

**AGREEMENT FOR SALE OF
RECLAIMED WATER**

This Agreement for Sale of Reclaimed Water is entered into as of February 14, 1992, by and between the **MONTEREY PENINSULA WATER MANAGEMENT DISTRICT**, a California public agency ("WMD"), and **PEBBLE BEACH COMPANY**, a California general partnership ("Buyer").

RECITALS

A. WMD was created to manage and regulate the use, reuse, reclamation and conservation of water on the Monterey Peninsula and the bond financing of related public works projects. WMD is desirous of implementing methods of conserving potable water consumption, and making available existing potable water, on the Monterey Peninsula for uses and purposes other than the uses and purposes for which it is presently being utilized.

B. Buyer is the owner of Pebble Beach Golf Course, Spyglass Hill Golf Course, Spanish Bay Golf Course, Peter Hay Par 3 Golf Course, the Pebble Beach Practice Fairway, and the Collins Field/Polo Field/Equestrian Center complex ("Buyer's Property"), located in the Del Monte Forest area of the Monterey Peninsula. Buyer's Property presently uses potable water for irrigation. Buyer purchases such potable water from California-American Water Company.

C. WMD has entered into agreements with various parties for the financing, construction and operation of a wastewater reclamation project, which will treat sewage generated within the Carmel Area Wastewater District and the Pebble Beach Community Services District at a wastewater treatment plant, owned and operated by the Carmel Area Wastewater District, such that the treated sewage will constitute subpotable water which may be used for irrigation of Buyer's Property as well as other properties located in Del Monte Forest. As part of the financing of the wastewater reclamation project, WMD is willing to finance the costs of design and construction of the modifications to the irrigation system(s) on Buyer's Property which will be required to be constructed in order to irrigate Buyer's Property with such subpotable water.

D. WMD desires that Buyer enter into a long-term requirements agreement to purchase such subpotable water, in lieu of the potable water presently being utilized, for irrigation of Buyer's Property, and Buyer is willing to enter into such a requirements agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, and the covenants and representations and warranties set forth in this Agreement, the parties have agreed as follows:

1. **Definitions.** As used in this Agreement, the following terms shall have the following meanings:

1.1 "Annual Charge" has the meaning set forth in section 2.2 below.

1.2 "Basic Penalty" has the meaning set forth in section 2.5 below.

1.3 "Bonds" means the bonds or certificates of participation issued by any Public Participant to finance the Capital Costs of the Reclamation Project, as more fully described in the Fiscal Sponsorship Agreement.

1.4 "Buyer's Property" means Pebble Beach Golf Course, Spyglass Hill Golf Course, Spanish Bay Golf Course, Peter Hay Par 3 Golf Course, the Pebble Beach Practice Fairway, and the Collins Field/Polo Field/Equestrian Center complex, owned by Buyer, located in Del Monte Forest, Monterey County, California.

1.5 "Buyer's Representative" has the meaning set forth in section 4.1 below.

1.6 "Cal-Am" means California-American Water Company, a California corporation.

1.7 "Capital Cost" has the meaning set forth in attached Exhibit A.

1.8 "CAWD" means the Carmel Area Wastewater District, a California public agency.

1.9 "Commercial Operation Date" means the date on which the Project is capable of operating at its designed capacity on a continuing basis, as determined by the Management Committee, in good faith and on any reasonable basis, after all required testing of the Project is completed, as evidenced by the issuance by the Management Committee of a certificate setting forth its determination of such date.

1.10 "Construction and Operation Agreement" means the Wastewater Reclamation Project Construction and Operation Agreement, dated as of November 1, 1990, by and among WMD, CAWD, PBCSD and PBC.

1.11 "CAWD/PBCSD" means the combination of CAWD and PBCSD, which entities will own the Project and, through the Management Committee, manage the design, construction, operation and maintenance of the Project.

1.12 "Contracting Agency" has the meaning set forth in section 4.1(a) below.

1.13 "Distribution System" means a distribution system which is capable of distributing the Reclaimed Water from the Facility to the water meter connections on each of the Open Spaces, as more specifically described in attached Exhibit B.

1.14 "Due Date" has the meaning set forth in section 2.5 below.

1.15 "Facility" means a wastewater reclamation facility and related improvements, to be located at the CAWD wastewater treatment plant site, which will produce Reclaimed Water, as more specifically described in attached Exhibit B.

1.16 "Financial Commitment" has the meaning specified in the Fiscal Sponsorship Agreement.

1.17 "Fiscal Sponsorship Agreement" means the Wastewater Reclamation Project Fiscal Sponsorship Agreement, dated as of October 3, 1989, between WMD and PBC.

1.18 "Golf Course Open Spaces" means the seven championship length golf courses, located in Del Monte Forest, Monterey County, California and described on attached Exhibit C.

1.19 "Indemnified Party" has the meaning set forth in section 10.1 below.

1.20 "Indemnifying Party" has the meaning set forth in section 10.1 below.

1.21 "Irrigation Contracts" has the meaning set forth in section 4.1(a) below.

1.22 "Irrigation System" means the present water supply system for Buyer's Property together with the Irrigation System Improvements.

1.23 "Irrigation System Improvements" means those modifications to the present water supply system for Buyer's Property necessary to irrigate Buyer's Property with the Reclaimed Water, including such modifications as are necessary to maintain potable water supply to such existing facilities as will require continued use of potable water, all as more particularly described in section 4.1 below and Exhibit F.

1.24 "Irrigation Systems" means the present water supply systems of the Open Spaces together with the modifications to such systems necessary to irrigate the Open Spaces with the Reclaimed Water, including such modifications as are necessary to maintain potable water supply to such existing facilities as will require continued use of potable water.

1.25 "Management Committee" means a committee composed of (a) two representatives of CAWD, (b) two representatives of PBCSD, and (c) one representative of PBC, which will, pursuant to the Construction and Operation Agreement, direct budgeting for, and the construction and operation of, the Project.

1.26 "Minimum Allotment" has the meaning set forth in section 6.3(a) below.

1.27 "Minimum Purchase" has the meaning set forth in section 2.4 below.

1.28 "Net Operating Deficiencies" has the meaning set forth in the Fiscal Sponsorship Agreement.

1.29 "Open Spaces" means all of the Golf Course Open Spaces and Other Open Spaces described in attached Exhibit C, all of which will utilize Reclaimed Water, in lieu of potable water, for irrigation purposes.

1.30 "Operating Revenues" has the meaning set forth in the Fiscal Sponsorship Agreement.

1.31 "Operation and Maintenance Expenses" has the meaning set forth in the Fiscal Sponsorship Agreement.

1.32 "Other Open Spaces" means the Open Spaces described in attached Exhibit C other than the Golf Course Open Spaces.

1.33 "Other Property" has the meaning set forth in section 2.8 below.

1.34 "Oversight Committee" has the meaning set forth in Article 11 below.

1.35 "Owners" means the owners of each of the Open Spaces, and includes Buyer with respect to its ownership of Buyer's Property.

1.36 "PBCSD" means the Pebble Beach Community Services District, a California public agency.

