



**ENGINEERING & OPERATIONS
BOARD OF DIRECTORS' MEETING
MOULTON NIGUEL WATER DISTRICT
27500 La Paz Road, Laguna Niguel
April 13, 2015
8:30 AM
Approximate Meeting Time: 3 Hours**

1. CALL MEETING TO ORDER
2. APPROVE THE MINUTES OF THE MARCH 16, 2015 ENGINEERING AND OPERATIONS BOARD OF DIRECTORS' MEETING
3. PUBLIC COMMENTS - CLOSED SESSION

CLOSED SESSION

4. CONFERENCE WITH REAL PROPERTY NEGOTIATORS, Pursuant to Government Code Section 54956.8

Property: 4 Liberty, Aliso Viejo, 92656
Under Negotiation: Price and terms of payment
Real Property Negotiators: Joone Lopez, Matt Collings, Kevin Turner, Mike Hartel

5. RETURN TO OPEN SESSION

The Board of Directors will return to open session at 9:00 a.m.

6. PUBLIC COMMENTS - OPEN SESSION

Persons wishing to address the Board of Directors on matters not listed on the Agenda may do so at this time. "Request To Be Heard" forms are available at the entrance to the Board Room. Comments are limited to five minutes unless further time is granted by the Presiding Officer. Submit form to the Recording Secretary prior to the beginning of the meeting.

Those wishing to address the Board of Directors on any item listed on the Agenda should submit a "Request To Be Heard" form to the Recording Secretary before the Presiding Officer announces that agenda item. Your name will be called to speak at that time.

PRESENTATION ITEMS

7. Capital Improvement Program and Joint Powers Authorities FY 2015-16 Budget Review
8. Recycled Water System Update

DISCUSSION ITEMS

9. Proposed Framework by State Water Resources Control Board for Implementation of Governor's Executive Order
10. Update on Water Usage
11. Plant 3A Operating Agreement
12. Recycled Water System Extension Initial Study
13. SOCWA Pretreatment Ordinance

INFORMATION ITEMS

14. Operations Facility Update
15. Quarterly Construction Progress Report
16. Quarterly Communications License Program Report
17. Future Agenda Items (Any items added under this section are for discussion at future meetings only)
18. Late Items (Appropriate Findings to be Made)
 - a. Need to take immediate action; and
 - b. Need for action came to District's attention after Agenda Posting. [Requires 2/3 vote (5 members) or unanimous vote if less than 2/3 are present]

ADJOURNMENT

The Board of Directors' Meeting Room is wheelchair accessible. If you require any special disability related accommodations (i.e., access to an amplified sound system, etc.), please contact the Moulton Niguel Water District Secretary's office at (949) 831-2500 at least forty-eight (48) hours prior to the scheduled meeting. This agenda can be obtained in alternate format upon written request to the Moulton Niguel Water District Secretary at least forty-eight (48) hours prior to the scheduled meeting.

Agenda exhibits and other writings that are disclosable public records distributed to all, or a majority of, the members of the Moulton Niguel Water District Board of Directors in connection with a matter subject to discussion or consideration at an open meeting of the Board of Directors are available for public inspection at the District Office, 27500 La Paz Road, Laguna Niguel, CA ("District Office"). If such writings are distributed to members of the Board less than seventy-two (72) hours prior to the meeting, they will be available in the reception area of the District Office at the same time as they are distributed except that, if such writings are distributed immediately prior to, or during the meeting, they will be available in the Board meeting room and on the District website at www.mnwd.com.



**DRAFT
MINUTES OF THE REGULAR MEETING OF THE
ENGINEERING & OPERATIONS BOARD OF DIRECTORS OF THE
MOULTON NIGUEL WATER DISTRICT**

March 16, 2015

A Regular Meeting of the Engineering & Operations Board of Directors of the Moulton Niguel Water District was held at the District offices, 27500 La Paz Road, Laguna Niguel, California, at 8:30 AM on March 16, 2015. There were present and participating:

DIRECTORS

Scott Colton	Vice President/Chair
Richard Fiore	Director
Gary Kurtz	Director
Larry Lizotte	Director
Brian Probolsky	Vice President (arrived at 8:52 a.m.)
Donald Froelich	President
Duane Cave	Director

Also present and participating were:

STAFF MEMBERS, LEGAL COUNSEL, AND MEMBERS OF THE PUBLIC

Joone Lopez	General Manager
Matt Collings	Assistant General Manager
Marc Serna	Director of Engineering & Operations
Gina Hillary	Director of Human Resources
Pat Giannone	Bowie, Arneson, Wiles & Giannone
Todd Novacek	Assistant Director of Operations
Paige Gulck	Board Secretary
Drew Atwater	MNWD
Todd Dmytryshyn	MNWD
Tim Land	MNWD
Greg McDowell	MNWD
Ray McDowell	MNWD
Kelly Winsor	MNWD
Rod Woods	MNWD
Ruth Zintzun	MNWD
Doug Zytkevicz	MNWD
Don Bunts	Santa Margarita Water District

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1. CALL MEETING TO ORDER

The meeting was called to order by Scott Colton at 8:30 a.m.

2. APPROVE THE MINUTES OF THE FEBRUARY 17, 2015 SPECIAL ENGINEERING AND OPERATIONS BOARD OF DIRECTORS' MEETING

MOTION DULY MADE BY DONALD FROELICH AND SECONDED BY GARY KURTZ, MINUTES OF THE FEBRUARY 17, 2015 SPECIAL ENGINEERING AND OPERATIONS BOARD OF DIRECTORS' MEETING WERE APPROVED AS PRESENTED. THE VOTE WAS UNANIMOUS WITH DIRECTORS DUANE CAVE, SCOTT COLTON, RICHARD FIORE, DONALD FROELICH, GARY KURTZ, AND LARRY LIZOTTE ALL VOTING 'AYE'.

3. PUBLIC COMMENTS - CLOSED SESSION

None.

CLOSED SESSION

4. CONFERENCE WITH REAL PROPERTY NEGOTIATORS, Pursuant to Government Code Section 54956.8

Property: 4 Liberty, Aliso Viejo, 92656
Under Negotiation: Price and terms of payment
Real Property Negotiators: Joone Lopez, Matt Collings, Kevin Turner, Mike Hartel

Brian Probolsky arrived at 8:52 a.m.

5. RETURN TO OPEN SESSION

The Board of Directors returned to Open Session at 9:00 a.m. Scott Colton stated that there was no reportable action on the closed session item.

6. PUBLIC COMMENTS - OPEN SESSION

None.

PRESENTATION ITEMS

7. Plant 3A Operation Transfer

Joone Lopez provided a brief background on the item. Matt Collings presented the proposed transfer of operations of Plant 3A from South Orange County Wastewater Authority to Santa Margarita Water District.

8. Baker Treatment Plant Update

Marc Serna presented an update on the Baker Water Treatment Plant. Staff is looking to schedule a tour of the project on June 23, 2015.

DISCUSSION ITEMS**9. On-Call Asphalt Repair Contract**

Joone Lopez provided a brief background on the item. Marc Serna provided details on the request for proposal for asphalt services. Staff recommends that the Board of Directors authorize the General Manager to execute the following agreements:

- 1. On-Call Asphalt and Concrete Repair Agreement with Hardy & Harper, Inc., for a not-to-exceed amount of \$87,500 to perform the subject services during the remainder of the 2014-15 FY and a not-to-exceed amount of \$450,000 per year for the 2015-16 FY and 2016-17 FY for a total agreement amount of \$987,500.*
- 2. On-Call Asphalt and Concrete Repair Agreement with G.M. Sager Construction Co., Inc. for a not-to-exceed amount of \$87,500 to perform the subject services during the remainder of the 2014-15 FY and a not-to-exceed amount of \$450,000 per year for the 2015-16 FY and 2016-17 FY for a total agreement amount of \$987,500.*
- 3. Amendment No. 2 to the On-Call Asphalt and Concrete Repair Agreement with Sanders Paving, Inc., in the not-to-exceed amount of \$75,000 during the remainder of the 2014-15 FY, for a total Agreement amount of \$455,000.*

Discussion ensued regarding the necessity of the different contracts.

10. Electrical Facilities Safety Assessment Project

Marc Serna provided details on the Electrical Facilities Safety Assessment Project. Staff recommends that the Board of Directors authorize the General Manager to execute an agreement with Eaton Corporation for an amount of \$83,236, plus a 10% contingency, for a total authorized not-to-exceed amount of \$91,560 to perform the Electrical Facilities Safety Assessment. Discussion ensued regarding the vendor selected.

11. Beacon Hill Pump Replacement Construction Contract Award

Marc Serna provided background on the contract. Staff recommends that the Board of Directors award the construction services contract for the Beacon Hill Pump Station High-Flow Pump and Gas Engine Drive Replacement Project No. 2012.009 to Pascal & Ludwig Constructors in the amount of \$420,049; authorize the General Manager to execute the contract; and authorize the General Manager or designee to approve change orders up to 10% of the contract.

ACTION ITEMS

- 12. ASSOCIATION OF CALIFORNIA WATER AGENCIES JOINT POWERS INSURANCE AUTHORITY EXECUTIVE COMMITTEE NOMINATIONS (RESOLUTION NOS. 15-)**

Recommended Action: As directed by the Board of Directors

Joone Lopez provided a brief background on the item.

MOTION: Approval of the resolution concurring the nomination of Director Dennis Erdman from South Coast Water District.

MOTION DULY MADE BY RICHARD FIORE AND SECONDED BY GARY KURTZ, THE RESOLUTION CONCURRING IN THE NOMINATION OF DENNIS ERDMAN TO THE ACWA/JPIA EXECUTIVE COMMITTEE WAS APPROVED AS PRESENTED. THE VOTE WAS UNANIMOUS WITH DIRECTORS DUANE CAVE, SCOTT COLTON, RICHARD FIORE, DONALD FROELICH, GARY KURTZ, LARRY LIZOTTE, AND BRIAN PROBOLSKY ALL VOTING 'AYE'.

INFORMATION ITEMS

- 13. Meter Lifecycle**

Ruth Zintzun provided details on the Meter Lifecycle.

- 14. Update on Water Purchases**

Matt Collings provided the update on Water Purchases.

- 15. Future Agenda Items (Any items added under this section are for discussion at future meetings only)**

None.

- 16. Late Items (Appropriate Findings to be Made)**

Staff has none.

Brian Probolsky recused himself from the closed session item as he is employed by the County of Orange.

CLOSED SESSION

17. CONFERENCE INVOLVING A JOINT POWERS AGENCY: SOUTH ORANGE COUNTY WASTEWATER AUTHORITY (SOCWA)

Pursuant to Government Code Section 54956.96 (a) (1) and (b), Closed Sessions will be conducted for the following purposes:

Pursuant to Government Code Section 54956.9(a)-(d)(2), a Closed Session will be conducted to confer with legal counsel to discuss threatened litigation;

Pursuant to Government Code Section 54956.9(a)-(d)(4), a Closed Session will be conducted to confer with legal counsel on initiation of litigation.

SOCWA ANTICIPATED LITIGATION - ONE CASE

Name of MNWD representative on SOCWA Board: Director Larry Lizotte

The Board entered closed session at 11:05 a.m. The Board exited closed session at 11:26 a.m.

Scott Colton stated that there was no reportable action on the closed session item.

ADJOURNMENT

The meeting was adjourned at 11:27 a.m.

Respectfully submitted,

Paige Gulck
Board Secretary



Moulton Niguel Water District

STAFF REPORT

TO: Board of Directors **MEETING DATE:** April 13, 2015

FROM: Matt Collings, Assistant General Manager

SUBJECT: Plant 3A Operating Agreement

DIVISION: District-wide

SUMMARY:

Issue: Moulton Niguel Water District (District) and the Santa Margarita Water District (SMWD) have developed a Contract Operating Agreement that would authorize SMWD to operate the 3A Wastewater Reclamation Plant (Plant 3A).

Recommendation: It is recommended that the Board of Directors approve the Operating Agreement subject to non-substantive changes approved by the General Manager and Legal Counsel; and authorize the General Manager to execute the Agreement.

Fiscal Impact: The District’s annual expenses for the operation and maintenance of Plant 3A is expected to decrease as SMWD increases flow into Plant 3A. The District may realize up to \$360,000 in annual savings due to decreases in unit costs of wastewater treatment.

BACKGROUND:

The Moulton Niguel Water District constructed Plant 3A in the late 1980s to provide 8.0 Million Gallons per Day (MGD) of wastewater treatment to parts of Mission Viejo and Laguna Hills. In 1989, the District entered into a Sales Agreement with SMWD to sell 1.5 MGD of capacity in Plant 3A. The same agreement allowed the District to purchase 1,000 acre-feet of recycled water storage and conveyance capacity in the Upper Oso Reservoir system. Per the terms of the Sales Agreement, the District retains ownership of the land and facilities associated with Plant 3A while SMWD retains a capacity right in the facility. In 1999, the District and SMWD entered into Amendment No. 1 to the Sales Agreement that expanded SMWD capacity rights in Plant 3A to 2.25 MGD.

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Plant 3A Operating Agreement

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In April 2007, the District and SMWD entered into an Operations and Maintenance Agreement relating to the Plant 3A and the Upper Oso Reservoir systems. The agreement identifies the cost allocations for both capital expenses and operating and maintenance expenses. Capital expenses are shared based on capacity ownership, while operating and maintenance expenses are allocated based on the use of capacity. Other terms clarified in the Operation and Maintenance Agreement include:

- Budget review and approval by the governing Board prior to any billings for the fiscal year;
- Budget deposits are made on a quarterly basis with an annual Use Audit to reconcile with the actual expenses;
- the term of the agreement as long as each party or its successor owns capacity in the systems.

Plant 3A began operation in June 1990 with the District serving as the plant operator. In June 1998, the District, SMWD, and the South East Regional Reclamation Authority (SERRA), which subsequently became the South Orange County Wastewater Authority (SOCWA), entered into an Agreement for SERRA to serve as plant operator. The term of that Agreement was five years, and was subsequently renewed for an additional five years. The Agreement expired in 2008, however, SOCWA remained as the plant operator. In July 2013, the District, SMWD, and SOCWA entered into another Operating Agreement that had a one-year term with optional one-year renewals.

On March 19, 2015, the District determined that it would be in its best interests to transfer operation of Plant 3A to the SMWD. SMWD intends to increase wastewater flows into Plant 3A, which will reduce the unit costs of treatment and increase the overall facility operation. Additionally, both parties have an interest in reviewing the expansion of the recycled water production capabilities of Plant 3A. Following that determination, the Board of Directors authorized the General Manager to notify the SOCWA of the proposed operation transfer pursuant to the terms of the Operating Agreement.

DISCUSSION:

The District and SMWD have developed an Operating Agreement between the two parties that identify SMWD as the proposed contract operator of Plant 3A. The Agreement was modeled after the previous agreement with SOCWA. The substantive terms of the Agreement include:

- Term: The term of the proposed agreement is three (3) years with optional three-year renewal periods. The Agreement may be terminated with cause with thirty days notice;
- Treatment Expectations: The Agreement will identify the compliance requirements and expected treatment standards for the facility with expectations that SMWD will provide staffing to support those standards;
- Revenue Opportunities: Any products developed from Plant 3A inflows or byproducts that are identified as a source of revenue shall either offset

Plant 3A Operating Agreement

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operating expenses incurred at Plant 3A or be provided as income to the Parties proportional to their use of Plant 3A;

- Capital Improvements/Repairs: Any future capital improvements or repairs to the facilities shall not be made, with the exception of emergency repairs, without the prior written consent of the Parties;
- Inspection: The District shall retain the right to access the facility at any time;
- Recycled water production: The District shall retain the right to determine how much recycled water production is needed for its use.

The District, SMWD, and SOCWA are working to develop a transition plan that will allow SMWD to assume operation in the most seamless manner. The transition plan will include a phased transfer of staff at the facility, transfer of contracts and purchase orders for existing services, on-going capital design and construction projects, and a reconciliation of the expenses and budget deposits between the three agencies. It is expected the majority of the transition will occur at the beginning of the new fiscal year and extend into November with SOCWA leaving a staff member on-site to provide knowledge transfer to the SMWD staff.

Attachment:

1. Exhibit A – Draft Operating Agreement between MNWD and SMWD
2. Exhibit B – Sales Agreement between MNWD and SMWD dated April 17, 1989
3. Exhibit C – Amendment No. 1 to the Sales Agreement between MNWD and SMWD dated July 16, 1999
4. Exhibit D – Operations and Maintenance Agreement between MNWD and SMWD dated April 6, 2007

AGREEMENT BETWEEN MOULTON NIGUEL WATER DISTRICT AND SANTA MARGARITA WATER DISTRICT FOR OPERATION AND MAINTENANCE SERVICES FOR MOULTON NIGUEL WATER DISTRICT'S 3A WASTEWATER TREATMENT PLANT AND RELATED RECLAMATION FACILITIES

This Agreement ("Agreement") is made and entered into this ____ day of _____, 2015, by and between the MOULTON NIGUEL WATER DISTRICT ("MNWD") and SANTA MARGARITA WATER DISTRICT ("SMWD"), both California water districts, SMWD and MNWD are sometimes collectively referred to in this Agreement as "Districts"; an SMWD and MNWD are sometimes collectively referred to in this Agreement "parties", or individually as "party", or individually as "District".

RECITALS

A. MNWD and SMWD previously entered into that certain agreement entitled "AGREEMENT FOR THE: (1) SALE OF WASTEWATER TREATMENT CAPACITY IN THE MOULTON NIGUEL WATER DISTRICT 3A PLANT TO SANTA MARGARITA WATER DISTRICT; AND (2) SALE OF CAPACITY IN SANTA MARGARITA WATER DISTRICT'S UPPER OSO RESERVOIR AND RELATED FACILITIES TO MOULTON NIGUEL WATER DISTRICT", dated April 17, 1989 (hereinafter the "Basic Agreement"). The Basic Agreement provides for, among other terms, SMWD's acquisition of 1.5 million gallons per day (mgd) of liquids treatment and solids handling capacity in the 3A wastewater treatment plant owned by MNWD (the "Plant 3A").

B. MNWD and SMWD previously entered into the "AMENDMENT NO. 1 TO SUPPLEMENT NO. 1 TO AGREEMENT FOR THE: (1) SALE OF WASTEWATER TREATMENT CAPACITY IN THE MOULTON NIGUEL WATER DISTRICT 3A PLANT TO SANTA MARGARITA WATER DISTRICT; AND (2) SALE OF CAPACITY IN SANTA MARGARITA WATER DISTRICT'S UPPER OSO RESERVOIR AND RELATED FACILITIES TO MOULTON NIGUEL WATER DISTRICT", dated July 16, 1999 (hereinafter the "Amendment"). The Amendment provided for, among other supplemental terms, SMWD's acquisition of an additional .75 mgd of liquids treatment and solids handling capacity in the 3A Plant. A depiction of Plant 3A is attached hereto as **Exhibit A**.

