facilities shall be managed through discharge without pretreatment to a treatment works operated by the Los Angeles County Sanitation District (“Sanitation District”) for the interim period described in this section only if all of the provisions and conditions in subsections (1) through (7) below are fully implemented and satisfied:

(1) With respect to the B-6 Subproject, SGVWC provided on September 21, 2001, written notice to Calgon Carbon Corporation (“Calgon”) of the cancellation of the Brine Destruction System (PNDM[®]) component of the contract between SGVWC and Calgon for the supply of a ISEP[®]+Rayox[®] Groundwater Treatment System dated July 25, 2001. Subject to the conditions in subparagraphs (A) through (C) below, the “Calgon Contract Cancellation Agreement” between SGVWC and the Cooperating Respondents is superseded by this Section 2.2.2(a):

(A) The Cooperating Respondents shall make SGVWC whole for the cancellation fee assessed by Calgon for the cancellation of the PNDM[®] unit. The Cooperating Respondents reserve the right to negotiate with Calgon regarding the amount of the cancellation fee. Within fifteen (15) days after determination of the cancellation fee, the Cooperating Respondents shall, by bank draft, wire transfer, or other form of equivalent payment, transfer that sum to SGVWC. Upon receipt, SGVWC shall immediately pay the entire cancellation fee to Calgon. The Cooperating Respondents shall hold harmless, defend (with counsel of the Cooperating Respondents’ choice), and indemnify SGVWC, its officers, directors, employees, agents and attorneys and all other members of the B-6 Subproject Committee, from and against any claim that may be asserted by Calgon arising out of or in any way related to the notice of cancellation, the procedure for cancellation, or cancellation of the PNDM[®] unit from Calgon. SGVWC shall cooperate with the Cooperating Respondents and shall be afforded the

opportunity to participate in any negotiation concerning cancellation fees or procedures and/or defense of claims arising under this Section 2.2.2(a).

(B) The Cooperating Respondents provided SGVWC with the "Will Serve" letter issued by the Sanitation District on August 24, 2001, and agree to the following with regard to the "Will Serve" letter:

i. Prior to September 21, 2001, the Cooperating Respondents had approved an "Escrow Agreement for Defense Funds for Los Angeles County Sanitation District Industrial Waste Discharge Permits" ("LACSD Escrow Agreement") and had submitted said document to the Sanitation District. Based upon a meeting between authorized representatives of the Cooperating Respondents and the Sanitation District that occurred on September 18, 2001, the Cooperating Respondents can and do represent that, to the best of their knowledge, an agreement substantially in the form of the LACSD Escrow Agreement would have been acceptable to the Sanitation District;

ii. The Cooperating Respondents approved the escrow funding commitment required by the Sanitation District to fund the LACSD Escrow Agreement, but the Sanitation District subsequently advised the Cooperating Respondents that it would not require the LACSD Escrow Agreement, but would instead require only an Indemnification Agreement;

iii. The Cooperating Respondents approved an Indemnification Agreement as requested by the Sanitation District, for the benefit of the Sanitation District, and submitted this proposed Indemnification Agreement to the Sanitation District. The Cooperating Respondents can and do represent in good faith that they expect to reach agreement with the Sanitation District, addressing any reasonable concerns the Sanitation District may have;

iv. Recognizing there are always uncertainties in negotiation with a public agency, the Cooperating Respondents represent, to the best of their knowledge and based upon meetings that have occurred with Paul Martyn, Head, Industrial Waste Section, Sanitation District, that there is a strong likelihood that the Waste Discharge Permit or other written authorization for the B-6 Subproject will be issued in a timely manner. The Cooperating Respondents commit to use best efforts to resolve by January 31, 2002 or as soon thereafter as practicable any potential outstanding issues pertaining to the Sanitation District Indemnification Agreement and/or any other issues relating to the acquisition of the written authorization or permit from the Sanitation District. The Cooperating Respondents further agree that, prior to discharge, they shall obtain the written authorization or permit for brine discharge from the Sanitation District that includes an unequivocal commitment to accept

the discharge within the parameters of the permit based on existing conditions. The written authorization shall identify an entity established by the Cooperating Respondents as the discharger for the B-6 Subproject. The Water Entities shall assist the Cooperating Respondents in their effort to obtain written authorization, authorizations and permits from the Sanitation District on an expedited basis and join in requests to expedite the process.

(C) In order to ensure a water supply in the event it is no longer possible to discharge brine without pretreatment to a treatment works operated by the Sanitation District, the Cooperating Respondents have provided for a contingent alternative water supply source by payment to SGVWC of \$800,000 for a new well located in El Monte and associated pipeline and equipment, \$570,569 for the remainder of the Francisquito pipeline, and \$362,858 for the remainder of the Valley Boulevard pipeline.

(2) With respect to the Subarea One Subproject, the B-5 Subproject and the LPVCWD Subproject, the Cooperating Respondents shall obtain from the Sanitation District, prior to the order date for brine destruction or equivalent pretreatment technology (“Brine Technology”) for that Subproject, written authorization for brine discharge without pretreatment that includes an unequivocal commitment to accept the discharge within the parameters of the permit based on existing conditions, which can be in the form of a “Will Serve” letter substantially similar to that described in Section 2.2.2(a)(1)(B) that is supported either by financial assurance and indemnification commitments by the Cooperating Respondents to the Sanitation District substantially similar to those provided to the Sanitation District with respect to the B-6 Subproject or by other acceptable alternative commitments or provisions (“Written Authorization”). The Written Authorization(s) shall identify an entity established by the Cooperating Respondents as the discharger for each UAO Subproject. In addition, the Cooperating Respondents shall obtain from the Sanitation District a temporary discharge permit, as appropriate, prior to the time the discharge is to commence, and also a final brine discharge permit; each such permit shall identify an entity established by the Cooperating Respondents as the discharger for each UAO Subproject. The Water Entities shall assist the Cooperating Respondents in their effort to obtain Written Authorizations and permits from the Sanitation District on an expedited basis and join in requests to expedite the process. The LPVCWD Subproject has received all requisite authorizations and permits required under this subsection.

(3) The potential discharge of brine without pretreatment to a treatment works operated by the Sanitation District shall not delay ordering equipment necessary to complete the individual Subprojects in accordance with the time schedule established by each Subproject Committee. In the event that the Cooperating Respondents fail to obtain the required Written Authorization from the Sanitation District prior to the order date for Brine Technology for a particular Subproject, that Subproject Committee may, at its option,

order the Brine Technology unit(s) for the Subproject. In ordering the unit(s), the Subproject Committee shall establish a schedule that minimizes, to the fullest extent reasonably possible, cancellation costs in the event that the Written Authorization is obtained while the Subproject unit(s) is being constructed. If the Cooperating Respondents subsequently obtain Written Authorization for brine discharge without pretreatment from the Sanitation District, for Subprojects that have ordered Brine Technology unit(s), then such orders may be cancelled, at the option of the Cooperating Respondents, and any costs that are incurred as a result of such cancellation(s) shall be Project Capital Costs.

(4) Brine discharge without pretreatment shall not be used for any UAO Subproject after October 16, 2006. Cooperating Respondents shall take the lead in evaluating alternative technologies for Brine Technology and shall fund such efforts as Project Costs. Water Entities shall cooperate in efforts to evaluate and demonstrate such technologies. By March 31, 2002, the Cooperating Respondents shall submit to the Technical Coordinating Committee a brine management report that (a) proposes a schedule for the alternative technology evaluations and development and (b) identifies technologies that can be implemented on an expedited basis in the event that authorization to discharge is withdrawn by the Sanitation District as described in subsection (5) of this Section 2.2.2(a) (the "Brine Management Report"). The Brine Management Report shall further provide a plan and schedule for adequate evaluation and appropriate authorizations from governmental agencies and Subproject Committees such that the brine discharge without pretreatment shall terminate by October 16, 2006. The Brine Management Report may be updated from time to time. By October 16, 2004, the Cooperating Respondents shall submit to the Subproject Committee(s) a proposal for technology selection and competitive procurement that has been reviewed by the Cost Consultant. The Subproject Committee(s) shall consider the recommendations of the Brine Management Report and the Cost Consultant and shall, subject to the provisions of Section 3.8.4, select and procure the Brine Technology based on cost, effectiveness, and safety to ensure that the brine discharge without pretreatment shall terminate no later than October 16, 2006. No technology shall be procured that does not have appropriate authorizations from governmental agencies, including DHS, where such authorizations are required. In the event that at the time set for procurement, alternative technologies do not yet have all necessary authorizations, but such authorizations are being pursued, and a Subproject Committee seeks to procure Brine Technology, the Subproject Committee shall establish cancellation provisions in the procurement contract and schedules that minimize, to the fullest extent reasonably possible, cancellation costs in the event that all necessary permits for alternative technology are obtained while the procured Brine Technology units are being constructed. If the Cooperating Respondents subsequently obtain all necessary permits for alternative technology for the treatment, recycling and/or other proper management of the brine, at the request of the

Cooperating Respondents, the relevant Subproject Committee shall cancel any existing procurement contracts for Brine Technology provided that such cancellation shall not extend the October 16, 2006 deadline for the cessation of brine discharge without pretreatment, and any costs that are incurred as a result of the cancellation of ordered Brine Technology units shall be paid by the Cooperating Respondents. In any case, an entity established by the Cooperating Respondents shall continue as the discharger for the Sanitation District permit for brine discharge without pretreatment to a treatment works operated by the Sanitation District so that brine discharge without pretreatment shall continue to be available to allow for temporary discharges due to a temporary stoppage of any Brine Technology for routine maintenance, emergency maintenance, or otherwise. Thereafter, the use of an approved Brine Technology shall be resumed.

(5) If for any reason it is no longer possible to discharge brine without pretreatment to a treatment works operated by the Sanitation District, the Water Entities shall immediately order on an expedited basis, Brine Technology which has been identified by the Subproject Committee after reviewing the Brine Management Report and Cost Consultant's recommendations, if any, based on cost, effectiveness, and safety. All reasonable and necessary costs for expediting the construction of the Brine Technology shall be Project Costs. All reasonable and necessary costs, including in the event of inadequacy of the contingent water supply, the costs of alternative water supply, MWD costs and charges, and capital costs, resulting from any interruptions in a Water Entity's business operations occasioned by the inability to discharge Project brine without pretreatment shall be paid by the Cooperating Respondents, except to the extent caused solely by or in connection with willful misconduct of a Water Entity or its officers, directors, board members, employees, contractors, subcontractors, representatives or agents as determined by binding arbitration under the terms of the dispute resolution provisions set forth in this Agreement.

(6) The Subproject Committee shall update the Project Capital Cost Budget to reflect the estimated cost for brine pretreatment ("Brine Capital Costs") in accordance with the provisions of Section 4.5.1 at the same time the Subproject Committee selects the Brine Technology to be implemented pursuant to subsections (3) or (5) of this Section 2.2.2(a). Within ten (10) Working Days thereafter, Watermaster shall provide the Trustee with written notice of the increase in the Financial Assurance required to financially assure payment of the Brine Capital Costs ("Brine Financial Assurance"). Each Cooperating Respondent shall adjust its Capital Financial Assurance in accordance with Section 4.7.3(c) and the Trust Agreement.

(7) The Cooperating Respondents shall indemnify, hold harmless and defend the Water Entities, and each of them, their respective successors and permitted assigns, and their respective past and then-current officers, directors, board members and

employees from and against any and all claims, causes of action, suits, legal or administrative proceedings, damages, losses, penalties, fines or liabilities arising directly or indirectly from brine discharge without pretreatment not reimbursed by insurance (“Brine Claims”); provided, however, that the Cooperating Respondents shall have no obligation under this Section 2.2.2(a)(7) to indemnify, hold harmless or defend the Water Entities or each of them from any Brine Claim to the extent arising solely from or in connection with willful misconduct of a Water Entity or its officers, directors, board members, employees, contractors, subcontractors, representatives or agents as determined, (i) with respect to the Subarea One Subproject, the B-5 Subproject, and the La Puente Subproject, by binding arbitration under the terms of the dispute resolution provisions set forth in this Agreement, and (ii) with respect to the B-6 Subproject, through litigation or other means of dispute resolution mutually agreed upon by the parties to the dispute. Any such arbitration, litigation or other dispute resolution shall take place after the conclusion of any claim, lawsuit or other action arising from a Brine Claim. With respect to the B-6 Subproject, the indemnity obligation under this Section 2.2.2(a)(7) shall survive the termination of this Agreement without limitation. With respect to Subprojects other than the B-6 Subproject, the provisions of Sections 5.5.1(d) (Survival), 5.5.4 (Notice), 5.5.5 (Selection of Counsel) and 5.5.6 (Settlement of Claims) of this Agreement shall apply to the Parties’ rights and obligations with respect to Brine Claims under this Section.

(b) Low Pressure UV. Low pressure UV technology is a technology for the treatment of NDMA and 1,4-Dioxane. The Water Entities shall implement low pressure UV technology in lieu of medium pressure UV technology only if all of the provisions and conditions in subsections (1) through (3) are fully implemented and satisfied.

(1) The Cooperating Respondents and LPVCWD shall, pursuant to that certain “Low-Pressure UV/OX Demonstration Project Agreement” dated June 11, 2001 (a copy of which is attached as Exhibit J), fund and conduct a full-scale demonstration of the low pressure UV technology at the LPVCWD Subproject, which shall include facilities capable of treating 2,500 gpm.

(2) The low pressure UV system must be effective, safe and lower cost as compared with other available technologies.

(3) The Water Entities shall assist the Cooperating Respondents in an effort to obtain the required DHS permit on an expedited basis and join in requests to expedite the process.

(4) The potential use of low pressure UV technology shall not delay ordering equipment necessary to complete the individual Subprojects in accordance with the time schedules established by each Subproject Committee. If a Subproject Committee must

order medium pressure UV equipment before conditions (1) through (3) of this Section 2.2.2(b) are met to maintain the schedule for implementation of that Subproject, then the Subproject Committee shall establish a schedule that minimizes, to the fullest extent reasonably possible, cancellation costs in the event that the conditions are met while the medium pressure UV equipment for the Subproject is being procured. To minimize cancellation charges, Water Entities shall seek to have the medium pressure UV technology equipment delivered to the site as late as reasonably feasible, consistent with the Subproject schedule. Although entered into prior to the Effective Date to maintain the schedule for implementation of the B-6 Subproject, the contract for the Calgon medium pressure Rayox/UV equipment entered into on July 26, 2001 for the B-6 Subproject satisfies this requirement. If medium pressure UV equipment is already ordered or installed and low pressure UV equipment subsequently meets the conditions of this subparagraph, and if Cooperating Respondents request the use of low pressure UV technology, the relevant Subproject Committee shall cancel any existing procurement contract for medium pressure UV equipment, provided that such cancellation shall not delay the Subproject. Any costs that are incurred as a result of such replacement or cancellation shall be Project Capital Costs.

(5) Cooperating Respondents have funded the acquisition of land to accommodate low pressure UV equipment. Water Entities shall maintain the purchased land to accommodate low pressure UV equipment.

(c) Liquid Phase GAC. The Water Entities shall implement liquid phase granular activated carbon ("LGAC") in lieu of air-stripping for the treatment of VOCs only if the LGAC system is effective, safe and lower cost as compared with air stripping when warranties, operation and maintenance, land acquisition, engineering modifications, DHS permit requirements and other cost factors are assessed. The Cost Consultant may be consulted on this issue at the request of either the Water Entities or the Cooperating Respondents.

2.2.3 New or Alternative Technologies

Any member of a Subproject Committee (described in Section 3.8.1) may, upon thirty (30) Working Days prior written notice, request consideration of a new or alternative technology for implementation of the designated Subproject. Such request for consideration shall include: (a) Project Costs based upon vendor quotes (or similar quality estimates) and a comparison of the "new/alternative technology costs" with the currently anticipated costs for an existing technology; (b) demonstration of the acceptability of the technology to DHS and EPA; and (c) a schedule for implementation of the new or alternative technology including necessary permitting requirements. If requested by any other member of the Subproject Committee, the Cost Consultant shall provide a written report on the new or alternative technology at least ten (10) Working Days before the meeting to discuss that technology. The decision whether to

adopt the proposed technology shall be subject to approval of the Subproject Committee, and the request for consideration shall not delay the schedule established by the Subproject Committee.

2.3 Modifications and Changes to the Project

2.3.1 EPA Modifications, New Orders and Directives

(a) If (1) EPA determines that a modification to the SOW is reasonable and necessary to achieve and maintain the ROD/ESD Performance Standards, or (2) EPA or another agency with jurisdiction over the Cooperating Respondents issues an order or directive to the Cooperating Respondents to remedy a new contaminant within the BPOU not included in the list of Chemicals of Concern attached hereto as Exhibit F, such modification, order or directive shall, upon EPA's written direction or upon such other agency's written direction with which EPA has concurred in writing (a "Modification"), be incorporated into the Project. Watermaster shall make a determination as to which of the affected Water Purveyor(s) will implement changes in the UAO SOW as set forth in Section 3.5.3. Costs incurred by the Water Entities in accordance with this Agreement as a result of any such Modification, including costs of alternative water supply, MWD costs and charges, capital costs, and all other costs of participating in the Modification process, shall be Project Costs.

(b) Nothing herein shall be construed to preclude any of the Parties to this Agreement from challenging the appropriateness of any such Modification; provided, however, that any such challenge shall not suspend the Cooperating Respondents' obligations to fund and provide Financial Assurances for the Project, including such Modification. If, as a result of a challenge, EPA (or such other agency with EPA's written concurrence) stays implementation of the Modification, Water Entities' obligation to implement the Modification and the Cooperating Respondents' obligation to provide further funding and Financial Assurances for the Modification shall be stayed for the period of time that implementation of the Modification is stayed by the EPA (or such other agency with EPA's written concurrence). If, while funding is stayed, the affected Water Purveyor is unable to deliver water from its Subproject without implementation of the Modification, the Parties shall meet and confer in good faith to consider options for the continued operation of the Project. Thereafter, the affected Water Purveyor may, at its sole discretion, terminate any part of its operation of the Subproject affected by the Modification and shall provide the Cooperating Respondents with notice of such action. The Cooperating Respondents shall have no right to compel a Water Purveyor to operate any affected Subproject as long as the Cooperating Respondents are not paying for the Modification.

2.3.2 Change in Water Supply Standards as to Chemicals of Concern

The Water Entities shall undertake all changes in Project Facilities or operations that are made necessary by changes in standards, regulations, requirements, orders, directives, or DHS guidelines applicable to the treatment of Chemicals of Concern issued or required by EPA, DHS, PUC, or other regulatory agencies. All such changes shall be undertaken in a manner that is cost-effective and consistent with the NCP, and the Cooperating Respondents' may review and comment on the proposed changes. Costs incurred by the Water Entities as a result of any such changes, including costs of alternative water supply, MWD costs and charges, and capital costs, shall be Project Costs.

2.3.3 Contaminants Other Than Chemicals of Concern

(a) If a contaminant is detected in any extraction well that is included in, and being operated as part of, the Project, and such contaminant: (i) is not a Chemical of Concern, (ii) requires treatment pursuant to applicable safe drinking water standards or requirements and (iii) can be treated using the Project Facilities, then the affected Water Purveyor shall continue to treat the water to the lowest level achievable through the application of Best Available Technology. The reasonable and necessary additional cost for such treatment, up to a total additional cost not exceeding \$200,000 annually per Subproject, shall be Project Costs. If such additional cost exceeds \$200,000 annually per Subproject, the excess costs will not be fully funded by insurance on a current basis, and the Cooperating Respondents do not agree to pay such excess costs, then the affected Water Purveyor and the Cooperating Respondents shall meet and confer in good faith to consider options for the continued operation of the Subproject. Thereafter, the affected Water Purveyor, at its sole discretion, may reduce, modify, or terminate the continued operation of the affected part of the Subproject and shall provide the Cooperating Respondents notice of such action. The Cooperating Respondents shall have no right under this Agreement to compel a Water Purveyor to operate the affected part of the Subproject so long as the Cooperating Respondents are not paying for such treatment.

(b) If a contaminant is detected in any extraction well that is included in, and being operated as part of, the Project, and such contaminant: (i) is not a Chemical of Concern, (ii) requires treatment pursuant to applicable safe drinking water standards or requirements and (iii) cannot be treated using the Project Facilities, the Parties shall meet and confer in good faith to consider options for the continued operation of the Project. Thereafter the affected Water Purveyor, at its sole discretion, may terminate operation of any part of the Subproject affected by the contaminant and shall provide the Cooperating Respondents notice of such action. The Cooperating Respondents shall have no right to compel a Water Purveyor

to operate any affected Subproject as long as the Cooperating Respondents are not paying for such treatment.

2.3.4 New Standards for Contaminants Other Than Chemicals of Concern

(a) If a new water supply standard, order, directive, requirement or guideline is adopted or required by EPA, DHS, PUC, or other regulatory agency with jurisdiction to issue or require such standard, order, directive, requirement or guideline for any contaminant which is not a Chemical of Concern, and such standard, order, directive, requirement or guideline can be met using the Project Facilities, then the affected Water Purveyor shall continue to treat the water to safe drinking water standards or requirements, and the Cooperating Respondents shall pay the Water Purveyor's reasonable and necessary additional cost for doing so, up to a total additional cost not exceeding \$200,000 annually per Subproject. If such additional cost exceeds \$200,000 annually per Subproject, the excess costs will not be fully funded by insurance on a current basis, and the Cooperating Respondents do not agree to pay such excess costs, then the affected Water Purveyor and the Cooperating Respondents shall meet and confer in good faith to consider options for the continued operation of the Subproject. Thereafter, the affected Water Purveyor, at its sole discretion, may reduce, modify, or terminate the continued operation of the affected part of the Subproject and shall provide the Cooperating Respondents notice of such action. The Cooperating Respondents shall have no right under this Agreement to compel a Water Purveyor to operate the affected part of the Subproject so long as the Cooperating Respondents are not paying for such treatment.