1.37 "PBC" means the Pebble Beach Company, a California general partnership.

1.38 "Percentage Share" means the percentages that are set forth on attached Exhibit C for each of the Open Spaces.

1.39 "Permits" has the meaning set forth in section 4.3 below.

1.40 "Project" means the Facility and the Distribution System, but excludes the Irrigation Systems.

1.41 "Public Participant" means any one or more of the following: WMD, CAWD, PBCSD, or any successor public agency, including, without limitation, any joint powers agency formed by one or more of such agencies.

1.42 "Rate Schedule" has the meaning set forth in section 2.2 below.

1.43 "Reclaimed Water" means the sewage produced by the existing CAWD wastewater treatment plant after treatment by the Facility to a level that is suitable for irrigation of the Open Spaces.

1.44 "Reclamation Project" means the Facility, the Distribution System and the Irrigation Systems, as more specifically described in attached Exhibit B.

1.45 "Shortfall Period" has the meaning set forth in section 6.3 below.

1.46 "Surplus Reclaimed Water" has the meaning set forth in section 2.8 below.

1.47 "Unpaid Balance" has the meaning set forth in section 2.5 below.

1.48 "WMD" means the Monterey Peninsula Water Management District, a California public agency.

1.49 "Water Management District Law" means Chapter 527 of the California Statutes of 1977, as amended to the date of this Agreement.

2. Purchase and Sale of Reclaimed Water.

2.1 Quantities of Reclaimed Water. During the term of this Agreement, WMD shall sell and deliver to Buyer, and Buyer shall purchase and accept from WMD, such quantities of Reclaimed Water as Buyer shall require, from time to time, for purposes of irrigating Buyer's Property; subject, however, to the provisions of sections 6.1, 6.2 and 6.3, which shall govern the rights of the parties in the event that the Project is unable to produce and deliver a sufficient quantity of Reclaimed Water to meet all of the

irrigation requirements of the Open Spaces. During the term of this Agreement, Buyer shall not purchase or use water, whether subpotable or potable, other than Reclaimed Water, for the purpose of irrigating Buyer's Property, except that (a) Buyer may collect and use water falling upon or passing through Buyer's Property for such purpose; (b) to the extent WMD is unable to supply an aggregate amount of Reclaimed Water and potable water sufficient to meet the aggregate irrigation requirements of Buyer's Property, Buyer may purchase or receive water from any other source legally available to Buyer to make up any shortfall for so long as such shortfall exists; and (c) Buyer may purchase or use water other than Reclaimed Water to the extent otherwise specifically provided in this Agreement. Any such use by Buyer pursuant to clause (a), (b) or (c) above shall be consistent with the requirements of all Permits, as defined in section 4.3 below, and otherwise in compliance with all applicable laws and regulations. Additionally, any such use shall be reported to WMD on a quarterly basis at the same time Buyer submits its quarterly estimates as required by section 2.8(c) below. Buyer's report shall include the source, quantity, time(s), and duration(s) of any such use, and any other information reasonably requested by WMD.

2.2 Charges for Reclaimed Water Use. Subject to the provisions of sections 2.3 and 2.4, WMD shall charge Buyer for service by the Reclamation Project and for the use of Reclaimed Water as follows:

(a) A monthly quantity charge based on the quantity of Reclaimed Water used calculated in the same manner as the quantity charge for similarly-situated potable water users in the gravity zone as set forth in the then-current Tariff Schedule for General Metered Service for the Cal-Am Monterey Peninsula Tariff Area, or any successor schedule, as approved by the California Public Utilities Commission (the "Rate Schedule"). For informational purposes only, a copy of the current Rate Schedule effective January 1, 1991, is attached as Exhibit D.

(b) A monthly service charge based on the size of Buyer's Reclaimed Water meter(s) calculated in the same manner as the service charge for similarly-situated potable water users in the gravity zone as set forth in the Rate Schedule.

(c) A monthly equalization charge based on the aggregate amount of all taxes, charges, surcharges, assessments, fees, or other monetary impositions of any kind, however denominated and for whatever purposes, that from time to time are due and payable by similarly-situated potable water users.

The aggregate amount of all monthly quantity, service and equalization charges payable by Buyer for any calendar year is

herein referred to as the "Annual Charge." The express intent of WMD and Buyer, subject to sections 2.3 and 2.4, is that Buyer's Annual Charge for service by the Reclamation Project and for the use of Reclaimed Water in any calendar year shall equal, to the extent practicable, the annual charges Buyer would have paid to Cal-Am and WMD for service by the Cal-Am water system and the use of potable water for irrigation of Buyer's Property in that same calendar year (excluding elevation zone differentials), provided, however, that Buyer shall have no obligation to pay any charge or fee for Buyer's initial hook-up to the Reclamation Project.

2.3 Reduction in Annual Charge. Upon the later to occur of (a) payment of the Bonds in full and (b) termination of the Financial Commitment with respect to Net Operating Deficiencies, WMD shall reduce Buyer's charges under section 2.2 for the balance of the calendar year in which the later of such events occurs to a level that assures, to the extent practicable, that Operating Revenues equal, without exceeding, reasonable Operation and Maintenance Expenses for that calendar year.

For each calendar year thereafter, the Annual Charge for Buyer and all other Owners shall be calculated by WMD independently of Cal-Am's annual charges for potable water users and shall be set at a level that assures, to the extent practicable, that Operating Revenues equal, without exceeding, reasonable Operation and Maintenance Expenses, provided, however, that in no event shall Buyer's Annual Charge for any such calendar year exceed the amount Buyer would have paid for such calendar year if calculated pursuant to section 2.2 above.

2.4 Minimum Purchase. Irrespective of the amount of Reclaimed Water actually used by Buyer, Buyer shall be deemed to have purchased under section 2.1, and shall be obligated to pay for under section 2.5, a minimum amount of Reclaimed Water in each calendar year (the "Minimum Purchase"). Buyer's Minimum Purchase is set forth in attached Exhibit C and is based upon Buyer's Percentage Share of six hundred fifty (650) acre feet of Reclaimed Water per year. If Buyer's Property consists of more than one of the Open Spaces, then Buyer's total Percentage Share shall be the aggregate of the percentage shares for all Open Spaces owned by Buyer. In that case, Buyer's total Minimum Purchase shall be the aggregate of the Minimum Purchases for all Open Spaces owned by Buyer. Buyer's purchase of Reclaimed Water in any calendar for use on any of the Open Spaces owned by Buyer shall be applied toward satisfaction of Buyer's total Minimum Purchase requirement for such year. Buyer shall be required to take delivery of and use only that amount of Reclaimed Water necessary to satisfy the irrigation requirements for Buyer's Property and, in the event that Buyer requires less than the full amount of the Minimum Purchase during a given calendar year, no Reclaimed Water in excess of Buyer's requirements shall be delivered. Buyer's obligation to pay for the Minimum Purchase, to the extent the Minimum Purchase exceeds the

amount of Reclaimed Water actually purchased and used by Buyer in any given calendar year, shall be calculated in the manner provided in section 2.5(b), and payment shall be made as provided in section 2.5(c). At such time as the price for Reclaimed Water may be reduced pursuant to section 2.3, Buyer's obligations under this section 2.4 shall terminate.