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C. SMWD and MNWD entered into the “Operations and Maintenance Agreement Relating to Santa Margarita Water District's Treatment Capacity Rights in the Moulton Niguel Water District 3A Plant and Moulton Niguel Water District's Storage/Transmission Capacity Rights in the Santa Margarita Water District Upper Oso Reservoir System” (the "PLANT 3A/UPPER OSO O&M AGREEMENT") on April 6, 2007, in order to define and set forth allocation methods for operations and maintenance of the Plant 3A. The PLANT 3A/UPPER OSO O&M AGREEMENT is attached as **Exhibit B** to this Agreement.

D. In June 1998, the Districts, and the South East Regional Reclamation Authority (“SERRA), which subsequently became the South Orange County Wastewater Authority (“SOCWA”), entered into an Agreement for SERRA to serve as the contract operator of the Plant 3A. The term of that Agreement was five years, and was subsequently renewed for an additional five years. The Agreement expired in 2008, however, SOCWA remained as the plant operator.

E. In July 2013, the Districts and SOCWA entered into another Operating Agreement that had a one-year term with optional one-year renewals.

F. On or about March 19, 2015, the Districts determined it would be in their best interests to terminate the agreement with SOCWA and to have SMWD operate the Plant 3A.

G. MNWD and SMWD desire at this time to have SMWD operate and maintain the Plant 3A, pursuant to the terms of this Agreement and using the cost definitions, allocations and procedures set forth in the PLANT 3A/UPPER OSO O&M AGREEMENT.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties agree as follows:

AGREEMENT

ARTICLE I. - OPERATIONS BY SMWD

Section 1.1 Service Agreement. SMWD agrees to provide the contract services for operation and maintenance of the Plant 3A as set forth in this Agreement. MNWD, and SMWD agree that MNWD’s operation and maintenance obligations for the Plant 3A set forth in the Plant

3A/UPPER OSO O&M AGREEMENT, which were previously being performed by SOCWA, shall be assumed by SMWD pursuant to this Agreement.

Section 1.2 Staffing. SMWD will staff the Plant 3A with full-time employees experienced in wastewater treatment and reclamation process control and maintenance procedures, who are properly certified to perform the duties required of them by the State Water Resources Control Board (SWRCB) pursuant to the authority contained in Chapter 9, Division 7, of the California Water Code.

Section 1.3 Discrimination. SMWD agrees that no person shall be excluded from employment in the performance of this Agreement on the grounds of race, creed, color, sex, age or national origin. SMWD agrees to comply with all applicable state and federal laws relating to equal employment opportunity rights.

Section 1.4 Scope of Services. During the term of this Agreement, SMWD shall operate and maintain the Plant 3A in accordance with good engineering practices and exercise prudent judgment using generally accepted standards of practice common to the wastewater profession. SMWD shall furnish all labor, materials, and services necessary to operate and maintain the Plant 3A in accordance with the standards outlined in this Section 1.4 and elsewhere in the Agreement. SMWD shall comply with all federal, state and local laws, regulations and permits. SMWD shall comply with all requirements of the federal, state and local regulatory agencies, including the United States Environmental Protection Agency, SWRCB, the California Regional Water Quality Control Board - Region 9 ("Region 9") and CAL-OSHA.

SMWD shall maintain and operate the Plant 3A so that the treatment and reclamation of wastewater and the handling of sewage solids by means thereof meets the existing and future requirements of MNWD, SMWD, and all governmental regulatory agencies. SMWD shall maintain the Plant 3A in good repair while this Agreement is in effect. SMWD acknowledges that the South Orange County Wastewater Authority presently holds a water reclamation permit from Region 9 for the Plant 3A reclamation facilities (the "SOCWA Permit") and that in the matter of reclamation of wastewater through the Plant 3A reclamation facilities, SMWD shall comply with the terms and provisions of the SOCWA Permit existing at this time and as modified or renewed in the future.

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SMWD shall work closely with the MNWD's General Manager or designee to keep her/him apprised of overall operations and maintenance activities involving the Plant 3A facilities. At any time, MNWD General Manager may require SMWD to report directly to MNWD's respective Board of Directors. SMWD shall maintain a preventative maintenance program approved by MNWD and SMWD and an emergency preparedness program for the Plant 3A. Preventative maintenance includes, but is not limited to, the performance of all maintenance required or recommended in the manufacturer(s)' recommended operation or maintenance instructions for the machinery and equipment installed or used at the Plant 3A.

Section 1.5 Transfer of Services to SMWD. SMWD acknowledges that part of its responsibilities under this Agreement is to work with SOCWA to develop a transition plan that will allow SMWD to assume operation of the Plant 3A in the most seamless and disruptive manner possible. The transition plan will include, among other things, a phased transfer of staff at the facility, transfer of contracts and purchase orders for existing services, on-going capital design and construction projects, and a reconciliation of the expenses and budget deposits between MNWD, SMWD and SOCWA.

Section 1.6 Term of Services. The contract services provided by SMWD to MNWD by this Agreement shall commence on the 1st day of July, 2015, and shall terminate on the 30th day of June, 2018, unless terminated earlier in accordance with Section 1.22 of this Agreement. This Agreement may be renewed for an additional period of three (3) years by mutual consent of the parties on like terms, or as otherwise agreed. Notice of renewal or non-renewal by MNWD, shall be given at least three months in advance of the expiration date of the original term or any extension of the term of this Agreement.

Section 1.7 Reclamation Production. In connection with SMWD's operation and maintenance of the Plant 3A facilities, SMWD agrees that MNWD has sole discretion and control over the amount of reclaimed water produced from the Plant 3A reclamation facilities, and the operation schedule of such facilities. MNWD shall provide SMWD with either verbal or written directions as to production and times of operation of such facilities.

Section 1.8 Warranties. Licenses. MNWD shall maintain all existing warranties, guarantees and licenses that have been granted to MNWD in connection with the Plant 3A for the benefit of the Parties.

Section 1.9 Alteration to Facilities Capital Repairs/Improvements. SMWD shall not make any alterations to the Plant 3A or to the manner in which the Plant 3A is designed to operate and described to operate in the "Moulton Niguel Water District Contract 3A-25 Operations and Maintenance Manuals" without obtaining the prior written consent of MNWD. Except as to emergency repairs, SMWD shall commence the design and construction of Capital Repairs/Improvements only as provided in the PLANT 3A/UPPER OSO O&M AGREEMENT.

Section 1.10 Inspection by MNWD: Regulatory Agencies. MNWD and its officers, employees, agents and consultants shall have access to the Plant 3A at all times. Changes in operation of Plant 3A facilities, to the extent such are required by any regulatory agency having the jurisdiction to require such change shall be approved in advance by MNWD. If it is not possible to obtain prior approval by MNWD, SMWD may, in its discretion, comply and as soon thereafter as is practicable, may report such information to MNWD.

Section 1.11 Inventory. An annual inventory shall be prepared of all materials and any other equipment and tools at the Plant 3A of a capital nature which are to be used by SMWD. The inventory shall also be prepared prior to commencement of operations of the Plant 3A by SMWD and at the time of termination of SMWD's services pursuant to this Agreement. Capital materials or equipment for this Section are those costing in excess of \$1,000.00 per item, and that have a useful life of five years, or more. Representatives of SMWD and MNWD shall approve each such inventory.

Section 1.12 Reports. SMWD shall submit all required reports to any regulatory agencies requiring such in connection with the operation and maintenance of the Plant 3A. Copies of all such reports shall be filed with MNWD concurrently with filings made with any regulatory agencies.

Section 1.13 Records. SMWD shall prepare and keep proper maintenance records and full and accurate fiscal records of the operations, maintenance and other activities pursuant to

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this Agreement in accordance with sound public agency accounting principles. Maintenance, inventory and any other records shall be submitted to MNWD upon request.

Section 1.14 Section 1.14 Budget. SMWD shall prepare an annual projected operation and maintenance budget for the Plant 3A on or before April 1st of each year. The budget shall contain the following:

- (a) The expenses of maintaining the Plant 3A;
- (b) The expenses of operating the Plant 3A;
- (c) The expenses for capital improvement projects;
- (d) An estimate of income from operations, if any; and
- (e) The allocation of maintenance and operation and capital improvement expenses in accordance with the PLANT 3A/UPPER OSO O&M AGREEMENT.

The budget, as submitted, shall be in sufficient detail to explain all costs and cost allocations, including any indirect cost rate proposal, and be supported by documentation for the applicable fiscal year. The budget shall be based on the definitions and allocations of "Operations and Maintenance Costs" and "Capital Costs" and all related definitions and governing terms set forth in the Plant 3A/UPPER OSO O&M AGREEMENT, which relevant terms are incorporated by this reference in this Agreement. The budget shall be approved by MNWD's and SMWD's respective Boards of Directors by the last day of May of each year during the term of this Agreement.

Section 1.15 Reimbursement. Reimbursement of Operation and Maintenance Costs or Capital Costs shall be handled pursuant to the terms of the PLANT 3A/UPPER OSO O&M AGREEMENT.

Section 1.16 Utilities. SMWD shall pay directly for all utilities at the Plant 3A, which payment shall be included in the Operation and Maintenance Cost.

Section 1.17 Insurance. SMWD and MNWD shall, during the period of this Agreement, maintain the following insurance in addition to insurance otherwise required by this Agreement:

(a) Comprehensive General Liability Insurance. SMWD shall have coverage in the amount of not less than \$5,000,000 single limit for any one occurrence, which may be provided through a self-insurance program acceptable to MNWD. The coverage shall provide for both bodily, and personal, injury, including death, and property damage. The coverage shall include coverage for injury, sickness, disease, death or property damage occurring in connection with the services provided by, and the work of, SMWD under this Agreement. The Comprehensive Liability Insurance shall be subject to the approval of MNWD as to form and shall include MNWD and its directors, officers, agents, employees and consultants, as additional named insureds. Such insurance shall include contractual coverage sufficiently broad to cover the matters set forth in Section 1.20 of this Agreement entitled "Operator Indemnification".

(b) Vehicle Insurance. SMWD shall have motor vehicle liability coverage for vehicles owned by SMWD in the amount of not less than \$5,000,000 single limit for any one occurrence. The coverage shall provide for both bodily, and personal, injury, including death, and property damage. The motor vehicle liability insurance shall be subject to the approval of MNWD, as to form and shall include MNWD and its directors, officers, agents, employees and consultants, as additional named insureds.

(c) Worker's Compensation Insurance. SMWD shall maintain, during the term of this Agreement and any extension thereof, Worker's Compensation Insurance. In the event that any work is sublet, SMWD shall require any contractor to show evidence of Worker's Compensation coverage. SMWD shall indemnify MNWD and its directors, officers, agents, employees, and consultants, for any damages relating to the failure of SMWD or any subcontractor to maintain such Worker's Compensation Insurance.

(d) Miscellaneous Insurance. MNWD shall take out and maintain property insurance coverage against fire, vandalism and flood covering the Plant 3A facilities, property and equipment as depicted in Exhibit A. SMWD shall pay a pro-rata share of the

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annual cost of such property insurance based on SMWD's capacity ownership percentage set forth in the PLANT 3A/UPPER OSO O&M AGREEMENT. MNWD, shall bill SMWD annually for SMWD's cost share and SMWD shall remit payment to MNWD within 60 days of the date of such request.

(e) Proof of Insurance. SMWD and MNWD shall annually provide to the parties satisfactory proof of the insurance required by this Agreement, including certificates naming additional insureds, and any and all policies shall require the insurance carrier to give each party at least 30 days prior notice of the cancellation of any policy during the effective period of this Agreement.

Only those costs for the insurance coverages required above which exceed the amounts paid by SMWD, or by MNWD, for the present level of coverage shall be deemed to be a compensable or reimbursable expense equal to the actual additional amount expended by SMWD or MNWD to secure such coverage, and shall be payable to SMWD pursuant to Section 1.15 of this Agreement, or reimbursable to MNWD pursuant to subsection (d) above.

Section 1.18 Work Stoppage. In the event SMWD employees performing the duties required by this Agreement shall engage in any strike, work stoppage, work slowdown or any similar activity resulting in the interruption or cessation of the duties required to be provided by SMWD, SMWD shall use its best efforts to obtain additional or replacement services to continue all required operation. During any such strike, work stoppage, work slowdown or any similar activity affecting the operation of the Plant 3A, MNWD, without terminating this Agreement, may assume operation of the Plant 3A. No payment shall be made by MNWD to SMWD during the period during which MNWD assumes operation of the Plant 3A other than for those fixed costs which are continued to be paid by SMWD. Upon resolution of any of the above-described labor disputes, SMWD shall resume its duties pursuant to this Agreement. SMWD shall not be liable to MNWD for any losses, direct or indirect, that may result to MNWD as a result of such employee work action. SMWD shall not be deemed to have breached this Agreement or any provision hereof in the event it is unable to provide the services required under this Agreement as a result of such employee work action.

Section 1.19 Relationship. It is agreed that the relationship of SMWD to MNWD is that of an independent contractor under this Agreement, and that in no event shall SMWD or its employees be deemed to be employees of MNWD. This Agreement is not intended by the parties to be a joint powers agreement under and pursuant to Section 6500 et seq. of the Government Code.

Section 1.20 Operator Indemnification. SMWD, agrees to indemnify, defend and hold harmless MNWD and each of its directors, officers, employees, agents and consultants from and against any claim, suit, demand, action, liability or proceeding, including but not limited to fees, penalties, fines, attorneys' fees and costs of defense, relating to, or arising out of this Agreement, or any negligent act, error or omission, or willful act, of SMWD, its employees, agents or, subcontractors or others for whom SMWD is legally liable in the performance of services under this Agreement.

SERRA agrees the indemnification obligation set forth above shall also apply to, and for the benefit of, the following public agencies, and any successors thereto, and their representatives: City of San Juan Capistrano; Dana Point Sanitary District; City of San Clemente; and, Capistrano Beach Water District. The aforesaid agencies shall be deemed third party beneficiaries of this Agreement for the limited purpose of enforcing their rights to indemnity and defense in this Section 1.20.

Section 1.21 Assignment. SMWD may not assign any rights or delegate any duties under this Agreement or enter into any contracts to carry out the operation and maintenance duties hereunder without the prior written consent of MNWD, other than for the purpose of entering into any routine and anticipated service contract not in excess of \$10,000. This limit does not apply to SMWD's required response to emergency repairs pursuant to Section 1.9 hereof.

Section 1.22 Termination. This Agreement may be terminated for cause by either SMWD, or by MNWD, upon 30 days written notice to the other party. In such 30 days, either party may remedy the cause for termination and this Agreement shall remain in full force and effect for the remainder of the specified term. Termination of this Agreement pursuant to this Section 1.22 shall not be subject to arbitration.

Section 1.23 Revenue. Any revenue generated from Plant 3A, including, but not limited to, revenue generated from Plant 3A inflows or byproducts, shall be used to first reduce the operation and maintenance costs of Plant 3A and then shall be provided as income to the Districts pursuant to their proportional use of Plant 3A.

ARTICLE II. - GENERAL

Section 2.1 Attorneys' Fees. In the event an action is commenced by any party to this Agreement to enforce or construe its rights the prevailing party in such action, in addition to any other relief and recovery awarded by the court, shall be entitled to recover all reasonable attorneys' fees.

Section 2.2 Arbitration. Except for those matters subject to the dispute resolution procedure set forth in the PLANT 3A/UPPER OSO O&M AGREEMENT which apply to the parties as well, any controversy or claim between the parties to this Agreement with respect to any claims, disputes, demands, differences, controversies, or misunderstandings arising under, out of, or in relation to this Agreement, or any breach thereof, shall be submitted to and determined by arbitration. To the extent not inconsistent herewith, the rules of the American Arbitration Association shall apply. The party desiring to initiate arbitration shall give notice of its intention to arbitrate to the other party to this Agreement. Within 20 days of the service of the initial demand for arbitration, the American Arbitration Association, hereinafter referred to as "AAA" shall submit simultaneously to the initiating party an identical list of names of persons chosen from the AAA National Panel of Arbitrators which persons shall be, to the extent possible, persons first in the field of wastewater disposal and reclamation as well as public law. Each party shall have seven days from the mailing date in which to cross off any names to which he objects, number the remaining names indicating the order of his preference, and return the list to the AAA. If a party does not return the list within the time specified, all persons named therein shall be deemed acceptable. From among the persons who have been approved on both lists, in accordance with the designated order of mutual preference, the AAA shall invite the acceptance of an arbitrator to serve. If the parties fail to agree upon one of the person's name, or if an acceptable arbitrator is unable to act, or if for any other reason the appointment cannot be made from the submitted list, the AAA shall have the power to make the appointment of the arbitrator from other members of the panel without the submission of any additional list.

The arbitrator shall determine the rights of the parties in accordance with the law, and the award shall be subject to review as to the arbitrator's application of the law by any court having jurisdiction thereof, whether or not any mistake of law shall appear upon the face of the award. As to all questions of facts, however, the determination of the arbitrator shall be binding upon all parties and shall be final. Any party shall be entitled to written findings of fact and conclusions of law as to all issues determined by the award. Subject to the above limitations, the award shall be binding upon all parties to the arbitration and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

The arbitrator may, in his or her discretion, as part of the arbitration award impose upon any one party or allocate between the parties, the liability for the arbitration fees and expenses. Such allocable fees may include the initial administration fees, fees for second and subsequent hearings, postponement fees, and overtime fees. Allocable expenses may include the expenses of producing witnesses, the cost of stenographic records, the cost of any transcripts, travel expenses of the arbitrator and tribunal administrator, the expenses of any witnesses, the costs of any proofs produced at the direct request of the arbitrator, and any other expenses relating directly to the arbitration. In the event of the failure of the arbitrator to provide for the allocation of such fees and expense, the arbitration fees shall be divided equally between the parties and the expenses shall be borne by the party incurring them.