(b) If a new water supply standard, order, directive, requirement or guideline is adopted or required by EPA, DHS, PUC, or other regulatory agency with jurisdiction to issue such standard, order, directive, requirement or guideline for any contaminant which is not a Chemical of Concern, and such standard, order, directive, requirement, or guideline cannot be met using the Project Facilities, the Parties shall meet and confer in good faith to consider options for the continued operation of the Project. Thereafter, the affected Water Purveyor, at its sole discretion, may terminate operation of any part of the Subproject affected by the contaminant and shall provide the Cooperating Respondents notice of such action. The Cooperating Respondents shall have no right to compel a Water Purveyor to operate any affected Subproject as long as the Cooperating Respondents are not paying for such treatment.

ARTICLE 3. PROJECT MANAGEMENT

3.1 Coordination and Cooperation

The Parties recognize that implementation of the Project requires coordination and cooperation. All Parties shall strive to cooperate and communicate with each other in all matters relating to the Project.

3.2 Division of Responsibility

3.2.1 Water Entities

The Water Entities have divided responsibility for implementing the Project as set forth in this Agreement and the SOW. Notwithstanding any other provision of this Agreement, no Water Entity shall be liable or responsible for any aspect of the Project that is the responsibility of another Water Entity.

3.2.2 Cooperating Respondents

The Cooperating Respondents shall be jointly and severally responsible for funding of the Project and posting of financial assurances in accordance with the provisions of Article 4 of this Agreement. No Water Entity shall have any obligation to perform any work under this Agreement unless the Cooperating Respondents have provided the funding and Financial Assurances required by this Agreement for such work.

3.3 Water Entities

3.3.1 Standard of Care

The Water Entities and their respective agents, servants, employees, contractors, subcontractors, laboratories and vendors shall use sound technical, engineering and environmental principles, practices, procedures and judgment and shall apply the degree of care and skill necessary to assure that the Project is designed, built, operated and maintained for the purposes set forth in the SOW in accordance with good professional practices.

3.3.2 Compliance with Applicable Laws

The Water Entities shall at all times comply with all laws, ordinances, statutes, rules and regulations applicable to the Project.

3.3.3 Retention of Records

(a) Financial Records. The Water Entities shall maintain all books, records, accounts and supporting documentation ("Financial Records") necessary for financial

management of the Project. These Financial Records shall be maintained in accordance with generally accepted accounting principles, or, with respect to SGVWC and SWS, in accordance with the Uniform System of Accounts for Water Utilities prescribed by the PUC. All such Financial Records shall be subject to audit pursuant to Section 4.10 hereof. Financial Records shall be maintained until the later of: (1) six (6) years from the “as of” date or period applicable to the Financial Record; (2) the Internal Revenue Service retention period for such Records; or (3) the PUC retention period for such Records.

(b) Environmental Records. Notwithstanding any corporate or agency record retention policy to the contrary, the Water Entities and the Project Manager (as defined in Section 3.5.2) shall preserve and retain all records and documents related to the Project, including without limitation all log books, records, data, reports, and all other information relating to environmental testing, quality assurance, water quality before transmission to a public water supply pipeline, and compliance with EPA and DHS standards.

(c) Retention of Environmental Records. The Water Entities shall preserve and maintain the environmental records and documents described in subsection (b) of this Section 3.3.3 and shall instruct their contractors, subcontractors and agents to preserve and retain all such records and documents until the later of ten years after the Term of this Agreement or six years after EPA provides notice that all work required under the UAO has been completed. If stored electronically, environmental records shall be stored in a computer-usable form using then-appropriate technology that is commonly accessible to EPA and to the Cooperating Respondents. At the conclusion of the environmental records retention period, the Water Entities shall notify the Cooperating Respondents at least ninety (90) days prior to the destruction of any such records, and upon request by the Cooperating Respondents, the Water Entities shall deliver all requested records to the Cooperating Respondents.

(d) All reasonable and necessary costs associated with retaining records for the Project shall be Project Costs.

3.3.4 Cooperation to Meet the UAO Requirements

(a) The Water Entities shall cooperate with any reasonable request required for the Cooperating Respondents to meet their obligations under the UAO. This shall include, without limitation, allowing the Cooperating Respondents and EPA access to records, real property, equipment, reports, testing results and any other information needed to comply with the Cooperating Respondents’ UAO obligations.

(b) Nothing in this Agreement shall make the Water Entities subject to the UAO or liable to EPA for any penalty or fine assessed pursuant to the UAO.

3.3.5 No Discrimination

The Water Entities shall not discharge, promote or demote, discriminate in matters of compensation against, or refuse to hire, any person otherwise qualified, solely because of race, creed, color, religion, sex, age, national origin or ancestry.

3.4 **Water Purveyors**

3.4.1 General Responsibilities

(a) The Water Purveyor responsible for an individual Subproject, along with the appropriate Subproject Committee, shall be responsible for the design, construction, operation, maintenance and management of the Water Purveyor's respective Subproject in accordance with the requirements and schedule set forth in the SOW, and subject to the terms and conditions of this Agreement.

(b) VCWD is the Water Purveyor responsible for the Subarea One Subproject. However, if for any reason, VCWD does not build and/or operate, maintain and manage the Subarea One Subproject under the terms of this Agreement, SWS may, at its sole discretion, become the Water Purveyor responsible for construction and/or operation of the Subarea One Subproject. If SWS elects to assume responsibility for the Subarea One Subproject, VCWD shall continue to own the Subproject but SWS shall, in accordance with this Agreement, build and/or operate, maintain and manage the Subproject. Upon written notice from SWS of its election to assume responsibility for the Subarea One Subproject, the Cooperating Respondents shall provide to SWS all remaining funding required under this Agreement for the Subarea One Subproject, in accordance with Article 4 of this Agreement. In the event of a dispute between VCWD and SWS under this Agreement, such dispute shall be subject to the dispute resolution provisions of this Agreement, however, VCWD shall continue to deliver water under the terms of this Agreement to SWS until a final ruling of the arbitrator.

3.4.2 Contractors and Subcontractors

(a) UAO Subprojects. The Water Purveyors shall deliver a copy of the UAO SOW and the UAO, to all contractors, subcontractors, laboratories, and vendors used by the Water Purveyors in connection with the UAO Subprojects. The Water Purveyors shall condition each UAO Subproject contract with contractors, subcontractors, laboratories and vendors upon compliance with the UAO SOW and applicable provisions of the UAO.

(b) Contract Terms. Every Major Contract shall contain "Standard Terms and Conditions," which shall be established by mutual agreement of the Parties in consultation

with the Risk Manager. All other Project contracts shall contain standard contract terms, as determined by the Subproject Committee in consultation with the Risk Manager.

(c) Each Water Purveyor shall be responsible for enforcing all contractual guarantees and warranties of contractors, subcontractors, laboratories and vendors as to its respective Subproject. The reasonable and necessary cost of such enforcement efforts shall be Project Costs.

(d) The Water Purveyors shall exercise sound business judgment and practices to avoid any involuntary lien or charge on Project Facilities. If any such lien shall attach or be claimed as to any Subproject, the affected Water Purveyor shall endeavor to procure a release of the lien or otherwise resolve disputes concerning such lien. If such lien results from the failure by the Cooperating Respondents to fulfill their funding obligations, in addition to any other remedies available to the Water Purveyor, the Water Purveyor may take such action as is reasonably necessary to release the lien or charge, and the reasonable and necessary costs of such action shall be Project Costs.

(e) Each Water Purveyor, and its respective contractors and subcontractors, shall obtain, keep current and comply with all permits and approvals required for construction, operation and maintenance of its Subproject(s). The reasonable and necessary costs for such Project-related permits and approvals shall be Project Costs.

3.4.3 Water Rights

Each Water Purveyor shall, at no cost to the Cooperating Respondents, provide the required water rights, to the extent available, and pay the applicable Watermaster assessments, for Project water treated and used as potable water supply in the Water Purveyor's respective water systems.

3.4.4 Liens and Encumbrances

(a) Except as provided in Section 3.4.4(b), during the term of this Agreement, no Water Purveyor shall sell, lease, assign, mortgage, or otherwise dispose of or encumber Project Facilities paid for by the Cooperating Respondents without the prior written consent of the Cooperating Respondents; except that Project Facilities owned by SGVWC or SWS shall be subject to the trust indenture securing their respective general mortgage bonds.

(b) Notwithstanding Section 3.4.4(a), SGVWC and SWS shall not sell, lease, assign, mortgage or otherwise dispose of or encumber their respective Project Facilities except in accordance with Public Utilities Code section 851 and with prior written notice to the Cooperating Respondents.

3.5 Watermaster

3.5.1 Coordination/Administration

Watermaster shall provide coordination and supplemental administrative services for the Project, including (i) EPA interface for the UAO Subprojects, technical coordination and administration through Watermaster staff and consultants, contract administration/enforcement and related legal services; (ii) participation in the Technical Coordinating Committee; (iii) oversight services for agreements related to the Project between Water Entities and other water purveyors; (iv) accounting services necessary for accurately tracking Project Costs, invoice payments, budget process, quarterly deposits to the Escrow Account by the Cooperating Respondents, and credits for funds received from Public Funding Sources and Other Funding Sources.

3.5.2 Retention of Qualified Project Manager

Watermaster shall retain the services of a Project Manager to supervise the Project (the "Project Manager"). The initial Project Manager shall be Stetson Engineers, Inc. If it becomes necessary to replace the Project Manager, Watermaster shall comply with the applicable portions of the UAO for replacement of the Project Manager.

3.5.3 Modification

In the event of a Modification affecting the SOW, Watermaster shall make a determination as to which of the affected Water Purveyor(s) will implement changes to the SOW. In making this determination, Watermaster shall consider the goals of contaminant migration control, sound drinking water supply management, cost-effectiveness and NCP consistency. Any Party shall be entitled to dispute this determination through the dispute resolution process set forth in this Agreement.

3.5.4 Monitoring

Watermaster shall arrange for and supervise the groundwater monitoring required by the SOW. Reports of sampling results shall be provided promptly to each Subproject Committee at or before Subproject Committee meetings, to the Technical Coordinating Committee, and to the Cooperating Respondents.

3.5.5 Reporting

Watermaster shall prepare and timely submit the periodic reports and deliverables required by the SOW. Watermaster shall provide to each Cooperating Respondent a draft copy of such reports and deliverables, for review and comment, at least ten (10) full

Working Days prior to their submittal. If Watermaster anticipates that it will not be able to provide to the Cooperating Respondents a draft copy of a periodic report or deliverable required by the SOW at least ten (10) Working Days before it is due, Watermaster shall so notify Cooperating Respondents and the Parties shall cooperate in an effort to obtain an extension so as to ensure that the Cooperating Respondents shall have ten (10) Working Days to review and comment upon such draft periodic report or deliverable before it is submitted. Watermaster shall make a good faith effort to provide to the Cooperating Respondents all other draft reports related to the Project in a timely fashion so that Cooperating Respondents shall have a reasonable opportunity to review and comment on such reports. Watermaster shall consider and incorporate or address comments on such reports and deliverables made by the Cooperating Respondents. Watermaster shall make a good faith effort to provide to the Cooperating Respondents water quality data for influent and effluent values at the respective Subprojects within five (5) Working Days after the Water Entity's receipt of such data.

3.5.6 Project Costs

The reasonable and necessary costs of any services performed by Watermaster in connection with the Project pursuant to this Agreement shall be Project Costs; provided, however, that no attorney fees (or other consultant fees) related to the negotiation or drafting of this Agreement or its approval by the Superior Court shall be deemed Project Costs or Interim Project Costs.

3.6 WQA

WQA shall be involved in the comprehensive management of the Project as a voting member of each Subproject Committee. WQA shall process and submit applications to obtain and maintain funding for the Project from Public Funding Sources and process reimbursements and credits resulting from such Public Funding Sources.

The reasonable and necessary costs of any services performed by WQA in connection with the Project pursuant to this Agreement shall be Project Costs; provided, however, that no attorney fees (or other consultant fees) related to the negotiation or drafting of this Agreement or its approval by the WQA Board shall be deemed Project Costs or Interim Project Costs.

3.7 Technical Coordinating Committee

3.7.1 Purpose

A technical coordinating committee (the "Technical Coordinating Committee") shall be formed to provide technical assistance to Watermaster in coordinating among the

Subprojects and facilitating communication among the Water Entities, Cooperating Respondents and EPA.

3.7.2 Composition of the Technical Coordinating Committee

The Technical Coordinating Committee shall be composed of (1) up to two representatives from Watermaster's technical staff; (2) a representative from EPA; and (3) up to two technical representatives chosen by the Cooperating Respondents. In addition, the Technical Coordinating Committee shall provide notice of Technical Coordinating Committee meetings to WQA and to each of the Water Purveyors and the Cooperating Respondents.

3.7.3 Meetings of the Technical Coordinating Committee

The Technical Coordinating Committee shall hold meetings on a quarterly basis (or more often as necessary), unless all of the members agree otherwise, to consider issues of overall Project coordination and performance, including review of Project deliverables, EPA directives and progress of the Project. Any Party to this Agreement may send a representative to participate in such meetings.

3.7.4 Recommended Actions

If the Watermaster technical representative(s) and the Cooperating Respondents' technical representative(s) determine that a specific action should be taken at the Subproject level in order to improve the overall performance of the Project or to comply with a Modification, and, in the case of a UAO Subproject EPA agrees, the Technical Coordinating Committee shall advise the appropriate Subproject Committee, which shall implement the action unless the Subproject Committee determines that the action is inappropriate. If the Subproject Committee decides not to implement the action, the Technical Coordinating Committee and the Subproject Committee shall meet to determine the appropriate course of action. If the Technical Coordinating Committee and the Subproject Committee cannot agree on an appropriate course of action, then any Party may invoke the dispute resolution procedures in Article 8.

3.7.5 Annual Review

On an annual basis, at a regularly scheduled meeting, the Technical Coordinating Committee shall review the operation of the Project for purposes of water supply and contaminant migration control needs and make recommendations for modifications to the SOW or water supply deliveries, as appropriate to meet water supply needs and control contaminant migration. If the recommendation pertains to a UAO Subproject, EPA must approve the suggested modification before it can be implemented. If the Subproject Committee

decides to accept the recommendation, any modification to the SOW shall be made in accordance with Section 2.1.2(c). If the Subproject Committee decides not to implement the action, the Technical Coordinating Committee and the Subproject Committee shall meet to determine the appropriate course of action. If the Technical Coordinating Committee and the Subproject Committee cannot agree on an appropriate course of action, then any Party may invoke the dispute resolution procedures in Article 8.

3.8 Subproject Committees

3.8.1 Composition of Subproject Committees

(a) A Subproject Committee shall be established for each of the Subprojects, except that there shall be only one Subproject Committee established for the B-5 and B-6 Subprojects. Each Subproject Committee shall be composed of the following voting members: (1) a representative chosen by the Water Purveyor responsible for the Subproject (except for the Subarea One Subproject, for which a representative from both SWS and VCWD will be chosen); (2) a representative chosen by Watermaster; and (3) a representative chosen by WQA. Each Subproject Committee shall also include the following non-voting members: (1) up to two representatives chosen by the Cooperating Respondents; (2) a representative chosen by EPA; and (3) the Cost Consultant.

(b) The non-voting members shall have the right to participate and provide input in all Subproject Committee meetings and decisions and to receive all notices and other writings and information delivered to voting members.

3.8.2 Subproject Committee Meetings

(a) The Subproject Committees shall meet monthly, or at such other interval as deemed to be appropriate by the members. Any Party may send a representative to observe such meetings.

(b) Any member of a Subproject Committee may call a meeting of that Subproject Committee by providing at least three (3) Working Days advance written notice of the meeting and a full agenda for the meeting to each other member (including non-voting members) of that Subproject Committee.

(c) All documents and reports to be considered at scheduled meetings shall be provided to all members of the Subproject Committee (voting and non-voting) at least five (5) Working Days before the scheduled meetings, unless the members of the Subproject Committee agree to a shorter time period or unless such documents were unavailable to be distributed in which case they shall be distributed at the earliest possible date. All Major

Contracts shall be provided to all Subproject Committee members in their proposed final form at least five (5) Working Days before consideration by the Subproject Committee. All consideration of the terms of any Major Contract shall be conducted openly before any Subproject Committee members (voting and non-voting) who choose to attend.

(d) All decisions, actions and approvals of each Subproject Committee shall be made by unanimous consent taken in a noticed meeting of the Subproject Committee, open to all voting and non-voting members.

(e) Each Subproject Committee shall ensure that all contractors and subcontractors cooperate with the Project Manager in preparing the necessary design drawings, technical flow-charts and other materials that may be necessary in order to file timely reports with EPA, DHS, or other regulatory agency.

(f) If additional terms of a Major Contract are negotiated with the selected contractor after the Major Contract was considered in a Subproject Committee meeting, then prior to execution of the Major Contract, the final form of the Major Contract shall be presented for approval by the entire Subproject Committee at its next regular meeting or such other meeting as may be called by the members in accordance with this Agreement.

3.8.3 Subproject Committee Authority

(a) The Subproject Committee for each Subproject shall, consistent with the SOW, make all decisions regarding the design, construction, operation and maintenance of such Subproject, including but not limited to: (i) selection of all contractors; (ii) review and approval of Subproject design; (iii) review and approval of construction estimates, plans and activities; (iv) transition from testing to operations phase; (v) operations and maintenance procedures; (vi) approval of third party personnel, including engineers, contractors, subcontractors and suppliers, but not including the Cost Consultant; (vii) approval of all budgets; (viii) approval of invoices; (ix) review of all permits, licenses and CEQA and NEPA documentation for the Subproject; (x) determination of commencement and conclusion of testing, operations and other stages of the Subproject; and (xi) all such decisions required for design, construction, operation and maintenance of any change in the Subproject resulting from a Modification affecting the SOW and Watermaster's determination that the Subproject is responsible for such change.

(b) The Water Entities shall use best efforts to comply with all notice and document delivery requirements of this Agreement. However, no decision or action of the Subproject Committee shall be invalidated by the failure to provide notice or documents in accordance with this Agreement.

3.8.4 Contractors and Subcontractors

(a) The Water Entities shall use competitive bidding when contracting for the design, construction, maintenance and operation of the Project Facilities; provided, however, that a Water Entity may procure a contract by non-competitive proposals if (1) the relevant Subproject Committee has first submitted the proposed procurement contract to the Cost Consultant and received and considered fully the Cost Consultant's written recommendations regarding such procurement, and (2) such procurement complies with applicable law, including without limitation the applicable requirements of the BOR, the U.S. Department of the Interior, and administrators of Public Funding Sources, and is reasonable and necessary in order to implement the Subproject. Draft and final versions of contracts procured through non-competitive proposals shall be circulated to the Cooperating Respondents for their review and comment in the same manner as required hereunder for all Project contracts.

(b) The Subproject Committees shall use best efforts to comply with the requirements of Section 3.8.4(a)(1). However, no decision to procure a contract shall be invalidated by the failure to follow such requirements.

ARTICLE 4. PROJECT FUNDING

4.1 Project Costs

4.1.1 Payment of Project Costs by Cooperating Respondents

The Cooperating Respondents are obligated, on a joint and several basis, to pay all Project Costs incurred in accordance with this Agreement. In order to ensure payment of these Project Costs, the Cooperating Respondents are obligated to post Financial Assurances on a joint and several basis, except that the initial deposit of Financial Assurances described in Section 4.7 is not required to be made on a joint and several basis.

4.1.2 Project Costs Deemed CERCLA Response Costs

Project Costs incurred in accordance with this Agreement shall be deemed to be CERCLA response costs necessary and consistent with the NCP.

4.2 Cost Consultant

4.2.1 Cost Consultant

The initial independent cost consultant / value engineer ("Cost Consultant") shall be selected in accordance with Section 4.2.4. The Cost Consultant, and any replacement Cost Consultant, shall not act as an agent or representative for any Party, and the Cost

Consultant's contract shall require the Cost Consultant to exercise independent, neutral judgment in the performance of the Cost Consultant's responsibilities under this Agreement.

4.2.2 Role of Cost Consultant

The Cost Consultant shall generally assist in the development of and updates to the Capital, O&M and Administrative Costs budgets for the Subprojects and the Project Administrative Costs budget. In addition, the Cost Consultant may, at the request of one or more of the Parties, (1) review any new technology alternatives proposed by any of the Parties, any new treatment costs required for a new contaminant that is not a Chemical of Concern, or other proposed modifications that affect the budgets for any Subproject or the overall Project; (2) review any contract proposed by any Subproject Committee to be procured by non-competitive proposals (i.e., "sole-source" contract) pursuant to this Agreement and provide written recommendations regarding the proposed contract to the Subproject Committee sufficiently in advance of the execution of any such contract to allow the Subproject Committee to consider fully the Cost Consultant's recommendations before the contract is executed; and (3) conduct a periodic review to determine whether there are more cost-effective methods to handle various tasks under this Agreement, such as a more effective accounting system, a more effective trust agreement and fee structure, or similar issues specifically itemized for the Cost Consultant's consideration.

4.2.3 Cost Consultant Fees

The Cost Consultant's fees and costs shall be Project Costs included in the Watermaster budget as Project Administrative Costs.

4.2.4 Selection and Replacement of Cost Consultant

(a) The initial Cost Consultant shall be selected by mutual agreement of the Parties. If the Parties are unable to agree upon a Cost Consultant by February 15, 2002, the Water Entities and the Cooperating Respondents shall, by the later of (i) February 16, 2002 or (ii) five (5) days after the date of selection of the arbitrator pursuant to Section 8.4 ("arbitrator"), each submit a list of three proposed cost consultants to the other and to the arbitrator, along with information regarding the qualifications of each candidate. Within five (5) days after both lists have been submitted, the Water Entities and the Cooperating Respondents may each eliminate one candidate. Within seven (7) days thereafter, the arbitrator shall select the Cost Consultant from the remaining candidates.

(b) The Cost Consultant may only be replaced by mutual agreement of the Parties or for cause. Any dispute between the Parties as to the existence of cause shall be subject to the dispute resolution provisions set forth in this Agreement. In the event of the

resignation or replacement of the Cost Consultant, Water Entities and Cooperating Respondents shall jointly retain a replacement Cost Consultant with expertise in the design and operation of a public water system and groundwater remedial projects.