2.5 Payment for Reclaimed Water.

(a) After the Commercial Operation Date, WMD (or its agent for purposes of billing and collection) shall invoice Buyer for all quantity charges, service charges, and equalization charges payable under section 2.2 on a monthly basis in accordance with the Cal-Am billing procedures then in effect with respect to potable water customers.

(b) At the conclusion of each calendar year, WMD shall prepare a final invoice for such calendar year to reflect, if necessary, the following adjustments:

(i) First, WMD shall calculate the total quantity of Reclaimed Water used and purchased by Buyer during such calendar year. If such total is less than the Minimum Purchase, then WMD shall invoice Buyer for the quantity charge payable under section 2.2 for a quantity of Reclaimed Water represented by the difference between the Minimum Purchase and the total quantity of Reclaimed Water used and purchased by Buyer during such calendar year.

(ii) Second, WMD shall determine whether the sum of (A) Buyer's total payments under subsection 2.5(a) above for such calendar year and (B) the amount, if any, owed by Buyer under subsection 2.5(b)(i) above is equal to the Annual Charge properly payable by Buyer under section 2.2. If such sum is less than the Annual Charge properly payable by Buyer for such calendar year, then WMD shall invoice Buyer for the difference.

(c) Each such invoice shall be due and payable by Buyer within the time period for payment then provided by Cal-Am with respect to potable water customers. If Buyer fails to pay to WMD the full amount owing under any such invoice (the "Unpaid Balance") on or before the last day of such time period (the "Due Date"), Buyer shall be obligated to pay to WMD a basic penalty of ten percent (10%) of the Unpaid Balance, as provided in section 326(g) of the Water Management District Law (the "Basic Penalty"). Additionally, if Buyer fails to pay the full amount of the Unpaid Balance and the Basic Penalty on or before ten (10) days after the Due Date, Buyer shall be obligated to pay to WMD interest on the Unpaid Balance and the Basic Penalty at the rate of one-half of one percent ($\frac{1}{2}\%$) per month from the Due Date until paid, as provided in section 326(g) of the Water Management District Law. Additionally, WMD shall have all other remedies against Buyer

available under the Water Management District Law, including, without limitation, the lien rights provided by section 326(h).

2.6 Measurement of Use of Reclaimed Water. The actual use of Reclaimed Water by Buyer for Buyer's Property shall be measured by a water meter or meters to be installed for the purpose of measuring such use. The measurement of such use determined by WMD (or its agent for purposes of billing and collection) by reading such water meter shall be deemed to be conclusive and binding on the parties, absent manifest error.

2.7 Supplemental Potable Water Pursuant to Sections 5.2 or 6.1. Any potable water delivered to and used by Buyer pursuant to the provisions of section 5.2 or section 6.1 shall be deemed to be "Reclaimed Water" purchased and used by Buyer for purposes of sections 2.2, 2.4, 2.5 and 2.6 of this Agreement, but for no other purposes, and no other potable water purchased and/or used by Buyer shall be deemed "Reclaimed Water" for purposes of this Agreement.

2.8 Right of First Offer. WMD and Buyer acknowledge and agree that the rights of Buyer and any other Owner to purchase and receive Reclaimed Water for their respective Open Spaces shall be primary and superior to the rights of Buyer, any other Owner, or any other person to purchase and received Reclaimed Water for use on any property other than the Open Spaces ("Other Property"). Subject to this express acknowledgement and agreement, WMD and Buyer further acknowledge that the Facility may be capable of producing more Reclaimed Water during certain time periods than the aggregate amount of Reclaimed Water required by the Open Spaces during such time periods ("Surplus Reclaimed Water"). With respect to any Surplus Reclaimed Water, WMD and Buyer therefore further agree as follows:

(a) Buyer and all other Owners shall have a right of first offer to purchase all or a portion of the Surplus Reclaimed Water on the terms and conditions set forth in attached Exhibit E.

(b) If Buyer and the other Owners fail to exercise their respective rights of first offer, or if Surplus Reclaimed Water is available even after Buyer or any other Owner has exercised its right of first offer, then WMD shall take the following actions:

(i) WMD shall use its best efforts to sell any such Surplus Reclaimed Water to purchasers who will use the water for commercial purposes. The provisions of any such contract shall include the following:

(1) the price for the Surplus Reclaimed Water shall be the highest price then available in the market, but

in no event less than Buyer would pay for such water pursuant to this Agreement;

(2) the term of the contract shall be limited to six (6) months;

(3) the contract shall be on an "as available" basis, with an express acknowledgement that Surplus Reclaimed Water can only be supplied to the proposed buyer on a daily basis to the extent the requirements of the Open Spaces have been completely satisfied.

(ii) If, after using its best efforts, WMD is unable to secure any commercial purchasers pursuant to clause (i) above, WMD may contract to sell the Surplus Reclaimed Water to purchasers who will use the water for any public benefit. The provisions of any such contract shall include the following:

(1) The price for the Surplus Reclaimed Water shall be the highest price attainable by WMD, but in no event less than the cost to WMD of producing and delivering the Surplus Reclaimed Water;

(2) the term of the contract shall be limited to thirty (30) days;

(3) the contract shall be on an "as available" basis, with an express acknowledgement that Surplus Reclaimed Water can only be supplied to the proposed buyer on a daily basis to the extent the requirements of the Open Spaces have been completely satisfied.

(c) To assist WMD in determining whether any Surplus Reclaimed Water may be available, Buyer shall submit to WMD on or before the first day of each calendar quarter, an estimate of its projected Reclaimed Water use for that quarter. WMD agrees that any such estimate is to be provided solely as a convenience to WMD, with no obligation on Buyer to adhere to the amount of such estimate for any purpose.

3. Term.

3.1 Term. This Agreement shall commence and be effective and binding on the parties on the date first set forth above, and continue and remain in effect until the date on which the Bonds are fully paid, or the date which is thirty (30) years after the Commercial Operation Date, whichever is later, and thereafter until terminated pursuant to section 3.2.

3.2 Termination by WMD or Buyer. After the Bonds have been fully paid, or thirty (30) years after the Commercial Operation Date, whichever is later, either WMD or Buyer may

terminate this Agreement upon providing the other party at least six (6) months written notice of termination; provided, however, that as long as the Project remains capable of producing and distributing Reclaimed Water in accordance with this Agreement, WMD shall have no right to terminate this Agreement unless subpotable water is then reasonably available to Buyer for irrigation of Buyer's Property.

3.3 WMD Right to Terminate. Notwithstanding anything to the contrary in this Agreement, in the event PBC should terminate the Fiscal Sponsorship Agreement prior to the commencement of the offering of the Bonds, then WMD may elect to terminate this Agreement effective upon receipt by Buyer of written notice of termination from WMD.