Section 2.3 Notice. Any notice provided for herein shall be given in writing and transmitted by personal delivery or prepaid first class mail, addressed as follows:

**MNWD: Moulton Niguel Water District
27500 La Paz Road
Laguna Niguel, CA 92677
Attn: General Manager**

**SMWD: Santa Margarita Water District
26111 Antonio Parkway
Rancho Santa Margarita, CA 92688
Attn: General Manager**

Section 2.4 Integration: Attachments. Except for the PLANT 3A/UPPER OSO O&M AGREEMENT, this Agreement supersedes any and all agreements between two, or among all, of the parties hereto related to the operation and maintenance of the Plant 3A which

#11.

are prior in time to this Agreement. The parties shall not be bound by any understanding, agreement, promise, representation or stipulation expressed or implied not specified herein. The Exhibits attached hereto are incorporated herein as part of this Agreement.

Section 2.5 Recitals. The parties agree the Recitals of this Agreement are true and correct, and are incorporated as part of this Agreement.

Section 2.6 Partial Invalidity. If any section of this Agreement as applied to any party or to any circumstance shall be adjudged by a court of competent jurisdiction to be void or enforceable for any reason, the same shall in no way affect (to the maximum extent permissible by law) any other provision of this Agreement, the application of any such provision under circumstances different from those adjudicated by the court, or the validity or enforceability of the Agreement as a whole.

Section 2.7 Amendments. No addition to or modification of any provision contained in this Agreement shall be effective unless fully set forth in a writing signed by the parties.

Section 2.8 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of California.

Section 2.9 No Third Party Beneficiaries. Except as otherwise set forth in Section 1.20, Operator Indemnification hereof, this Agreement is entered into solely for the benefit of MNWD and SMWD, and the successors, transferees, and assigns of the parties. Other than MNWD and SMWD, and their successors, transferees, and assigns, no third person shall be entitled, directly or indirectly, to base any claim on, or to have any right or entitlement arising from, or related to, this Agreement.

Section 2.10 Successors and Assigns. The terms and conditions of this Agreement shall be binding upon and inure to the benefit of the parties' successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the first day and year hereinabove written.

Remainder of this Page Left Intentionally Blank – Signatures on Attached Page

SANTA MARGARITA WATER DISTRICT

By: _____
President/Vice President

By: _____
Secretary/Assistant Secretary

MOULTON NIGUEL WATER DISTRICT

By: _____
President/Vice President

By: _____
Secretary/Assistant Secretary

#11.

EXHIBIT A
PLANT 3A DEPICTION

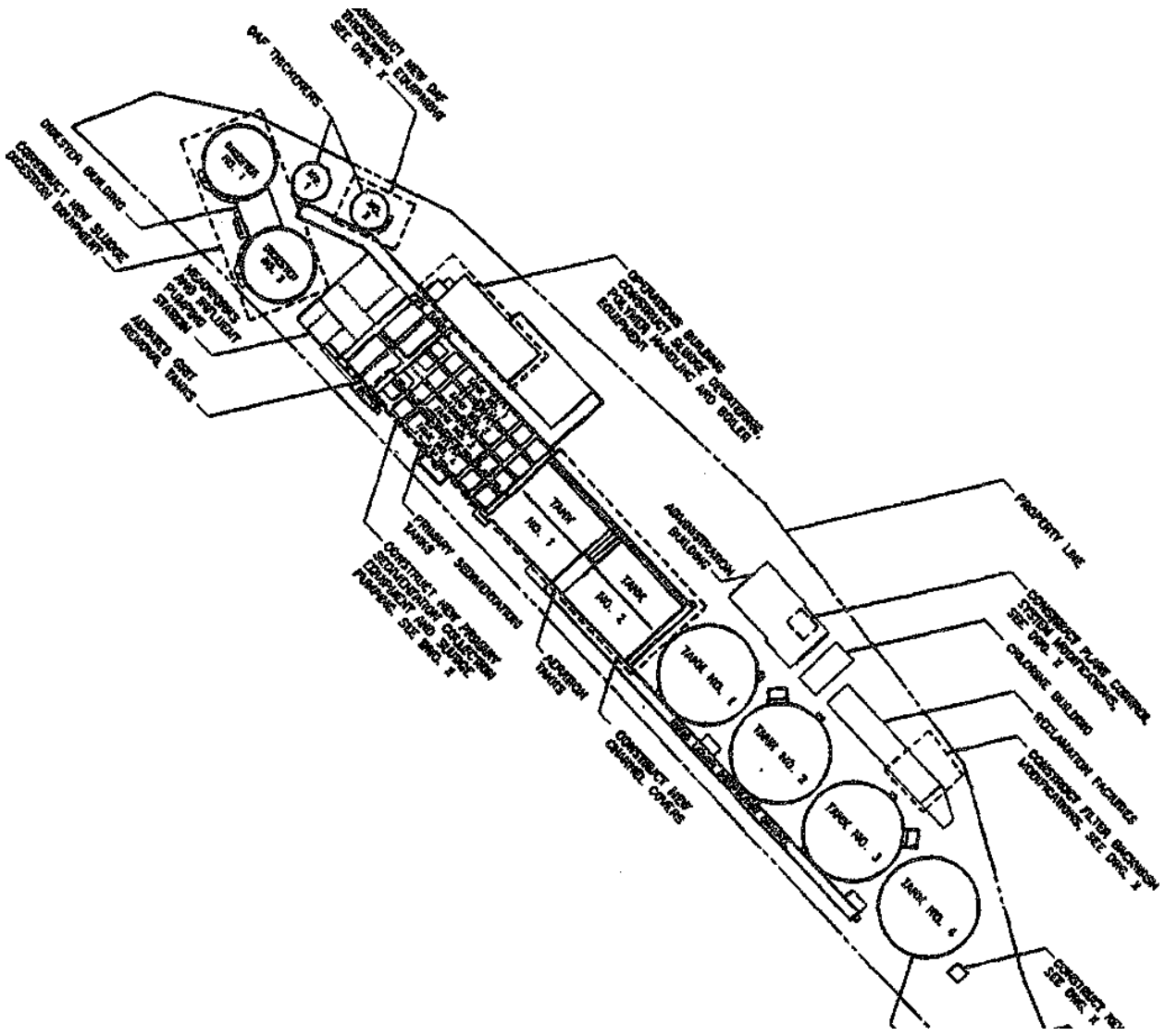


EXHIBIT B

Plant 3A/UPPER OSO O&M AGREEMENT

PG/1650
4/21/89
FINAL

AGREEMENT FOR THE: (1) SALE OF WASTEWATER TREATMENT CAPACITY IN THE MOULTON NIGUEL WATER DISTRICT 3A PLANT TO SANTA MARGARITA WATER DISTRICT; AND (2) SALE OF CAPACITY IN SANTA MARGARITA WATER DISTRICT'S UPPER OSO RESERVOIR AND RELATED FACILITIES TO MOULTON NIGUEL WATER DISTRICT

This Agreement is dated as of the 12th day of April, 1989, by and between the SANTA MARGARITA WATER DISTRICT (hereinafter referred to as "Santa Margarita") and the MOULTON NIGUEL WATER DISTRICT (hereinafter referred to as "Moulton Niguel"), each being a California water district organized and existing pursuant to Division 13 of the Water Code of the State of California.

R E C I T A L S:

1. Moulton Niguel is the owner of certain real property described in Exhibit "A" attached hereto and made a part hereof on which it will be constructing a wastewater treatment plant (the "3A Plant").
2. Moulton Niguel has received bids for the construction of the 3A Plant with the low bidder being Weardco Construction Company with a bid of \$17,900,700.
3. Based upon a breakdown of the construction costs as analyzed in a report prepared by HYA Consulting Engineers dated May 6, 1988 (the "Report") and as supplemented by a letter addressed to Santa Margarita from Mr. John Foley, General Manager of Moulton Niguel dated May 6, 1988, as updated by a letter addressed to Santa Margarita from Mr. John Wiper, Assistant

General Manager of Moulton Niguel, dated March 23, 1989 (jointly the "Letter"), the "estimated" cost per million gallons of treatment capacity in the 3A Plant is \$2,997,106.00. The Report and the Letter are attached hereto as Exhibits "B" and "C" and made a part hereof.

4. Santa Margarita desires to obtain 1 1/2 mgd of treatment capacity in the 3A Plant.

5. Santa Margarita owns a reservoir known as the Upper Oso Reservoir and certain pipelines and pumping stations necessary to deliver effluent to the Upper Oso Reservoir and to provide for the removal of that effluent to Santa Margarita's nondomestic water system, as described in Exhibit "D" attached hereto and made a part hereof (herein sometimes referred to as the "Upper Oso System").

6. Moulton Niguel desires to obtain 1,000 acre-feet of capacity in the Upper Oso Reservoir and certain capacities in the pipelines, pumping stations and appurtenant works as shown on Exhibit "E" and Exhibit "F", attached hereto and made a part hereof, in order to deliver effluent from Moulton Niguel's 3A Plant, to store that effluent in Upper Oso Reservoir and to remove an equivalent amount of effluent, less Moulton Niguel's pro rata share of any loss from evaporation and transportation, for use in Moulton Niguel's nondomestic water system.

7. Santa Margarita and Moulton Niguel are entering into this Agreement to provide for the respective purchases and sales of the capacities in the other parties' systems as herein described.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants, terms and conditions herein contained, the parties to this Agreement hereby agree as follows:

SECTION 1. Moulton Niguel hereby conveys to Santa Margarita, subject to the completion of the 3A Plant as outlined in the Report, 1 1/2 mgd of treatment capacity in the 3A Plant and Santa Margarita accepts said capacity. The parties anticipate that the 3A Plant will be completed and operable by approximately March 1, 1990. Santa Margarita shall have the right to utilize that capacity upon the completion of the 3A Plant or at such earlier or later date that the 3A Plant is put into operation. Moulton Niguel shall notify Santa Margarita in writing the date that the 3A Plant is operable and that Santa Margarita can discharge its raw sewage to the 3A Plant for treatment.

SECTION 2. Santa Margarita agrees to pay Moulton Niguel for the 1 1/2 of mgd of capacity in the 3A Plant acquired by Santa Margarita under Section 1 herein the actual cost of the 3A Plant treatment facilities being constructed relating to the capacity being acquired by Santa Margarita. Santa Margarita and Moulton Niguel agree that the cost allocation method as outlined in the Report and as modified by the Letter is approved as the method of determining actual costs for Santa Margarita for the 1 1/2 mgd of treatment capacity. Following completion of construction, Moulton Niguel shall compute the actual cost of the 1 1/2 mgd capacity being acquired according to the cost allocation method set forth in the Report and Letter and shall notify Santa Margarita in writing of said cost. Santa Margarita shall pay all costs it does

not dispute within sixty (60) days of receipt of said notice. If Santa Margarita disputes any portion of the costs it shall notify Moulton Niguel in writing within sixty (60) days of receipt of the notice from Moulton Niguel. Santa Margarita shall pay interest at the rate paid by the Local Agency Investment Fund on the total amount of disputed costs which Santa Margarita ultimately pays to Moulton Niguel for the period the funds are withheld.

Any dispute shall be resolved by arbitration. Moulton Niguel and Santa Margarita shall select a mutually acceptable engineer to be the arbitrator. In the event that Moulton Niguel and Santa Margarita cannot agree upon an engineer to resolve the dispute, each district shall appoint an engineer to act as an arbitrator and the two engineers shall appoint a third engineer to resolve the dispute. To the extent the parties cannot agree upon the rules for arbitration, the American Arbitration Rules shall be followed for any arbitration conducted pursuant to this Agreement.

SECTION 3. The parties agree that, as outlined in Condition Nos. Three, Four and Five in the Letter, the estimated cost per million gallons of treatment capacity in the 3A Plant of \$2,997,106 does not include (1) costs of facilities or equipment for solids handling and transport to be installed and purchased in the future and, (2) costs of improvements or repairs to the effluent disposal system, also known as the Lakefill Line. Santa Margarita hereby agrees to pay Moulton Niguel its share of (1) the costs of any future solids handling equipment facilities, including rolling stock for the transport of solids waste from the 3A Plant, constructed, installed or purchased by Moulton Niguel

and (2) the costs of any improvements constructed or installed or any repairs made to the effluent disposal system (Lakefill Line) subsequent to the completion of the 3A Plant in proportion to the amount of treatment capacity in the 3A Plant owned by Santa Margarita. Moulton Niguel shall notify Santa Margarita in writing of such additional costs. Santa Margarita shall pay all costs it does not dispute no later than sixty (60) days after receipt of notice from Moulton Niguel. If Santa Margarita disputes any of the costs it shall notify Moulton Niguel in writing within sixty (60) days of receipt of such notice. Santa Margarita shall pay interest at the rate paid by the Local Agency Investment Fund on the total amount of disputed costs which Santa Margarita ultimately pays to Moulton Niguel for the period the funds are withheld. Any dispute shall be resolved by arbitration pursuant to the terms set forth in Section 2 with regard to dispute resolution.

SECTION 4. Commencing on the date that Moulton Niguel notifies Santa Margarita that the 3A Plant is operable under Section 1 of this Agreement, Santa Margarita and Moulton Niguel agree to share all capital costs for the repair and replacement of those portions of the 3A Plant utilized by both parties in proportion to the amount of treatment capacity owned by each respective party in the 3A Plant. For the purpose of this Agreement, capital costs of repair and replacement shall be all costs which are in excess of \$10,000, excluding depreciation and administrative costs of Moulton Niguel. Santa Margarita and Moulton Niguel shall share maintenance and operation expenses,

which are all expenses not considered capital costs, based on the percentage of use of treatment capacity in the 3A Plant by each of the parties. Santa Margarita and Moulton Niguel agree that the allocation of capital costs and maintenance and operation costs will be the subject of a further agreement between the parties.

SECTION 5. Santa Margarita hereby conveys to Moulton Niguel 1,000 acre-feet of capacity, which includes a pro rata share of dead storage, in the Upper Oso Reservoir and the capacities in Santa Margarita's existing nondomestic water system facilities as depicted on Exhibit "E" and Moulton Niguel accepts said capacities from Santa Margarita. Moulton Niguel shall have the right to utilize such capacities upon the earlier of (1) March 1, 1990, or (2) the date that Moulton Niguel's 3A Plant is operable as provided in Section 1 hereof. Moulton Niguel agrees to pay \$4,462,500 to Santa Margarita for the capacity in the Upper Oso System as shown on Exhibit "E".

SECTION 6. Santa Margarita and Moulton Niguel agree that certain modifications must be made in certain facilities of Santa Margarita's nondomestic water system as outlined in Exhibit "F". Santa Margarita shall undertake the construction of said modifications and Moulton Niguel agrees to pay its proportionate share of those modifications in the percentages set forth in Exhibit "F". Upon completion of said modifications, Santa Margarita shall finalize its costs and notify Moulton Niguel in writing of said costs. Moulton Niguel shall pay all costs it does not dispute no later than sixty (60) days after receipt of such notice. If Moulton Niguel disputes any of said costs it shall

notify Santa Margarita in writing within sixty (60) days of receipt of notice from Santa Margarita. Moulton Niguel shall pay interest at the rate paid by the Local Agency Investment Fund on the total amount of disputed costs which Moulton Niguel ultimately pays to Santa Margarita for the period the funds are withheld. Any dispute shall be resolved by arbitration pursuant to the terms set forth in Section 2 with regard to dispute resolution.

SECTION 7. Commencing on the date that the 3A Plant is operable as provided in Section 1 hereof, Santa Margarita and Moulton Niguel agree to share all capital costs for the repair and replacement of those portions of the Upper Oso System utilized by both parties in proportion to the amount of capacity in those portions of the Upper Oso System allocated to each party as shown on Exhibit "E" and "F". For the purpose of this Agreement, capital costs shall be those costs which are in excess of \$10,000, excluding depreciation and administrative costs of Santa Margarita. Santa Margarita and Moulton Niguel shall share maintenance and operation expenses, which are expenses other than capital costs, based on the percentage of use of capacity in the Upper Oso System by each of the parties. Santa Margarita and Moulton Niguel agree that the allocation of capital costs and maintenance and operation costs will be the subject of a further agreement between the parties.

SECTION 8. The respective purchase prices, as set forth in Sections 3 and 5 hereof, are estimated as follows:

Estimated Purchase price for Moulton Niguel capacity in the Upper Oso System (Sum of Total Amounts on Exhibits D & E)*	\$5,057,000
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Estimated purchase price for Santa Margarita 1 1/2 mgd of capacity in the 3A Plant*	\$4,495,659
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<u>Estimated Amount due Santa Margarita</u>	<u>\$ 561,341</u>
---	-------------------

*Subject to adjustment as provided in Sections 2, 3 & 6 hereof.

Moulton Niguel agrees to pay \$280,670.50 to Santa Margarita within thirty (30) days of the date of the execution of this Agreement and the balance of the Estimated Amount Due Santa Margarita set forth above, if any, including any adjustment due after determination of the actual cost of the 1 1/2 mgd of capacity purchased by Santa Margarita and the capacity in the Upper Oso System purchased by Moulton Niguel, when the 3A Plant is operable as determined pursuant to Section 1 hereof.

SECTION 9. The capacities acquired by each of the parties in the other parties' system as herein set forth shall be in perpetuity unless otherwise terminated by mutual written agreement between the parties.

SECTION 10.

(a) Notices. Any notice or instrument required to be given or delivered may be given or delivered by deposit of the same in any United States Post Office, registered or certified, postage prepaid, addressed to:

SANTA MARGARITA WATER DISTRICT
P.O. BOX 2279
MISSION VIEJO, CALIFORNIA 92690
ATTENTION: GENERAL MANAGER

MOULTON NIGUEL WATER DISTRICT
27500 LA PAZ ROAD
LAGUNA NIGUEL, CALIFORNIA 92677-1098
ATTENTION: GENERAL MANAGER

and shall be effective thereon.

(b) Attorneys' Fees. In the event that an action is commenced by any party to this Agreement to enforce or construe its rights or obligations arising hereunder, the prevailing party in such action, in addition to any other relief or recovery awarded by the Court, shall be entitled to recover all statutory cost plus a reasonable amount for attorneys' fees.

SECTION 11. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto, provided, however, no assignment of either parties' interests in the respective facilities shall be effective without the written consent of the other party.

SECTION 12. This Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, between Santa Margarita and Moulton Niguel with respect to the subject matter hereof.

SANTA MARGARITA WATER DISTRICT

By: Don B. Schore
President

By: Patricia Stoddard
Secretary

#11.