(c) If the Parties are unable to agree upon a replacement Cost Consultant within thirty (30) days prior to the effective date of the resignation or replacement of the acting Cost Consultant, the Water Entities and the Cooperating Respondents shall, within ten (10) days thereafter, each submit a list of three proposed cost consultants to the other and to the arbitrator, along with information regarding the qualifications of each candidate from the combined list. Within ten (10) days after both lists have been submitted, the Water Entities and the Cooperating Respondents may each eliminate one candidate. Within ten (10) days, the arbitrator shall select the Cost Consultant from the remaining candidates. This process shall not delay the Project.

4.3 Escrow Account

4.3.1 Establishment of an Escrow Account

The Cooperating Respondents shall establish an escrow account for the deposit of monies to satisfy the Cooperating Respondent's payment obligations under this Agreement. The escrow account shall be established pursuant to the Escrow Agreement attached as Exhibit G hereto (the "Escrow Agreement"). All escrow account funds shall bear interest as provided in the Escrow Agreement.

4.3.2 Escrow Agent

Citizens Business Bank shall serve as escrow agent to administer payments under this Agreement ("Escrow Agent") pursuant to the written instructions set forth in the Escrow Agreement. Any replacement Escrow Agent shall have a Standard & Poor's Rating Services credit rating of A(-) or better. The Escrow Agent, and any replacement Escrow Agent, shall not act as an agent or representative for any Party, and the Escrow Agent shall act at all times in a neutral manner and act strictly in accordance with the provisions of the Escrow Agreement.

4.3.3 Escrow Agent Fees

WQA shall be responsible for paying reasonable compensation to the Escrow Agent in accordance with the Escrow Agreement. Such compensation shall be Project Administrative Costs.

4.3.4 Replacement of Escrow Agent

(a) If, while WQA is in existence, the Escrow Agent resigns or WQA decides to replace the Escrow Agent, WQA at its sole discretion shall retain a replacement Escrow Agent, subject to the requirements in Section 4.3.2. WQA shall provide notice of the replacement to all Parties.

(b) In the event that WQA ceases to exist, and the Escrow Agent resigns or the Parties mutually agree to replace the Escrow Agent or remove it for cause, the Parties shall select a new Escrow Agent by mutual agreement. Any dispute between the Parties as to the existence of cause shall be subject to the dispute resolution provisions set forth in this Agreement. If the Parties are unable to agree upon a replacement Escrow Agent within thirty (30) days prior to the effective date of the resignation or replacement of the acting Escrow Agent, the Water Entities and the Cooperating Respondents shall, within ten (10) days thereafter, each submit a list of three proposed escrow agents to the other and to the arbitrator, along with information regarding the qualifications of each candidate. Within ten (10) days after both lists have been submitted, the Water Entities and the Cooperating Respondents may each eliminate one candidate. Within ten (10) days thereafter, the arbitrator shall select the Escrow Agent from the remaining candidates. This process shall not delay funding of and payments from the Escrow Account.

4.4 Trust Fund

4.4.1 Establishment of Trust Fund

The Cooperating Respondents shall establish and maintain financial assurances in accordance with the requirements of Section 4.7 for Project Capital Costs and Project O&M Costs (“Financial Assurance”) in a trust fund (“Trust Fund”) established for the benefit of the Water Entities and administered in accordance with the Trust Agreement set forth in Exhibit I hereto.

4.4.2 Trustee

Mellon Trust of California shall serve as trustee (“Trustee”) to administer the Trust Fund. Any replacement Trustee shall have a Standard & Poor’s Rating Services credit rating of A(-) or better. The Trustee’s duties are set forth in the Trust Agreement set forth in Exhibit I hereto.

4.4.3 Trustee’s Fees

The Cooperating Respondents shall be responsible for paying compensation to the Trustee, which shall not be paid or calculated as part of Project Costs.

4.4.4 Replacement of Trustee

(a) The Trustee may be replaced by agreement of at least 80% of the Cooperating Respondents and 80% of the Water Entities, or for cause. Any dispute between the Parties as to the existence of cause shall be subject to the dispute resolution provisions set forth in this Agreement. In the event of the resignation or replacement of the Trustee, Cooperating Respondents shall select a replacement Trustee subject to the approval of the Water Entities.

(b) If the Parties are unable to agree upon a replacement Trustee within thirty (30) days prior to the effective date of the resignation or replacement of the acting Trustee, the Water Entities and the Cooperating Respondents shall, within ten (10) days thereafter, each submit a list of three proposed trustees to the other and to the arbitrator, along with information regarding the qualifications of each candidate. Within ten (10) days after both lists have been submitted, the Water Entities and the Cooperating Respondents may each eliminate one candidate. Within ten (10) days, the arbitrator shall select the Trustee from the remaining candidates. This process shall not delay the Project.

4.5 Project Capital Costs.

4.5.1 Project Capital Costs Budget

(a) The Parties have agreed to Project Capital Cost budgets for the Subarea One, B-5, B-6, CDWC and SWS Subprojects. These approved budgets are attached as Exhibit K.

(b) The Subproject Committee shall meet semi-annually, by April 1 and October 1 of each year until completion of capital construction for that Subproject, to review, revise as appropriate, and adopt the Project Capital Cost budget for that Subproject for the next semi-annual period. In 2002, one such meeting shall take place, by October. The responsible Water Purveyor shall circulate to all Parties and to the Cost Consultant the proposed semi-annual Project Capital Cost budget for each Subproject electronically and in paper format by March 1 (except in 2002) and September 1 of each year. Any member of the Subproject Committee may, within ten (10) days after the receipt of the Project Capital Cost budget, identify specific items of concern or "items for review" by the Cost Consultant. The Cost Consultant shall present its written budget report (both electronically and in paper format) at least ten (10) days before the meeting to consider the semi-annual budget. Any written comments on the budget or the Cost Consultant's report should be circulated to all Subproject Committee members at least five (5) days before the meeting. Upon adoption of the Capital Cost Budget, the Subproject Committee shall forward the revised semi-annual budget to Watermaster and WQA.

(c) If the Project Capital Cost budget must be revised as a result of a Modification under Section 2.3.1 prior to the next semi-annual budget cycle in order to meet EPA's requirements with respect to such Modification, the responsible Water Purveyor shall prepare and circulate to all members of the Subproject Committee a proposed budget at least thirty (30) days prior to the meeting to adopt the budget. When a Subproject Committee selects a Brine Technology pursuant to Section 2.2.2(a)(6), the responsible Water Purveyor shall distribute the proposed Brine Capital Cost budget at least thirty (30) days prior to the meeting to adopt the budget. The Subproject Committee shall otherwise follow the procedures established under Section 4.5.1(b) for adoption of the budget for either a Modification or for Brine Technology.

(d) If a Project Capital Cost budget must be revised for purposes of an EPA Modification, for Brine Technology, or for any other reason, and the budget revision as initially proposed is greater than \$200,000 for that Subproject, then any member of the Subproject Committee may request a review and a written report by the Cost Consultant for the next regular meeting of the Subproject Committee. If the Cost Consultant's recommendation is materially inconsistent with the decision of the Subproject Committee with regard to a material change(s), then the Subproject Committee shall provide a written explanation of such inconsistency. If the Cooperating Respondents' designated Subproject Committee representative(s) disagree with the Subproject Committee's decision, such dispute shall be subject to the dispute resolution provisions set forth in this Agreement. The Cost Consultant's written recommendation, the Subproject Committee's written decision and a written position statement of the Cooperating Respondent's designated Subproject Committee representatives shall be evidence to be submitted in the dispute resolution proceeding, with the weight of such evidence to be determined by the arbitrator. A "material change" shall mean a difference between the approved Project Capital Cost budget for a Subproject and the Subproject Committee's proposed change of more than two percent (2%) of the total Project Capital Cost budget for the Subproject or \$500,000, whichever is lower. "Materially inconsistent" shall mean a difference between the Cost Consultant's recommendations and the change approved by the Subproject Committee of more than one per cent (1%) of the total Project Capital Cost budget for the Subproject or \$250,000, whichever is lower.

(e) For each Project Capital Cost budget, the Subproject Committee shall present the budget to include columns indicating the original estimate for the line item of work, the actual amount spent to date, and projected costs until completion of that item. The Subproject Committee shall provide a written report to accompany the budget to comment upon variations greater than a 20% increase for any line item of work over the previously projected total (actual plus projected) costs for that line-item.

4.5.2 Schedules of Quarterly Capital Expenditures

(a) Pursuant to the approved Project Capital Costs budget, the responsible Water Purveyor for each Subproject shall prepare and submit a schedule of projected capital expenditures on a calendar quarterly basis. The first schedule of capital expenditures for the period from the Effective Date through the end of the subsequent calendar quarter shall be completed within five (5) Working Days after the execution of the Agreement by all Parties and promptly submitted to each voting and non-voting member of the respective Subproject Committee. The Subproject Committee shall meet to review and approve the first quarterly capital schedule (the "Initial Quarterly Capital Schedule") within twenty (20) days after the execution of this Agreement by all Parties. Thereafter, the quarterly schedule of projected capital expenditures shall be submitted to each voting and non-voting member of the Subproject Committee at least fifteen (15) days before the Subproject Committee meeting to adopt the schedule. This meeting shall be conducted at least forty-five (45) days before the start of the quarterly period covered by the schedule. The Subproject Committee shall promptly forward the approved quarterly capital costs schedule (the "Quarterly Capital Schedule") to Watermaster and WQA.

(b) Each Subproject Committee shall reconcile the scheduled Project Capital Costs and actual Project Capital Costs for each Subproject on a quarterly basis. Any credit or deficit from the reconciled quarter shall be reflected in the next Quarterly Capital Schedule.

(c) If any Project Capital Cost becomes the subject of a dispute resolved pursuant to the dispute resolution provisions set forth in this Agreement, any adjustments resulting from such process shall be reflected in the next Quarterly Capital Schedule following resolution of the dispute.

4.5.3 Quarterly Capital Funding

(a) The Initial Quarterly Capital Schedule shall be given to the Cooperating Respondents and submitted to the Escrow Agent by Watermaster no later than twenty-five (25) days after the execution of this Agreement by all Parties. Thereafter, Watermaster shall promptly submit the Quarterly Capital Schedule for each Subproject to the Escrow Agent and the Cooperating Respondents after Subproject Committee approval of the Quarterly Capital Schedule, and in no event later than forty (40) days before the start of the quarterly period covered by such schedule. Watermaster shall also transmit with each Quarterly Capital Schedule a statement showing the total amount of funds to be deposited in the Escrow Account for Brine Capital Costs, if any, and the total amount of funds to be deposited for Project Capital Costs ("Quarterly Capital Statement").

(b) The Cooperating Respondents shall deposit in the Escrow Account the total amount of funds to be deposited for Brine Capital Costs and Project Capital Costs, as shown in the first Quarterly Capital Statement, no later than fourteen (14) days after the Effective Date of this Agreement. Thereafter, the Cooperating Respondents shall deposit the total amount of capital funds to be deposited for the Project, as shown in subsequent Quarterly Capital Statements, no later than twenty-one (21) days before the start of the quarterly period covered by the Quarterly Capital Schedule. All such deposits may be made in accordance with the Capital Financial Assurance draw down provisions in Section 4.7.4(a) and (b).

(c) The Escrow Agent shall certify to Watermaster not later than seventeen (17) days after the Effective Date, with copies to WQA and the Cooperating Respondents, that the full amount required by the first Quarterly Capital Statement has been deposited in the Escrow Account. Thereafter, the Escrow Agent shall certify to Watermaster not later than eighteen (18) days before the start of the quarterly period, with copies to WQA and the Cooperating Respondents, that the full amount required by the Quarterly Capital Statement has been deposited in the Escrow Account.

4.5.4 Failure to Provide Quarterly Capital Funding

(a) If the full amount required by the Quarterly Capital Statement has not been deposited in the Escrow Account by the required date, then in lieu of the certification described in Section 4.5.3(c), the Escrow Agent shall certify to Watermaster, with copies to WQA and the Cooperating Respondents, that the full amount of funds to be deposited pursuant to the Quarterly Capital Statement has not been deposited and that the Escrow Agent has made a demand upon the Trustee for the amount of the deficiency. The Escrow Agent shall simultaneously make a demand to the Trustee, who shall then draw upon the Financial Assurance of the defaulting Cooperating Respondent in an amount sufficient to cure the default. If the Financial Assurance of the defaulting Cooperating Respondent is insufficient to cover the default, the Trustee shall be required to draw upon the Financial Assurance provided by each of the other (non-defaulting) Cooperating Respondents pro rata, as provided in the Trust Agreement, in a total amount sufficient to cure the default, but without revealing the individual shares of the Cooperating Respondents.

(b) The Escrow Agent shall certify to Watermaster, with a copy to WQA, upon receipt of the required funds, that the full amount required by the Quarterly Capital Statement has been deposited in the Escrow Account. If the required certification is not received at least five (5) days before the start of the applicable quarterly period, or, in the case of the first period, within twenty-seven (27) days after the Effective Date, Watermaster shall be entitled to make demand upon the Trustee for payment from the Financial Assurances provided by each of the other (non-defaulting) Cooperating Respondents pro rata, as provided in the

Trust Agreement, in a total amount sufficient to cure the default, but without revealing the individual shares of the Cooperating Respondents. The Trustee shall honor the demand of Watermaster without requiring any consent or other instruction of the Cooperating Respondents or Escrow Agent.

4.5.5 Calendar Quarters and Semi-Annual Periods

For purposes of this Article 4, quarters begin on the first day of January, April, July and October of each year and semi-annual periods begin on the first day of January and July of each year.

4.5.6 Capital Performance Fee

(a) The Cooperating Respondents shall, subject to the adjustments set forth in subparagraphs (b) and (c) of this Section, pay to SGVWC and VCWD by payment to WQA a one time Capital Performance Fee in the amount of \$600,000, to be prorated among the B-5, B-6, and Subarea One Subprojects on the basis of each Subproject's share of the aggregate 23,400 gpm design treatment capacity. The pro-rata portion of the Capital Performance Fee for each Subproject shall be paid upon the EPA's acceptance of the notice of capital construction completion (such notice to be given pursuant to the SOW) and DHS issuance of a final operating permit as to the particular Subproject. The capital budget targets for the Subprojects are reflected in the budgets attached as Exhibit K. The Parties shall meet in good faith to adjust the budget targets in the event of a change to the initial Capital Costs Budget beyond the control of the Water Entities. For purposes of subsections (b) and (c) of this Section 4.5.6, any reimbursement by Public Funding Sources and Other Funding Sources shall be disregarded with respect to the amount of compensation that the Water Purveyor requests for that Subproject.

(b) Upon completion of each Subproject, that portion of the Capital Performance Fee to be paid for that Subproject shall be decreased by 15% of the amount that actual Project Capital Costs for which the Water Purveyor requests compensation for that Subproject exceeds the capital budget target for that Subproject.

(c) Upon completion of each Subproject, that portion of the Capital Performance Fee to be paid for that Subproject shall be increased by 25% of the amount that actual Project Capital Costs for which the Water Purveyor requests compensation for that Subproject are less than the capital budget target for that Subproject.

4.6 Subproject O&M Costs.

4.6.1 Subproject O&M Costs Budgets

(a) The Parties have agreed to initial Subproject O&M Costs budgets for the period from the Effective Date through the end of the year 2002 for the LPVCWD, SWS, CDWC, Subarea One and B-6 Subprojects. These approved Subproject O&M Cost budgets are attached as Exhibit L. The Parties have agreed to an initial Subproject O&M Costs budget for the period from the expected start-up of operations through the end of the subsequent calendar year for the B-5 Subproject, attached as Exhibit M.

(b) By September 1 of each year, the responsible Water Purveyor shall prepare an estimated budget for the Subproject O&M Costs for the ensuing calendar year and shall provide the proposed budget to the Cost Consultant for review. The proposed budget, together with the Cost Consultant's written recommendations, shall be circulated both electronically and in paper form, to the appropriate Subproject Committee at least ten (10) days before the meeting to adopt the budget. The Subproject Committee shall consider the proposed budget and the Cost Consultant's written recommendations and shall adopt the Subproject O&M Cost budget ("Subproject O&M Budget") for the ensuing year by October 1 of each year.

(c) If the Subproject O&M Budget approved by the Subproject Committee is materially inconsistent with the Cost Consultant's or, as provided in Section 5.1.1(b)(vi), the Risk Manager's written recommendation, then the Subproject Committee shall provide a written explanation of the inconsistency. If the Cooperating Respondents' designated Subproject Committee representative(s) disagree with the Subproject Committee's decision, then such dispute shall be subject to the dispute resolution provisions set forth in this Agreement. The Cost Consultant's or, as provided in Section 5.1.1(b)(vi), the Risk Manager's written recommendation, the Subproject Committee's written decision and a written position statement submitted by the Cooperating Respondent's designated Subproject Committee representative(s) shall be evidence to be submitted in the dispute resolution proceeding, with the weight of such evidence to be determined by the arbitrator. "Materially inconsistent" shall mean a difference between the Cost Consultant's recommendation and the budget approved by the Subproject Committee of more than five per cent (5%) of the annual Subproject O&M Budget or \$100,000, whichever is greater.

(d) If the Cooperating Respondents dispute the Subproject O&M Budget and the dispute is not resolved by October 15, the budget approved by the Subproject Committee shall provide the basis for the Cooperating Respondents' quarterly funding obligations until the dispute is resolved.

4.6.2 Project and Subproject Administrative Costs Budgets

(a) The Parties have agreed to an initial budget for the period from the Effective Date through the end of the year 2002 for (i) the costs of administration incurred by Watermaster and WQA that are not attributable to any Subproject (“Project Administrative Costs”) and (ii) the costs of administration incurred by Watermaster and WQA attributable to each Subproject (“Subproject Administrative Costs”). The approved initial Project and Subproject Administrative Costs budget is attached as Exhibit N to this Agreement.

(b) By September 1 of each year, Watermaster and WQA shall each prepare and submit to the Cost Consultant a proposed annual budget for their Project Administrative Costs and Subproject Administrative Costs (“Project/Subproject Administrative Costs Budget”). Watermaster and WQA shall each consider any recommendations made by the Cost Consultant and shall adopt the final Project/Subproject Administrative Costs Budget by October 1 of each year.

(c) If the Project/Subproject Administrative Costs Budget adopted is materially inconsistent with the Cost Consultant’s recommendations, the dispute shall be subject to the dispute resolution provisions set forth in this Agreement. “Materially inconsistent” shall mean a difference between the Cost Consultant’s recommendation and the budget adopted by Watermaster and WQA of more than five per cent (5%) of the total Project/Subproject Administrative Costs Budget or \$25,000, whichever is greater.

(d) If the Cooperating Respondents dispute the Project/Subproject Administrative Costs Budget, and the dispute is not resolved by October 15, the budget adopted by Watermaster and WQA shall provide the basis for the Cooperating Respondents’ quarterly funding obligations until the dispute is resolved.

(e) Within forty-five (45) days after the end of each calendar year Watermaster and WQA shall jointly allocate to each Subproject a share of the Project Administrative Costs for the preceding year as necessary to meet the requirements for obtaining Public Funding Sources.

4.6.3 Schedule of Quarterly O&M and Project/Subproject Administrative Expenditures

(a) Pursuant to the approved Subproject O&M Budgets, the responsible Water Purveyor for each Subproject shall prepare and submit a schedule of projected Subproject O&M expenditures for the next six months on a quarterly basis. Subproject O&M schedules shall be submitted to each voting and non-voting member of the appropriate Subproject Committee no later than five (5) Working Days after all parties have executed the

Agreement. The meeting to adopt the first schedule shall be held within twenty (20) days after the execution of this Agreement by all Parties. Thereafter, the schedule shall be submitted at least sixty (60) days before the start of the six month period covered by this schedule and the meetings to adopt subsequent Subproject O&M schedules shall be conducted at least forty-five (45) days before the start of the six month period covered by the schedule. On a quarterly basis, the Subproject Committee shall promptly forward to Watermaster and WQA the approved six-month schedule of expenditures for Subproject O&M Costs. Pursuant to the Project/Subproject Administrative Costs Budget, Watermaster and WQA shall jointly prepare a schedule of their projected Project/Subproject Administrative Costs for the next six months on a quarterly basis. The approved schedule of expenditures for Subproject O&M Costs and the schedule for Project and Subproject Administrative Costs adopted by Watermaster and WQA shall constitute the quarterly O&M cost schedules (“Quarterly O&M Schedules”).

(b) Each Subproject Committee shall reconcile the scheduled Subproject O&M Costs and actual Subproject O&M Costs for each Subproject on a quarterly basis. Watermaster shall reconcile the scheduled Project/Subproject Administrative Costs and actual Project/Subproject Administrative Costs on a quarterly basis. Any credit or deficit from the reconciled quarter shall be reflected in the next Quarterly O&M Schedule.

(c) If any Subproject O&M Budget or Project/Subproject Administrative budget becomes the subject of a dispute resolved pursuant to the dispute resolution provisions set forth in this Agreement, any adjustments resulting from such process shall be reflected in the next Quarterly O&M Schedule following resolution of the dispute.

4.6.4 Quarterly O&M and Project/Subproject Administrative Cost Funding

(a) No later than twenty-five (25) days after this Agreement has been signed by all Parties, Watermaster shall submit to the Escrow Agent and the Cooperating Respondents the Quarterly O&M Schedules for the first six months of this Agreement. Thereafter, Watermaster shall submit the approved Quarterly O&M Schedules to the Escrow Agent and the Cooperating Respondents not later than forty (40) days before the start of the period covered by such schedules. Watermaster shall also transmit with the Quarterly O&M Schedules a statement showing the total amount of O&M funds for each Subproject and the total amount of Project/Subproject Administrative Costs to be deposited into the Escrow Account (“Quarterly O&M Statement”).

(b) The Cooperating Respondents shall deposit in the Escrow Account the amount shown in the Quarterly O&M Statement covering the first six month period, no later than fourteen (14) days after the Effective Date of this Agreement. Each subsequent Quarterly O&M Statement shall be for a six-month period but shall only require funding for the additional

quarter. Each subsequent deposit of quarterly funds shall be made no later than twenty-one (21) days before the start of the six-month period covered by the Quarterly O&M Schedule.