4. Irrigation System.

4.1 Design and Construction. The Irrigation System Improvements shall be designed and constructed in accordance with the procedure and requirements set forth in this section. In order to facilitate an orderly process for such design and construction and other matters arising under this Agreement, Buyer shall designate in writing one representative of Buyer ("Buyer's Representative") who shall have responsibility and authority to represent Buyer, supervise and coordinate Buyer's activities, and communicate with WMD and the Management Committee on all matters arising under this Agreement.

(a) The Irrigation System Improvements are described in attached Exhibit F. One of the Public Participants (the "Contracting Agency") shall contract for the design and construction of the Irrigation System Improvements with a design engineer and a contractor acceptable to Buyer. The design and construction of the Irrigation System Improvements may be pursuant to separate contracts for design and for construction or a single integrated contract for both design and construction (any such contract or contracts are referred to as the "Irrigation Contracts" in this Agreement). Buyer shall have the right to review and approve the Irrigation Contracts with respect to the design of and construction schedule for the Irrigation System Improvements. Additionally, Buyer shall cooperate in all respects necessary or advisable for the letting of the Irrigation Contracts, including, without limitation, executing the Irrigation Contracts as owner of Buyer's Property if requested by the Contracting Agency, provided, however, that Buyer shall have no liability for payment of any costs related to the design or construction of the Irrigation System Improvements.

(b) The design and construction of the Irrigation System Improvements, including, without limitation, the letting of the Irrigation Contracts, shall be accomplished in accordance with the provisions of section 4 of the Construction and Operation

Agreement, provided, however, that the following specific provisions also shall apply:

(i) WMD, Buyer, and each member of the Management Committee shall be named as third-party beneficiaries of the Irrigation Contracts.

(ii) The Contracting Agency, through its design and construction engineer, shall be responsible for the following matters:

(1) Applying for, processing, and coordinating and managing compliance with all Permits, as defined in section 4.3 below, for the Open Spaces to insure timely completion and operation of the Irrigation Systems as part of the Reclamation Project.

(2) Coordinating and managing the design of the Irrigation System Improvements.

(3) Providing construction management services for the construction of the Irrigation System Improvements.

(c) All Capital Costs related to construction of the Irrigation System Improvements, incurred and approved in the manner provided in the Construction and Operation Agreement, shall be paid by WMD to the Contracting Agency from the proceeds of the Bonds, as provided in the Construction and Operation Agreement.

(d) Buyer shall cooperate fully with the design and construction of the Irrigation System Improvements, including, without limitation, the schedule for such design and construction established by the Management Committee. The schedule shall require that the design be completed by the time design of the Project is completed, and that construction shall be completed, and the Irrigation System fully operational, on or before the Commercial Operation Date.

(e) At Buyer's option and at Buyer's sole cost and expense, Buyer may design and construct additional modifications to the Irrigation System, other than the Irrigation System Improvements, provided:

(i) any such additional modifications shall be designed, constructed and completed

(1) pursuant to a separate written contract, and

(2) in accordance with the schedule established by the Management Committee so that the Irrigation

System is completed and fully operational on or before the Commercial Operation Date; and

(ii) any such separate written contract shall be reviewed by the Management Committee prior to such contract becoming effective to assure that the Irrigation System will be completed and fully operational on or before the Commercial Operation Date.

4.2 Ownership and Operation. Buyer shall be the owner of the Irrigation System, including the Irrigation System Improvements. Buyer shall be responsible for the operation, including, without limitation, maintenance and repair, of the Irrigation System, including the Irrigation System Improvements, and for all related costs and expenses.

4.3 Permits. WMD and Buyer acknowledge that certain governmental permits, approvals, and authorizations (collectively, "Permits") will be required in order to construct and operate the Irrigation System Improvements and use the Reclaimed Water on the Open Spaces as a part of the Reclamation Project. Buyer shall cooperate with the Contracting Agency and its design and construction engineer, and, if directed by the Contracting Agency, shall (a) timely execute and file all applications for all Permits necessary to construct and operate the Irrigation System and use the Reclaimed Water on Buyer's Property in the manner contemplated or required by this Agreement, and (b) timely satisfy and comply with all terms and conditions of all Permits, provided, however, that Buyer shall have the right to object to the imposition of any unreasonable terms or conditions proposed in any Permits. All governmental fees and other direct, out-of-pocket costs paid by Buyer in filing any Permit, or in satisfying or complying with any terms and conditions necessary to the initial issuance and effectiveness of any Permit, shall be reimbursed by WMD to Buyer as a Capital Cost of the Reclamation Project. Upon satisfaction or compliance with any such terms and conditions necessary to the initial issuance and effectiveness of such Permit, Buyer shall thereafter at all times maintain the Permits in full force and effect at its own expense. The Permits shall include, without limitation, those required by the California Coastal Commission, the County of Monterey, the California Regional Water Quality Control Board, and the Monterey Bay Unified Air Pollution Control District. Buyer shall further use its best efforts and cooperate with any of the Public Participants to timely obtain, comply with all of the terms and conditions of, and maintain in full force and effect all private rights and consents necessary to construct and operate the Irrigation System in the manner contemplated or required by this Agreement.

5. Water Quality.

5.1 **Quality of Reclaimed Water.** WMD shall use its best efforts to assure that all Reclaimed Water sold to Buyer is suitable for irrigation of greenbelt areas (including golf courses), meets the Estimated Chemical Characteristics set forth in attached Exhibit G, and otherwise meets all regulatory and health standards for such usage, including, without limitation, the standards set forth in section 60313(b) of Title 22, Article 4, of the California Code of Regulations (the text of which is set forth in attached Exhibit G).

5.2 **Reclaimed Water Quality Failure.** WMD shall notify Buyer, and Buyer shall notify WMD, immediately in the event either becomes aware that any Reclaimed Water delivered to Buyer fails to meet the applicable water quality standards specified in section 5.1. In that event, (a) WMD hereby finds, and the parties agree, that subpotable water is not reasonably available in such circumstances to meet all irrigation requirements of the Open Spaces; (b) as soon as possible, WMD shall replace the Reclaimed Water by supplying to the storage tank of the Distribution System sufficient quantities of potable water to meet the irrigation requirements of Buyer; and (b) Buyer shall immediately take such action with respect to irrigation of Buyer's Property as may be directed by WMD or other applicable governmental authorities until the quality of the Reclaimed Water delivered to Buyer again meets such standards. If, due to a Reclaimed Water quality failure, WMD is unable during any year to provide Buyer with an aggregate amount of Reclaimed Water and potable water at least equal to the Minimum Purchase, then the Minimum Purchase for such year shall be reduced to the aggregate amount of Reclaimed Water and potable water WMD has been able to provide to Buyer during such year.

5.3 **Water Quality Reports.** Upon request, Buyer shall be entitled to receive from WMD copies of any reports prepared by or on behalf of WMD relating to the quality of the Reclaimed Water sold to Buyer.