APPROVED AS TO FORM:

STRADLING, YOCCA, CARLSON & RAUTH
Legal Counsel - Santa Margarita
Water District

By *Fred Stradling*

MOULTON NIGUEL WATER DISTRICT

By: *James R. Galt*
resident

By: *Bessie C. Gray*
Asst. Secretary

APPROVED AS TO FORM:

BOWIE, ARNESON, KADI & DIXON
Legal Counsel - Moulton Niguel
Water District

By *Patricia B. Giannone*

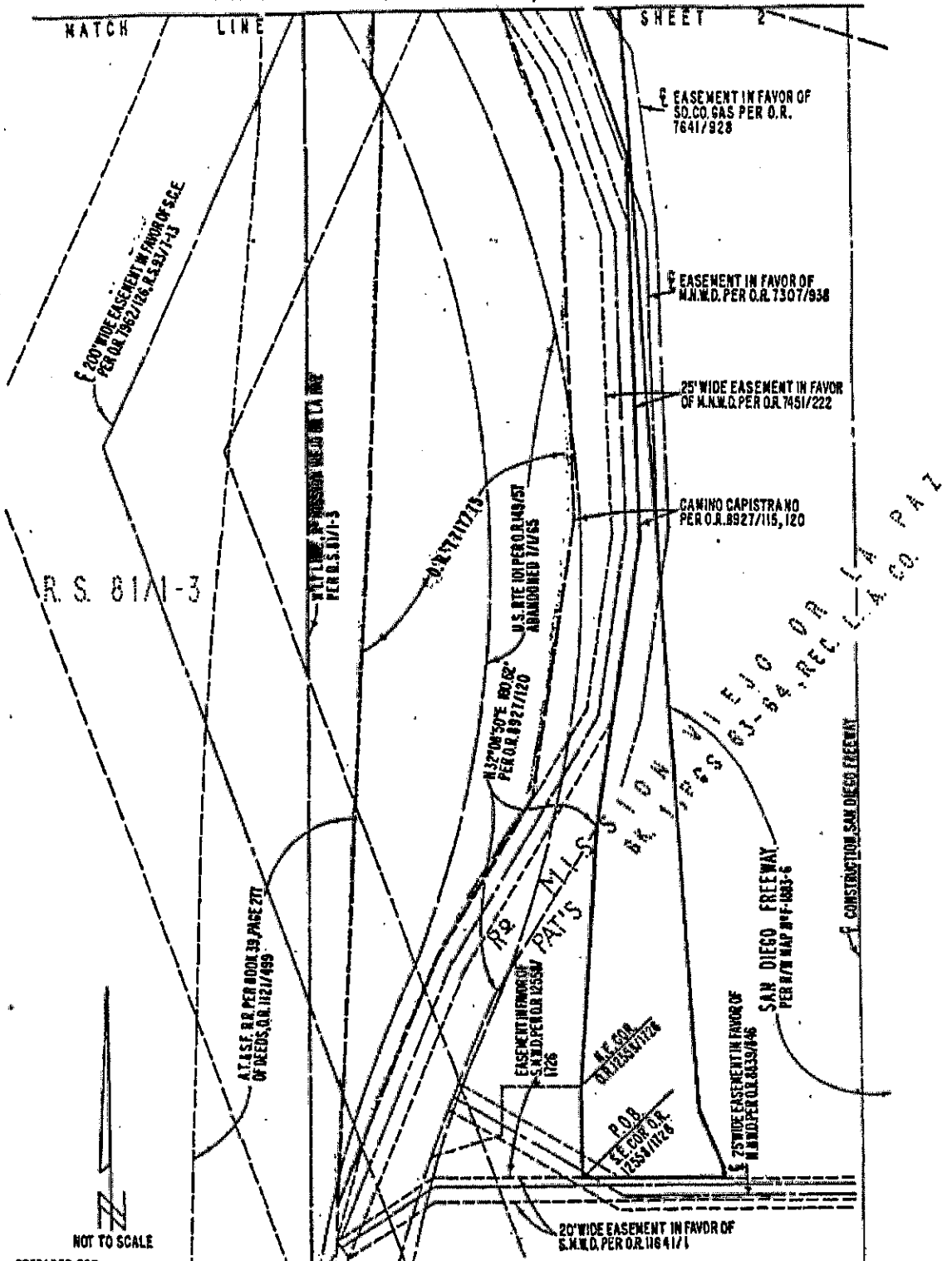
EXHIBIT "A"
SITE DESCRIPTION
OF
MOULTON NIGUEL WATER DISTRICT PLANT 3A
POLLUTION CONTROL AND RECLAMATION SITE

That portion of the Rancho Mission Viejo, in the County of Orange, State of California, as shown on a map thereof filed in Book 8, Pages 34 to 46, inclusive in the Office of the County Recorder of said County, described as follows:

Beginning at a point in the easterly line of the Athison, Topeka, and Santa Fe Railway right-of-way as described in a deed, recorded December 22, 1941 in Book 1121, Page 499 of said official records, said easterly line, at this point, being a curve concave westerly, having a radius of 5779.65 feet, a radial to said point bears South 88°44'31" East, said point also lies South 64°43'20" East 73.38 feet from Mission Viejo corner No. 1, as shown on said map filed in Book 8, Pages 34 to 46 inclusive, thence southerly along said curve 376.09 feet through a central angle of 3°43'42"; thence South 4°59'11" West, tangent to said curve, 824.34 feet to a point in the westerly line of a 25.00 foot wide strip of land described as "Permanent Easement" in the Grant of Easement, recorded March 18, 1965 in Book 7451, Pages 222 et seq. of Official Records of said County, thence leaving said westerly line North 23°39'05" East, 239.81 feet; thence North 32°08'50" East 173.55 feet; thence North 10°24'40" East, 251.71 feet; thence North 0°51'30" East, 324.65 feet; thence North 16°24'50" West, 170.38 feet; thence North 29°25'30" West, 74.96 feet; thence North 64°43'20" West, 68.34 feet to the True Point of Beginning.

EXHIBIT "A"

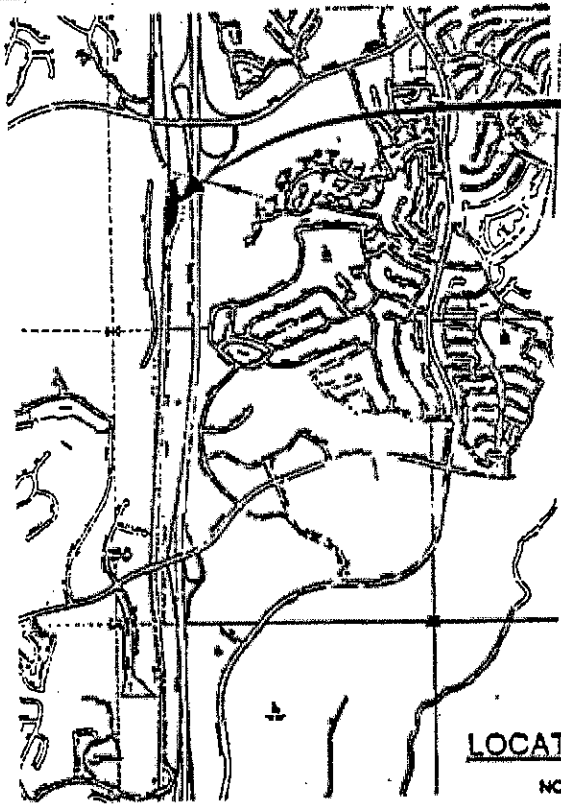
A PORTION OF TRABUCO RANCHO IN THE UNINCORPORATED TERRITORY OF THE COUNTY OF ORANGE STATE OF CALIFORNIA AS SHOWN ON THE MAP RECORDED DECEMBER 1967 IN BOOK 5- AND A PORTION OF RANCHO MISSION VIEJO OR LA PAZ AS SHOWN ON THE MAP RECORDED DECEMBER 1967 IN BOOK 1 PAGES 6 AND 64 BOTH OF PATENTS, IN THE OFFICE OF THE COUNTY RECORDER OF LOS ANGELES COUNTY CALIFORNIA



PREPARED FOR
MISSION VIEJO COMPANY
28137 LA PAZ ROAD
MISSION VIEJO, CALIFORNIA
J.N. 197017

JUNE, 1982

 Jack G. Raub Company
Engineering & Planning

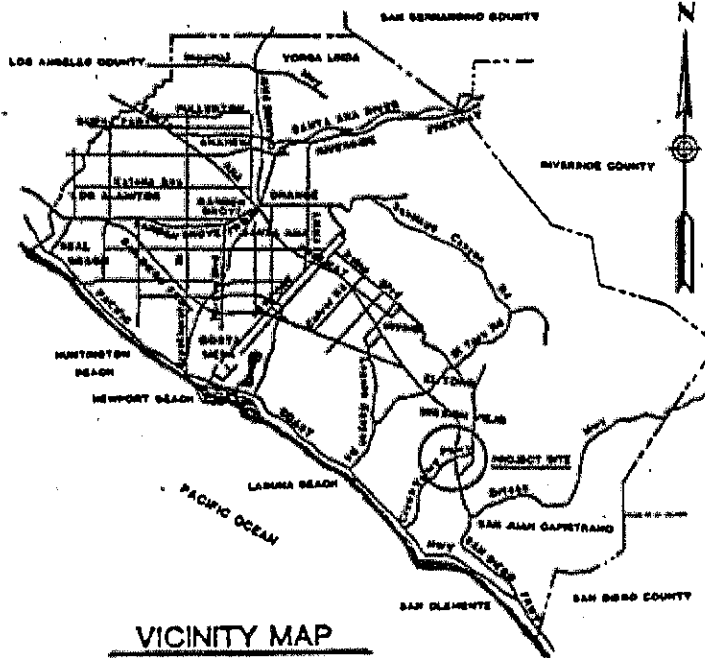


PLANT LOCATION



LOCATION MAP

NO SCALE



VICINITY MAP

NO SCALE



AMENDMENT NO. 1
TO
AGREEMENT FOR THE: (1) SALE OF WASTEWATER TREATMENT
CAPACITY IN THE MOULTON NIGUEL WATER DISTRICT 3A
PLANT TO SANTA MARGARITA WATER DISTRICT; AND (2)
SALE OF CAPACITY IN SANTA MARGARITA WATER DISTRICT'S
UPPER OSO RESERVOIR AND RELATED FACILITIES TO
MOULTON NIGUEL WATER DISTRICT (THE "SALES AGREEMENT")

THIS AMENDMENT NO. 1 to the Sales Agreement is dated as of the 16th day of July, 1999 (the "Effective Date"), by and between Santa Margarita Water District ("SMWD") and Moulton Niguel Water District ("MNWD"), both California water districts organized and existing pursuant to Division 13 of the Water Code of the State of California. SMWD and MNWD are sometimes referred to in this Amendment No. 1 individually as the "party" and jointly as the "parties".

RECITALS

A. SMWD and MNWD entered into the Sales Agreement on April 17, 1989 for the following two purposes: (a) SMWD's purchase of 1.5 million gallons per day (mgd) average dry weather flow (ADWF) of liquids treatment and solids handling capacity (referred to as the "Treatment Capacity" hereinafter) in MNWD's 8 mgd 3A Plant ("3A Plant") in order to treat SMWD's wastewater flows for disposal to the South East Regional Reclamation Authority ("SERRA") ocean outfall and (b) MNWD's purchase of 1,000 acre feet of capacity in SMWD's Upper Oso Reservoir and related facilities (collectively referred to as the "Upper Oso System"). Capitalized terms not otherwise defined in this Amendment No. 1 shall have the meaning set forth in the Sales Agreement.

B. The Sales Agreement was executed by the parties prior to the completion of construction of the 3A Plant by MNWD. Under the terms thereof, SMWD agreed to pay the balance of any unpaid purchase price for the Treatment Capacity upon completion of construction of the 3A Plant and determination of the actual cost. MNWD filed a Notice of Completion with respect to the liquids treatment facilities of the 3A Plant on or about September

15, 1990, and with respect to the solids handling equipment and facilities on or about October 21, 1998.

C. The Sales Agreement sets forth a cost allocation method for SMWD's purchase of 1.5 mgd liquids Treatment Capacity and an estimated cost per mgd for the liquid only Treatment Capacity. The estimated cost expressly excludes costs associated with (i) the installation of the 3A Plant solids handling equipment and facilities; (ii) certain design engineering and construction management services; (iii) change orders to the construction contract in order to, among other things, add a third secondary sedimentation tank; and (iv) the repairs and improvements MNWD made to the 3A Plant's associated effluent disposal system, commonly referred to as the "Lakefill Line", and officially designated as "Reach 1 of the San Juan Basin Authority Bypass Pipeline", in order to have an operational system (the "Lakefill Line Repairs").

D. Effective July 1, 1998, SMWD and MNWD entered into the "Agreement for the Transfer of Reach 1 of San Juan Basin Authority Bypass Pipeline" (the "Lakefill Line Transfer Agreement") in order to transfer Reach 1 of the Lakefill Line from the San Juan Basin Authority to SMWD and MNWD. Pursuant to the Lakefill Line Transfer Agreement, MNWD and SMWD jointly own an undivided half-interest in the Lakefill Line. An agreement setting terms and conditions for use as well as the operation and maintenance responsibilities with respect to the Lakefill Line will be processed between the parties in the near future.

E. Pursuant to the Sales Agreement and based on SMWD's purchase of the Treatment Capacity, as defined in Recital A above, SMWD has a present payment obligation to MNWD representing SMWD's agreed upon proportionate share of the following costs: (i) the original 3A Plant construction completed in 1990, in the amount of \$22,294,889; (ii) the 3A Plant solids handling equipment and facilities installation completed in 1998, in the amount of \$4,342,283; and (iii) the Lakefill Line Repairs in the amount of \$3,114,092. The items set forth in (i) and (ii) include the amounts for design engineering and construction management services, and all change orders. SMWD's proportionate share of the amounts set forth in (i), (ii) and (iii) is \$5,578,363 (the "SMWD Purchase Price"). The SMWD Purchase Price is computed by

totaling the cost of (a) the Treatment Capacity, at a price of \$3,329,647 per mgd (1.5 mgd x \$3,329,647 = \$4,994,471) (the cost per mgd is the sum of items (i) and (ii) above divided by 8 mgd); and, (b) SMWD's 18.75% share of the Lakefill Line Repairs, which equals \$583,892.

F. Pursuant to the Sales Agreement, MNWD's payment obligation for the Upper Oso System capacity purchase is estimated to be \$5,057,000 (the "MNWD Purchase Price"). MNWD previously paid SMWD \$280,671 of such purchase price on June 2, 1989, which was anticipated by the parties at the time of execution of the Sales Agreement to be approximately one-half the balance MNWD would owe SMWD, given the estimated purchase cost of the Treatment Capacity set forth in the Sales Agreement. Pursuant to the Sales Agreement, and included in MNWD's estimated payment obligation for the Upper Oso System capacity purchase of \$5,057,000, MNWD agreed to fund its proportionate share of certain modifications to the Upper Oso System as listed in Exhibit F to the Sales Agreement ("Upper Oso Modifications"). MNWD paid SMWD the sum of \$509,939 for its share of the actual costs of such modifications in 1991 and 1992.

G. SMWD and MNWD are both member agencies of SERRA and are participating member agencies in SERRA's Project Committee No. 2, which is composed of the SERRA member agencies owning treatment capacity in SERRA's Jay B. Latham Regional Treatment Plant ("SERRA Plant"). SMWD previously entered into negotiations with Capistrano Beach Water District ("CBWD") to assign 0.75 mgd ADWF of liquids treatment and solids handling capacity in the SERRA Plant owned by SMWD to CBWD. South Coast Water District ("SCWD") is the successor entity to CBWD for all purposes pursuant to Orange County Local Agency Formation Commission Reorganization No. 97-18, and will enter into an assignment agreement with SMWD for the SERRA Plant capacity transfer.

H. SMWD desires to replace the 0.75 mgd ADWF of capacity in the SERRA Plant it will assign to SCWD with 0.75 mgd ADWF of liquids treatment and solids handling capacity in the 3A Plant to be purchased from MNWD at a price of \$3,329,647 per mgd (the "Additional Treatment Capacity"), which will result in SMWD owning a total of 2.25 mgd ADWF of

capacity in the 3A Plant. MNWD is willing to sell SMWD the Additional Treatment Capacity, contingent upon SMWD's completion of the assignment of SMWD's capacity in the SERRA Plant to SCWD as described in Recital G. Correspondingly, SMWD will also be responsible to pay for the increased proportionate share of the Lakefill Line Repairs. The additional Treatment Capacity increases SMWD's proportionate share of the Lakefill Line Repairs costs to 28.13%, or an additional \$292,102, for a total of \$875,994.

I. The parties now desire to enter into this Amendment No. 1 in order to (i) reconcile the final costs for the 3A Plant construction and allocate a proportionate share of the Lakefill Line Repairs to SMWD; (ii) reconcile the final costs for the Upper Oso System in order to determine the balance of the purchase price MNWD owes SMWD, if any; (iii) determine the final SMWD Purchase Price and balance thereof owed to MNWD; (iv) set forth terms for SMWD's purchase of the Additional Treatment Capacity, such purchase to be contingent upon SMWD's completion of the corresponding capacity assignment to SCWD described in Recital G above; and (v) provide for SMWD's payment of all amounts owed to MNWD upon execution of this Amendment No. 1.

AGREEMENT

IN CONSIDERATION of the mutual covenants, terms and conditions set forth in this Amendment No. 1, the parties agree as follows:

SECTION 1. 3A PLANT COST RECONCILIATION AND PAYMENT BY SMWD

Section 1.01 Final Costs. SMWD and MNWD agree that the final total cost for the construction of the 3A Plant, including the construction of the solids handling equipment and facilities and all those associated items described in the Recitals above, is Twenty Six Million Six Hundred Thirty Seven Thousand and One Hundred Seventy Two Dollars (\$26,637,172). SMWD and MNWD further agree that the final total cost for the Lakefill Line Repairs is Three Million One Hundred Fourteen Thousand and Ninety Two Dollars (\$3,114,092), as described in MNWD's letter dated April 22, 1998 to SMWD, attached hereto as Exhibit A-1, and as

referenced in the cost reconciliation letter of CGvL to MNWD dated December 14, 1998 set forth in Exhibit B-1.

Section 1.02 Capacity Purchase Payment. Concurrently with the execution of this Amendment No. 1 by both parties, and in no event later than 30 calendar days from the Effective Date, SMWD will remit the amount of One Million Three Hundred Ninety-Six Five Hundred Thirty-Four Dollars (\$1,396,534) to MNWD, which represents the balance owing on the SMWD Purchase Price of \$5,578,363, less the MNWD Purchase Price of \$4,181,829 for the Upper Oso System as shown on page 2 of CGvL's letter dated May 7, 1999, included as Exhibit C-1 to this Amendment No. 1. The parties agree that the cost of \$3,329,647 per mgd on which the SMWD Purchase Price obligation with respect to the Treatment Capacity is based (as illustrated in Exhibit B-1) is fair, accurate and correct. The parties agree that the cost reconciliation for the Lakefill Line Repairs totaling \$3,114,092 (as illustrated in Exhibit B-1) is fair, accurate and correct, and that SMWD's proportionate 18.75% share thereof is \$583,892.