(c) The Escrow Agent shall certify to Watermaster not later than seventeen (17) days after the Effective Date, with copies to WQA and the Cooperating Respondents, that the full amount required by the first Quarterly O&M Statement has been deposited in the Escrow Account. Thereafter, the Escrow Agent shall certify to Watermaster not later than eighteen (18) days before the start of the quarterly period, with copies to WQA and the Cooperating Respondents, that the full amount required by the Quarterly O&M Statement has been deposited in the Escrow Account.

4.6.5 Failure to Provide Quarterly O&M Funding

(a) If the full amount required by the Quarterly O&M Statement has not been deposited by the required date, the Escrow Agent shall be required to certify to Watermaster, with copies to WQA and the Cooperating Respondents, that the full amount required by the Quarterly O&M Schedule has not been deposited in the Escrow Account. The Escrow Agent shall simultaneously make a demand upon the Trustee to call upon the Financial Assurance of the defaulting Cooperating Respondent(s) in an amount sufficient to cure the default. In the event that the Financial Assurance of the defaulting Cooperating Respondent(s) is insufficient, the Trustee shall be required to draw upon the Financial Assurance provided by each of the other (non-defaulting) Cooperating Respondents, pro rata, as provided in the Trust Agreement, in an amount sufficient to cure the default, but without revealing the individual shares of any Cooperating Respondent.

(b) Upon receipt of the required funds, the Escrow Agent shall certify to Watermaster, with copies to WQA and the Cooperating Respondents, that the full amount required by the Quarterly O&M Statement has been deposited in the Escrow Account. If the required certification is not received at least five (5) days before the start of the applicable quarterly period, or, in the case of the first quarterly period, within twenty-seven (27) days after the Effective Date, Watermaster shall be entitled to make demand upon the Trustee for payment from the Financial Assurances provided by each of the other (non-defaulting) Cooperating Respondents pro rata, as provided in the Trust Agreement, in a total amount sufficient to cure the default, but without revealing the individual shares of the Cooperating Respondents. The Trustee shall honor the demand of Watermaster without requiring any consent or other instruction of the Cooperating Respondents or Escrow Agent.

4.6.6 Calculation of Transfer Costs

(a) Each Water Purveyor receiving Project water transferred from another Water Purveyor shall pay to the transferring Water Purveyor the costs the receiving Water Purveyor would have paid for power and chemicals for producing the same quantity of water.

(b) If the transferring Water Purveyor's power and chemical costs for the transferred water are greater than the payment due from the receiving Water Purveyor, then the Cooperating Respondents shall be responsible for paying the difference. In addition, the Cooperating Respondents shall pay to the transferring Water Purveyor all costs for boosting the transferred water and the actual production well and booster pump station maintenance costs attributable to the transferred water in accordance with the methodology set forth in the memorandum attached as Exhibit O. All of the costs identified in this Section 4.6.6(b) as obligations of the Cooperating Respondents shall be Subproject O&M Costs.

4.6.7 Management and Performance Fees

(a) The Cooperating Respondents shall pay an O&M Management Fee to the Water Entity responsible for each Subproject, as follows: B-5 \$79,500; B-6 \$73,900; Subarea 1 \$68,200; CDWC \$57,100; SWS 140 \$25,700; and LPVCWD \$28,400. The O&M Management Fee shall be paid annually during operation of the respective Project Facility pursuant to the SOW and subject to an annual increase by 2%. The Cooperating Respondents shall pay to SGVWC an O&M Management Fee of \$17,200 annually for operation of the B-4 facility until the B-5 and B-6 Subprojects are both fully operational.

(b) The Cooperating Respondents shall pay an O&M Performance Fee to the Water Entity responsible for each Subproject equal to 10% of the amount by which actual costs chargeable to that Subproject (not including energy, facilities replacement costs or allocated Project-wide O&M Costs and without regard to reimbursements from Public Funding Sources and Other Funding Sources) are less than the O&M target budget for that year. The initial O&M budget targets for the Subprojects are as reflected in Exhibits L and M. The O&M budget targets for the Subprojects for subsequent years shall be the O&M budgets adopted by the Subproject Committees pursuant to Section 4.6.1.

4.7 Financial Assurances

(a) The Cooperating Respondents have deposited Financial Assurances in the Trust Fund and, pursuant to this Section 4.7, may be required to deposit additional Financial Assurances in the Trust Fund for the benefit of the Water Entities. Each deposit of the Financial Assurances shall be in the form of: (i) transferable irrevocable standby letters of credit issued by a financial institution with a Standard & Poor's Rating Services credit rating of A(-) or better,

in the form attached as Exhibit E to the Trust Agreement; and/or (ii) cash. The cash Financial Assurances shall be maintained and may be invested in accordance with the terms of the Trust Agreement. In the event that a Cooperating Respondent has posted cash, such Cooperating Respondent shall be entitled to receive all interest and dividends earned thereon and on any cash equivalents, payable as set forth in the Trust Agreement.

(b) A portion of Aerojet's share of the initial deposit of Financial Assurance will be met by the transfer of the Irrevocable Escrow Account to the Trust Fund. Aerojet's Financial Assurance obligations under this Agreement shall be met first by funds from the Irrevocable Escrow Account. Any other Financial Assurances provided by Aerojet in the Trust Fund shall be drawn upon only after the funds from the Irrevocable Escrow Account have been exhausted.

4.7.1 Financial Assurance for Capital Costs

The Cooperating Respondents shall maintain, subject to reduction to the extent of drawdowns made pursuant to Section 4.7.4(a), Financial Assurance in the Trust Fund equal to the total amount of Capital funds required to complete the Project, as set forth in the then-approved Capital Cost budgets (including, without limitation, additional Financial Assurances covering Brine Capital Costs ("Brine Financial Assurances"), if applicable), except that \$17,634,234 shall be placed by the Cooperating Respondents in an escrow account (rather than the Trust Fund) or made available from the Irrevocable Escrow Account, upon execution of this Agreement, to fund Project Capital Costs through March 31, 2002.

4.7.2 Financial Assurance for O&M Costs

The Cooperating Respondents shall maintain Financial Assurances in the Trust Fund equal to two years of budgeted Subproject O&M Costs, Subproject Administrative Costs and Project Administrative Costs, calculated by doubling the amount of the then-current annual Subproject O&M Budgets and the then-current annual Project and Subproject Administrative Costs Budgets. The calculation shall include the Subproject O&M Budgets for any Subproject anticipated to have O&M costs before the end of the calendar year. During the final year of the Term of this Agreement, the Cooperating Respondents shall maintain Financial Assurances in the Trust Fund equal to one year of budgeted Subproject O&M Costs, Subproject Administrative Costs and Project Administrative Costs, unless the Parties are negotiating, or have negotiated, an extension of the Term pursuant to Section 9.2 hereof.

4.7.3 Maximum and Minimum Financial Assurances

The total initial Financial Assurances to be deposited in the Trust Fund for the period from the Effective Date through the end of the year 2002 shall be \$55,383,785 and the initial minimum amount of Financial Assurance to be maintained in the Trust Fund shall be

\$21,377,600. Thereafter, the total Financial Assurance obligation required at any time for the Project shall be no greater than, and no less than, the greater of the following amounts: (i) the then-required Financial Assurance for Project Capital Costs under Section 4.7.1 subject to reduction to the extent of drawdowns made pursuant to section 4.7.4, or (ii) the sum of the total Financial Assurance for Project O&M Costs under Section 4.7.2 and the total amount of Brine Financial Assurances required to be maintained for Brine Capital Costs (subject to reduction to the extent that such Brine Financial Assurances are used to directly fund Brine Capital Costs).

4.7.4 Drawdowns to Financial Assurance for Capital Costs

(a) Project Capital Costs. Any Cooperating Respondent may authorize the Escrow Agent to request that the Trustee disburse funds directly from that Cooperating Respondent's sub-account of the Trust Fund to the Escrow Agent to satisfy such Cooperating Respondent's obligations for Quarterly Capital Funding under Section 4.5.3 as long as such drawdown will not reduce the total amount of Financial Assurances below the level required by Section 4.7.3. A Cooperating Respondent may make such authorization either (i) with respect to specific quarterly disbursements to the Escrow Agent, or (ii) by giving the Escrow Agent a single writing that authorizes the Escrow Agent to request funds directly from the Cooperating Respondent's Trust Fund sub-account to the Escrow Agent for purposes of satisfying the Cooperating Respondents' share of the Quarterly Capital Funding on a continuous basis throughout the period of Project Capital Cost expenditures. In either case, such disbursements shall be made by the Trustee within ten (10) days after the receipt by the Trustee of the request from the Escrow Agent unless the drawdown would reduce the Financial Assurances below the level required by Section 4.7.3.

(b) Brine Capital Costs. Any Cooperating Respondent may authorize the Escrow Agent to request that the Trustee disburse funds directly from that Cooperating Respondent's sub-account of the Trust Fund to the Escrow Agent to satisfy such Cooperating Respondent's obligations to fund Brine Capital Costs as long as such drawdown will not reduce the total amount of Financial Assurances below the level required by Section 4.7.3. A Cooperating Respondent may make such authorization either (i) with respect to specific quarterly disbursements to the Escrow Agent, or (ii) by giving the Escrow Agent a single writing that authorizes the Escrow Agent to request funds directly from the Cooperating Respondent's Trust Fund sub-account to the Escrow Agent for purposes of funding the Cooperating Respondents' share of the Brine Capital Costs. In either case, such disbursements shall be made by the Trustee within ten (10) days after the receipt by the Trustee of the request from the Escrow Agent unless the drawdown would reduce the Financial Assurances below the level required by Section 4.7.3.

4.7.5 Adjustments in Financial Assurance

(a) Adjustments. If the total amount of Capital funds required to complete a Subproject, as stated in the approved Project Capital Costs budget for such Subproject, should decrease or increase, and such decrease or increase requires an adjustment in the amount of Financial Assurances required to be maintained by Cooperating Respondents, the Watermaster shall provide the Trustee with written notice of the required adjustment to Financial Assurances ("Notice of Adjustment") within ten (10) Working Days after the Subproject Committee's decision to adjust the Project Capital Costs budget. When the Brine Capital Cost budget is set pursuant to Section 2.2.2(a)(6), or when a Project Capital Cost budget is adopted pursuant to a Modification under Section 2.3.3, then the Watermaster shall provide the Trustee with a Notice of Adjustment within ten (10) Working Days to fund the adjusted Capital Cost Budget or the Brine Financial Assurance. The amount of the Financial Assurance for O&M costs shall be adjusted on an annual basis beginning as of October 1, 2002 and annually thereafter, based upon the Subproject Committees' annual Subproject O&M Budgets and the annual Project and Subproject Administrative budgets. The Watermaster shall provide the Trustee with the Notice of Adjustment, if any, by October 15 of each year.

(b) Decreases. In the event of a Notice of Adjustment showing a decrease in the Project Capital Costs budget, or an offset pursuant to Section 4.9.5, the Trustee shall, within three (3) Working Days after the Trustee's receipt of the Notice of Adjustment, notify each Cooperating Respondent that it may decrease the amount of its Financial Assurance in accordance with the Notice of Adjustment, either (i) by directing the Trustee to disburse immediately available funds to the Cooperating Respondent from the Cooperating Respondent's sub-account of the Trust Fund within ten (10) Working Days after Trustee's receipt of such direction in accordance with the Trust Agreement, or (ii) by amending or replacing the Cooperating Respondent's letter of credit to decrease the amount thereof accordingly.

(c) Increases. In the event of a Notice of Adjustment showing an increase in the total amount of required Financial Assurance, the Trustee shall, within three (3) Working Days after Trustee's receipt of the Notice of Adjustment, notify each Cooperating Respondent of the additional amount of Financial Assurance required to be deposited by such Cooperating Respondent in the Trust Fund as the Cooperating Respondent's share of the additional Financial Assurance for such Subproject and each Cooperating Respondent shall, within twenty-one (21) days after the Trustee's notice, deposit in the Trust Fund Financial Assurance in the amount of that Cooperating Respondent's share of the additional Financial Assurance for such Subproject. The Cooperating Respondents shall not be required to fund an increase in Financial Assurance more frequently than every six months, except in the case of a default by a

Cooperating Respondent, an increase due to the adoption of a budget for Brine Capital Costs, or as the result of a Modification.

4.7.6 Certification of Financial Assurance

No later than five (5) days after the date on which any Financial Assurances are required to be deposited in the Trust Fund, the Trustee shall certify to Watermaster, with a copy to WQA and Cooperating Respondents, that all of the required Financial Assurance has been deposited in the Trust Fund.

4.7.7 Replenishment of Financial Assurance

If the Trustee has reduced any of the Financial Assurances as a result of a default in any payment obligation of the Cooperating Respondents hereunder, the Trustee shall give notice to the defaulting Cooperating Respondent(s) of the obligation to replenish the Financial Assurances within twenty-one (21) days after the Trustee's notice. If the defaulting Cooperating Respondent replenishes the Financial Assurance, the Trustee shall, within five (5) days of the deposit, certify to Watermaster that the Financial Assurance has been fully restored.

4.7.8 Failure to Provide or Maintain Financial Assurance; Cure

If a Cooperating Respondent fails to provide any additional Financial Assurance within the required time, then, in lieu of the certification provided for in Section 4.7.6, the Trustee shall give notice to all Cooperating Respondents with a separate notice to Watermaster and WQA as provided in the Trust Agreement. The notice to the Cooperating Respondents shall specify the identity of the Cooperating Respondent that did not provide the required Financial Assurance and the amount of the shortfall and shall further provide a deadline for remedying that shortfall of thirty (30) days. Notice to Watermaster and WQA shall provide notice that the total Financial Assurances required for the period have not been satisfied and the total amount of the shortfall. If there is no cure within the initial 30-day period, then the Trustee shall provide a second notice to the Cooperating Respondents with a second notice to Watermaster and WQA. Within one hundred twenty (120) days after receiving such second notice, the Cooperating Respondents shall cure the default. If no cure is made within that time period, or if at any time the Escrow Account is not fully funded pursuant to the then-current Quarterly Capital Statement and Quarterly O&M Statement following application of the remedies described in sections 4.5.4 or 4.6.5, then a "final default" will be declared by Watermaster.

4.7.9 Final Default

(a) If Watermaster declares a final default pursuant to Section 4.7.8, then Watermaster, on behalf of the Water Entities and each of them, shall have the right to make a

demand directly upon the Trustee for payment to the Escrow Account of the full amount of all remaining Financial Assurances held by Trustee in the Trust Fund. The Trustee shall honor the demand of the Water Entities without requiring any consent or other instruction of the Cooperating Respondents or Escrow Agent. The Trustee shall within ten (10) Working Days draw upon all remaining letters of credit, and liquidate assets held in the Trust Fund, and immediately transfer into the Escrow Account the full amount held in the Trust Fund.

(b) Each Water Entity shall continue work on the Project as long as there are sufficient funds in the Escrow Account to pay Project Costs. If a Quarterly Capital Statement and Quarterly O&M Statement cannot be funded out of the then-existing balance in the Escrow Account then each Water Entity, at its sole discretion, may elect to cease performance of any further work on the Project.

(c) A final default is a material breach of this Agreement and any Water Entity, at its sole election, may elect to sue any or all Cooperating Respondent(s) for any claims the affected Water Entity has under this Agreement. In any such suit, the defendant Cooperating Respondent(s) shall receive an offset against judgment for any money paid by that Cooperating Respondent to the Project (whether paid before or after the Effective Date of this Agreement), or still held in the Escrow Account for that Cooperating Respondent.

4.8 Payment of Invoices

4.8.1 Subproject Committee

All applications for payment for Project Costs for each Subproject (“Subproject Invoices”) shall be submitted by the Water Purveyor to the appropriate Subproject Committee for approval at the Subproject Committee monthly meeting. Each Subproject Invoice shall be itemized according to the same cost categories as set forth in the budget, as applicable. Copies of all supporting documentation shall accompany each Subproject Invoice. The Subproject Committee shall promptly submit the Subproject Invoices and accompanying documentation to Watermaster and WQA. WQA shall have the right to require additional documentation, as necessary to meet the requirements of Public Funding Sources.

4.8.2 Watermaster

Watermaster shall review all invoices for Project and Subproject Administrative Costs (“Administrative Cost Invoices”) and shall transmit all approved Administrative Cost Invoices to WQA. At the same time, Watermaster shall aggregate all Administrative Cost Invoices and all Subproject Invoices and submit them as a single invoice on a monthly basis to the Escrow Agent with a copy to the designated representatives of the Cooperating Respondents (“Watermaster Payment Request”).

4.8.3 Escrow Agent

Within three (3) Working Days after receipt of a Watermaster Payment Request, the Escrow Agent shall release funds to WQA from the Escrow Account in the full amount of the Watermaster Payment Request along with a detailed schedule of the Subproject Invoices and Administrative Cost Invoices covered by the check. The Escrow Agent shall provide a confirmation copy to Watermaster and the designated Cooperating Respondents' representatives at the same time.

4.8.4 WQA

WQA shall promptly review and approve or disapprove all Subproject Invoices and Administrative Cost Invoices and notify Watermaster of such approval or disapproval. WQA shall disburse funds for payment of WQA approved Subproject Invoices directly to the Water Entities for payment of approved Subproject Invoices and shall disburse funds for payment of WQA approved Administrative Cost Invoices to itself and Watermaster. In the event that WQA ceases to exist, Watermaster shall assume the role of WQA with regard to disbursement of funds.

4.8.5 Payment of Actual Project Costs

Notwithstanding the amounts of estimated Project Costs reflected in any quarterly schedules for the Project, the Escrow Agent shall be instructed to release to WQA available funds equal to the amounts stated in the Watermaster Payment Request.

4.8.6 Nonpayment

If for any reason the Escrow Agent is unable to make any payment for Project Costs within the time required by this Section, Watermaster shall give notice to all Cooperating Respondents of the nonpayment. If the Cooperating Respondents fail to make the required payment within ten (10) Working Days after delivery of the notice of nonpayment, Watermaster on behalf of the Water Purveyors, or WQA on its own behalf, shall be entitled to directly make a demand upon the Trustee to withdraw the required amount directly from the Financial Assurances, pro rata as provided in the Trust Agreement, but without revealing the individual shares of the Cooperating Respondents. The Trustee shall honor the demand of the Watermaster or WQA without requiring any consent or other instruction of the Cooperating Respondents or Escrow Agent.

4.9 Public and Other Funding Sources

4.9.1 Obtaining Funds from Public Funding Sources

(a) The Water Entities shall use good faith efforts, in a manner consistent with each Water Entity's and its representatives' individual and unique obligations under applicable law, to obtain funds available from Public Funding Sources so as to reduce the Cooperating Respondents' funding obligation. To the extent that funds from Public Funding Sources are obtained to address groundwater contamination problems in the San Gabriel Valley generally, a fair allocation of the funds shall be sought for the BPOU. The determination of what amount constitutes a fair allocation shall be made by WQA. In making this determination, WQA consideration shall include, but shall not be limited to, the following criteria: (i) plume size and impacts or potential impacts to the Main San Gabriel Basin; (ii) positive credit for voluntary funding of cleanup and water supply projects by potentially responsible parties or EPA-designated responsible parties, particularly when such funding has been memorialized by an agreement; (iii) use of technology consistent with the National Contingency Plan and Best Available Technology; (iv) water supply needs in the Main San Gabriel Basin; (v) whether a project potentially addresses a need for migration control; and (vi) whether the allocation is consistent with the legislative intent of the statute(s) authorizing or appropriating the funds subject to the allocation decision.

(b) The Water Purveyors shall not apply for Dreier Funds for any projects other than the Subprojects until the Subprojects have been approved (and the corresponding payments have been received) for at least \$30,000,000 in Dreier Funds, except that, notwithstanding the foregoing, SWS may apply for Dreier Funds if necessary for the potential project at the Bartolo Wellfield and SGVWC may apply for Dreier Funds for its two (2) projects in the South El Monte Operable Unit and the potential project at Puente Valley Operable Unit.

4.9.2 Administration of Funds from Public Funding Sources

WQA shall document, account for and administer all funds received by it in conformity with all applicable requirements of the BOR, all requirements applicable to the Dreier Funds, and all requirements of any other administrators of Public Funding Sources.

4.9.3 Conformity with Public Funding Sources Requirements

Each Water Purveyor shall design, build, operate and maintain its respective Subproject(s) in conformity with all applicable requirements of the Public Funding Sources from which funds have been or may be secured for the Project. If Public Funding Sources have requirements which conflict with this Agreement, the Parties shall meet and negotiate in good faith to amend this Agreement to conform to the requirements of the Public Funding Source.

4.9.4 Credit Against Project Costs

Funding from Public Funding Sources shall constitute a “dollar for dollar” credit to Cooperating Respondents’ responsibility to fund Project Costs. Upon receipt of the Public Funding Source monies by WQA for Project Capital Costs, the money shall be applied as a credit to the next schedule of projected quarterly Project Capital Costs or, if all then currently scheduled Project Capital Costs have been collected from the Cooperating Respondents, then such money shall be promptly reimbursed by WQA to the Cooperating Respondents. Monies received from Public Funding Sources for Project O&M Costs shall be applied as a credit to the next schedule of projected quarterly Project O&M Costs or, if received after the termination of this Agreement and after all Project O&M Costs have been collected from the Cooperating Respondents, then such money shall be promptly reimbursed by WQA to the Cooperating Respondents.

4.9.5 Offset to Financial Assurance for Capital Costs for Non-Project Funds

In the event that BOR and/or Dreier Funds are disbursed from Public Funding Sources after the Effective Date to fund capital costs of any other groundwater remediation projects in the San Gabriel Basin, pursuant (in the case of the BOR) to a Cooperative Agreement with BOR executed after the Effective Date, then the Financial Assurance for Capital Costs shall be reduced by the amount of the disbursement pursuant to Section 4.7.5(b). This offset shall not exceed \$30 million of such disbursements in the aggregate. Upon disbursement of funds from a Public Funding Source to any other groundwater remediation project in the Main San Gabriel Basin, WQA shall notify Watermaster of the amount of the disbursement. Watermaster shall provide a Notice of Adjustment pursuant to Section 4.7.5(b).