6. Water Quantity.

6.1 **Makeup Potable Water.** In the event the Project is unable, for any reason whatsoever, to produce and deliver sufficient Reclaimed Water to meet the aggregate requirements of the Owners for irrigation of the Open Spaces during any given time period, then (a) WMD hereby finds, and the parties agree, that subpotable water is not "reasonably available" in such circumstances to meet all of the irrigation requirements of the Open Spaces and (b) except as otherwise provided in section 6.2, WMD shall supply to the storage tank of the Distribution System sufficient quantities of potable water to meet the irrigation requirements of the Open Spaces.

6.2 **Water Supply Emergency.** In the event that WMD has declared a lawful "water supply emergency" (as defined in section 332 of the Water Management District Law) and has imposed water rationing on all users of potable water within the Cal-Am service area, then WMD shall have no obligation to supply any potable water under the provisions of section 6.1. In such event, however, inasmuch as WMD finds and the parties agree that subpotable water will not then be "reasonably available" to meet all of the irrigation needs of the Open Spaces (as provided in section 6.1), WMD agrees that Buyer and the other Owners shall have a right to receive potable water from Cal-Am or any other source under WMD's control to supplement the Reclaimed Water on a basis that assures that Buyer and the other Owners will have the irrigation requirements of the Open Spaces satisfied to the same degree that the irrigation requirements of any similar non-Reclamation Project golf courses or open spaces within the service area of Cal-Am or such other source are being satisfied from the system of Cal-Am or such other source.

6.3 **Allocation in Time of Shortage.** In the event that the Reclaimed Water produced and delivered by the Project, as supplemented by potable water under the provisions of section 6.1 or section 6.2 above, is insufficient to meet the aggregate requirements of the Open Spaces at any given time (a "Shortfall Period"), then the aggregate amount of Reclaimed Water and potable water available through the Distribution System shall be allocated among all of the Open Spaces in the manner agreed by all of the Owners. In the absence of such agreement, the aggregate amount of Reclaimed Water and potable water available during any given Shortfall Period shall be allocated among each of the Owners as follows:

(a) Each Golf Course Open Space shall receive an equal quantity of Reclaimed Water and potable water up to a maximum of fifty thousand (50,000) gallons per day and each Other Open Space shall receive an equal quantity of Reclaimed Water and potable water up to a maximum of five thousand (5,000) gallons per day (in either case, such quantity is referred to as the "Minimum Allotment").

(b) After each Open Space has received its full Minimum Allotment, any additional Reclaimed Water and potable water available during the Shortfall Period shall be allocated among each of the Owners for use in their sole discretion on their respective Open Spaces in accordance with their respective Percentage Shares set forth in attached Exhibit C.

(c) If Buyer's Property consists of more than one of the Open Spaces, then Buyer's Minimum Allotment and Percentage Share shall be the aggregate of the Minimum Allotments and Percentage Shares for all the Open Spaces owned by Buyer. In that case, Buyer may use its Minimum Allotment and its Percentage Share

of any additional Reclaimed Water and potable water available during any Shortfall Period on all or any of the Open Spaces owned by Buyer in any manner Buyer determines in its sole discretion.

(d) At no time during any Shortfall Period or otherwise during the term shall any Open Space receive a quantity of Reclaimed Water and potable water in excess of its irrigation requirements.

6.4 Upon request, Buyer shall be entitled to receive from WMD copies of any reports prepared by or on behalf of WMD relating to the use of Reclaimed Water and potable water by the Open Spaces for irrigation, including, without limitation, any reports relating to any Shortfall Periods.

7. Operation of the Reclamation Project.

7.1 **Standards of Operation.** Buyer shall ensure that the Irrigation System is operated, maintained and repaired in compliance with (a) applicable provisions of federal, state and local laws, regulations, permits and approvals, including, without limitation, the Permits, (b) insurance policies in place with respect to such Irrigation System, (c) good engineering practices, and (d) prudent business practices. WMD shall require that the Project be operated, maintained and repaired as provided in the Construction and Operation Agreement.

7.2 Insurance on Irrigation System.

(a) Commencing with the Commercial Operation Date, Buyer shall obtain and maintain in effect during the term of this Agreement insurance for the Irrigation System, with such coverages (including with respect to risks, amounts and deductibles), and with such insurance companies, as are approved by WMD and PBC, which approval shall not be unreasonably withheld or delayed. Each such insurance policy shall (1) name WMD and PBC as an additional insured thereunder, and (2) provide that it may not be terminated or amended or otherwise modified, in any material respect, without WMD and PBC being given at least thirty (30) days prior written notice of such termination, amendment or modification. Upon receipt of any such notice, WMD and PBC shall have the same approval rights with respect to any replacement policy or any material amendment or other modification as they had with respect to the original policy. Upon the initial placement and the renewal of each such insurance policy, Buyer shall provide WMD and PBC with written evidence, in the form of policies or certificates of insurance, of such insurance.

(b) In the event that a casualty should occur to any portion of the Irrigation System on Buyer's Property, Buyer shall promptly thereafter repair or reconstruct such portion using

any proceeds of the insurance described in section 7.2(a) above and such other funds of Buyer as are necessary to complete such work.

7.3 Insurance on Project. WMD shall require insurance with respect to the Project and the operation of the Project as provided in the Construction and Operation Agreement. To the extent available at a reasonable cost to the Project, WMD shall cause Buyer to be named as an additional insured under any such insurance policies.

8. Representations and Warranties and Covenants.

8.1 Mutual Representations and Warranties. WMD and Buyer each hereby represents and warrants to the other that:

(a) the execution and delivery of this Agreement, and the performance of its obligations under this Agreement, have been duly authorized by all necessary action on its part, and it has full power, right and authority to enter into this Agreement and to perform its obligations hereunder;

(b) neither the execution and delivery of this Agreement by it, nor the performance by it of any of its obligations under this Agreement, violates any applicable federal, state or local law, whether statutory or common, or regulation, or its charter documents, if any, or constitutes a violation of, or a breach or default under, any agreement or instrument, or judgment or order of any court or governmental authority, to which it is a party or to which it or any of its property is subject;

(c) this Agreement is a valid and binding obligation of it, enforceable against it in accordance with its terms, except as such enforceability may be limited by equitable principles or by bankruptcy or other laws affecting creditors, rights generally; and

(d) except as may be required to construct and operate the Irrigation System, no consent, approval, order or authorization of any person, entity, court or governmental authority is required on its part in connection with the execution and delivery of this Agreement or the performance by it of any of its obligations hereunder.

9. Remedies.

Neither WMD nor Buyer shall have the right to terminate this Agreement as a result of a breach of this Agreement by the other. Subject to the foregoing limitation, each party may avail itself of such rights at law or in equity as such party may have as a result of a breach of this Agreement by the other. Each of the parties hereby acknowledge that the other party may have no adequate remedy at law if such party breaches any of its

obligations hereunder, and, accordingly, each of the parties shall have the right, in addition to any other rights it may have hereunder or at law, to obtain, in any court of competent jurisdiction, injunctive relief to restrain a breach or threatened breach of this Agreement by the other party or otherwise to specifically enforce any of the provisions of this Agreement involved in any such breach or threatened breach.