Section 1.03 Future Capital Costs. Notwithstanding any other terms in this Amendment No. 1, SMWD's obligation to pay for future capital repair and replacement costs for the 3A Plant facilities as set forth in Section 4 of the Sales Agreement remains in full force and effect.

SECTION 2. MNWD'S SATISFACTION OF CONDITIONS: UPPER OSO SYSTEM

Section 2.01 Final Costs. The parties agree that the MNWD Purchase Price for capacity in the Upper Oso System is Four Million One Hundred Eighty One Thousand Eight Hundred Twenty Nine Dollars (\$4,181,829), and will reduce the SMWD Purchase Price due MNWD under Section 1.02 above. SMWD acknowledges and agrees that MNWD has satisfied any and all payment obligations in connection with MNWD's purchase of the Upper Oso System capacity. SMWD further agrees MNWD has satisfied any and all payment obligations for the Upper Oso Modifications listed in Exhibit F to the Sales Agreement. Notwithstanding any other

terms in this Amendment No. 1, the parties agree that MNWD's obligation to pay for future capital repair and replacement costs for the Upper Oso System as set forth in Section 7 of the Sales Agreement remains in full force and effect.

Section 2.02 Mutual Waiver of Cost Disputes and Release. SMWD and MNWD warrant and represent that the amounts to be paid by, respectively, (i) SMWD to MNWD for the Treatment Capacity, including the Lakefill Line Repairs and (ii) by MNWD to SMWD for the Upper Oso System and the Upper Oso Modification, are set forth in this Amendment No. 1. It is further warranted and represented by each of the parties that all costs have been reviewed and have been determined by reconciliation of actual expenditures and the agreed upon allocation methods as set forth in the Sales Agreement as supplemented by this Amendment No. 1, and that all such costs and determinations are fair, accurate and correct. Subject to the receipt and deposit of funds representing the amounts owed as described in this Amendment No. 1, SMWD and MNWD each waive any further claim or dispute it may have against the other with respect to such reconciliations, costs, allocations and amounts paid and/or credits for offset, and each party releases the other party from any further respective payment obligations related to such amounts and obligations.

SECTION 3. SMWD'S PURCHASE OF ADDITIONAL CAPACITY

Section 3.01 0.75 mgd ADWF Purchase. MNWD conveys to SMWD, subject to the conditions set forth in Section 3.03, the Additional Treatment Capacity, which is exclusive of capacity rights or interests in the AWT Facilities owned and operated by MNWD for recycled water purposes. SMWD agrees to pay MNWD the purchase price of Two Million Four Hundred Ninety Seven and Two Hundred Thirty Five Dollars (\$2,497,235) in consideration for the Additional Treatment Capacity. The purchase price is based on the parties' agreed upon cost of \$3,329,647 per mgd, as set forth in Exhibit C-1 to this Amendment No. 1. SMWD has the right to utilize the capacity so purchased upon the satisfaction of the conditions precedent listed in Section 3.03.

SMWD also agrees that its proportional share of the Lakefill Line Repairs is now 28.13% of the total cost of such repairs, resulting in the additional cost to SMWD of Two Hundred Ninety-Two Thousand One Hundred Two Dollars (\$292,102).

Section 3.01A Mutual Waiver of Cost Disputes and Release. SMWD warrants and represents that the calculations of \$2,789,337 (\$2,497,235 + \$292,102) to be paid by SMWD to MNWD for the Additional Treatment Capacity, and the related proportional share of the Lakefill Line Repairs, have been determined by reconciliation of actual expenditures and agreed upon allocation methods as set forth in the Sales Agreement as supplemented by this Amendment No. 1, and are fair, accurate and correct. Subject to receipt of and deposits of funds as set forth herein, SMWD and MNWD each waive any further claim or dispute it may have against the other with respect to the reconciliations, costs, allocations and amounts paid and/or credits for offset with respect to the Additional Treatment Capacity and SMWD's related proportional share of the Lakefill Line Repairs costs, and each party releases the other party from any further respective payment obligations related to such amounts and obligations.

Section 3.02 Use of Treated Wastewater. The parties agree that each party retains the unconditional right to utilize all wastewater conveyed by such respective party for treatment at the 3A Plant for recycled water, or other, purposes. Notwithstanding the foregoing, SMWD consents to MNWD's use of wastewater conveyed by SMWD to the 3A Plant for recycled water or other purposes, without any limitations on the use thereof by MNWD, at no cost or charge to MNWD. SMWD's consent to MNWD's use of such wastewater for recycled water (or other) purposes is deemed by the parties to apply to SMWD's total 2.25 mgd treatment capacity provided for by the Sales Agreement and this Amendment No. 1. SMWD may withdraw such consent upon ninety (90) days prior written notice to MNWD.

Section 3.03 Conditions Precedent. The conveyance of the Additional Treatment Capacity to SMWD as described above is contingent upon the satisfaction of the following conditions:

(a) Execution of an agreement with SCWD assigning 0.75 mgd ADWF of SMWD's liquids treatment and solids handling capacity in the SERRA Plant to SCWD, and the effectiveness of that assignment agreement.

(b) The execution and effectiveness of the SERRA Project Committee No. 2 agreement entitled "Amendment No. 1 to Agreement for Acquisition, Use, Operation, Maintenance and Expansion of Sewage Treatment Plant of City of San Juan Capistrano by South East Regional Reclamation Authority for and on Behalf of Project Committee No. 2 (the "PC 2 Agreement")" providing for SCWD's purchase of capacity in the SERRA Plant from applicable PC 2 Members, including SMWD.

(c) SMWD's payment to MNWD of the Additional Treatment Capacity purchase price and the proportional cost of the Lakefill Line Repairs set forth in Section 3.01 by check, money order or immediately available funds, or, in the alternative and at SMWD's option, payment of such amounts over time pursuant to the terms and conditions set forth in subsection (d) following.

(d) Subject to the terms in this Section 3.03, SMWD may, at its option, choose to pay MNWD the purchase price for the Additional Treatment Capacity and related Lakefill Line Repairs (total: \$2,789,337), or a portion thereof, for the period of time (if any) SCWD's remittance of the full consideration for the assignment of 0.75 mgd ADWF capacity in the SERRA Plant to SMWD is delayed, in accordance with the repayment schedule set forth in Exhibit D-1. Interest on the unpaid principal balance shall compound annually, on a fiscal year basis (July 1 - June 30) and shall accrue at a rate equal to the average rate for such period (or portion thereof) paid by the LAIF, commencing on the Effective Date defined in this Amendment No. 1. SMWD shall have the right to prepay all or any portion of the unpaid principal balance or accrued interest at any time, without penalty. Payments shall first be credited to accrued but unpaid interest, and the balance to unpaid principal. Any interest not paid when due shall be compounded annually. A default in any payment by SMWD shall be deemed a material breach of this Amendment No. 1.

In order to exercise the 'slow payment option' described above, SMWD's agreement with SCWD under subsection (a) above shall include terms for a similar slow payment option by SCWD for its purchase of 0.75 mgd ADWF capacity from SMWD in the SERRA Plant. In the event SCWD pays SMWD an additional annual fee or similar charge in consideration for the added expense of administering the slow payment option, SMWD shall remit fifty-percent (50%) of all such fees or charges to MNWD on a semi-annual basis during each fiscal year of the payment period.

Section 3.03 Assumption of Obligations. Upon the conveyance of the Additional Treatment Capacity to SMWD, SMWD assumes all obligations related to, and in proportion to, the Additional Treatment Capacity interest in the 3A Plant, as such obligations are established in the Sales Agreement, this Amendment No. 1, and any other documents setting forth terms and conditions with respect to the operations, repairs, or maintenance of the 3A Plant.

SECTION 3A. SMWD TOTAL PAYMENT.

Section 3A.01 Total 3A Plant Payment. In accordance with Exhibit B-1, the total amount of funds SMWD shall pay to MNWD with respect to outstanding obligations under this Amendment No. 1 is Four Million One Hundred Eighty-Five Eight Hundred Seventy-One Dollars (\$4,185,871), which is the sum of the amounts set forth in Section 1.02 (\$1,980,426) and Section 3.01 (\$2,789,337).

SECTION 4. GENERAL

Section 4.01 Amendment Effect. To the extent the terms, conditions or covenants in this Amendment No. 1 conflict with the terms, conditions or covenants set forth in the Sales Agreement, the terms, conditions and covenants of this Amendment No. 1 shall control. Except as set forth in this Section 4.01, all other terms, conditions and covenants of the Sales Agreement

shall remain in full force and effect. SMWD acknowledges that the foregoing applies to the Additional Treatment Capacity conveyed to SMWD under SECTION 3 of this Amendment No. 1.

Section 4.02 Notices. All notices required or permitted under this Amendment No. 1 shall be mailed, delivered or transmitted by one party to another party at the address specified herein below, and each such notice shall be deemed effective and given (i) upon receipt if personally delivered, (ii) upon being transmitted if sent by telegram, FAX or telecopy, (iii) three (3) business days after deposit in the United States Mail, if sent by certified or registered mail with postage prepaid, return receipt requested or (iv) upon receipt if sent in any other way. Either party hereto may from time to time, by written notice to the other, designate a different notice address which shall be substituted for the one specified herein below.

MNWD: Moulton Niguel Water District
27500 La Paz Road
Laguna Niguel, CA 92677
Attn: General Manager
Fax No.: (949) 831-5651

SMWD: Santa Margarita Water District
26111 Antonio Parkway
Rancho Santa Margarita, CA 92688
Attn: General Manager
Fax No.: (949) 459-6400

Section 4.03 Recitals/Exhibits. The parties each represent and agree the Recitals are true and correct. The Recitals are incorporated into this Amendment No. 1. Exhibits A-1, B-1, C-1 and D-1 are attached and incorporated into this Amendment No. 1.

Section 4.04 Waiver. No waiver of any default by a party or the parties shall constitute a waiver of any other default or breach, whether of the same or other covenant or condition.

Section 4.05 Dispute Resolution. The arbitration procedure set forth in Section 2 of the Sales Agreement shall apply to any and all disputes, disagreements or claims the parties have

under the Sales Agreement and/or this Amendment No. 1, and that are not otherwise waived by the terms of this Amendment No. 1.

Section 4.06 Cooperation; Further Acts. The parties shall fully cooperate with one another, and shall take any additional acts or sign any additional documents as may be necessary, appropriate, or convenient to carry out the purposes of this Amendment No. 1.

Section 4.07 Supplement; Modification. No supplement, modification or amendment of this Amendment No. 1 shall be binding unless executed in writing and signed by both parties.

Section 4.08 No Third Party Beneficiaries. There are no intended third party beneficiaries of any right or obligation assumed by the parties under this Amendment No. 1.

Section 4.09 Invalidity; Severability. If any portion of this Amendment No. 1 is declared invalid, illegal, or otherwise unenforceable by a court of competent jurisdiction, the remaining provisions shall continue in full force and effect.

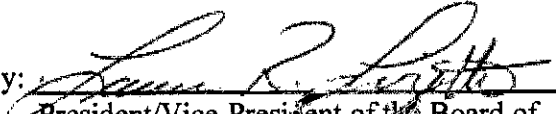
Section 4.10 Governing Law and Venue. This Amendment No. 1 shall be construed in accordance with and governed by the laws of the State of California. Any lawsuit brought in connection with this Amendment No. 1 shall be brought in the appropriate court in the County of Orange, California.

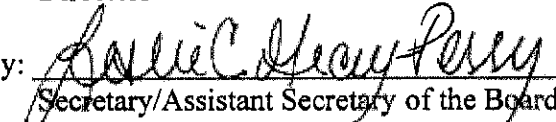
Section 4.11 Time is of the Essence. Time is of the essence in this Amendment No. 1, and the parties agree to execute all documents and proceed with due diligence to complete all covenants and conditions.

Section 4.12 Counterparts. This Amendment No. 1 may be signed in counterparts, each of which shall constitute an original and which collectively shall constitute one instrument.

The parties have caused this Amendment No. 1 to be executed as of the Effective Date defined above.

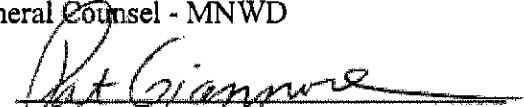
MOULTON NIGUEL WATER DISTRICT

By: 
President/Vice-President of the Board of Directors


By: 
Secretary/Assistant Secretary of the Board of Directors

APPROVED AS TO FORM:

BOWIE, ARNESON, WILES & GIANNONE
General Counsel - MNWD

By: 
Patricia B. Giannone

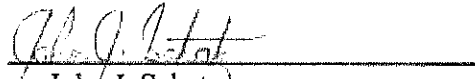
SANTA MARGARITA WATER DISTRICT

By: 
President/Vice-President of the Board of Directors

By: 
Secretary/Assistant Secretary of the Board of Directors

APPROVED AS TO FORM:

General Counsel - SMWD

By: 
John J. Schatz

**OPERATIONS AND MAINTENANCE AGREEMENT RELATING TO
SANTA MARGARITA WATER DISTRICT'S TREATMENT CAPACITY
RIGHTS IN THE MOULTON NIGUEL WATER DISTRICT PLANT 3A
AND MOULTON NIGUEL WATER DISTRICT'S STORAGE
TRANSMISSION CAPACITY RIGHTS IN THE SANTA MARGARITA
WATER DISTRICT UPPER OSO RESERVOIR SYSTEM**

THIS AGREEMENT is dated as of the 6TH day of APRIL, 2007, by and between the SANTA MARGARITA WATER DISTRICT ("SMWD") and the MOULTON NIGUEL WATER DISTRICT ("MNWD"), each a California water district organized and existing pursuant to Division 13 of the Water Code of the State of California. SMWD and MNWD are sometimes referred to in this Agreement collectively as "parties" or "Districts", and individually as "party" or "District".

RECITALS

A. MNWD and SMWD previously entered into that certain agreement entitled "AGREEMENT FOR THE: (1) SALE OF WASTEWATER TREATMENT CAPACITY IN THE MOULTON NIGUEL WATER DISTRICT 3A PLANT TO SANTA MARGARITA WATER DISTRICT; AND (2) SALE OF CAPACITY IN SANTA MARGARITA WATER DISTRICT'S UPPER OSO RESERVOIR AND RELATED FACILITIES TO MOULTON NIGUEL WATER DISTRICT", dated April 17, 1989 (hereinafter the "Basic Agreement"). The Basic Agreement provides for SMWD's acquisition of 1.5 million gallons per day (mgd) of liquids treatment and solids handling capacity (hereinafter "treatment capacity") in Plant 3A owned by MNWD and operated by the South Orange County Wastewater Authority (SOCWA), as well as MNWD's acquisition of 1,000 acre-feet of storage capacity in SMWD's Upper Oso Reservoir and associated capacities in related nondomestic water system facilities (the "Upper Oso System"), owned and operated by SMWD. The referenced facilities are depicted geographically on Exhibit A and schematically on Exhibit B, ~~while the~~ capacity ownership and cost allocation in the Upper Oso System are shown on Exhibit C-attached hereto and incorporated herein by this reference.

B. MNWD and SMWD subsequently entered into "Amendment No. 1" to the Basic Agreement, dated July 16, 1999, to provide for, among other supplemental terms, SMWD's acquisition of an additional 0.75 mgd of treatment capacity in the Plant 3A. This brought SMWD's ownership in Plant 3A to 2.25 MGD. Treated wastewater flows from Plant 3A are conveyed through those MNWD and SMWD facilities commonly known as the "Lakefill Line" and the "Chiquita Land Outfall" for discharge to SOCWA's Ocean Outfall. MNWD and SMWD are also participants in SOCWA's Project Committee No. 5 for the Ocean Outfall.. Capacity ownership and allocation of costs for Plant 3A are shown in Exhibit D.

C. Section 4 of the Basic Agreement provides that SMWD and MNWD will share Plant 3A maintenance and operation expenses based on the percentage of use of treatment capacity in Plant 3A-by each District. Section 4 of the Basic Agreement provides that SMWD and MNWD will share capital costs for the repair and replacement of those portions of Plant 3A utilized by each District in proportion to the capacity owned by each District.

D. Section 7 of the Basic Agreement provides that SMWD and MNWD will share Upper Oso System maintenance and operation expenses based on the percentage of use of capacity in the Upper Oso System by each District. Section 7 of the Basic Agreement provides that SMWD and MNWD will share capital costs for the repair and replacement of those portions of the Upper Oso System utilized by each District in proportion to the capacity owned by the District.

E. Pursuant to the Basic Agreement, the allocation of capital costs and maintenance and operation expenses with respect to the parties' capacity or use of Plant 3A and Upper Oso System was to be the subject of a further agreement between the parties. Plant 3A commenced operation on June 11, 1990, and SMWD and MNWD desire, pursuant to the Basic Agreement, to set forth terms that provide a method for the allocation of capital costs and maintenance and operation costs between the Districts as to their respective capacities in Plant 3A and the Upper Oso System.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and promises between the parties hereinafter set forth, the parties agree as follows:

Section 1. Definitions. The following definitions will be used in this Agreement:

Section 1.1 Capital Costs. Capital Costs are costs of replacing, modifying or upgrading any portion of Plant 3A or any single improvement, replacement or repair thereto, or piece of equipment costing in excess of TWENTY THOUSAND DOLLARS (\$20,000.00). Capital Costs shall be allocated on the capacity ownership percentages set forth in Exhibits C (Upper Oso System) and D (Plant 3A). In order to control unexpected mid-year capital improvement charges, all Capital Repairs/ Improvements shall be either one of the following:

a. Emergency Modifications. Emergency modifications are improvements that were not budgeted for a current fiscal year, but must be constructed or installed for safety or regulatory compliance prior to an ensuing fiscal year. All emergency modifications shall be approved in advance by MNWD and SMWD; provided, however, if an emergency occurs due to an act of God, MNWD or SMWD may undertake such maintenance and modifications as may be necessary, notifying the other District of the expenditure of funds within forty-eight (48) hours of the occurrence of the event requiring said expenditure. If the Plant 3A or Upper Oso System are damaged or destroyed requiring expenditure in excess of two million dollars, MNWD or SMWD shall not undertake such expenditure without the prior written approval of the other District, which shall not be unreasonably withheld.

b. Planned Improvements. All improvements other than emergency modifications shall be planned and approved by MNWD and SMWD. Planned improvements shall be budgeted and submitted as part of an annual budget for the Districts' approval as detailed in this Agreement.