4.9.6 Reimbursement Required by BOR

WQA shall conduct annual audits as required by Public Funding Sources. The Water Entities shall notify the Cooperating Respondents within five (5) days after receiving notice from the BOR that the Water Entities’ costs or invoices will be the subject of review by the BOR. In the event that the BOR shall demand reimbursement of any funds expended by the BOR for the Project, or for any of the Subprojects, the Cooperating Respondents shall fund this reimbursement to WQA within thirty (30) days after receipt of WQA’s written demand. WQA shall provide an explanation of the basis for the demand for reimbursement of funds.

4.9.7 Project Costs

The reasonable costs of the Water Entities’ efforts to obtain funds from Public Funding Sources available to the BPOU are Project Costs.

4.9.8 Other Funding Sources

If the performance of certain portions of the UAO Subprojects (as approved by the relevant Subproject Committee) is funded by Other Funding Sources, then upon completion of that portion of the capital construction work funded by Other Funding Sources (or, if O&M work, then upon the completion of such O&M work for a calendar year), the Cooperating Respondents shall be entitled to a credit equal to the amount of funds provided by such Other Funding Source. Such credit shall be applied as follows: If funds from the Other Funding Sources are received during the capital construction period, including construction of Brine Technology for the Subproject, then the credit shall be applied against the next Quarterly Capital Schedule for such Subproject; if funds from the Other Funding Sources are received during the O&M period for the Subproject, then the credit shall be applied against the next Quarterly O&M Schedule for such Subproject.

4.10 Audits

4.10.1 Annual Audit

The Cooperating Respondents may, on an annual basis and upon reasonable notice, i) audit the Water Entities' Financial Records and other records of expenditures on the Project, including all invoices and supporting documentation required for or related to such expenditures, or (ii) conduct another reasonable form of accounting review of the Water Entities' Financial Records or other records of expenditures on the Project. Any such audit report (or other accounting review) shall be provided to each Cooperating Respondent and the affected Water Entity within thirty (30) days after completion of the audit report or other accounting review. The costs of the audit shall be the responsibility of the Cooperating Respondents.

4.10.2 Resolution of Disputed Audit Results

If the results of the audit or other accounting review are inconsistent with the records of the affected Water Entity, the Water Entity shall provide a written explanation of such inconsistency. If the Cooperating Respondents disagree with the Water Entity's written explanation, such dispute shall be subject to the Major Dispute resolution provisions set forth in this Agreement without regard to the amount in controversy. Both the audit report or other accounting review and the Water Entity's written explanation shall be evidence to be submitted in the dispute resolution proceeding, with the weight of such evidence to be determined by the arbitrator.

4.10.3 Reconciliation of Audit Results

If the arbitrator determines or the Parties agree that the Cooperating Respondents have paid funds in excess of Project Costs for the time period under audit, then such excess amount shall be credited to the Cooperating Respondents in the next Quarterly Capital Schedule or Quarterly O&M Schedule, as applicable, or, if determined after the termination of this Agreement and after all Project Costs have been collected from the Cooperating Respondents, promptly reimbursed to the Cooperating Respondents. If the arbitrator determines or the Parties agree that the Cooperating Respondents have paid less than is required under this Agreement, the Cooperating Respondents shall fund such deficiency in their next quarterly payment.

4.10.4 Final Audit

If the Cooperating Respondents perform a final annual audit, it shall be conducted within one hundred twenty (120) days following the expiration of the Term of this Agreement. If there is a dispute arising from such final audit, the Cooperating Respondents and the Water Entities shall settle their accounts within thirty (30) days of the issuance of the arbitrator's decision.

4.10.5 No Delay of Funding Obligation

No audit or other accounting review hereunder shall delay or defer the obligation of Cooperating Respondents to make payment of amounts otherwise due as provided in this Agreement.

4.11 Compensation for Interim Project Costs

The Water Entities have alleged, in lawsuits or through other demands, that they have incurred costs and suffered damages prior to the Effective Date in connection with the development and implementation of the Project ("Interim Project Costs"). While disputing the Water Entities claims, and without acknowledging any fault or liability, the Cooperating Respondents have made and agree to make, the payments described below in consideration for the releases and dismissal of lawsuits provided for in this Agreement.

4.11.1 Compensation Already Paid by Cooperating Respondents for Interim Project Costs

Certain Interim Project costs have been paid by the Cooperating Respondents as set forth in Exhibit Q.

4.11.2 Compensation for Certain Interim Project Costs

Cooperating Respondents shall pay the following Interim Project Costs within ten (10) days after the Effective Date of this Agreement:

- (a) \$558,486.00 to Watermaster.
- (b) \$482,355.00 to SGVWC.
- (c) \$228,149.00 to SGVWC

4.11.3 Compensation for Certain Additional Interim Project Costs

(a) Cooperating Respondents shall pay certain additional Interim Project Costs incurred through March 31, 2001 as follows:

- (i) \$764,886.00 to LPVCWD sixty (60) days after the Effective Date.
- (ii) \$1,427,047.00 to SGVWC three (3) Working Days after the Effective Date plus interest at 8.5% from February 1, 2001 to the payment date.
- (iii) \$1,222,433.50 to SGVWC sixty (60) days after the Effective Date.
- (iv) \$1,222,433.50 to SGVWC one hundred fifty (150) days after the Effective Date.
- (v) \$2,434,693.00 to CDWC sixty (60) days after the Effective Date.
- (vi) \$28,000.00 to SWS three (3) Working Days after the Effective Date.
- (vii) \$160,600.00 to VCWD sixty (60) days after the Effective Date.

(b) Provided the Cooperating Respondents pay to SGVWC the amounts in subsections (ii), (iii) and (iv) of Section 4.11.3(a) when due, then the Cooperating Respondents shall receive a credit in the amount of \$4,281,141 to be applied against their obligation to pay Project Costs as follows: (1) \$1,521,200 shall be credited to the Cooperating Respondents and shall be paid by SGVWC for VOC treatment capital costs for the B-6 Subproject. If the capital costs of the selected technology for VOC treatment at the B-6 Subproject are less than \$1,521,200, then the balance of the credit shall be applied against outstanding engineering costs and construction costs that SGVWC shall pay until the credit is exhausted; (2) \$2,759,941 (less avoided relocation costs) shall be applied within 30 days of the approval of a contractor for

a VOC treatment system at the B-5 Subproject by the B-5 Subproject Committee. If the capital costs of the VOC treatment system at the B-5 Subproject are less than the total of \$2,759,941, then the balance of the credit shall be used against outstanding engineering costs and construction costs that shall be paid by SGVWC until the credit is exhausted. The Cooperating Respondents shall not be required to post Financial Assurances for the \$4,281,141 credit. This sum has been deducted from the total of otherwise required Financial Assurances for the B-6 and B-5 Subprojects in the amounts of \$1,521,200 and \$2,759,941, respectively.

4.11.4 Compensation For All Other Interim Project Costs

Except to the extent otherwise paid by the Cooperating Respondents as of the Effective Date, and except as provided in Exhibit J (the June 21, 2001 “Low-Pressure UV/OX Demonstration Project Agreement”), all other Project Costs incurred for each Subproject from April 1, 2001 to the Effective Date shall be Interim Project Costs and included in the first Capital Quarterly Schedule and/or first O&M Quarterly Schedule, as applicable, and shall be included in the first Subproject Invoice for each Subproject. Any unreimbursed costs for Norman Brand’s mediation services shall be Interim Project Costs and shall be included in the first Subproject Invoice for each Subproject.

4.11.5 Failure to Pay Interim Project Costs

If the Cooperating Respondents fail to pay timely the amounts set forth above as Interim Project Costs, then any Water Entity that has not received such timely payment shall give written notice of default to the Cooperating Respondents. If the Cooperating Respondents do not make payment within ten (10) Working Days after notice, then Watermaster on behalf of the Water Purveyors, or WQA on its own behalf, shall be entitled to make a demand upon the Trustee, who shall then draw upon the Financial Assurance of the defaulting Cooperating Respondent in an amount sufficient to cure the default. If the Financial Assurance of the defaulting Cooperating Respondent is insufficient to cover the default, the Trustee shall be authorized to release funds pro rata from the Financial Assurance provided by each of the other (non-defaulting) Cooperating Respondents as provided in the Trust Agreement in a total amount sufficient to cure the default, but without revealing the individual shares of the Cooperating Respondents. The Trustee shall honor the demand of Watermaster or WQA without requiring any consent or other instruction of the Cooperating Respondents. The Water Entities further retain all rights under law for a non-payment, which is a material breach of this Agreement.

4.12 Payment for Past Environmental Claims

4.12.1 Resolution of Past Environmental Claims

The Parties have agreed to resolve all of the Water Entities' lawsuits and claims against the Cooperating Respondents for costs allegedly incurred and damages allegedly suffered prior to the Effective Date as a result of the alleged involuntary conversion of the Water Entities property and rights due to groundwater contamination in the BPOU ("Past Environmental Claims") by payment of the amounts set forth in this section. Past Environmental Claims do not include any claims for Interim Project Costs referenced in Section 4.11 above, and also do not include any costs (including attorney fees) associated with third party claims (other than any claims by Water Entity contractors, subcontractors or agents). While disputing the Water Entities' claims, and without acknowledging any fault or liability, the Cooperating Respondents agree to make the payments described below in consideration for the releases and dismissal of lawsuits provided for in this Agreement.

4.12.2 Compensation to be Paid to Water Entities

Past Environmental Claims shall be paid as follows:

- (a) VCWD, \$1,185,083
- (b) SGVWC, \$3,538,800;
- (c) LPVCWD, \$1,629,700;
- (d) Watermaster, \$393,900;
- (e) WQA, \$1,303,800;
- (f) SWS, \$2,877,000;
- (g) CDWC, \$930,040

4.12.3 Payment Schedule

The compensation in Section 4.12.2 shall be paid as follows: a total of \$5,000,000 shall be paid to the Water Entities (to be prorated based on amounts shown in Section 4.12.2) sixty (60) days after the Effective Date of this Agreement. The balance of \$6,858,323 shall be paid to the Water Entities in four equal annual payments of \$1,714,580.75 (plus 4% simple interest accrued from the Effective Date of this Agreement), to be prorated among the Water Entities based on the amounts shown in Section 4.12.2. These annual payments shall be made to the Water Entities beginning on the first anniversary of the Effective

Date of this Agreement and thereafter on the second, third and fourth anniversary dates, except that any installment payments remaining and due to be paid to WQA after May 1, 2005 shall be paid to WQA no later than June 1, 2005.

4.12.4 Additional Payment to WQA

Cooperating Respondents shall pay to WQA the additional sum of \$300,000 within sixty (60) days following the Effective Date of this Agreement towards satisfaction of WQA's Past Environmental Claims, including enforcement costs allegedly incurred by WQA prior to the Effective Date of this Agreement.

4.12.5 Failure to Pay Past Environmental Claims

If the Cooperating Respondents fail to pay timely the amounts set forth above as Past Environmental Claims, then any Water Entity that has not received such timely payment shall give written notice of default to the Cooperating Respondents. If the Cooperating Respondents do not make payment within thirty (30) days after notice, then Watermaster shall be entitled to make a demand upon the Trustee, who shall then draw upon the Financial Assurance of the defaulting Cooperating Respondent in an amount sufficient to cure the default. If the Financial Assurance of the defaulting Cooperating Respondent is insufficient to cover the default, the Trustee shall be authorized to release funds pro rata from the Financial Assurance provided by each of the other (non-defaulting) Cooperating Respondents as provided in the Trust Agreement in a total amount sufficient to cure the default, but without revealing the individual shares of the Cooperating Respondents. The Trustee shall honor the demand of Watermaster without requiring any consent or other instruction of the Cooperating Respondents. The Water Entities further retain all rights under law for a non-payment, which is a material breach of this Agreement.

ARTICLE 5. RISK MANAGEMENT; INSURANCE; INDEMNITIES

5.1 Risk Management

The Project, including design, construction, operation, maintenance, modification and management of existing and contemplated Project Facilities, shall be protected by a comprehensive risk management program as set forth in this Article 5.

5.1.1 Risk Manager

(a) The Parties shall, by mutual agreement, select a risk manager for the Project ("Risk Manager"). If the Parties are unable to agree upon a Risk Manager by February 15, 2002, the Water Entities and the Cooperating Respondents shall, by the later of (i) February

16, 2002 or (ii) five (5) days after the date of selection of the arbitrator, each submit a list of three proposed risk management consultants and their respective proposed fee schedules to the other and to the arbitrator selected pursuant to Section 8.4, along with information regarding the qualifications of each candidate. Within five (5) days after both lists have been submitted, the Water Entities and the Cooperating Respondents may each eliminate one candidate. Within seven (7) days thereafter, the arbitrator shall select the Risk Manager from the remaining candidates.

(b) There shall be a Risk Manager for the duration of the Agreement unless the Parties mutually agree that a Risk Manager is no longer needed for purposes of the Project. The Risk Manager shall not act as an agent or representative for any Party, and the Risk Manager's contract shall require that the Risk Manager exercise independent, neutral judgment in the performance of the Risk Manager's responsibilities under this Agreement.

(c) The Risk Manager may only be replaced by mutual agreement of the Parties or for cause. Any dispute between the Parties as to the existence of cause shall be subject to the dispute resolution provisions set forth in this Agreement. In the event of the resignation or replacement of the Risk Manager, Water Entities and Cooperating Respondents shall jointly retain a replacement Risk Manager.

(d) If the Parties are unable to agree upon a replacement Risk Manager within thirty (30) days prior to the effective date of the resignation or replacement of the acting Risk Manager, the Water Entities and the Cooperating Respondents shall, within ten (10) days thereafter, each submit a list of three proposed risk management consultants to the other and to the arbitrator selected pursuant to Section 8.4 ("arbitrator"), along with information regarding the qualifications of each candidate from the combined list. Within ten (10) days after both lists have been submitted, the Water Entities and the Cooperating Respondents may each eliminate one candidate. Within ten (10) days thereafter, the arbitrator shall select the Risk Manager from the remaining candidates. This process shall not delay the Project.

5.1.2 Payment of Risk Manager

The reasonable compensation of the Risk Manager for risk management services authorized by this Agreement shall be a Project Cost and shall be included in the Project Administrative Cost Budget.

5.1.3 Duties of Risk Manager

The Parties shall engage the Risk Manager to provide the following professional services to the Project:

(a) Consult, as requested from time to time by the Parties, regarding the design, development, implementation and administration of the insurance and risk management program.

(b) For insurance obtained and maintained solely for purposes of the Project (“Project Insurance”), assist in gathering and preparation of underwriting information, develop a marketing package to be submitted to prospective insurers and negotiate with the insurers to obtain the policies required.

(c) For insurance obtained and maintained by each respective Water Entity for purposes of the Project or for purposes of both the Project and the Water Entity’s ordinary operations (“Water Entity Insurance”), review Water Entity insurance policies as needed to ensure that they provide the insurance coverage terms and policy limits required by this Article 5.

(d) Prepare insurance specifications in accordance with Section 5.1.5 (including policy limits and requirements to comply with insurance specifications prior to commencement of work) to be included in all contracts with Project engineers, vendors, contractors and subcontractors (collectively, the “Project Contractors”), and prepare additional insurance specifications for Major Contracts. At the request of the Parties, review and revise such insurance specifications from time to time and assist in the administration of such insurance specifications.

(e) Compile all Project Contractors’ insurance certificates and/or policies. Review and monitor the Project Contractors’ compliance with insurance specifications throughout the term of their respective contracts and resolve any insurance requirements issues with Project Contractors.

(f) Develop Project Insurance claims management and coordination procedures for approval by the Parties (“Project Insurance Procedures”). Administer Project Insurance Procedures and provide periodic claims status reports to the Parties.

(g) If requested by any Party, review Water Entity insurance carrier invoices and provide a written recommendation to the relevant Subproject Committee, or to Watermaster and WQA, as appropriate, as to the proportion of Water Entity Insurance invoices, if any, to be paid as a Project Cost in connection with Water Entity submission to the relevant Subproject Committee of any estimated budgets for Subproject O&M costs, or to Watermaster and WQA for Project and Subproject Administrative Costs Budgets, that include Water Entity insurance cost items.

(h) Provide such other services as requested from time to time by the Parties with regard to risk management for the Project.

5.1.4 Project Insurance Procedures

(a) The Project Insurance Procedures shall apply to, and describe the procedures to be followed by the Parties and the Risk Manager with regard to, all matters that may be submitted to Project Insurance carriers for coverage. The Project Insurance Procedures shall establish criteria, consistent with the coverage provided by the Project Insurance, for identifying the third party claims, project modifications costs and business interruption expense that a Party may submit to a Project Insurance carrier for coverage under a Project Insurance policy (the “Claims Criteria”).

(b) The Claims Criteria shall require that before submitting any matter to a Project Insurance carrier for coverage, the affected Party shall notify the Risk Manager of the intention to submit the matter to the carrier and obtain the Risk Manager’s determination that the matter meets the applicable Claims Criteria. No Party shall submit a matter to a Project Insurance carrier for coverage without first obtaining the Risk Manager’s written determination that the matter meets the Claims Criteria, except as set forth in Section 5.1.4(e).

(c) In order to minimize the costs of defense of claims covered by Project Insurance, to the extent that the Parties have common interests in the defense of such claims, the Parties shall strive to identify common counsel to defend such interests, or otherwise provide for the joint defense of such interests.

(d) The Project Insurance Procedures shall include procedures for keeping records relating to the payment of self insured retentions for Project Insurance.

(e) If any party disputes the Risk Manager’s application of the Project Insurance Procedures, including, but not limited to, the Claims Criteria, to any matter, then the aggrieved Party shall give notice of the dispute promptly to all of the other Parties. After giving such notice, the aggrieved Party may meet and confer with the Risk Manager in an effort to resolve the dispute, provided that advance notice of such meetings and/or conference calls is given to the other Parties. Any Party may participate in such meetings and/or conference calls. If the dispute is not resolved within ten (10) Working Days after the date of the initial notice of dispute, then the Risk Manager shall serve on all Parties a written statement of position and an aggrieved Party may seek insurance dispute resolution pursuant to Article 8.10. The Risk Manager shall take all steps necessary to preserve potential Project Insurance coverage for a disputed matter during any such dispute resolution proceeding, and the Parties shall cooperate to provide for an expedited dispute resolution process.

5.1.5 Insurance Requirements for Project Engineers, Vendors, Contractors

(a) Each Water Entity that enters into a contract for professional engineering services, equipment fabrication and assembly services, or equipment installation or construction services or for any other work as a part of construction, operation, maintenance, monitoring or modification of all or any part of the Project (referred to for purposes of this Section 5.1.5 as “Contract Work”) shall specify in the competitive bid specifications, and require as a condition of the contract for the Contract Work, that the Project Contractor shall obtain and maintain at its expense and at all times during the performance of the Contract Work, the insurance specified by the Risk Manager pursuant to Section 5.1.3(d), which shall include workers compensation, commercial general liability and automobile liability coverage. For Major Contracts, such specifications shall, in addition, include professional liability insurance and contractors pollution liability insurance with limits as determined by the Parties in consultation with the Risk Manager, all of which shall be primary insurance and which shall name the responsible Water Entity, the WQA, Watermaster and the Cooperating Respondents as additional insureds, as appropriate.

(b) The Subproject Committee proposing to enter a contract with a Project Contractor may, in consultation with the Risk Manager, waive or modify any insurance requirement, based upon the commercial availability and cost of the insurance and the nature of the insurable risks involved.

(c) The responsible Water Entity, with the assistance of the Risk Manager, shall obtain certificates of insurance, certified copies of policies and/or additional insured endorsements from each Project Contractor providing services to the Project and make them available to the Parties within ten (10) days after the Effective Date of this Agreement, or within ten (10) days after entering the contract. The responsible Water Entity shall not authorize commencement of any work by any Project Contractor under a contract entered into after the Effective Date until such time as the Risk Manager determines that all insurance requirements for the work have been met, unless the Subproject Committee has waived the need for such determination.

5.2 Project Insurance

5.2.1 Environmental Site Liability Insurance

The Cooperating Respondents shall obtain and maintain in effect during the term of this Agreement a policy of environmental site liability insurance with all of the Parties identified as named insureds and with coverage as set forth in subsections (a) through (f) of this

Section and otherwise meeting the requirements set forth in subsections (g) and (h) of this Section (the “Environmental Site Liability Policy”):

(a) Project modifications resulting from:

- i. New contaminants;
- ii. Increases in concentrations of known contaminants;
- iii. Changes in regulatory standards.

(b) Bodily injury, property damage or remediation expense resulting from the release of pollutants from Project Facilities.

(c) Bodily injury or property damage resulting from pollutants in Project treated water (negligent service or defective product).

(d) Bodily injury, property damage and remediation costs resulting from the release of pollutants from offsite “non-owned” facilities that receive spent carbon for regeneration, brine discharges or other Project wastes.

(e) Bodily injury, property damage and remediation costs resulting from a pollution incident caused by transportation of treatment residuals from a Project Facility to an authorized disposal or recycling facility.

(f) Business interruption and extra expense caused by:

- i. New contaminants;
- ii. Increases in concentrations of known contaminants;
- iii. Changes in regulatory standards.

(g) The policy limits for the Environmental Site Liability Policy shall be in the amount of One Hundred Million Dollars (\$100,000,000.00) per incident and in the aggregate.

(h) This Agreement, the Indemnification Agreement between the Cooperating Respondents and the Sanitation District, and other agreements that include indemnification provisions entered by one or more of the Parties for purposes of the Project shall be scheduled as “insured contracts” under the Environmental Site Liability Policy.

(i) The Environmental Site Liability Policy obtained and maintained pursuant to this Section 5.2.1 shall be deemed to be Project Insurance.