10. Indemnification.

10.1 General Indemnification. Subject to the limitations in this section 10, each party (the "Indemnifying Party") shall defend and indemnify, and hold harmless, the other party (the "Indemnified Party") from and against any and all damages, liabilities, losses, and costs or expenses suffered or incurred by the indemnified party, arising out of, or resulting from, any breach of its representations, warranties or agreements set forth in this Agreement.

10.2 Procedure for Indemnification. In the event that any legal proceedings are instituted, or any claim or demand is asserted, by any third party which may give rise to any damage, liability, loss, or cost or expense in respect of which any party has indemnified, or is obligated to indemnify, the other party under section 10.1 above, the indemnified party shall give the indemnifying party written notice of the institution of such proceedings, or the assertion of such claim or demand, promptly after the indemnified party first becomes aware thereof; provided, however, any failure by the indemnified party to give such notice on such prompt basis shall not affect any of its rights to indemnification hereunder unless such failure materially and adversely affects the ability of the indemnifying party to defend such proceeding. The indemnifying party shall have the right, at its option and at its own expense, to utilize counsel of its choice in connection with such proceeding, claim or demand, subject to the approval of the indemnified party, which approval shall not be unreasonably withheld or delayed, and to defend against, negotiate with respect to, settle or otherwise deal with such proceeding, claim or demand; provided, however, that no settlement of such proceeding, claim or demand shall be made without the prior written consent of the indemnified party, which consent shall not be unreasonably withheld or delayed, unless, pursuant to the terms and conditions of such settlement, the indemnified party shall be released from any liability or other exposure with respect to such proceeding, claim or demand; and provided, further, that the indemnified party may participate in any such proceeding with counsel of its choice at its own expense. In the event, or to the extent, the indemnifying party elects not to, or fails to, defend such proceeding, claim or demand and the indemnified party defends against, settles or otherwise deals with any such proceeding, claim or demand, any settlement thereof may be made without the consent of the indemnifying Party if it is given written notice of the

material terms and conditions of such settlement at least ten (10) days prior to a binding agreement with respect to such settlement being reached. Each of the parties agrees to cooperate fully with each other in connection with the defense, negotiation or settlement of any such proceeding, claim or demand.

10.3 Payment of Indemnified Claim. Upon a final judgment or award with respect to any proceeding of the nature described in section 10.2 having been rendered by a court, arbitration board or administrative agency of competent jurisdiction and the expiration of the time in which an appeal therefrom may be made, or a settlement of such proceeding, claim or demand having been consummated, or the parties having arrived at a mutually binding agreement with respect to each separate matter indemnified hereunder pursuant to section 10.1, the indemnifying party shall forthwith pay all of the sums so owing to the indemnified party. In the event any such proceeding is brought, in which allegations of fault are made against both of the parties, the extent of any indemnification shall be determined in accordance with the findings of the court as to the relative contribution by each of the parties to the damage suffered by the party seeking indemnity with respect to such proceeding.

11. Oversight Committee.

WMD agrees to establish a committee consisting of Buyer's Representative and one (1) representative of each of the other Owners (the "Oversight Committee") for the purpose of advising and consulting with WMD on matters affecting the Open Spaces that are covered in the Agreement, and for the Owners to make such decisions as are within the Owners' collective purview under this Agreement. In cooperation and consultation with the Owners, WMD shall establish such rules and regulations for meetings and procedures of the Oversight Committee as may be necessary or desirable for the Committee to carry out its purposes, including, without limitation, the giving of notice to WMD of any formal meetings of the Oversight Committee so that WMD may attend such meetings for informational purposes. However, nothing herein, or in the establishment and functioning of the Oversight Committee, shall limit or impair WMD's powers and authority generally, or specifically as provided in this Agreement, or grant the Oversight Committee any power or authority except as may be specifically provided in this Agreement.

12. Miscellaneous.

12.1 Standard of Reasonableness for Approvals. Whenever in this Agreement any party has the right to approve or consent to any matter, such approval or consent shall not be unreasonably withheld or delayed.

12.2 Further Assurances. Each of the parties agrees to execute, and deliver to the other parties, such documents and

instruments, and take such actions, as may reasonably be required to effectuate the terms and conditions of this Agreement; provided, however, such covenant shall not have the effect of increasing the obligations of any party pursuant to this Agreement or require any representations and warranties by any party in addition to those of such party set forth herein.

12.3 Relationship of the Parties. Nothing in this Agreement shall create a joint venture, partnership or principal-agent relationship between or among any of the parties.

12.4 Notices. Whenever any matter herein provides for notice or other communication to be given to any of the parties, such notice shall be in writing and given to the persons, and at the addresses, designated below for such party, or to such other person or other address as such party shall provide, in writing, to the other party. All notices may be given by being personally delivered, placed in the United States mail, postage prepaid, certified or registered mail, sent by facsimile transmission, or sent by overnight, prepaid air freight, addressed to the party to whom notice is to be given. Each such notice shall be deemed to be effective upon receipt, if personally delivered, sent by facsimile transmission or sent by air freight, or five (5) days after being so mailed.

If to WMD:

Monterey Peninsula Water Management District
187 Eldorado, Suite E
Monterey, CA 93940
Attn.: General Manager

If to Buyer:

Vice President, Real Estate
Pebble Beach Company
P.O. Box 1767
Pebble Beach, CA 93953

12.5 Exhibits. All exhibits referenced in and attached to this Agreement are hereby incorporated herein and made a part of this Agreement, for all purposes, by this reference.

12.6 Assignment. This Agreement shall be binding upon, and inure to the benefit of, the successors and permitted assigns of the parties. Buyer shall have the right to assign any or all of its rights or obligations under this Agreement to (a) an entity which manages Buyer's Property pursuant to a contract with Buyer; (b) a lessee of Buyer's Property and (c) a successor in interest in the ownership of Buyer's Property, and upon such assignment, Buyer shall be relieved of all such obligations so assigned. WMD shall have the right to assign its rights under this Agreement to a

trustee (or person or entity in a similar capacity) to the extent necessary in connection with the issuance of the Bonds.

12.7 Severability. If any provision of this Agreement is declared invalid or unenforceable in any jurisdiction by a court of competent jurisdiction, then such portion or provision shall be deemed to be severable, to the extent invalid or unenforceable, from this Agreement as to such jurisdiction (but, to the extent permitted by law, not elsewhere) and shall not affect the remainder hereof. Notwithstanding the foregoing, (a) such provision of this Agreement shall be interpreted by the parties and by any such court, to the extent possible, in such a manner that such provision shall be deemed to be valid and enforceable, and (b) such court shall have the right to make such modifications to any provision of this Agreement as do not materially affect the rights or obligations under this Agreement of the parties hereto and thereto and as may be necessary in order for such provision to be valid and enforceable.

12.8 Waiver. No waiver of any right or obligation of any of the parties shall be effective unless in a writing, specifying such waiver, executed by the party against whom such waiver is sought to be enforced. A waiver by any of the parties of any of its rights under this Agreement on any occasion shall not be a bar to the exercise of the same right on any subsequent occasion or of any other right at any time.