Nothing in this Section 1.1 precludes the parties from mutually agreeing to Capital Repairs/Improvements during any budget year in addition to those previously approved as part of the annual budget.

Section 1.2 Operation and Maintenance Costs. Operation and Maintenance Costs consist of two components: Fixed Costs and Variable Costs. Fixed Costs are those operating and maintenance costs and expenses that, in the case of Plant 3A, benefit Plant 3A facilities and are incurred regardless of either District's actual treatment capacity use; or, in the case of the Upper Oso System, even if no Recycled Water is conveyed to and stored in the Upper Oso Reservoir. Variable Costs are those costs which are incurred, in the case of Plant 3A, for treating and disposing of wastewater, including disposal of grit and solids, and are dependent upon the quantity of the wastewater treated, or, in the case of the Upper Oso System, for conveying and storing Recycled Water in the Upper Oso Reservoir. Variable Costs shall include all Operation and Maintenance Costs not otherwise defined as Fixed Costs in this Agreement. Operation and Maintenance Costs shall include expenses necessary to preserve Plant 3A or Upper Oso System in good repair and working order, costs of insurance and taxes, costs of routine operation and maintenance, labor including "overhead" as defined hereinafter, and costs of supplying necessary utilities such as power, including utility costs for light systems and telephone systems. Labor costs for Plant 3A shall be based on the actual salary and benefit costs paid for all employees operating and maintaining Plant 3A. Labor costs for the Upper Oso Systems shall be based on the actual labor costs of SMWD, as well as an "overhead" computation based on the formula set forth in Exhibit E. It is recognized that the "overhead" as a percentage of base salaries will vary from year to year. Materials and supplies shall be charged at actual cost, and there shall be no mark-up added for such material or supplies. Equipment shall be charged at its actual cost, which may include lease or rental payments, if applicable. Operation and Maintenance Costs do not include depreciation or any obsolescent charges or any reserves therefore, or amortization of intangibles or other bookkeeping entries of similar nature.

Section 1.3 Recycled Water. Recycled Water shall mean wastewater that has been treated for reuse in satisfaction of applicable sections of Title 22 of the California Administrative Code of Regulations (CCR).

Section 1.4 Wastewater. Wastewater shall mean untreated raw sewage as collected from the tributary community.

Section 2. Volume Measuring

Section 2.1 Metering - Plant 3A Flows. The total plant influent flow shall be measured by the plant influent meter in the influent lift station. Influent from SMWD shall be measured by the Parshall flume installed across Camino Capistrano from Plant 3A and shall be read, inspected, and maintained by Plant 3A operator monthly. MNWD flow shall be the difference between the total influent flow and the SMWD flow. The meter shall be calibrated for accuracy annually or at a mutually agreed upon lesser or greater frequency. Wastewater flow measuring shall be accurate within 5% of actual flow throughout the anticipated flow range.

Section 2.2 Metering - Upper Oso System. The following meters are essential for the accounting of volumes of Recycled Water to determine operation and maintenance costs. Meters shall be calibrated for accuracy annually or at a mutually agreed upon lesser or greater frequency. Recycled Water meters shall meet AWWA accuracy requirements of not more or less than 2% of actual flow.

a. The South Intertie Meter located at the south end of the Oso Creek Water Reclamation Plant (Oso Creek WRP) shall be read by SMWD monthly. Inspection and maintenance shall be in accordance with the footnotes in Exhibit D.

b. The North Intertie Meter located near the intersection of Los Alisos Blvd. and Via Novena shall be read by SMWD monthly. Inspection and maintenance shall be in accordance with the footnotes in Exhibit D.

c. The La Paz (Zone B) Pump Station Effluent Meters located near the Zone B Pump Station at the Oso Creek WRP shall be read, inspected, and maintained by SMWD monthly.

d. The Finnesterra (Zone C) Pump Station Effluent Meter located at the Zone C Pump Station near the intersection of Marguerite Parkway and Alicia Parkway shall be read, inspected and maintained by SMWD monthly.

e. The Upper Oso Reservoir Inlet and Outlet Meters located next to the Eastbrook (Zone D) Pump Station at Santa Margarita Parkway shall be read, inspected, and maintained by SMWD monthly.

Exhibit B shows the schematic location of each of these meters and Exhibits F, G and H show schematics of the La Paz, Finnesterra and Eastbrook Pumping Stations, respectively.

Section 2.3 Storage Calculation - Upper Oso Reservoir. The parties acknowledge that the volume of water stored in the Upper Oso Reservoir is subject to change due to runoff and precipitation into Upper Oso Reservoir and evaporation and seepage out of the Upper Oso Reservoir. The following calculations shall be used for the adjusted volume of water stored in the Upper Oso Reservoir by MNWD (volumes into the Upper Oso Reservoir shall be signed algebraically positive; volumes out of Upper Oso Reservoir shall be signed algebraically negative).

a. The adjusted MNWD volume stored shall be calculated at the beginning of each fiscal year for the preceding year by SMWD and submitted annually in writing to MNWD.

b. The unadjusted MNWD volume stored at the end of the preceding year shall equal: the MNWD volume in storage at the beginning of the preceding year plus the volume metered into the Upper Oso Reservoir from MNWD, less the volume metered out of the Upper Oso Reservoir to MNWD during the preceding year.

c. The average MNWD volume stored during the preceding year shall equal: one half the sum of the MNWD volume in storage at the beginning of the preceding year and the unadjusted MNWD volume at the end of the preceding year.

d. The average total volume stored during the preceding year shall equal: one half the sum of the measured total volumes in storage at the beginning and end of the preceding year.

e. The net Upper Oso Reservoir change due to evaporation, precipitation, runoff and seepage of stored water shall equal: the total volume metered into the Upper Oso Reservoir less the total volume metered out of the Upper Oso Reservoir during the preceding year plus the measured total volume in storage at the beginning of the preceding year less the measured total volume in storage at the end of the preceding year.

f. The evaporation, precipitation, runoff and seepage change to annually adjust the MNWD stored water volume shall equal: the net Upper Oso Reservoir change multiplied by the ratio of the average MNWD volume of stored water divided by the average total volume of stored water in Upper Oso Reservoir for the preceding year.

g. The adjusted MNWD volume stored for the preceding year shall equal: the average MNWD volume stored during the preceding year plus or less the calculated MNWD share of net change due to evaporation, precipitation, runoff and seepage for the preceding year.

h. All water into and out of Upper Oso Reservoir shall be metered by the Upper Oso Reservoir Inlet and Outlet Meters. All water into and out of the Upper Oso System shall be metered by the North and South Intertie Meters.

i. The measured Upper Oso Reservoir volume at a given time shall be determined by water surface elevation values read from the existing elevation gauges in conjunction with use of the plot of the "WATER SURFACE ELEVATION VERSUS SURFACE AREA AND STORAGE VOLUME", attached as Exhibit I hereto.

j. Maximum MNWD stored water in the Upper Oso Reservoir shall not exceed 1,000 acre feet without approval of SMWD and maximum SMWD stored water in the

Upper Oso Reservoir shall not exceed 3,000 acre feet without approval by MNWD, and all such storage shall be in accordance with the Basic Agreement.

Section 2.3.1 Notwithstanding any other provision to the contrary in this Agreement, in the event either SMWD or MNWD draw water from the Upper Oso Reservoir in quantities greater than their respective maximum acre-foot capacity, as that stored volume may be adjusted under Section 2.3 above ("overdraft"), the party creating the overdraft will be responsible to replace the volume of overdraft.

To eliminate an overdraft, SMWD shall adjust stored water volume by adding equivalent quantities of water to the Upper Oso Reservoir. The type of added water (domestic or nondomestic) and the associated cost thereof may vary depending upon availability. A reconciliation of the water storage volume exceeding permitted maximum acre-foot capacity and an accounting of associated costs shall be provided by SMWD to MNWD on a quarterly basis. Payment for water replacement costs shall be made by MNWD within thirty (30) days of MNWD's receipt of the quarterly reconciliation/accounting and invoice.

Section 3. Water Quality Considerations

Section 3.1 Wastewater Quality - Plant 3A. Influent wastewater delivered to Plant 3A by the parties shall be of the quality normally associated with predominantly domestic sewage and shall meet all federal, state and local laws, rules and regulations. No wastewater shall be delivered which causes a violation of the National Pollution Discharge Elimination System (NPDES) Permit governing Plant 3A or the SOCWA San Juan Creek Ocean Outfall.

Section 3.2 Recycled Water Quality - Upper Oso System. Recycled Water delivered to the Upper Oso System shall meet the current requirements for the highest quality landscape irrigation use set forth in Title 22 of the California Code of Regulations, including all future amendments thereto, and applicable Regional Water Quality Control Board standards. Recycled Water delivered to the Upper Oso System shall comply with the requirements set forth in the SOCWA Permit governing the production of Recycled Water by the Districts, including

all amendments to such permit. The parties acknowledge that Recycled Water stored in the Upper Oso Reservoir is subject to changes in bacteriological and algal content due to inherent nutrients and exposure to atmosphere, sunlight, and tributary runoff, and is subject to increase in dissolved constituent concentrations due to evaporation. The parties acknowledge that Recycled Water in the Upper Oso System is subject to changes in dissolved constituent concentrations due to the addition of and commingling with other water supply sources.

Section 4. Operation and Maintenance Costs Allocation - Plant 3A. MNWD and SMWD shall each pay its proportionate share of the Operation and Maintenance Costs of Plant 3A in accordance with the procedures set forth in this Agreement. The cost center breakdown as well as associated Operation and Maintenance cost shares and allocation methods shall be as shown in Exhibit D.

In order to make the annual budget deposits required under Section 8 of this Agreement, SMWD shall provide to MNWD and any mutually agreed upon contract operator, by December 1st, an annual projection of the volume of wastewater to be delivered by SMWD to Plant 3A during the subsequent fiscal year. MNWD shall prepare and submit by December 1st to SMWD and any mutually agreed upon contract operator, an annual projection of the volume of wastewater to be delivered by MNWD to Plant 3A during the subsequent fiscal year. MNWD or the mutually agreed upon contract operator shall utilize this information to determine the total and hence proportional share of the Operation and Maintenance costs estimated to be incurred in the subsequent fiscal year.

Section 5. Operation and Maintenance Costs Allocation -Upper Oso System. MNWD and SMWD shall each pay its proportionate share of the Operation and Maintenance Costs of the Upper Oso System in accordance with the procedures set forth in this Agreement. The cost center breakdown as well as associated Operation and Maintenance Costs shares and allocation methods shall be as shown in Exhibit C.

In each fiscal year, the Operation-and Maintenance Costs shall be allocated to each District based on the average annual acre feet of Recycled Water stored in the Upper Oso

Reservoir by each District and the average annual acre feet of Recycled Water transmitted through the Upper Oso System during the preceding fiscal year. The procedures set forth in Sections 2.2 and 2.3 shall be used to determine the volumes of Recycled Water transmitted through the Upper Oso System, and stored in the Upper Oso Reservoir.

Section 6. Capital Costs Allocation - Plant 3A. The Districts shall pay their respective proportionate share of the Capital Costs of Plant 3A in accordance with the procedures set forth in this Agreement. The annual Capital Costs of Plant 3A shall be allocated to the Districts in proportion to each District's wastewater treatment capacity percentage, as specified in Exhibit D hereto.

Section 7. Capital Costs Allocation - Upper Oso System. The Districts shall pay their respective proportionate share of the Capital Costs of the Upper Oso System in accordance with the procedures set forth in this Agreement. The annual Capital Costs of the Upper Oso System shall be allocated to the Districts in the proportion that each District's storage capacity percentage has to the total storage capacity of the Upper Oso Reservoir, which is 4,000 acre-feet, and shall include each District's pro rata share of the Capital Costs of the pipeline and pumping facilities included in the Upper Oso System based on the District's proportionate share of capacity therein, as specified in Exhibit C.

Section 8. Budget Deposits. Each District's share of the annual Operation and Maintenance Costs or Capital Costs for Plant 3A and the Upper Oso System shall be billed by the operating District or any other designated operator to the District(s) on or prior to June 1 of each fiscal year and shall be payable in equal quarterly installments on each July 1, October 1, January 1 and April 1, of the succeeding fiscal year. It is agreed that the annual budgets for Plant 3A and Upper Oso System Operation and Maintenance Costs and Capital Costs shall be reviewed and agreed upon by both SMWD's and MNWD's respective Board of Directors prior to any billings for the fiscal year. Within 60 days after the end of each fiscal year, the Operating District or operator shall prepare and submit to the District(s) a written 'Use Audit' of the total Operation and Maintenance Costs and Capital Costs incurred in the previous fiscal year, certified as correct by the operator's General Manager or his designee. The Use Audit shall be subject to

approval in writing by both Districts before being deemed to establish the final Operation and Maintenance Costs and Capital Costs. Each District shall approve or disapprove the 'Use Audit' within 45 days of its receipt or it shall be deemed to be approved as the final Operation and Maintenance Costs and Capital Costs.

Section 9. Dispute Resolution. If there is a dispute as to the final Operation and Maintenance Costs or Capital Costs as set forth in the Use Audits, the parties hereto agree to select an independent certified public accountant to make an audit of the disputed cost(s) and said accountant's figure for the disputed cost shall be final and binding, not subject to any further dispute resolution, arbitration or litigation by the parties.

Section 10. Reconciliation. If either District's share of the final Operation and Maintenance Costs or Capital Costs exceed the amounts previously deposited by the respective District, the District shall, within 30 days of approval of the Use Audit or within 30 days of the establishment of the final Operation and Maintenance Costs or Capital Costs by said independent accountant, pay to the other District its allocated share of the amount of such final Operation and Maintenance Costs or Capital Costs over the amount so deposited by the District. If either District's share of the Operation and Maintenance Costs or Capital Costs is less than the amount paid by such District, the operating District shall within said 30 days reimburse such District its share of the excess previously deposited over the final Operation and Maintenance Costs or Capital Costs allocated to the District.

Section 11. Insurance. MNWD (or in lieu thereof, the contract operator of Plant 3A) shall name SMWD and its directors, officers, employees and agents as additional insureds under MNWD's policy of general liability insurance applicable to Plant 3A and the operations, maintenance and repair thereof. MNWD shall provide a copy of such certificate naming SMWD as an additional insured to SMWD prior to the commencement of delivery of Wastewater to the Plant 3A by SMWD, and thereafter on an annual basis as MNWD renews said policy of insurance. The cost, if any, incurred by MNWD for the inclusion of SMWD as an additional insured as set forth above shall be considered an Operation and Maintenance Fixed Cost under Section 1.2 of this Agreement.

SMWD shall name MNWD and its directors, officers, employees and agents as additional insureds under SMWD's policy of general liability insurance applicable to the Upper Oso System and the operations, maintenance and repair thereof. SMWD shall provide a copy of such certificate naming MNWD as an additional insured to MNWD prior to the commencement of operation of the Upper Oso System by SMWD, and thereafter on an annual basis as SMWD renews said policy of insurance. The cost, if any, incurred by SMWD for the inclusion of MNWD as an additional insured as set forth above shall be considered an Operation and Maintenance Fixed Cost under Section 1.2 of this Agreement.

Section 12. Term of Agreement. This Agreement shall be in effect during the period of time in which SMWD or its successors or assigns own wastewater treatment capacity in Plant 3A and/or MNWD or its successor or assigns own transmission and storage capacity in the Upper Oso System.

Section 13. Attorneys' Fees. In the event that an action is commenced by either party to this Agreement to enforce or construe its rights or obligation arising hereunder, the prevailing party in such action, in addition to any other relief or recovery awarded by the court, shall be entitled to recover all statutory costs plus a reasonable amount for attorneys' fees.

Section 14. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto.

Section 15. Integration; Attachments. This Agreement constitutes the entire Agreement and supersedes all prior Agreement and understandings, both written and oral, between SMWD and MNWD with respect to the subject matter hereof. In the event of any conflict between the terms of this Agreement and the Basic Agreement, this Agreement shall control. The Exhibits attached hereto are incorporated into this Agreement.

Section 16. Notices. All notices required or permitted under this Agreement shall be mailed, delivered or transmitted by one party to another party at the address specified herein

below, and each such notice shall be deemed effective and given (i) upon receipt if personally delivered, (ii) upon being transmitted if sent by telegram, FAX or telecopy, (iii) three (3) business days after deposit in the United States Mail, if sent by certified or registered mail with postage prepaid, return receipt requested or (iv) upon receipt if sent in any other way. Either party hereto may from time to time, by written notice to the other, designate a different notice address which shall be substituted for the one specified herein below.

If to MNWD: Moulton Niguel Water District
27500 La Paz Road
Laguna Niguel, CA 92656-3489
Attn: General Manager

If to SMWD: Santa Margarita Water District
26111 Antonio Parkway
Rancho Santa Margarita, CA 92688
Attn: General Manager

Section 17. Recitals. The parties agree the Recitals of this Agreement are true and correct, and are incorporated as part of this Agreement.

Section 18. Amendments. No addition to or modification of any provision contained in this Agreement shall be effective unless fully set forth in a writing signed by the parties.

Section 19. Waiver. No waiver of any default by a party or the parties shall constitute a waiver of any other default or breach, whether of the same or other covenant or condition.

Section 20. No Third Party Beneficiaries. There are no intended third party beneficiaries of any right or obligation assumed by the parties under this Agreement.

Section 21. Invalidity; Severability. If any portion of this Agreement is declared invalid, illegal, or otherwise unenforceable by a court of competent jurisdiction, the remaining provisions shall continue in full force and effect.

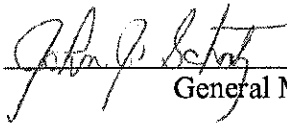
Section 22. Governing Law and Venue. This Agreement shall be construed in accordance with and governed by the laws of the State of California. Any lawsuit brought in

connection with this Agreement shall be brought in the appropriate court in the County of Orange, California.

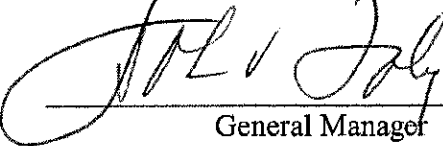
Section 23. Counterparts. This Agreement may be signed in counterparts, each of which shall constitute an original and which collectively shall constitute one instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the first day and year hereinabove written.