(j) It shall be a condition precedent to the effectiveness of this Agreement that (1) the insurer provides a final manuscript of an Environmental Site Liability Policy to each of the Parties not later than March 15, 2002, and (2) each of the Parties deems the proposed final manuscript satisfactory within 14 days after receipt thereof (as provided in the next sentence) but in no event later than March 31, 2002. Each of the Parties shall have fourteen (14) days, following its receipt from Marsh U.S.A. Risk Services and transmission to the Parties in electronic form of the final manuscript of the Environmental Site Liability Policy proposed to be obtained pursuant to this Section 5.2.1, to advise the other Parties of its dissatisfaction, if any, with the proposed final manuscript of the policy. Should a Party not advise the other Parties of its dissatisfaction with the proposed final manuscript of the policy within fourteen (14) days after its receipt thereof, then the proposed final manuscript of the policy shall be deemed satisfactory to that Party. If either (1) the insurer fails to provide a final manuscript of an Environmental Site Liability Policy by March 15, 2002 or (2) any Party timely notifies the other Parties that the proposed final manuscript of the policy is not satisfactory, then this Agreement shall not take effect and all Financial Assurances in the Trust Fund and funds of the Cooperating Respondents that have been transferred to the escrow account established pursuant to Section 4.7.1 hereof, if any, shall be promptly refunded to the Cooperating Respondents, with the exception that any funds deposited in the Trust Fund from the Irrevocable Escrow Account shall be returned to the Irrevocable Escrow Account.

5.2.2 Wrap-Up Professional Liability, Contractors Pollution Liability and Owner's Protective Policy

(a) The Parties shall use good faith efforts to: (i) determine whether a wrap-up policy of insurance providing professional liability and contractors pollution liability coverage for Project engineers, vendors, contractors and subcontractors, together with owners protective coverage for the Project (the "Wrap-Up Policy") is available to the Parties for the Project at a reasonable cost and (ii) shall obtain and maintain such a policy on an occurrence basis covering each Subproject throughout the period of construction of the Subproject, including start-up operations.

(b) If the Parties obtain a Wrap-Up Policy pursuant to this Section 5.2.2, it shall be Project Insurance.

5.3 Water Entity Insurance

5.3.1 Water Purveyor Insurance

Each Water Purveyor shall obtain and maintain during the term of this Agreement policies of insurance covering its respective operations, including its ordinary operations and Subproject operations:

(a) Workers compensation insurance to cover obligations imposed by Federal and State statutes with jurisdiction over Water Purveyor employees working full or part time on the Project, including employers liability insurance

(b) Commercial General Liability and employers liability insurance with a combined single limit of at least Five Million Dollars (\$5,000,000) per occurrence. This policy shall include coverage of bodily injury, broad form property damage (including completed operations), and personal injury, blanket contractual and products liability for risks associated with the design, construction, operation, maintenance, modification and management of Project Facilities.

(c) Comprehensive automobile liability insurance with a combined single limit for bodily injury and property damage of not less than Two Million Dollars (\$2,000,000) per occurrence with respect to automobiles owned, hired, or non-owned vehicles used in the performance of Project design, construction and/or operations.

(d) Professional liability and owners protective insurance, if appropriate, covering the design, construction, operation, maintenance, modification, and management of Project Facilities with limits recommended by the Risk Manager.

(e) First party property damage insurance covering non-pollution property damage to Project Facilities owned/and or operated by the Water Purveyor, including boiler and machinery coverage for loss arising from operation of mechanical and electrical equipment, including, if commercially available at a reasonable cost, a pollution endorsement.

5.3.2 Watermaster and WQA Insurance

Watermaster and WQA may, in their discretion, obtain and maintain insurance to cover the risks associated with their responsibilities under this Agreement, with limits commensurate with such risks. The costs of such insurance coverage with limits not exceeding Five Million Dollars (\$5,000,000) per occurrence shall be Project Costs.

5.3.3 Other Insurance

Each Water Purveyor shall maintain existing policies of insurance for first party losses for purposes of Water Purveyor operations not including risks arising out of the design, construction and operation of Project Facilities. The costs of such insurance are Ordinary Operating Costs.

5.4 **General Insurance Provisions**

5.4.1 Insurance Costs

(a) All premiums, deductibles, and self insured retentions under policies of insurance obtained and maintained as Project Insurance shall be paid by Cooperating Respondents and any return of premiums for Project Insurance shall be received by Cooperating Respondents. Subject to the requirements of the Project Insurance Procedures prepared by the Risk Manager under Section 5.1, all reasonable costs incurred in submitting and enforcing claims for insurance coverage under Project Insurance, including reasonable attorney fees, shall be the financial responsibility of Cooperating Respondents. Cooperating Respondents shall have no obligation to pay the costs of pursuing any claim, cross claim, counterclaim, third party claim or any other claim against a Cooperating Respondent.

(b) If any Water Entity has submitted a matter for coverage under Project Insurance with the Risk Manager's determination that the matter meets the Claims Criteria, and the Water Entity has incurred costs for the matter subject to self insured retention, then the Cooperating Respondents shall pay, within thirty (30) days after receipt of invoice (with supporting documentation) from that Water Entity, the amounts subject to self insured retention. If the Cooperating Respondents dispute all or a part of any such invoice, then, within thirty (30) days after receipt of the invoice, they shall give notice to the respective Water Entity and the Risk Manager and pay any undisputed portion of the invoice. After giving such notice, the Cooperating Respondents shall meet and confer with the Water Entity and the Risk Manager in an effort to resolve the dispute. If the dispute is not resolved within ten (10) Working Days after the date of the initial notice of dispute, then the Cooperating Respondents may seek insurance dispute resolution pursuant to Section 8.10. If an undisputed amount is not paid when due pursuant to this Section 5.4.1(b), or any amount due pursuant to the final decision of the arbitrator is not paid within thirty (30) days after notice of the arbitrator's decision under Section 8.10, then Watermaster shall make a demand for such funds upon the Trustee, who shall then draw upon the Financial Assurance of the defaulting Cooperating Respondent(s) in an amount sufficient to cure the default. If the Financial Assurance of the defaulting Cooperating Respondent(s) is insufficient to cover the default, the Trustee shall be authorized to release funds pro rata from the Financial Assurance provided by each of the other (non-defaulting)

Cooperating Respondents as provided in the Trust Agreement in a total amount sufficient to cure the default, but without revealing the individual shares of the Cooperating Respondents. The Trustee shall honor the demand of Watermaster without requiring any consent or other instruction of the Cooperating Respondents or Escrow Agent.

(c) Premiums, deductibles and self insured retentions under policies of insurance obtained and maintained as Water Entity Insurance are Ordinary Operating Costs, except that if any portion of a premium, deductible, or self insured retention or any additional premium is attributable to insurance coverage for the Project required or permitted by this Agreement, then it shall be a Project Cost.

(d) Any Water Entity Insurance premiums, deductibles, and self-insured retentions described in subsection (c) of this Section as Project Costs shall be included in the annual Project and Subproject Administrative Costs Budgets.

5.4.2 Duties of Named Insureds

(a) General Duties. Each named insured under any policy of insurance required or authorized by this Agreement for coverage of the Project shall perform its duties as a named insured as set forth in each such policy of insurance.

(b) Environmental Site Liability Policy: First Named Insureds. The Cooperating Respondents are to be the first named insureds under the terms of the Environmental Site Liability Policy, and as the first named insureds will have certain rights and obligations which shall be performed and exercised as set forth in this Section 5.4.2(b):

(i) Notice to Insurer. The Cooperating Respondents shall, with the advice and consultation of the Risk Manager, act on behalf of all other insureds for the giving and receiving of notice of cancellation, receipt and acceptance of any endorsement issued to or for a part of the Environmental Site Liability Policy.

(ii) Policy Cancellation. Cooperating Respondents shall not cancel the Environmental Site Liability Policy without first obtaining the written consent of the Water Entities, which shall not be unreasonably withheld.

(c) Environmental Site Liability Policy: Named Insureds. Each Party is, or will be, a named insured under the Environmental Site Liability Policy and shall exercise its rights and obligations under the Environmental Site Liability Policy, as set forth in the Environmental Site Liability Policy and as follows:

(i) Notice of Claims. Each Party, as a named insured, shall notify the Risk Manager promptly after receipt of a "claim" that is potentially covered by the

Environmental Site Liability Policy of the Party's intention to seek defense or indemnity for the claim. Each such Party shall promptly provide such additional information as may be reasonably requested by the Risk Manager and otherwise fully cooperate with the Risk Manager in evaluating and submitting notice of the claim to the insurer.

(ii) Assistance to the Insurer Regarding Claims. Each affected Party shall cooperate and otherwise offer the insurer reasonable assistance in the defense, investigation or settlement of a claim. Such cooperation or assistance shall include participating at meetings, testifying at hearings, depositions and trials and securing evidence.

(iii) Project Modifications and Business Interruption. The responsible Water Entity shall notify the Risk Manager promptly upon having knowledge of a trigger event (as defined in and for which notice is required by the Environmental Site Liability Policy). The Risk Manager shall, as and when appropriate, pursuant to the terms of the Environmental Site Liability Policy, seek to obtain the insurer's prior written approval for the resulting project modification costs and business interruption expense before the costs or expenses are incurred. The responsible Water Entity and the Project Committee shall take all reasonable and necessary actions to reduce project modification costs and business interruption expense; maintain detailed records of project modification costs and business interruption expense; and complete and send to the Risk Manager progress and cost reports for the Risk Manager to forward to the insurer as required by the policy.

(d) If, as a result of a Water Entity's failure to perform the duties of a named insured, as set forth in this Section 5.4, or in the Environmental Site Liability Policy, coverage for a loss, project modification or business interruption is ultimately denied in whole or in part by the insurer, then the Water Entity shall have no right to indemnity by the Cooperating Respondents under Section 2.2.2 or 5.5.1 for the insured portion of such loss, project modification or business interruption.

5.5 Indemnities

5.5.1 Cooperating Respondents Indemnity

(a) The Cooperating Respondents ("CR Indemnitors") shall indemnify, hold harmless and defend the Water Entities, and each of them, their respective successors and permitted assigns, and their respective past and then-current officers, directors, board members and employees (individually, "WE Indemnified Party"; collectively, "WE Indemnified Parties") from and against any and all third party claims, causes of action, suits, legal or administrative proceedings and any resulting damages, losses, penalties, fines or liabilities (collectively, "Third Party Claims") after the Effective Date arising as a direct result of (i) Watermaster's or WQA's

administration, management, coordination or design of the Project in accordance with and during or prior to the Term of this Agreement, and without negligence or willful misconduct or (ii) a Water Purveyor's construction, operation or maintenance of one or more of the Project Facilities in accordance with and during or prior to the Term of this Agreement and without negligence or willful misconduct, including, but not limited to, Third Party Claims arising as a direct result of alleged migration of groundwater contamination due to the operation of one or more of the Project Facilities, alleged inverse condemnation due to the construction or operation of one or more of the Project Facilities, or the disposal of materials from one or more of the Project Facilities at or to any off-site location covered by endorsement to the Environmental Site Liability Policy. However, in no event shall CR Indemnitors have any obligation under this Section 5.5.1 to indemnify, hold harmless or defend the WE Indemnified Parties from and against any Third Party Claims arising from (i) the operation of automotive vehicles, (ii) the operation or maintenance of ordinary water treatment or distribution facilities that would be operated or maintained by a Water Purveyor in the absence of any Chemicals of Concern in raw water, (iii) any claims asserted by any WE Indemnified Party, or any contractor or subcontractor of a WE Indemnified Party for nonpayment, (iv) the presence or migration in groundwater or drinking water of any pollutant other than a Chemical of Concern, or (v) Third Party Claims for personal injury or property damage (no matter how denominated) in connection with water supplied or allegedly supplied by Water Entities ("Toxic Tort Claims") filed prior to the Effective Date or any amendment of a Toxic Tort Claim initially filed prior to the Effective Date or any Toxic Tort Claim filed after the Effective Date by a claimant in a Toxic Tort Claim filed prior to the Effective Date or any Toxic Tort Claim filed after the Effective Date to the extent it involves alleged exposure to water supplied or allegedly supplied by any of the Water Entities prior to the delivery of treated water through operation of the Project Facilities.

(b) Defense Obligations. With respect to Third Party Claims that allege claims that are both covered and not covered under the indemnification provided for in Section 5.5.1(a), the CR Indemnitors' defense obligation under Section 5.5.1(a) shall be as follows:

(i) If defense of such a Third Party Claim is provided under the Environmental Site Liability Policy, the Water Entity Insurance or any other insurance available to the respective WE Indemnified Party, then CR Indemnitors' obligation to provide a defense under this Section 5.5.1 is excess to the limits of all such other insurance and any defense provided by such insurance that is not subject to the respective insurance policy coverage limits.

(ii) If defense for such a Third Party Claim is not provided under the Environmental Site Liability Policy, the Water Entity Insurance or any other insurance available to the respective WE Indemnified party, and the Third Party Claim alleges claims that are covered and claims that are not covered under the indemnification provided in Section 5.5.1(a),

then CR Indemnitors' obligation to provide a defense for such Third Party Claim shall, by mutual agreement among the WE Indemnified Party and the CR Indemnitors, be allocated on a provisional basis between alleged claims covered and alleged claims not covered by the indemnity provided under Section 5.5.1(a). CR Indemnitors shall pay that proportion or amount of defense costs allocated to the covered claims, and the WE Indemnified Party shall pay that proportion or amount of defense costs allocated to the not covered claims. In the absence of any such agreement, either the WE Indemnified Party or the CR Indemnitors may invoke dispute resolution under Article 8 of this Agreement for purposes of obtaining a provisional allocation of defense costs as between claims covered and not covered by the CR Indemnitor's indemnity obligations under Section 5.5.1(a). The parties to any such dispute resolution proceeding shall cooperate to expedite the proceeding. Each WE Indemnified Party shall pay its own defense costs pending a mutual agreement or other determination of the provisional allocation of defense costs.

(iii) Upon entry of final judgment, settlement or other final resolution of any Third Party Claim for which CR Indemnitors have provided a defense subject to a provisional allocation in accordance with Section 5.5.1(b)(ii), the total amount of defense costs incurred by the CR Indemnitors and the WE Indemnified Party with respect to the Third Party Claim shall be subject to a final proportioned allocation. The CR Indemnitors' obligation shall be based upon all evidence available at the time of settlement, judgment or other final resolution of the matter(s). The amount of any costs of defense incurred by the WE Indemnified Party or the CR Indemnitors pursuant to the provisional allocation that exceeds the amount allocated to that party in the final allocation of defense costs shall be reimbursed by the other party within thirty (30) days after a final allocation is determined. If the parties cannot agree on a final allocation of defense costs, then either party may submit the matter for alternative dispute resolution pursuant to Article 8 of this Agreement.

(iv) CR Indemnitors shall have no obligation under this Section 5.5.1 to pay for the cost of pursuing any claim against any CR Indemnitor.

(c) Limitations. The CR Indemnitors' obligations to defend, indemnify and hold harmless for Third Party Claims within the scope of the indemnity provided under Section 5.5.1(a) are excess to the limits of the Project Insurance described in Section 5.2, the Water Entity Insurance described in Section 5.3, and any other insurance available to the respective WE Indemnified Party and shall apply only (i) after such limits are exhausted for any claim or for all claims in the aggregate covered by such Project Insurance, Water Entity Insurance or other insurance available to the respective WE Indemnified Party; (ii) if the CR Indemnitors and the WE Indemnified Party mutually agree that there is no such insurance covering such Third Party Claim; or (iii) after no insurance carrier that issued such Project Insurance, Water Entity

Insurance or other insurance has accepted coverage of such Third Party Claim (with or without a reservation of rights) within one-hundred-twenty (120) days after receiving notice of a claim, provided the Water Entities are pursuing available coverage in good faith. The CR Indemnitors' obligations to defend, indemnify and hold harmless under this Section 5.5.1 are limited to, and shall not exceed, the total amount of Twelve Million Dollars (\$12,000,000) for any single claim for indemnity and/or defense and for all claims for indemnity and/or defense of any or all of the WE Indemnified Parties in the aggregate. Any amounts to be paid by the CR Indemnitors pursuant to Section 2.2.2(a)(7), or for self insured retentions or deductibles applicable to the Environmental Site Liability Policy, shall not be credited toward the limitation on indemnity in this Section 5.5.1(c). Any amounts to be paid as Project Costs by the CR Indemnitors for self insured retentions or deductibles applicable to any other insurance with coverage for a Third Party Claim against a WE Indemnified Party shall not be credited toward the limitation on indemnity in this Section 5.5.1(c).

(d) Extended Reporting Period. The obligations under this Section 5.5.1 shall survive from the Effective Date until five (5) years after the date of termination of this Agreement pursuant to Article 9 hereof, except that, with regard to any particular Subproject and the Water Purveyor responsible for that Subproject, this Section 5.5.1 shall survive only until five (5) years after the termination or discontinuation of the Water Purveyor's operation of such Subproject, as provided in Section 9.3 (the "CR Extended Reporting Period").

(e) Claims Period: A WE Indemnified Party must give notice of any claim for defense and/or indemnification under this Section 5.5.1 pursuant to the notice requirements set forth in Section 5.5.4 prior to expiration of the CR Extended Reporting Period. If any notice of claim for defense and/or indemnification is given to a CR Indemnitor by a WE Indemnified Party after expiration of the CR Extended Reporting Period, such WE Indemnified Party shall not be entitled to indemnification or defense of such claim under this Section 5.5.1.

(f) Indemnification of Contractors. To the extent that any Water Entity is required by a contractor to provide an indemnity in connection with the Project, the Cooperating Respondents shall perform the indemnity obligation on behalf of the Water Entity, provided that the Cooperating Respondents have given their written approval of the indemnity in advance of the Water Entity's execution of the contract. In the event the Cooperating Respondents fail to approve of the indemnity, and the Water Entity's resulting inability to provide the indemnity results in a higher price for the contractor's services, such additional price shall be a Project Cost.

(g) Subrogation. The Cooperating Respondents shall be subrogated to all of the rights of the Water Entity, and the Water Entity shall cooperate with the Cooperating Respondents in exercising those rights, under any contract between a Water Entity and an

engineer, vendor, contractor or subcontractor, for the design, construction, operation or maintenance of Project Facilities, in connection with any WE Indemnified Party claim for indemnification under this Section 5.5.1 arising in whole or in part out of the acts or omissions of the respective engineer, vendor, contractor or subcontractor. In connection with any contractor claim for indemnity for which Cooperating Respondents have a duty to perform under Section 5.5.1(f), Cooperating Respondents shall be subrogated to all of the rights of the Water Entity under the contract with respect to such claim, the Cooperating Respondents' duty to perform shall be subject to all of the limitations and defenses of the Water Entity under the contract, and the Water Entity shall cooperate with the Cooperating Respondents in defending against the contractor's indemnity claim.

(h) Equitable Indemnity. The express indemnification provided for in this Section 5.5.1 is not a waiver of, and shall not in any way preclude, limit or otherwise affect, any claim for equitable indemnification that any WE Indemnified Party may have against the CR Indemnitors or any of them for any Third Party Claim not within the scope of such express indemnification, all of which equitable indemnification claims are expressly reserved.

5.5.2 Further Indemnity

The CR Indemnitors shall also indemnify, hold harmless and defend the WE Indemnified Parties, and each of them, from and against any and all Third Party Claims asserted against any WE Indemnified Party in any legal or administrative proceeding initiated by any CR Indemnitor for the purpose of recovering any sums paid by the CR Indemnitors pursuant to this Agreement or for the purpose of pursuing any claims assigned under this Agreement. This Section 5.5.3 shall survive the termination of this Agreement without limitation.

5.5.3 Water Entities Indemnity

(a) Each Water Entity ("WE Indemnitor") shall defend, indemnify, and hold harmless the Cooperating Respondents, and each of them, and their respective successors and permitted assigns, and their respective past and then-current officers, directors and employees (individually, "CR Indemnified Party"; collectively, "CR Indemnified Parties") from and against any and all Third Party Claims after the Effective Date arising solely as a result of the willful misconduct of that WE Indemnitor or its employees during the term of this Agreement, as and once determined by binding arbitration under the terms of the dispute resolution provisions in this Agreement.

(b) Extended Reporting Period. The obligations under this Section 5.5.3 shall survive from the Effective Date until five (5) years after the date of termination of this Agreement pursuant to Article 9 hereof, except that, with regard to any particular Subproject and

the Water Purveyor responsible for that Subproject, this Section 5.5.3 shall survive only until five years after the termination or discontinuation of the Water Purveyor's operation of the Subproject, as provided in Section 9.3 (the "WE Extended Reporting Period").

(c) Claims Period. A CR Indemnified Party must give notice of any claim for defense and/or indemnification under this Section 5.5.3 pursuant to the notice requirements set forth in Section 5.5.4 prior to expiration of the WE Extended Reporting Period. If a CR Indemnified Party gives any notice of claim for defense and/or indemnification to a WE Indemnitor after expiration of the WE Extended Reporting Period, such CR Indemnified Party shall not be entitled to indemnification or defense of such claim under this Section 5.5.3.

(d) Equitable Indemnity. The express indemnification provided for in this Section 5.5.3 is not a waiver of, and shall not in any way preclude, limit or otherwise affect, any claim for equitable indemnification that any CR Indemnified Party may have against the WE Indemnitors or any of them for any Third Party Claim not within the scope of such express indemnification, all of which equitable indemnification claims are expressly reserved.

5.5.4 Notice Requirements

An Indemnified Party under Section 5.5.1, Section 5.5.2 or Section 5.5.3 shall (1) give the Indemnitor under that Section written notice of any claim or demand asserted or threatened by third parties against the Indemnified Party for which a defense and/or indemnity may be sought under Sections 5.5.1, 5.5.2, or 5.5.3, as applicable, within thirty (30) days after receipt, or otherwise obtaining knowledge, of the threatened or asserted claim or demand, and (2) provide the Indemnitor immediate access to all relevant information in its possession or control related to the claim or demand. The failure to provide notice pursuant to this Section 5.5.4 shall not affect any of the obligations under Sections 5.5.1, 5.5.2 or 5.5.3 in the absence of a showing of prejudice.