12.9 Headings and Titles. The designation of a title, or a caption or a heading, for each section of this Agreement is for the purpose of convenience only and shall not be used to limit or construe the contents of this Agreement.

12.10 Presumptions. Because all of the parties have participated in preparing this Agreement, there shall be no presumption against any party on the ground that such party was responsible for preparing this Agreement or any part hereof.

12.11 Amendment or Modification. This Agreement may be amended, altered, or modified only by a writing, specifying such amendment, alteration or modification, executed by all of the parties hereto.

12.12 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which shall constitute one (1) and the same instrument.

12.13 Entire Agreement. This Agreement constitutes the entire agreement between the parties regarding the subject matter hereof, and supersedes all prior or contemporaneous negotiations, understandings or agreements of the parties, whether written or oral, with respect to such subject matter.

understandings or agreements of the parties, whether written or oral, with respect to such subject matter.

IN WITNESS OF THE FOREGOING, this Agreement has been executed by the duly executed officers of each of the parties effective the date first shown above.

Monterey Peninsula Water
Management District, a
California public agency

By: *Dale Hekhuis*

Print Name: Dale Hekhuis

Title: Chairman, Board of Directors

By: *James R. Quinn*

Print Name: James R. Quinn

Title: GENERAL MANAGER

Pebble Beach Company,
a California general
partnership

By: BEN HOGAN PROPERTY CO. I,
a California corporation

Its: Partner

By: *Harry J. White Jr.*

Print Name: HARRY J. WHITE JR.

Title: PRESIDENT

By: BEN HOGAN PROPERTY CO.
II, a California
corporation

Its: Partner

By: *Harry J. White Jr.*

Print Name: HARRY J. WHITE JR.

Title: PRESIDENT

EXHIBIT A

"Capital Costs," as applied to the Reclamation Project or any portion thereof, means all or any part of:

(a) the cost of acquisition of all lands, structures, real or personal property, rights, rights-of-way, franchisees, easements, and interests acquired or used for the Reclamation Project, inclusive of fees and commissions for acquisition;

(b) the cost of construction of the Reclamation Project, including, without limitation, demolition, modification, replacement or renovation of existing structures, facilities, fixtures or equipment essential to the construction and operation of the Reclamation Project; cost of improvements and materials; direct and indirect construction and administration expenses of each of the Public Participants properly allocable to the Reclamation Project in accordance with generally accepted accounting principles; cost of painting, decorating, furnishing and landscaping; contractor and subcontractor profit; and costs related, by reason of the Reclamation Project, to plumbing, mains, tanks or pipes which are modified, replaced or renovated, whether owned by any of the Public Participants or others;

(c) the cost of demolishing or removing any buildings, fixtures, equipment, or structures on land so acquired, including, without limitation, the cost of acquiring any lands to which such buildings or structures may be moved;

(d) the cost of all new machinery, piping, equipment and furnishings, and the lesser of (i) the fair market value, or (ii) depreciated value for the purpose of the applicable rate base, of machinery, piping, equipment and furnishings made obsolete or unusable to Cal-Am or any of the Public Participants by reason of the Reclamation Project to the extent not replaced by the Reclamation Project;

(e) costs of selling and issuing the Bonds, including, without limitation, the underwriter's discount;

(f) interest on any funds advanced to permit payment of any of the Capital Costs prior to, during, and for a reasonable period after completion of the construction of the Reclamation Project as determined by PBC and WMD, including, without limitation, capitalized interest on the Bonds;

(g) the Operating Reserve, as defined in the Fiscal Sponsorship Agreement;

(h) the Bond Carrying Costs, as that term is defined in the Fiscal Sponsorship Agreement, to the extent reasonably determinable by the commencement of the offering of the Bonds and payable within one year of the closing of such offering; and

(i) the cost of architectural, engineering, planning, environmental analysis, financial, accounting, auditing and legal services, plans, specifications, estimates, administrative expenses, permits, fees, adverse claims, personnel and overhead costs (both direct and indirect, to the extent properly allocable to the Reclamation Project in accordance with generally accepted accounting principles), and other expenses necessary or incident to determining the feasibility of construction of the Reclamation Project or incident to the planning, construction, acquisition, or financing of the Reclamation Project, including, without limitation:

(1) payment during the construction period of the premiums for all title and other insurance, bonds, or undertakings required to be obtained and maintained with respect to any part of the Reclamation Project, to the extent such amounts are not paid by any contractor who constructs or installs any portion of the Reclamation Project;

(2) payment of the taxes, assessments and other fees or charges, if any, that may become payable during the construction period with respect to the Reclamation Project, or reimbursement thereof; and

(3) payment of any expenses incurred in seeking to enforce any remedy against any contractor or subcontractor in respect of any default under a contract relating to the acquisition, construction or installation of any portion of the Reclamation Project.

EXHIBIT B

DESCRIPTION OF RECLAMATION PROJECT

The Reclamation Project is generally described in the Basis of Design Report dated June 1988, prepared by Engineering Science for CAWD and, as subsequently modified in material respects, consists of the following components:

The Facility.

(1) Construction of a new treatment plant, within the existing CAWD sewage treatment plant boundaries located immediately south of the Carmel River and west of California State Highway One, capable of producing 1.8 million gallons per day (MGD) of tertiary treated reclaimed water suitable for irrigation. The new treatment facility will divert and treat secondary level effluent from the existing CAWD plant to levels suitable for reuse as irrigation water (i.e., tertiary treatment). The plant will have a treatment process consisting of: secondary effluent flow equalization; influent pumping; polymer and alum addition with rapid mixing for coagulation; low energy mixing for flocculation; filtration; chlorination; dechlorination; and reclaimed water pumping.

(2) Improvements to the existing CAWD plant facilities in order to assure consistent and reliable quality of secondary effluent from the existing CAWD plant to be diverted to the tertiary treatment plant. These improvements include construction of a secondary clarifier flow split control and replacement of the existing aeration diffusers.

The Distribution System.

(3) A reclaimed water distribution system consisting of approximately 38,000 feet of distribution pipeline and a steel water storage tank (described below) in Del Monte Forest. The main transmission pipeline will begin at the treatment plant site and terminate at the southern portion of the Spanish Bay Golf Course and Resort in Del Monte Forest. The pipeline will be constructed primarily within the existing roads and road rights-of-way extending through the City of Carmel-by-the-Sea and unincorporated areas of Monterey County, including areas of Del Monte Forest. A connection at the storage tank for emergency potable water supply will also be constructed to provide irrigation water to the Open Spaces in the event of failure of the reclamation plant or distribution pump station.

(4) Construction of a 2.5 million gallon reclaimed water storage tank adjacent to the Poppy Hills Golf Course maintenance

yard north of Viscaino Road in Del Monte Forest. The tank will be a 35-foot tall, 115-foot in diameter enclosed steel structure.

The Irrigation Systems.