SANTA MARGARITA WATER DISTRICT

By:  _____
General Manager

MOULTON NIGUEL WATER DISTRICT

By:  _____
General Manager

**SUMMARY
OF
EXHIBITS FOR PLANT 3A/UPPER OSO O&M AGREEMENT**

- Exhibit A - Geographic Location of SMWD Upper Oso System and MNWD Plant 3A Facilities
- Exhibit B - Schematic of SMWD Upper Oso System and MNWD Plant 3A Facilities
- Exhibit C - Upper Oso System Capacity and Cost Allocation
- Exhibit D - Plant 3A Capacity and Cost Allocation
- Exhibit E - Santa Margarita Water District, Percentage of Benefits to Base Salaries, Fiscal Year 2002/2003
- Exhibit F - La Paz Pump Station Schematic
- Exhibit G - Finnesterra Pump Station Schematic
- Exhibit H - Eastbrook Pump Station Schematic
- Exhibit I - Upper Oso Reservoir Water Surface Elevation versus Surface Area and Storage Volume

EXHIBIT A

GEOGRAPHIC LOCATION OF SMWD UPPER OSO SYSTEM AND MNWD PLANT 3A FACILITIES

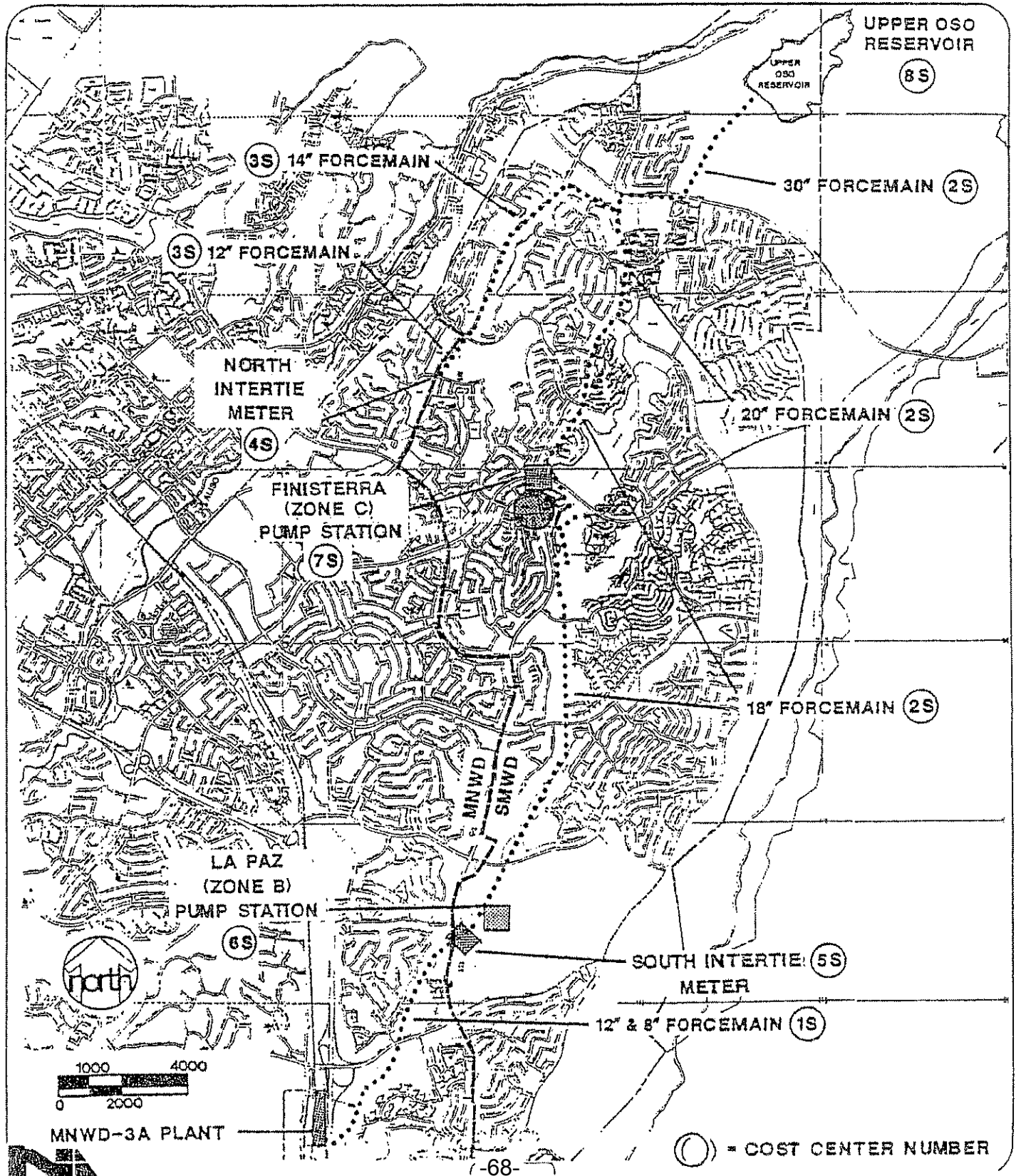


EXHIBIT B

SCHEMATIC OF SMWD UPPER OSO SYSTEM AND MNWD PLANT 3A FACILITIES

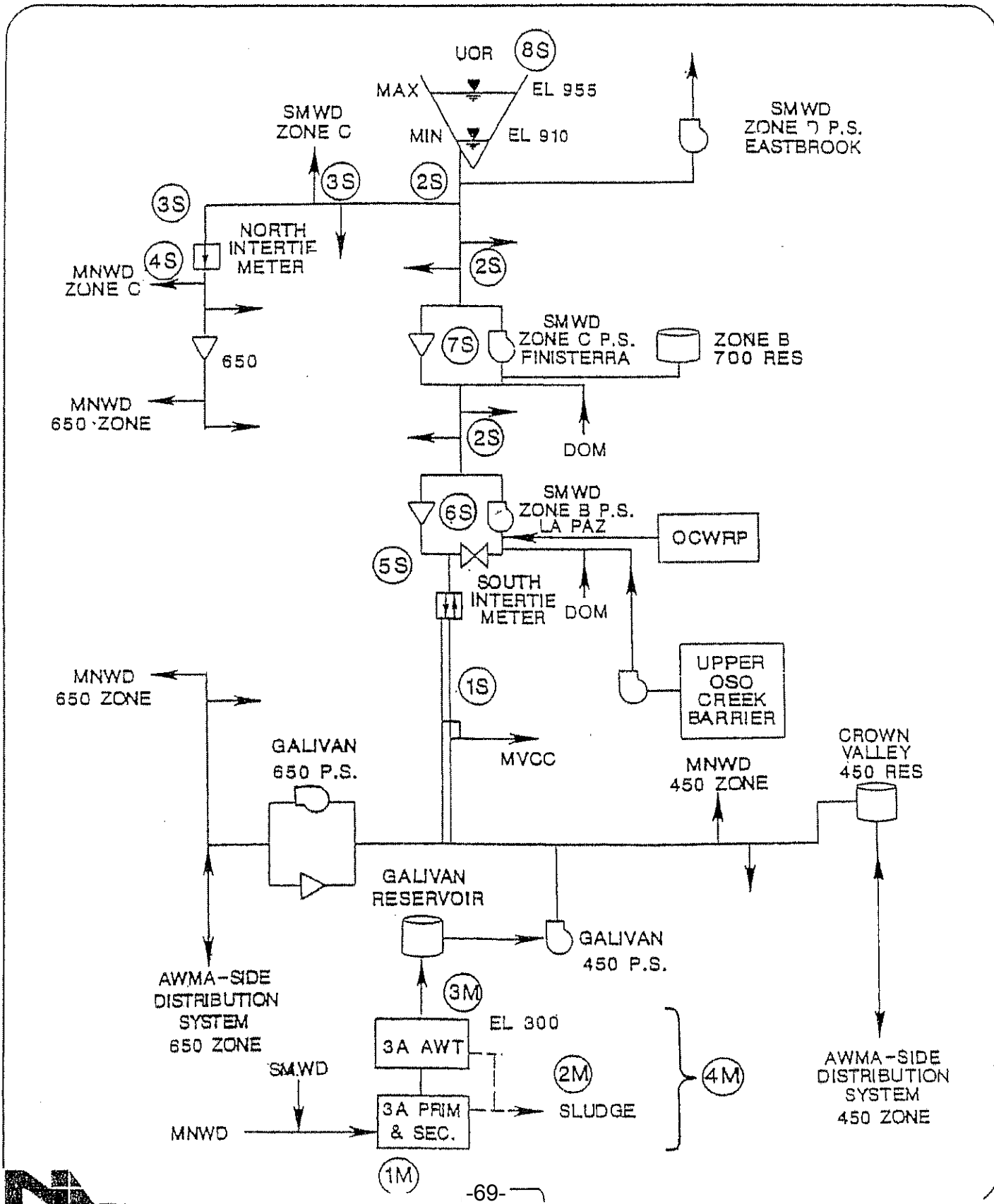


EXHIBIT C

UPPER OSO SYSTEM CAPACITY AND COST ALLOCATION

Cost Center Identif. Number	Upper Oso System Cost Center	Capacity Share (A)			O & M Cost Allocation Method
		Total Capacity	MNWD Capacity	MNWD Shares	
1S	8" & 12" Reclaimed water lines 3A Plant to OCWRP	3600 gpm	3600 gpm	100.0% (F)	capacity share
2S	18", 20" and 30" Reclaimed water lines OCWRP to UOR (included UOR metering)	5000 gpm	1680 gpm	33.6%	capacity share
3S	12" and 14" Reclaimed water lines in Cordova and Los Alisos	3300 gpm	2000 gpm	60.6%	capacity share
4S	North Intertie Metering	--	--	100.0%	capacity share
5S	South Intertie Metering Station & PRV Station			100.0%	capacity share
6S	La Paz (Zone B) Pump Station (G) a. power b. non-power	5000 gpm	1680 gpm	33.6%	variable (B) capacity share
7S	Finnesterra (Zone C) Pump Station a. power b. non-power	5000 gpm	1680 gpm	33.6%	variable (C) capacity share
8S	Upper Oso Reservoir a. power & chemicals b. other than power & chemicals c. water volume change	4000 af	1000 af	25.0%	variable (D) capacity share volume adjustment (E)

- (A) O & M share tabulation is a summation of capacities from Exhibits "E" & "F" of the Basic Agreement.
- (B) MNWD annual cost is total power cost times the ratio of the volume through the South Intertie meter divided by the Zone B Pump Station effluent meter volume.
- (C) MNWD annual cost is total power cost times the ratio of the volume through the South Intertie meter divided by the Zone C Pump Station effluent meter volume.
- (D) MNWD annual cost is total power cost times the ratio of the volume of stored MNWD water divided by the total volume of water stored in UOR.

- (E) MNWD annual water volume adjustment shall be determined in accordance with Section 203.
- (F) MNWD, at its option and with SMWD's concurrence, may perform the required inspection and maintenance on these facilities; otherwise, it will be performed by SMWD.
- (G) MNWD, at its option and with SMWD's concurrence, may obtain telemetry data and control certain valve(s) at this facility.

EXHIBIT D**PLANT 3A CAPACITY AND COST ALLOCATION**

Cost Center Identif. Number	Plant 3A Cost Center	Capacity Share (A)			O & M Cost Allocation Method
		Total Capacity	SMWD Capacity	SMWD Shares	
1M	Primary and Secondary Liquid Stream power, chemicals & misc. disposal	8.0 mgd	2.25 mgd	28.125%	variable (B)
2M	Sludge Disposal power, chemicals, hauling and treatment	8.0 mgd	2.25 mgd	28.125%	variable (B)
3M	Tertiary (AWT) power & chemicals	2.4 mgd	0.0 mgd	0.00%	variable (C)
4M	Common	8.0 mgd	2.25 mgd	28.125%	capacity share

- (A) Capacity share tabulation is a summation of capacities from Exhibits "E" & "F" of the Basic Agreement.
- (B) SMWD annual cost is total allocated cost times the ratio of SMWD inflow volume divided by total 3A Plant volume treated, with adjustments as required for BOD and TSS in influent flows.
- (C) SMWD annual cost is total allocated cost times the ratio of SMWD reclaimed water volume used from the AWT divided by the total AWT volume produced.

EXHIBIT E

SANTA MARGARITA WATER DISTRICT
PERCENT OF BENEFITS TO
BASE SALARIES
FISCAL YEAR 2007/2008

A. INSURANCE

Life & Health	\$ 941,177	
Dental	58,739	
Disability	106,967	
Vision	28,434	\$ 1,135,317

B. PERS RETIREMENT

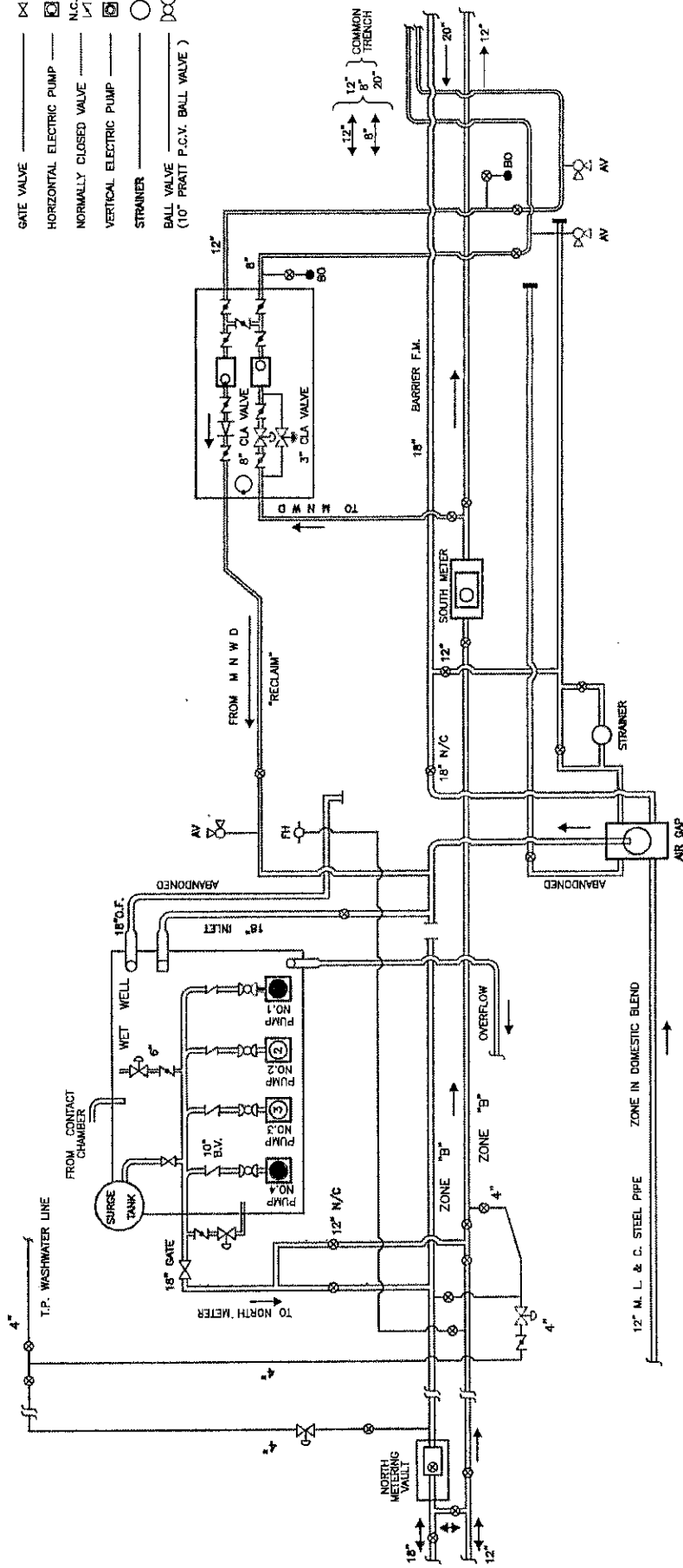
Employee Share (8.000%)	\$ 645,853	
District Share (10.165%)	820,636	\$1,466,489
Total Benefits:		\$2,601,806

C. BASE SALARIES

Regular Salaries	\$ 7,154,695	
Merit/Classification Changes	62,731	
Total Base Salaries:		\$7,217,426

D. Percent of Benefits to Base Salaries:		36.05%
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LEGEND	DESCRIPTION	SYMBOL
	BUTTERFLY VALVE	
	CHECK VALVE	
	DIAPHRAGM VALVE	
	FLOW ARROW	
	GATE VALVE	
	HORIZONTAL ELECTRIC PUMP	
	NORMALLY CLOSED VALVE	
	VERTICAL ELECTRIC PUMP	
	STRAINER	
	BALL VALVE (10" PRATT P.C.V. BALL VALVE)	