5.5.5 Selection of Counsel

(a) Complete Defense. If the Indemnitor: (i) assumes the duty to defend any claim or demand that may be subject to indemnification under this Agreement without a reservation of rights and (ii) agrees to pay the full amount of the claim, then the Indemnitor shall be entitled to defend the claim with counsel selected by such Indemnitor, and reasonably acceptable to the Indemnified Party, upon delivery to the Indemnified Party of notice of the Indemnitor's election to do so. After delivery of such notice, the Indemnitor shall not be liable to the Indemnified Party under this Agreement for any legal or other expense subsequently incurred by the Indemnified Party in connection with such defense; provided, however, that the Indemnified Party shall have the right at its own expense to employ separate counsel to join in

defense of the matter. If a similar claim or demand is made against more than one Indemnified Party at the same time, or if claims or demands against more than one Indemnified Party are consolidated in any way, the Indemnitor may employ the same counsel to defend all such claims. The Indemnified Party shall fully cooperate with counsel appointed by the Indemnitor and shall provide any and all documents, data, records, witnesses, or expertise within its organization and/or control and other assistance requested by counsel in defense of the claim or demand

(b) Partial Defense. If the Indemnitor assumes the duty to defend with any reservation of rights or agrees to defend without an agreement to pay the full amount of the claim asserted, then the Indemnitor must defend the claim with counsel selected by the Indemnified Party whose fees shall be commercially reasonable in accord with the standards in the community.

5.5.6 Settlement of Claims

(a) If the Indemnitor: (i) assumes the duty to defend any claim or demand that may be subject to indemnification under this Agreement without a reservation of rights and (ii) agrees to pay the full amount of the claim, then the Indemnitor shall be entitled to settle the claim, following reasonable notice to the Indemnified Party of the intent to settle.

(b) If the Indemnitor assumes the duty to defend with any reservation of rights or agrees to defend without an agreement to pay the full amount of the claim asserted, then the Indemnitor can settle the claim only with the consent of the Indemnified Party. If the Indemnified Party wishes to settle the claim and the Indemnitor does not, then the Indemnitor cannot object to or prevent the settlement unless the Indemnitor assumes the defense of the Indemnified Party without a reservation of rights and agrees to pay the full amount of the claim.

ARTICLE 6. RESERVATION OF RIGHTS; RELEASES; ASSIGNMENT; TOLLING

6.1 Reservation of Rights

6.1.1 Water Entity Reservation

Except as expressly set forth in this Article, the Water Entities reserve all rights, claims, causes of action, counterclaims, cross claims, and defenses of any kind or nature against the Cooperating Respondents with respect to the BPOU groundwater contamination, including without limitation, claims for future costs and damages that are incurred separate and apart from the Project.

6.1.2 Cooperating Respondent Reservation

Except as expressly set forth in this Article, the Cooperating Respondents reserve all rights, claims, causes of action, counterclaims, cross claims, and defenses of any kind or nature against the Water Entities with respect to the BPOU groundwater contamination, including without limitation, claims for future costs and damages that are incurred separate and apart from the Project.

6.1.3 No Release of Non-Parties

Except as otherwise provided in this Agreement, it is not the intention of the Parties hereto to release any other persons or entities not Parties to the Agreement from any claims or liabilities. All rights to pursue such parties are expressly reserved.

6.2 Specific Releases

6.2.1 Release by Water Entities for Past Environmental Claims

Upon each payment from the Cooperating Respondents to a Water Entity of an amount in Section 4.12 for the Water Entity's Past Environmental Claims, that Water Entity, on behalf of itself and its successors and assigns, hereby agrees to release, acquit and forever discharge each Cooperating Respondent and its respective past and then-present officers, directors, shareholders (other than parents), employees, agents, representatives, contractors, attorneys, parents (provided they have signed the release and tolling agreement in the form attached as Exhibit R), subsidiaries, affiliates, insurers, successors and assigns (together with the Cooperating Respondents, collectively, the "CR Affiliates") from any and all actions, causes of action, claims, demands, liabilities, damages, penalties, debts, losses, costs, expenses and fees (including, without limitation, litigation costs and attorney and consultant fees) of every kind and nature whatsoever, in law and in equity, whether known or unknown, suspected or unsuspected, foreseen or unforeseen, but only to the extent of such payment. Upon the full payment of all amounts due from the Cooperating Respondents to the Water Entity under Section 4.12, the full release set forth in this Section shall take effect with respect to all of that Water Entity's Past Environmental Claims as against the CR Affiliates only. Additionally, until such full release takes effect and so long as the Cooperating Respondents are not in default of their payment obligations under Section 4.12, the Water Entity shall not file with any court of law any action in any way seeking to recover for its Past Environmental Claims.

6.2.2 Release by Water Entities for Interim Project Costs

Upon each payment from Cooperating Respondents to a Water Entity in an amount in Section 4.11 for the Water Entity's Interim Project Costs, that Water Entity, on behalf

of itself and its successors and assigns, hereby agrees to release, acquit and forever discharge each CR Affiliate from any and all actions, causes of action, claims, demands, liabilities, damages, penalties, debts, losses, costs, expenses and fees (including, without limitation, litigation costs and attorney and consultant fees) of every kind and nature whatsoever, in law and in equity, whether known or unknown, suspected or unsuspected, foreseen or unforeseen, but only to the extent of such payment. Upon the full payment of all amounts due to the Water Entity under Section 4.11, the full release set forth in this Section shall take effect with respect to all of that Water Entity's Interim Project Costs (including any Interim Project Costs that are reimbursed by Public Funding Sources or Other Funding Sources). Additionally, until such full release takes effect and so long as the Cooperating Respondents are not in default of their payment obligations under Section 4.11, the Water Entity shall not file with any court of law any action in any way seeking to recover for its Interim Project Costs against the CR Affiliates.

6.2.3 Cooperating Respondents Release

Each of the Cooperating Respondents, for and on behalf of itself and its respective successors and assigns, hereby agrees that it shall forever release, acquit and discharge each Water Entity and its respective past and then-present officers, directors, shareholders, employees, agents, representatives, attorneys, parents, subsidiaries, affiliates, insurers, successors and assigns from any and all actions, causes of action, claims, demands, liabilities, damages, penalties, debts, losses, costs, expenses and fees (including without limitation litigation costs and attorney and consultant fees) of every kind and nature whatsoever, in law and in equity, whether known or unknown, suspected or unsuspected, foreseen or unforeseen (1) for any and all costs allegedly incurred, damages allegedly suffered and payments allegedly made prior to the Effective Date in connection with the groundwater contamination in the BPOU, and (2) for each payment made after the Effective Date for the Water Entities' Past Environmental Claims, Interim Project Costs and Project Costs, but only to the extent of such payment.

6.2.4 Civil Code Section 1542

(a) The Parties to this Agreement have read and fully understand the statutory language of Section 1542 of the Civil Code of State of California ("Section 1542"), which reads as follows: "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

(b) Accordingly, as to the releases given in Section 6.2.1 and 6.2.3(1), each Party hereto acknowledges that it may hereafter discover facts different from, or in addition to, the facts which it now knows or believes to be true with respect to the groundwater

contamination in the BPOU, but that it is each Party's intention to specifically waive and relinquish any and all protections, privileges, rights and benefits under Section 1542 as to the claims to be specifically released under Section 6.2.1 and 6.2.3(1), as between the Cooperating Respondents on the one hand and the Water Entities on the other hand.

(c) Nothing in this Agreement nor entering into this Agreement shall constitute a limitation or waiver of any rights that the Cooperating Respondents may have or may in the future have as against each other, including but not limited to any right to seek indemnity or contribution for the costs incurred by each of them by reason of entering into this Agreement.

6.2.5 Release by Water Entities for Project Costs

Upon each payment from Cooperating Respondents to a Water Entity of Project Costs incurred by a Water Entity from and after the Effective Date of this Agreement, that Water Entity, on behalf of itself and its successors and assigns, hereby agrees to release, acquit and forever discharge each CR Affiliate from any and all actions, causes of action, claims, demands, liabilities, damages, penalties, debts, losses, costs, expenses and fees (including without limitation litigation costs and attorney and consultant fees) of every kind and nature whatsoever, in law and in equity in connection with the Project, but only to the extent of such payment.

6.2.6 Limitations

The Parties agree that the covenants, specific releases and waivers set forth in this Section 6.2 shall not apply to: (1) claims asserted by third parties (other than claims by the Water Entities' contractors, subcontractors or agents that are Past Environmental Claims), including but not limited to claims by such third parties (a) arising out of alleged consumption of contaminated water or exposure to contaminants in air, soil, water or groundwater or (b) for costs of alternative water (unless paid for by Cooperating Respondents), nuisance, trespass or economic damage or (c) for damages proximately caused by the failure of any Cooperating Respondent to meet its UAO obligations and (2) claims arising from, or relating to, any obligations of a Party (including the Water Entities' contractors, subcontractors or agents) under this Agreement.

6.2.7 Dismissal of Pending Lawsuits

Seventy-five (75) days after the Effective Date, the following lawsuits shall be dismissed as against all defendants thereunder, without prejudice, provided the payments under Sections 4.11.2, 4.11.3 (to the extent that any such payment is due before 75 days after the Effective Date), 4.12.3 (first payment) and 4.12.4 have been made:

(a) San Gabriel Basin Water Quality Authority and La Puente Valley County Water District v. Aerojet-General Corporation v. Azusa Land Reclamation Co., Inc., et al., United States District Court, Central District of California, Case No. CV 00-3579 ABC (RCx).

(b) San Gabriel Basin Water Quality Authority, et al v. Aerojet-General Corporation v. Azusa Land Reclamation Co., Inc. et al., United States District Court, Central District of California, Case No. CV 00-7042 ABC (RCx).

(c) Valley County Water District v. Aerojet-General Corporation, United States District Court, Central District of California, Case No. CV 00-10803 ABC (RCx).

(d) San Gabriel Valley Water Company v. Aerojet-General Corporation, et al., United States District Court, Central District of California, Case No. CV 01-8871 ABC (RCx).

(e) California Domestic Water Company v. Aerojet-General Corporation, et al., United States District Court, Central District of California, Case No. CV 01-8449 ABC (RCx).

6.3 Assignment of Claims

Each Water Entity providing the CR Affiliates with a release pursuant to Sections 6.2.1, 6.2.2 and 6.2.5 hereby also provides the Cooperating Respondents with an assignment of all claims which are encompassed within the scope of each release, effective upon each release. Any costs or expenses, including reasonable attorneys' fees, a Water Entity is caused to incur as a result of the Cooperating Respondents' pursuit of an assigned claim against a third party shall be reimbursed by the Cooperating Respondents as Project Costs.

6.4 Tolling

6.4.1 Tolled Claims

The statutes of limitation and any other statute, law, rule or principle of equity with similar effect (collectively "Statutes of Limitation") shall be tolled with respect to: (1) any and all rights, claims, causes of action, counterclaims or cross claims the Water Entities have against the Cooperating Respondents, for any and all Project Costs that may be incurred by the Water Entities for continued operation of any of the Project Facilities after the termination of this Agreement pursuant to Article 9 (the "Water Entities' Tolled Claims") and (2) any and all rights, claims, causes of action, counterclaims or cross claims the Cooperating Respondents may have against the Water Entities for any and all Project Costs that may be incurred by the Cooperating Respondents for continued operation of any of the Project Facilities after the termination of this Agreement pursuant to Article 9 (the "Cooperating Respondents' Tolled Claims").

6.4.2 Tolling Period

The tolling period (“Tolling Period”) for the Water Entities’ and the Cooperating Respondents’ Tolled Claims shall commence on the Effective Date and continue for a period of four years. The Tolling Period shall be excluded from all computations of any limitations period applicable to the Tolled Claims. The Parties shall waive and shall not plead, assert, or otherwise raise any Statutes of Limitations applicable to the Tolled Claims as a bar to any Tolled Claim.

6.4.3 Extension of Tolling Period

In accordance with California Code of Civil Procedure Section 360.5, before the end of the Tolling Period, the Parties shall enter into an agreement that (1) incorporates all of the provisions of this Section 6.4 and (2) extends the Tolling Period for four years from the expiration of the initial Tolling Period (“Extension Agreement”). Before the end of the Tolling Period of each successive Extension Agreement, the Parties shall execute a further Extension Agreement to extend the Tolling Period another four years, except that any Extension Agreement entered into less than four years prior to the end of the Term of this Agreement shall only extend the Tolling Period until ninety (90) days after the end of the Term of this Agreement.

ARTICLE 7. FORCE MAJEURE; CONDEMNATION

7.1 Definition

With respect to the Water Entities, a “Force Majeure” is any occurrence beyond the control of the affected Water Entity (including but not limited to its contractors, subcontractors, agents or consultants) that causes the Water Entity to be unable to perform its obligations under this Agreement despite its good faith efforts to fulfill the obligations. With respect to the Cooperating Respondents, a “Force Majeure” is any catastrophic event that precludes normal banking and funds transfers such as emergency closing of the Federal Reserve Banking system, termination of normal mail or expedited mail services due to national emergencies and similar events. Force Majeure shall not include: (1) normal seasonal events; (2) normal inclement weather; (3) the failure of the Water Entity to make timely application for any required permits or approvals; (4) the failure to have available funds from an Escrow Account due to the lack of timely submittal of budgets or related materials, or (5) as to a Force Majeure event claimed by a Cooperating Respondent, the failure to have funds available and transferred to either the Trust or Escrow Account due to cash flow difficulties or scheduling mistakes.

7.2 Notice and Scope of Water Entity Force Majeure

If a Water Entity is rendered wholly or partly unable to perform its obligations under this Agreement because of a Force Majeure, then that Water Entity's performance shall be suspended for the duration of such Force Majeure to the extent such performance is affected by the Force Majeure. The Water Entity shall give the other Parties both telephone and written notice of a Force Majeure as soon as practicable under the circumstances, ordinarily within 48 hours by telephone and within five (5) Working Days in writing. The suspension of performance shall be of no greater scope and duration than is required by the Force Majeure. The Water Entity shall use good faith efforts to remedy its inability to perform and to mitigate the effects of the Force Majeure. Once the Water Entity is able to resume performance of its obligations under this Agreement, it shall promptly give the other Parties written notice to that effect. The Cooperating Respondents' obligation for payment shall be suspended only to the extent of the Force Majeure event. The Cooperating Respondents shall resume the obligation for making payments on a normal basis within ten (10) Working Days after notification by the affected Water Entity that the Force Majeure event has terminated.

7.3 Notice and Scope of Cooperating Respondent Force Majeure

If a Cooperating Respondent is unable to perform its obligations under this Agreement because of a Force Majeure, then the Cooperating Respondent's performance shall be suspended for the duration of such Force Majeure to the extent such performance is affected by the Force Majeure. The affected Cooperating Respondent shall give the other parties both telephonic and written notice of the Force Majeure as soon as practicable under the circumstances, ordinarily within 48 hours by telephone and within five (5) Working Days in writing. The suspension of performance shall be of no greater scope and duration than is required by the Force Majeure. The Cooperating Respondent shall use good faith efforts to remedy its inability to perform, including but not limited to seeking alternative means of transferring funds if the obligation is a funding obligation. Once the Cooperating Respondent is able to resume performance of its obligations under this Agreement, it shall then promptly give the other Parties written notice to that effect, and shall, within five (5) Working Days after termination of the Force Majeure event, resume making payments as required by this Agreement.

7.4 Condemnation

(a) If any Project Facility is subject to proceedings for condemnation by power of eminent domain during the term of this Agreement, ("Condemnation Action"), the affected Water Entity shall promptly provide the Cooperating Respondents with written notice of such proceedings in accordance with Section 10.7.1. The affected Water Entity(ies) shall defend any

such Condemnation Action on all good faith grounds, including without limitation, reference to the more necessary public purposes of the affected Project Facility. The Cooperating Respondents shall have the right to consult with the affected Water Entity on decisions to be made in connection with all such proceedings, provided that the affected Water Entity shall take the lead role in such proceedings. In the event of any disagreement between the affected Water Entity and the Cooperating Respondents as to how to proceed in such proceedings, the decision of the affected Water Entity shall prevail. If the more necessary public use cannot be established, the Water Entity shall make reasonable efforts to: (i) continue operation of the affected Project Facility as a use compatible with the public purpose for which the property is condemned; (ii) obtain relocation assistance required under statute, so that the Project Facility can continue to operate to carry out the purposes contemplated in this Agreement; or (iii) obtain compensation for impairment to the Project operations, including but not limited to the cost to reestablish the affected Project Facility to carry out the purposes of this Agreement. The litigation expenses, including reasonable attorney, appraisal, engineering and expert witness fees, attributable to the Condemnation Action or proceedings to apportion the condemnation award, including without limitation all proceedings under subsection (b) of this Section 7.4, shall be Project Costs. The Water Entities shall not be liable to the Cooperating Respondents as a result of the defense of the Condemnation Action. The Water Entities shall have no obligation to replace the condemned Project Facility.

(b) If, following the Condemnation Action, the affected Project Facility cannot be operated in full conformity with this Agreement, and the affected Water Entity receives a compensation award for the affected Project Facility, the Cooperating Respondents shall be entitled to recover a share of the condemnation award attributable to that portion of any Project Facility or real property paid for by the Cooperating Respondents and not previously reimbursed by Public Funding Sources under this Agreement. The Parties will negotiate in good faith in an effort to reach agreement as to the apportionment of the condemnation award and the terms and conditions to continue operation of all or a substantial portion of the remaining Project Facilities to meet the objectives of this Agreement.

ARTICLE 8. DISPUTE RESOLUTION

8.1 Dispute Resolution Procedures

(a) Except as set forth in this Section 8.1, all disputes between the Parties regarding the rights and obligations of the Parties set forth in this Agreement are subject to the dispute resolution procedures contained in this Article.

(b) Disputes concerning payment for Interim Project Costs under Sections 4.11.2 and 4.11.3 and Past Environmental Claims under Section 4.12 are not subject to the dispute resolution procedures contained in this Article.

(c) Disputes involving the obligations of the Parties set forth in Sections 2.3.1(b), 2.3.3, 2.3.4, 3.4.4, 4.5.4(b), 4.6.5(b) and 4.7.9 of this Agreement are not subject to the arbitration provisions in this Article.

(d) Any decisions made by WQA pursuant to Section 4.9.1 are not subject to the dispute resolution procedures contained in this Article.

8.2 Duty to Fund

If the dispute involves a funding obligation set forth in this Agreement, other than a dispute regarding the amount of Financial Assurance to be provided, except as otherwise expressly provided in this Agreement, the Cooperating Respondents must pay the disputed amount(s) that are due pursuant to this Agreement when due, even if such due date is prior to the commencement of dispute resolution under the provisions of this Article, until resolution of the dispute. Whenever possible, the Parties shall endeavor to resolve the dispute prior to the expenditure of funds. If funds have been expended and the arbitrator finds in favor of the Cooperating Respondents, then the Cooperating Respondents shall be entitled to receive an immediate refund which they may elect to have credited against the amount to be deposited in the Escrow Account for the next applicable Quarterly Schedule. As to any dispute concerning any increased amount of Financial Assurance to be provided, Cooperating Respondents' funding obligation is not triggered until the dispute is resolved pursuant to the procedures in Article 8 of this Agreement.

8.3 Dispute Thresholds

The dispute resolution procedure shall be based on the dollar amount and/or issues in controversy as follows:

De Minimis Disputes: disputes involving a difference of \$100,000 or less for any Capital or O&M funding item;

Minor Disputes: disputes involving a difference of greater than \$100,000 but no more than \$1,000,000 for any Capital funding and over \$100,000 for any O&M funding item not characterized as a Major Dispute;

Major Disputes: disputes involving a difference of greater than \$1,000,000 for any Capital funding and over \$100,000 for any O&M funding item that is capable of repetition for more than three years; disputes not involving monetary issues, including without limitation

disputes for claims of delay or cessation of work due to Force Majeure events and, with respect to UAO Subprojects, disputes involving matters that require EPA concurrence; and disputes over the results of audits, review, or accounting inquiries conducted pursuant to Section 4.10.

Insurance Disputes: disputes involving insurance claims. Insurance disputes shall be governed by the insurance dispute resolution procedures in Section 8.10.

8.4 Designation of Arbitrator

The arbitrator shall be selected by mutual agreement of the Parties. If the Parties cannot agree upon an arbitrator by February 15, 2002, the Water Entities collectively on the one hand and the Cooperating Respondents collectively on the other hand shall, by no later than February 16, 2002, exchange written lists each containing the names of three proposed arbitrators from the CPR Institute for Dispute Resolution Panel of Distinguished Neutrals or such other alternative dispute resolution provider as may be agreed upon by the Parties. By no later than February 18, 2002, the Water Entities and the Cooperating Respondents shall each, in writing, strike one of the three proposed arbitrators proffered by the other side, leaving four arbitrator candidates remaining. By no later than February 19, 2002, the Water Entities and the Cooperating Respondents shall, in writing, exchange lists upon which they number the remaining four arbitrators in order of preference with "One" being the most preferable and so on. The arbitrator shall be the individual with the lowest collective number. If the designated arbitrator is unable to serve, the individual with the second lowest collective number shall be selected to serve as the arbitrator. If this second designated arbitrator is also unable to serve, a substitute arbitrator shall be selected by mutual agreement of the Parties. If the Parties cannot agree upon a substitute arbitrator, the procedures set forth in this Section 8.4 shall be used to select the substitute arbitrator.

8.5 Notice

Any aggrieved Party may invoke dispute resolution under this Article 8 by giving written notice of the dispute to all of the other Parties. The notice shall describe the nature of the dispute including, if appropriate, the dollar amount in controversy. For insurance disputes under Sections 5.1.4(e) and 5.4.1(b), notice shall be given as provided in those respective sections. For budget or cost disputes, notice must be given within thirty (30) days after the budget or cost has been approved by the Subproject Committee, as reflected in the Subproject Committee minutes. For all other disputes, the notice must be given promptly, but in no event later than ninety (90) days after the dispute arises.

8.6 Good Faith Meet and Confer Requirement Prior to Arbitration

(a) With respect to any proposed change in technology or any proposed “material change” (as that term is defined in Section 4.5.1(d)) in a Project Capital Cost budget for a Subproject, the Party(ies) making the proposal shall make a good faith effort to provide notice of the proposed change to the Cooperating Respondents at least ninety (90) days prior to entering into any contract or disbursing any funds from the Escrow Account relating to such proposal.

(b) Within ten (10) Working Days after receipt of the notice of dispute, representatives of the affected Parties shall meet to resolve the dispute. If the Parties are unable to resolve the dispute in good faith within twenty-five (25) Working Days after receipt of the notice of dispute, the matter shall be submitted to the appropriate arbitration process unless the dispute is a De Minimis Dispute.