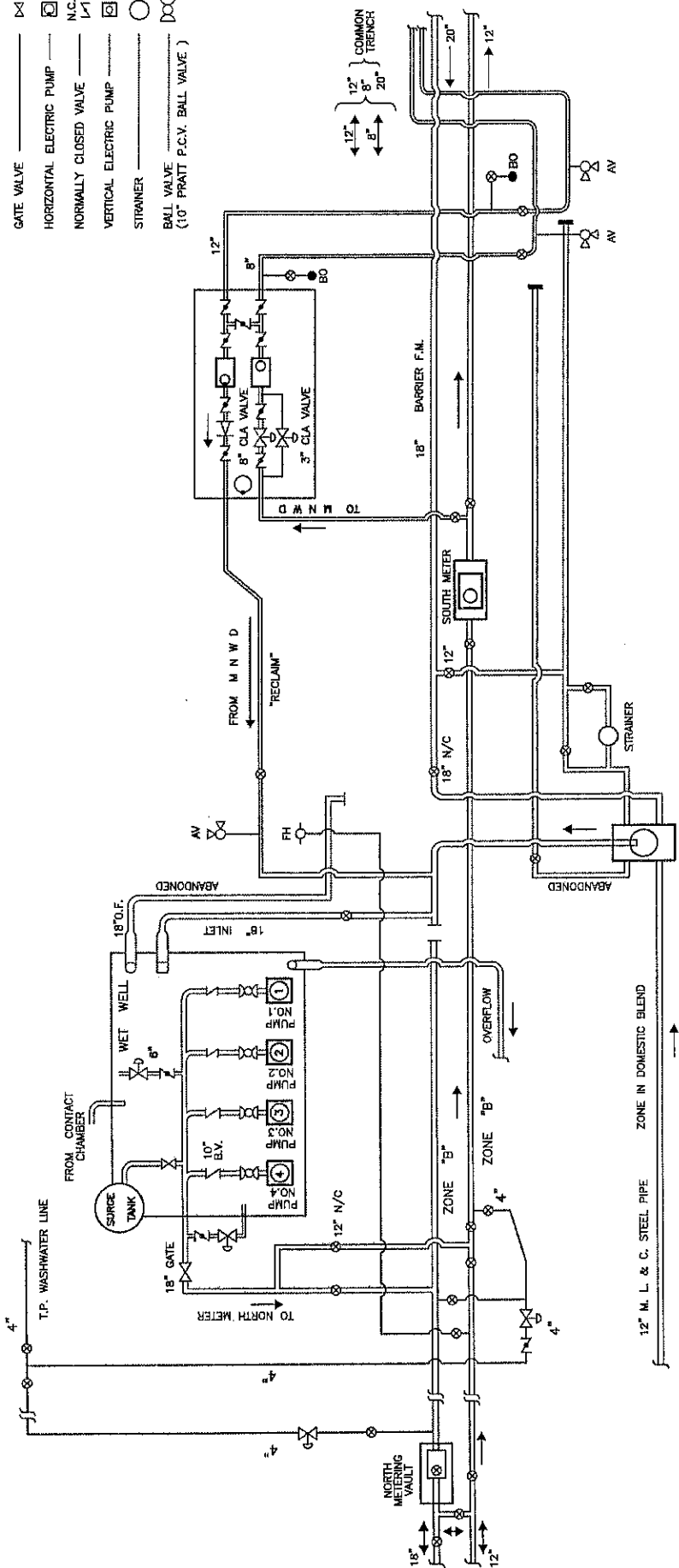


LA PAZ PUMP STATION

EXHIBIT F

LEGEND

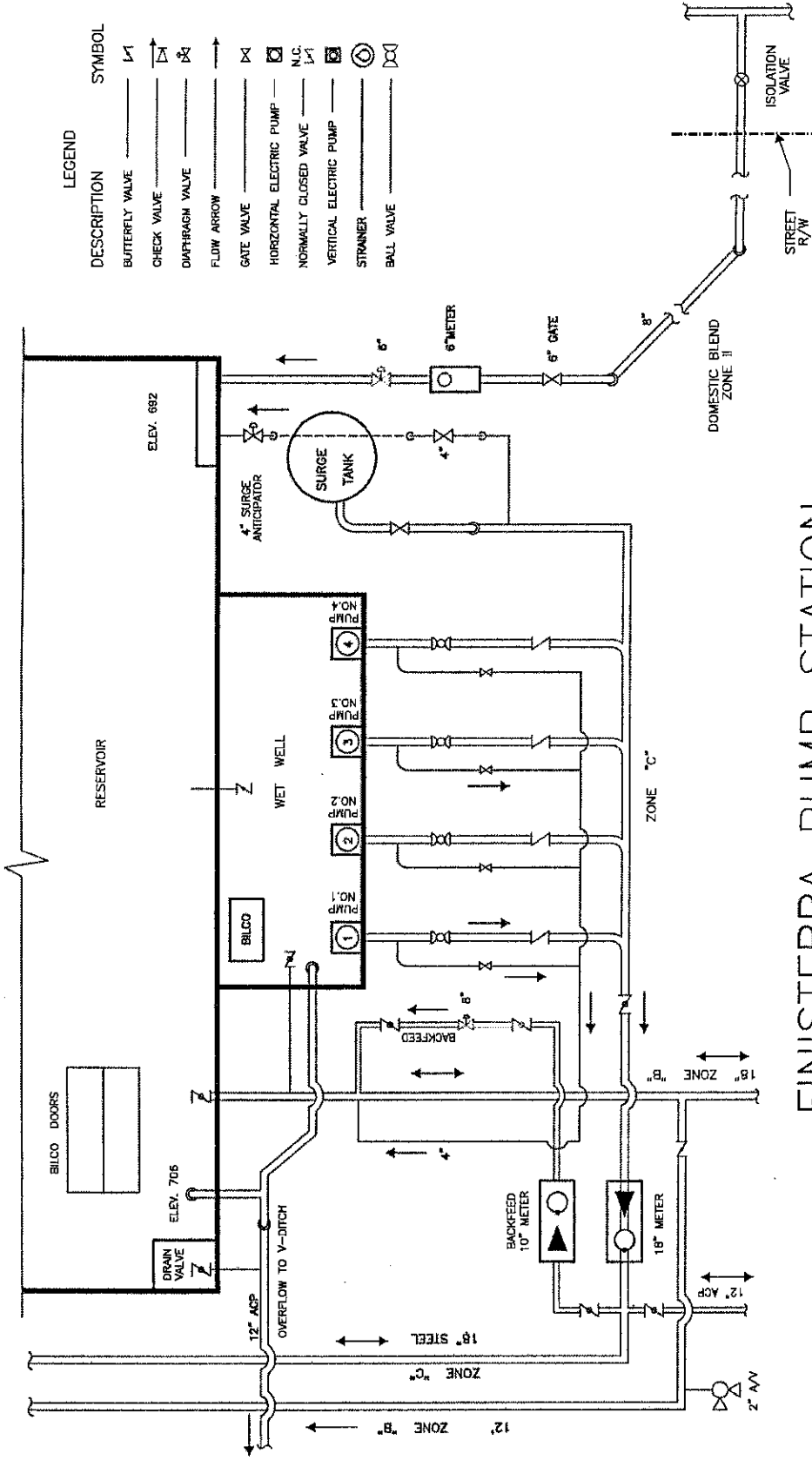
DESCRIPTION	SYMBOL
BUTTERFLY VALVE	
CHECK VALVE	
DIAPHRAGM VALVE	
FLOW ARROW	
GATE VALVE	
HORIZONTAL ELECTRIC PUMP	
N.C.	
NORMALLY CLOSED VALVE	
VERTICAL ELECTRIC PUMP	
STRAINER	
BALL VALVE	
(10" PRATT P.C.V. BALL VALVE)	



LA PAZ PUMP STATION

EXHIBIT F





LEGEND

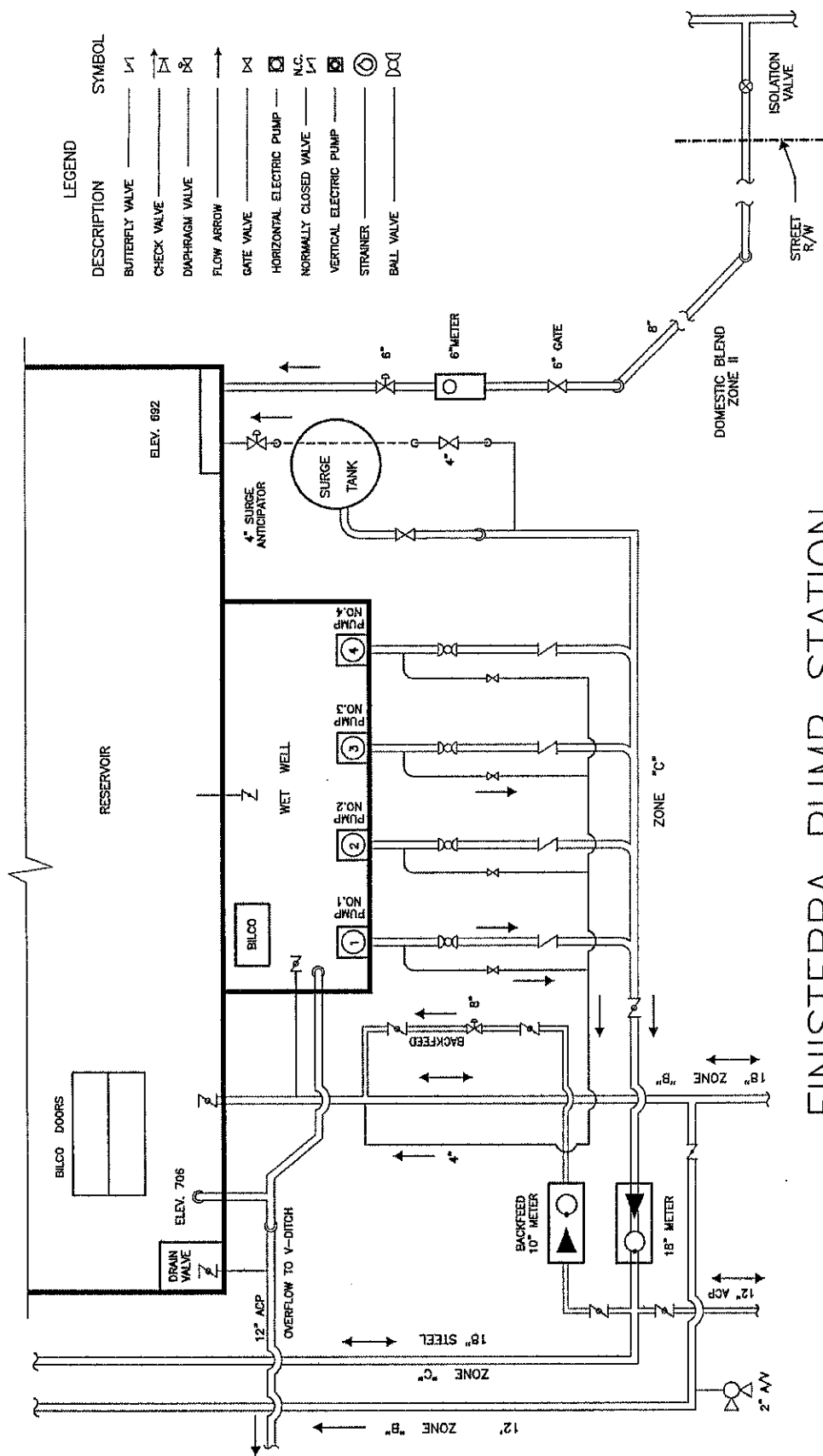
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FLOW ARROW	[Symbol]
GATE VALVE	[Symbol]
HORIZONTAL ELECTRIC PUMP	[Symbol]
NORMALLY CLOSED VALVE	[Symbol]
VERTICAL ELECTRIC PUMP	[Symbol]
STRAINER	[Symbol]
BALL VALVE	[Symbol]

FINISTERRA PUMP STATION

EXHIBIT G



EXHIBIT G



LEGEND

DESCRIPTION	SYMBOL
BUTTERFLY VALVE	
CHECK VALVE	
DIAPHRAGM VALVE	
FLOW ARROW	
GATE VALVE	
HORIZONTAL ELECTRIC PUMP	
NORMALLY CLOSED VALVE	
VERTICAL ELECTRIC PUMP	
STRAINER	
BALL VALVE	

FINISTERRA PUMP STATION



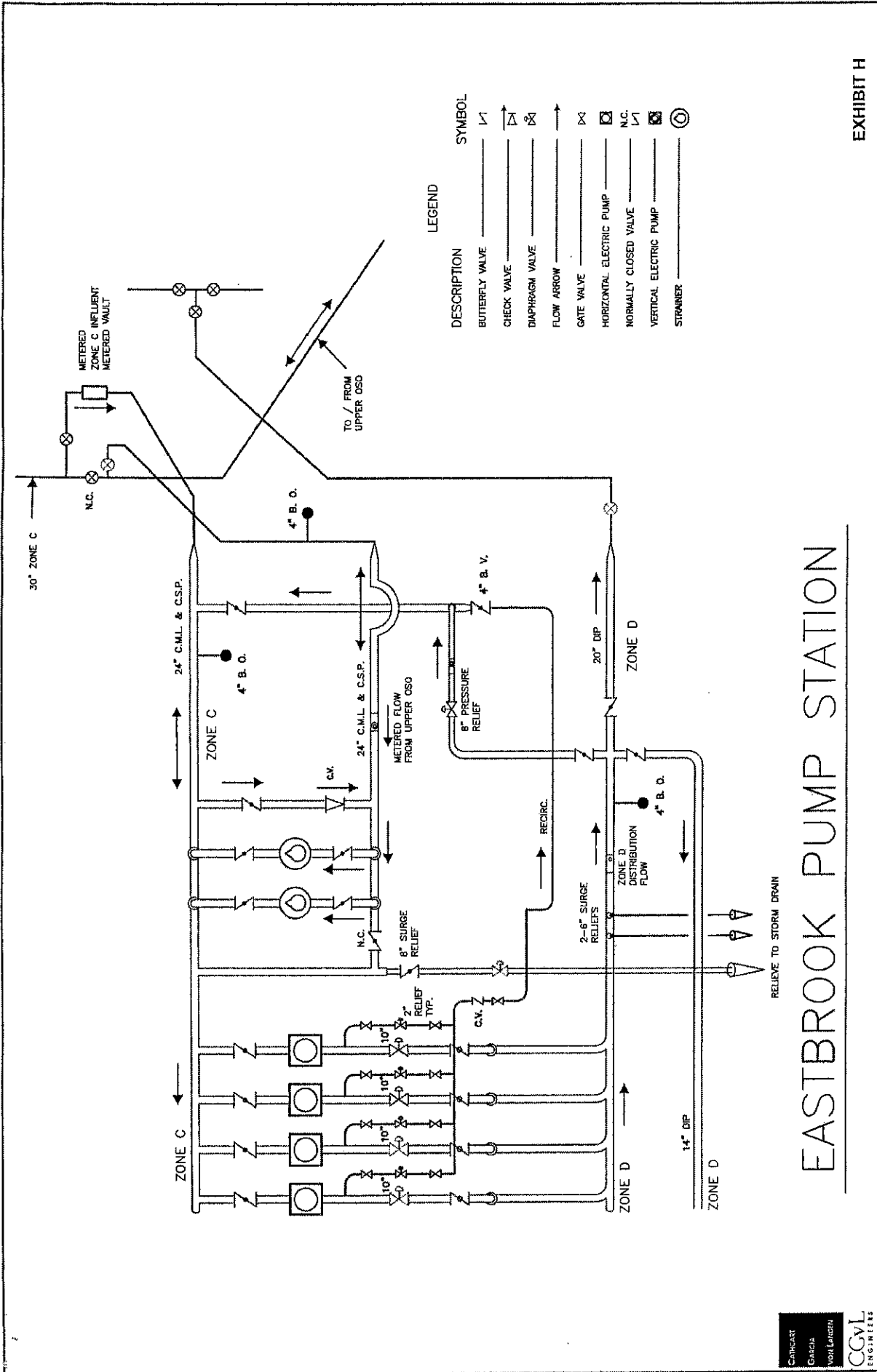


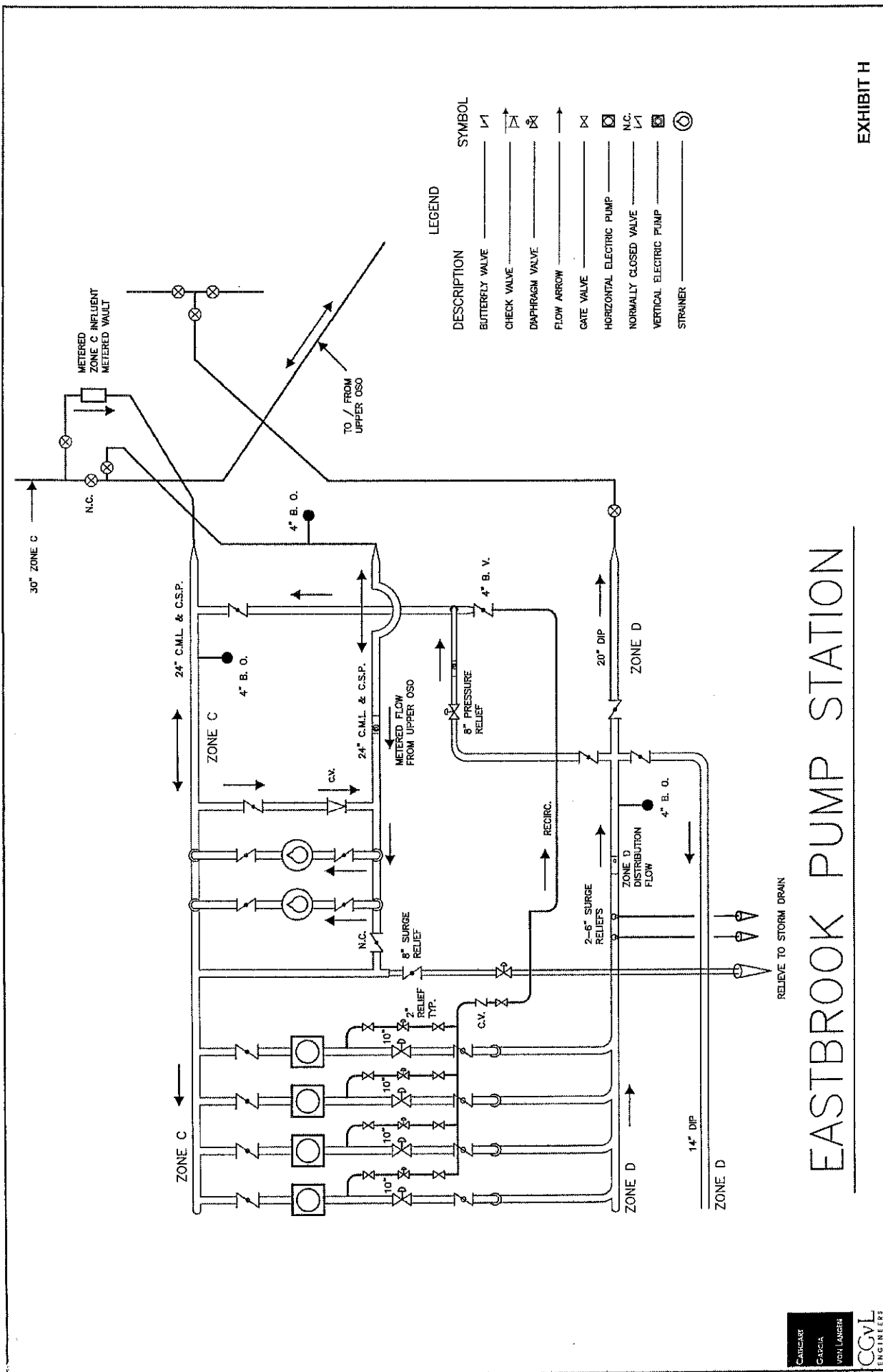
EXHIBIT H

EASTBROOK PUMP STATION

RELIEVE TO STORM DRAIN

CCVL
ENGINEERS

EXHIBIT H



EASTBROOK PUMP STATION

CARLEAT
 GARCIA
 VON LANGEN
CGVL
 ENGINEERS

EXHIBIT I

UPPER OSO RESERVOIR WATER SURFACE ELEVATION VERSUS SURFACE AREA AND STORAGE VOLUME