8.7 De Minimis Dispute

(a) Without in any way limiting the Parties’ right to invoke these procedures for De Minimis disputes in their discretion, it is the intention of the Parties that these De Minimis dispute procedures be invoked only when De Minimis disputes occur with sufficient frequency as to threaten to erode the Cooperating Respondents’ ability to control Project Costs.

(b) There shall be no further dispute resolution beyond the good faith meet and confer requirement in Section 8.6 for the first De Minimis dispute to arise in connection with a particular Subproject in any calendar year, provided that this Section 8.7(b) shall cease to apply once the aggregate amount of De Minimis disputes that have arisen hereunder exceeds \$300,000.

(c) Subject to subsection (b) of this Section 8.7, any Party may submit a De Minimis dispute to a streamlined “baseball” arbitration by notifying the arbitrator and all other Parties of the dispute within fifteen (15) days after expiration of the good faith meet and confer provisions of Section 8.6. Within five (5) days after receipt of such notification, each party to the dispute shall submit its last and best settlement offer to the arbitrator, together with a written statement of its position not to exceed three (3) pages in length.

(d) Upon receipt of the last and best offer of the parties to the dispute, the arbitrator shall evaluate the dispute and the parties’ written statements of position and shall award one and only one of the last and best offers submitted by the parties. The arbitrator’s decision is final and there shall be no right to appeal the decision.

8.8 "Baseball" Arbitration for Minor Disputes

(a) If the dispute is a Minor Dispute, any Party may submit the dispute to arbitration by notifying the arbitrator and all other Parties of the dispute within fifteen (15) days after expiration of the good faith meet and confer provisions of Section 8.6. Within five (5) days after receipt of such notification, each party to the dispute shall submit its last and best settlement offer to the arbitrator.

(b) Upon receipt of the last and best offer of the parties to the dispute, the arbitrator shall notify each party of the offers. Each party to the dispute shall have fifteen (15) Working Days to accept or reject the other's offer or otherwise resolve the dispute by giving written notice to the arbitrator. If both parties to the dispute accept the last and best offer, then the arbitrator shall award the average of the two last and best offers. If both parties to the dispute do not accept the last and best offer, then the arbitrator shall provide written notice to the parties.

(c) Within forty-five (45) days of such notice the parties to the dispute shall participate in an arbitration. Each party to the dispute shall have three hours to present its case to the arbitrator. Within five (5) days after the arbitration, the arbitrator shall award one and only one of the last and best offers submitted by the parties.

8.9 Arbitration Process for Major Disputes

(a) Election to Arbitrate. If the dispute is a Major Dispute, any Party may submit the dispute to arbitration by notifying the arbitrator and all other parties to the dispute within fifteen (15) days after expiration of the good faith meet and confer provisions of Section 8.6. Thereafter, within fifteen (15) days, each party to the dispute shall submit to the arbitrator and serve on all parties to the arbitration a short statement of the dispute and a proposed discovery and hearing schedule.

(b) Preliminary Hearing. Within thirty (30) days after notice of the election to arbitrate, the arbitrator shall schedule a preliminary hearing. At the preliminary hearing the arbitrator shall decide discovery and briefing issues and set dates, including a hearing date. In resolving discovery issues, the arbitrator shall consider expedition, cost effectiveness, fairness, and the needs of the Parties for adequate information with respect to the dispute.

(c) Retention of Consultants. The arbitrator may seek the approval of the parties to the dispute to retain a consultant. The arbitrator shall provide to all parties to the dispute an explanation for the need for the consultant, the consultant's identity, hourly rate, and the estimated costs of the service. All parties to the dispute must approve the retention of the consultant and, if retention of the consultant is approved, the parties to the dispute shall share

equally the costs of the consultant. The consultant's cost shall not exceed \$10,000 without the prior written consent of the parties to the dispute.

(d) Commencement of Arbitration. The arbitration hearing shall be scheduled no later than ninety (90) days after the initial preliminary hearing, unless the parties to the dispute mutually agree to extend the date or the arbitrator extends the date.

(e) Additional Procedural Requirements. The procedural rules of the arbitration herein shall be supplemented by any non-conflicting arbitration procedures of the CPR Institute for Dispute Resolution, or such other alternative dispute resolution provider as may be agreed upon by the Parties, applicable to commercial arbitration and may be modified by agreement of the Parties.

(f) Decision of Arbitrator Final. The arbitrator shall make a written decision, specifying the reasons for the decision, within sixty (60) days after the hearing. The arbitrator's decision is final and there shall be no right to appeal the decision, provided, however, that (1) with respect to the UAO Subprojects, if the dispute involves a proposed change to the Scope of Work then no such change shall be implemented by the Subproject Committee without the concurrence of EPA as to the appropriateness of the change and (2) any Party may seek vacation or correction of the arbitrator's decision pursuant to Cal. Code of Civil Procedure Section 1286.2 (Grounds for vacation of award) or Section 1286.6 (Grounds for correction of award).

(g) Time Period to Complete Arbitration. The arbitration shall be completed within one hundred fifty (150) days of the preliminary hearing, unless the parties to the dispute mutually agree to extend the date or the arbitrator extends the date.

8.10 Insurance Dispute Resolution Procedures

In the event of a dispute under Section 5.1.4(e) or 5.4.1(b), the disputing Parties may submit the dispute to the arbitrator for an expedited resolution. For a dispute under Section 5.1.4(e), the Party(ies) disputing the Risk Manager's decision shall, within five (5) Working Days after the Risk Manager issues a written statement of position pursuant to Section 5.1.4(e), submit a brief with all supporting evidence and the Risk Manager's written statement of position to the arbitrator with copies to all Parties. For a dispute under Section 5.4.1(b), the Party disputing an invoice for reimbursement of a self insured retention shall, within ten (10) Working Days after the initial notice of the dispute, submit a brief with all supporting evidence to the arbitrator with copies to all Parties. In either case, any interested Party may submit an additional brief within five (5) Working Days after distribution of the initial brief. The arbitrator thereafter shall hold a telephonic hearing and promptly issue a decision in the matter, unless the

arbitrator determines that further briefing is necessary, in which case the additional brief(s) shall be submitted to the arbitrator (with copies to all Parties) within five (5) Working Days after the arbitrator's request, and thereafter the arbitrator shall hold a telephonic hearing and issue a decision promptly but in any event within two (2) Working Days after submission of such additional briefs. The arbitrator's decision is final and there shall be no right to appeal the decision, provided, however, that any Party may seek vacation or correction of the arbitrator's decision pursuant to Cal. Code of Civil Procedure Section 1286.2 (Grounds for vacation of award) or Section 1286.6 (Grounds for correction of award).

8.11 Additional Provisions Governing Disputes Submitted to the Arbitrator

(a) Disputes Involving Arbitrability of Disputes. The arbitrator shall decide any dispute involving either the right to have a disputed matter submitted to arbitration or the level of arbitration. The parties to such dispute shall provide notice of the dispute and submit in writing their respective positions regarding the dispute to the arbitrator. No such submission shall exceed ten double spaced pages. Except as provided in Section 8.10 for insurance disputes, the arbitrator shall make his or her decision within five (5) days of the last submission. The arbitrator's decision is final.

(b) No Res Judicata or Collateral Estoppel Effect. Any determination or finding of any arbitration conducted pursuant to this Article shall not have any res judicata or collateral estoppel effect in any other arbitration conducted pursuant to this Article, or in any other action commenced by any person(s) or entity(ies) whomsoever in state or federal court, whether or not Parties to this Agreement.

(c) No Ex Parte Communications. No Party or anyone acting on its behalf shall have any ex parte communication with the arbitrator with regard to any matters in issue. Communications concerning procedural matters such as scheduling shall not be included in this prohibition.

(d) Submissions. Unless otherwise directed by the arbitrator or agreed by the parties to a given dispute, the Water Entities involved in the dispute shall strive to make joint submissions to the arbitrator and the Cooperating Respondents participating in the dispute also shall strive to make joint submissions to the arbitrator. The arbitrator shall determine the schedule for the parties' submissions, the page and form limitations for the submissions, and the schedule and form of any hearing(s).

(e) Governing Law. The arbitrator shall apply the laws of California and federal environmental law and regulations as applied by the Ninth Circuit.

8.12 Fees and Costs

The fees and costs of the arbitrator shall be borne by the parties to the dispute, one half to be borne by the participating Water Entity(ies) and one half to be borne by the Cooperating Respondents. Each Party shall bear its own attorney fees and costs in connection with the arbitration.

ARTICLE 9. TERM OF THE AGREEMENT

9.1 Term of the Agreement

The term of this Agreement (the "Term") shall commence upon the Effective Date, and shall continue for a period of fifteen (15) years except as follows:

(a) If the Cooperating Respondents satisfy the requirements contained in the UAO, as approved by EPA, in less than fifteen (15) years, the Agreement shall terminate upon such approval. However, if the final remedy Record of Decision ("Final ROD") for the BPOU requires the continued operation of all or a substantial portion of the Project Facilities, then this Agreement shall remain in effect for the remainder of the 15-year period; or

(b) If all Parties to this Agreement execute a Consent Decree for the Project, then this Agreement shall terminate or continue in effect as provided in accordance with the terms of the Consent Decree.

9.2 Extension of the Term

The Parties agree to negotiate in good faith in an effort to reach agreement as to the terms and conditions of an extension of the Term in the event that the Final ROD anticipates, or any of the Parties desire, the continued operation of all or a substantial portion of the Project Facilities.

9.3 Early Termination of Subprojects or Certain Components Thereof

(a) With respect to the UAO Subprojects, if (1) the contaminant concentration level for any particular chemical (or group of chemicals) in untreated water goes below the maximum contaminant level ("MCL") or State Action Level, as applicable, for that chemical (or chemical group); (2) EPA concurs that further treatment of that chemical (or chemical group) is no longer required as to one or more UAO Subproject(s); (3) DHS concurs that further treatment of that chemical (or chemical group) is no longer required to satisfy the standard for removal of Chemicals of Concern pursuant to Section 2.1.5; and (4) a particular treatment technology is used only for treatment of such chemical or group of chemicals, then the Water Purveyor responsible for the affected Subproject(s) shall make an election, as follows. The Water

Purveyor may either: (1) terminate operation of the treatment technology(ies) being used to treat such chemical or group of chemicals, or (2) continue operation of such treatment technology(ies). If the Water Purveyor elects to continue treatment, then it shall do so at its own cost and any subsequent Subproject budget(s) for the affected Subproject(s) shall omit all costs (direct and indirect) attributable to such treatment technology(ies) no longer mandated by EPA.

(b) With respect to the SWS/CDWC Subprojects, if (1) the contaminant concentration level for any particular chemical (or group of chemicals) in untreated water goes below the maximum contaminant level (“MCL”) or State Action Level, as applicable, for that chemical (or chemical group); (2) DHS concurs that further treatment of that chemical (or chemical group) is no longer required to satisfy the standard for removal of Chemicals of Concern pursuant to Section 2.1.5; and (3) a particular treatment technology is used at the SWS and/or CDWC Subproject(s) only for treatment of such chemical or group of chemicals, then the Water Purveyor responsible for the affected Subproject shall make an election, as follows. The Water Purveyor may either: (1) terminate operation of such treatment technology(ies) being used to treat such chemical or group of chemicals, or (2) continue operation of the treatment technology(ies). If the Water Purveyor elects to continue treatment, then it shall do so at its own cost and any subsequent Subproject budget for the affected Subproject shall omit all costs (direct and indirect) attributable to such treatment technology.

(c) Each Water Purveyor making an election pursuant to subsection (a) or (b) of this Section 9.3 shall promptly give notice, in accordance with Section 10.7.1, of how it has elected to proceed.

ARTICLE 10. MISCELLANEOUS

10.1 Court Approval

Within three (3) Working Days after all Parties identified in the opening paragraph of this Agreement have duly executed this Agreement and the condition precedent set forth in Section 5.2.1(j) has been satisfied, Watermaster shall submit the Agreement for approval to the Los Angeles County Superior Court (the “Court”), as required by the Judgment. Watermaster shall give no less than thirty-five (35) days notice of the hearing for such Court approval. If the Court fails to approve this Agreement in its entirety, or with modifications acceptable to all of the Parties, it shall be null and void, and all Financial Assurances provided pursuant to Article 4 shall be returned to Cooperating Respondents immediately.

10.2 Litigation Expenses

In any action or proceeding seeking to enforce this Agreement, excluding disputes submitted to the dispute resolution procedures of this Agreement, the prevailing Party shall be

entitled to recover from the other Parties in that proceeding, in addition to all other sums recoverable, reasonable litigation expenses incurred by such prevailing Party, including, without limitation, attorney fees, expert witness fees and other related expenses and costs. Notwithstanding the foregoing, the losing Party shall only be liable for the reasonable attorney fees that would have been incurred had all of the prevailing Parties only used one law firm.

10.3 Governing Law

This Agreement shall be construed and enforced in accordance with the laws of the State of California and federal environmental laws and regulations as applied by the Ninth Circuit.

10.4 Waiver

No waiver by a Party of any provision of this Agreement shall be valid unless in writing and signed by an authorized representative of such Party. The waiver by any Party of any failure on the part of another Party to perform any of its obligations under this Agreement shall not be construed as a waiver of any future or continuing failure or failures. No waiver by a Water Entity shall be binding against other Water Entities, and no waiver by a Cooperating Respondents shall be binding against other Cooperating Respondents.

10.5 Amendment of the Agreement

No amendment of this Agreement shall be binding upon the Parties unless it is in writing and executed by all of the Parties (an "Amendment"). Any such Amendment shall state whether said Amendment shall be submitted to the Court for approval pursuant to the Judgment. If the Amendment is submitted for Court approval, such Amendment shall be effective on the later of (1) the date on which written notice is provided to the Parties that the Court has approved the Amendment or (2) the effective date set forth in such Amendment.

10.6 Agreement as Complete Integration

As between the Water Entities, on the one hand, and the Cooperating Respondents, on the other hand, this Agreement and the exhibits attached hereto set forth all of the covenants, provisions, agreements, conditions and understandings with respect to the matters addressed in this Agreement and constitute a complete integration.

10.7 Notices and Distribution of Project-related Writings

Notices and other writings required or permitted to be distributed to the Parties pursuant to this Agreement shall be provided as follows, addressed to the mailing address and/or electronic ("e-mail") address for the Parties listed in Exhibit V to this Agreement. Any Party may

change its contact information by providing notice of the new information in the manner provided in Section 10.7.3. Watermaster shall, periodically as necessary, update the list of contact information for the Parties and circulate the revised list to all Parties. In order to allow for information technology that is not yet in existence and may be developed during the Term of this Agreement, the manner of giving notices electronically may be updated with the approval of all of the Parties in writing.

10.7.1 Notices Pursuant to Specified Sections

(a) Notices made pursuant to Sections 4.5.4(b), 4.6.5(b), 4.7.3(c), 4.8.6, 4.11.5, 4.12.5, 5.1.2, 5.4.2(b)(1), 5.5.3, 7.2, 7.4, 8.5, 9.3(c) shall be given in writing by same-day or next-day delivery (via personal messenger, U.S. Express Mail), or by any nationally-recognized commercial express delivery or courier service (with receipt) with postage or other charges prepaid in an envelope addressed to the Parties and Representatives identified in this section at their respective addresses shown in the attached Exhibit V), and shall be effective (in all cases) upon receipt. Such notices shall be delivered to:

- The Designated Representatives of the Water Entities as set forth in Exhibit V,
- the affected Water Entity(ies),
- the Designated Representatives of the Cooperating Respondents as set forth In Exhibit V, and
- the affected Cooperating Respondent(s).

(b) An electronic copy of all notices given pursuant to subsection (a) of this Section 10.7.1 shall be provided concurrently to all Parties by e-mail, using a then-prevailing word-processing and/or spreadsheet system.

10.7.2 Subproject Committee and Technical Coordinating Committee Notices and Other Distributions

All notices, agendas, minutes, reports, deliverables, and all other writings required or permitted to be distributed by the Technical Coordinating Committee and/or a Subproject Committee pursuant to this Agreement, other than those covered by Section 10.7.1, shall be distributed by e-mail to the Designated Technical Representatives for the Water Entities and for the Cooperating Respondents set forth in Exhibit V, and by posting to the Project Extranet site (as provided in Section 10.7.4). Notice of the posting of such materials to the Project Extranet site shall be given to all Parties by e-mail, concurrently with such posting.

10.7.3 All Other Notices and Distributions

All other notices and other writings required or permitted under this Agreement shall be provided by e-mail to all Parties.

10.7.4 Project Extranet Site

(a) The Cooperating Respondents shall at their expense arrange for an extranet web site accessible via the Internet (the "Project Extranet site") for the posting of all notices and other writings required or permitted by this Section to be posted to the Project Extranet site.

(b) The initial location of the Extranet hardware equipment shall be at the offices of Watermaster. All costs associated with installation and maintenance of the extranet system shall be Project Administrative Costs.

(c) Anyone posting notices or other writings to the Project Extranet site pursuant to this Agreement shall, in the concurrent e-mail notice of such posting, provide the Uniform Records Locator ("URL") location for such postings.

(d) All word processing or spreadsheet-type documents posted at the Extranet site shall be in Adobe PDF format with appropriate security and verification of their authenticity using then-current technology standards. The Parties may select an alternative format by mutual agreement at any time.

(e) The entity responsible for establishing and maintaining the Project Extranet site shall, by appropriate technical means, limit access to the Project Extranet site to the Parties and to those Party representatives (and EPA representatives) and Environmental Site Liability insurer representatives who have been designated by the Parties as having access rights.

(f) The entity responsible for maintaining the Project Extranet site shall conduct periodic backups to ensure that all documents stored on the Project Extranet site are also stored at a secure off-site location in an easily obtained format.

(g) To the extent that Water Entities have responsibilities for maintaining certain Project documents pursuant to this Agreement, they may discharge such responsibilities by storing such documents at the Project Extranet site in lieu of maintaining hard copies, provided notice of such posting (including a description of the items posted sufficient to identify such items) is provided to all Parties by e-mail, concurrently with such posting.

10.8 Computation of Time

In computing any period of time under this Agreement, where the last day would fall on a Saturday, Sunday, or federal or California state holiday, the period shall run until 5 p.m. Pacific Time on the next Working Day.

10.9 Counterparts

This Agreement will be executed in counterparts each of which shall be deemed an original, and all of which, taken together, shall constitute one and the same instrument.

10.10 Assignment

No Party shall assign or otherwise transfer its rights or obligations hereunder without the other Parties' prior written consent.

10.11 Further Assurances

The Parties agree to execute and deliver all further documents and perform all further acts that may be reasonable and necessary to carry out the provisions of this Agreement.

10.12 Joint Drafting and Negotiation

This Agreement has been jointly negotiated and drafted. The language of this Agreement shall be construed as a whole according to its fair meaning and without regard to or aid of Civil Code Section 1654 and similar judicial rules of construction.

10.13 Article and Section Headings

Article and Section headings used in this Agreement are for reference only and shall not affect the construction of this Agreement.

10.14 No Third Party Beneficiaries

No third party shall be entitled to claim or enforce any rights hereunder.

10.15 Cooperating Respondent's Denial of Liability

Each of the Cooperating Respondents denies with respect to itself any and all legal or equitable liability under any federal or state statute, regulation or common law. The Cooperating Respondents' entry into this Agreement and payments made hereunder shall not constitute an admission of any kind for any purposes whatsoever.

10.16 Water Entity's Denial of Liability

Each of the Water Entities denies with respect to itself any and all legal or equitable liability under any federal or state statute, regulation or common law. The Water Entities' entry into this Agreement, assumptions of obligations, and performance made hereunder shall not constitute an admission of any kind for any purposes whatsoever.

10.17 Severability

In the event that any provision of this Agreement is determined by a court to be invalid, the court shall reform the provision in a manner that is both consistent with the intent of the Parties and legally valid. The remainder of this Agreement shall not be affected thereby.

10.18 Successors and Assigns Included as Parties

All covenants and agreements contained in this Agreement by or on behalf of any of the Parties hereto shall bind and inure to the benefit of their respective successors and permitted assigns, whether so expressed or not.

10.19 Insurance

This Agreement does not assign any claim or rights to recover losses (including, without limitation, defense costs) of any Cooperating Respondent against its insurers or subrogation rights to which a Cooperating Respondent's insurers may be entitled.

10.20 Organization/Authorization

Each of the Cooperating Respondents, and SGVWC, CDWC, and SWS hereby respectively represent and warrant to the others that each of them is a duly organized or constituted entity, with all requisite power to carry out its obligations under this Agreement, and that the execution, delivery and performance of this Agreement have been duly authorized by all necessary action of the board of directors or other governing body of such Party, and will not result in a violation of such Party's organizational documents. Attached as Exhibits to this Agreement are the Board resolutions respectively authorizing WQA (Exhibit S), VCWD (Exhibit T) and LPVCWD (Exhibit U) to enter into this Agreement. Watermaster shall execute this Agreement concurrently with all other Parties and the Court's approval of this Agreement pursuant to Section 10.1 shall constitute approval of Watermaster's entry into this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed as of the date first set forth above.

WATER ENTITIES:

Main San Gabriel Basin Watermaster

By: _____

Name: _____

Title: _____

San Gabriel Basin Water Quality Authority

By: _____

Name: _____

Title: _____

La Puente Valley County Water District

By: _____

Name: _____

Title: _____

San Gabriel Valley Water Company

By: _____

Name: _____

Title: _____

Valley County Water District

By: _____

Name: _____

Title: _____

Suburban Water Systems

By: _____

Name: _____

Title: _____

California Domestic Water Company

By: _____

Name: _____

Title: _____

COOPERATING RESPONDENTS:

Aerojet-General Corporation

By: _____

Name: _____

Title: _____

Azusa Land Reclamation Co., Inc.

By: _____

Name: _____

Title: _____

Fairchild Holding Corp.

By: _____

Name: _____

Title: _____

Hartwell Corporation

By: _____

Name: _____

Title: _____

Huffy Corporation

By: _____

Name: _____

Title: _____

Oil & Solvent Process Company

By: _____

Name: _____

Title: _____

Reichhold, Inc.

By: _____

Name: _____

Title: _____

Wynn Oil Company

By: _____

Name: _____

Title: _____