(5) Irrigation of the Open Spaces. Modification of the existing Open Space irrigation systems will be necessary to convert from the existing potable water supply to the reclaimed water supply. These modifications will include but not be limited to disconnection from the potable water main and connection to the turnouts on the reclaimed water distribution pipeline, separation of potable water uses, such as drinking fountains, from the irrigation system, and identification of reclaimed water facilities.

EXHIBIT C

Golf Course Open Spaces	Average Annual Water Usage (1983-90)	Percentage Share	Minimum Purchase
Monterey Peninsula Country Club Dunes Course	88.1	12.31%	80 acre feet
Monterey Peninsula Country Club Shore Course	103.8	12.31%	80 acre feet
Cypress Point Golf Course	100.3	12.31%	80 acre feet
Spyglass Hill Golf Course	129.4	15.38%	100 acre feet
Pebble Beach Golf Course	149.6	18.45%	120 acre feet
Spanish Bay Golf Course	134.6 ¹	12.31%	80 acre feet
Poppy Hills Golf Course	116.9 ²	12.31%	80 acre feet
Other Open Spaces			
Peter Hay Par 3 Golf Course	8.9	1.54%	10 acre feet
Pebble Beach Practice Fairway	6.5	.77%	5 acre feet
Collins Field/Polo Field/Equestrian Center	5.8 ³	.77%	5 acre feet
Robert Louis Stevenson School athletic fields	12.1	1.54%	10 acre feet
TOTALS	856 acre feet	100%	650 acre feet

¹ 1990 Figure Only.

² 1990 Figure Only.

³ PBC Estimate.

EXHIBIT D

CAL-AM TARIFF SCHEDULE FOR GENERAL METERED SERVICE

Schedule No. MO-1

Monterey Peninsula District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water furnished on a metered basis.

TERRITORY

The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, Sand City, a portion of Seaside, and certain unincorporated areas in the County of Monterey.

RATES - Also add 2.5% to total water charge on each individual bill for Cañada Reservoir Surcharge.

Quantity Rates:

For the first 800 cu. ft., per 100 cu. ft.....	\$ 1.781 (I)	\$ 1.957 (I)	\$ 2.071 (I)
For all over 800 cu. ft., per 100 cu. ft.....	2.156 (I)	2.379 (I)	2.522 (I)

Per Meter Per Month

Service Charge:	Per Meter Per Month		
	Gravity Zone	1st Elevation Zone	2nd Elevation Zone
For 5/8 x 3/4-inch meter..	\$ 7.75 (I)	\$ 8.20 (I)	\$ 8.60 (I)
For 3/4-inch meter..	11.09	11.99	12.74
For 1-inch meter..	15.97	17.91	19.01
For 1-1/2-inch meter..	27.16	28.95	29.59
For 2-inch meter..	45.57	48.60	53.92
For 3-inch meter..	82.22	88.08	95.70
For 4-inch meter..	123.35	133.90	145.59
For 6-inch meter..	192.60	219.60	250.15
For 8-inch meter..	305.40 (I)	341.77 (I)	381.70 (I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rates.

SPECIAL CONDITIONS

- The boundaries of the three zones in which the above rates apply are as set forth in the Preliminary Statement and delineated on the Tariff Service Area Maps filed as a part of these tariff schedules.

(continued)

(TO BE INSERTED BY UTILITY)
 ADVICE LETTER NO. 364
 DEC. NO. 89-02-067

ISSUED BY
D.P. STEPHENSON
 NAME
 DIRECTOR RATES & REVENUES
 TITLE

(TO BE INSERTED BY C.P.U.C.)
 DATE FILED NOV 07 1990
 -EFFECTIVE: JAN 01 1991
 RESOLUTION NO. _____

SCHEDULE NO. MO-1

MONTEREY PENINSULA TARIFF AREA

GENERAL METERED SERVICE

SPECIAL CONDITIONS, (Continued)

1. Due to an undercollection in revenues because of mandatory rationing and in accordance with Decision No. 90-08-055 a surcharge of \$.3973 per 100 cu.ft. for the first 800 cu.ft. and a surcharge of \$.4966 per 100 cu.ft. for first 100 cu.ft. above 800 cu.ft. is to be added to the quantity rates for twelve months from the effective date of this tariff.

(N)

(N)

(TO BE INSERTED BY UTILITY)

ADVICE LETTER NO. 355

DEC. NO. 90-08-055

ISSUED BY

D.P. STEPHENSON

NAME

DIRECTOR-RATES & REVENUES

TITLE

(TO BE INSERTED BY C.P.U.C.)

DATE FILED AUG 22 1990

EFFECTIVE OCT 12 1990

RESOLUTION NO. W 3525

EXHIBIT E

RIGHT OF FIRST OFFER

This Right of First Offer is attached to and incorporated in that certain Agreement for Sale of Reclaimed Water (the "Agreement") as an Exhibit. All capitalized terms used in this Right of First Offer shall have the same meaning as in the Agreement.

1. **Buyer's Notice Regarding Surplus Reclaimed Water.** At the time Buyer submits its quarterly estimates as required by section 2.8(c) of the Agreement, Buyer shall notify WMD whether Buyer desires to purchase Surplus Reclaimed Water, if available, to irrigate any Other Property owned by Buyer commencing anytime within the next six (6) months. Buyer's notice shall include the quantity of Surplus Reclaimed Water Buyer desires to purchase per year, the date on which Buyer desires to commence use of such Surplus Reclaimed Water, the Other Property on which Buyer proposes to use such Surplus Reclaimed Water, the proposed duration of such use (the duration shall be for a minimum period of six (6) months and a maximum period co-extensive with the term of the Agreement), and any other information reasonably requested by WMD.

2. **Surplus Reclaimed Water Agreement.** If Buyer notifies WMD of its desire to purchase Surplus Reclaimed Water as provided in paragraph 1 above, then WMD shall be obligated to sell, and Buyer shall be obligated to purchase, Surplus Reclaimed Water with respect to that notice pursuant to a written agreement (the "SRW Agreement") on the following terms and conditions:

a. The quantity of Surplus Reclaimed Water to be sold shall be the quantity specified in Buyer's notice, subject to the primary and superior rights of all Owners to receive Reclaimed Water for their respective Open Spaces as provided in section 2.8 of the Agreement, and further subject to the rights of any other Owner who has exercised its right of first offer with respect to an earlier or the same six (6) month period and has entered into a SRW Agreement with WMD, as provided below. If Buyer and any other Owners give WMD notice as provided in paragraph 1 above with respect to the same six (6) month period, then Buyer's and each such other Owner's SRW Agreement shall provide that, to the extent the Surplus Reclaimed Water available at any given time is insufficient to meet the aggregate requirements of Buyer and such other Owner(s) under their respective SRW Agreements, the aggregate amount of Surplus Reclaimed Water available shall be allocated as follows: each such Owner, including Buyer, shall be entitled to the percentage of the Surplus Reclaimed Water available that is derived by dividing the quantity of Surplus Reclaimed Water specified in each such Owner's SRW Agreement by the aggregate quantity of

Surplus Reclaimed Water specified in all such Owner's SRW Agreements. No Owner who gives notice of its desire to purchase Surplus Reclaimed Water with respect to a later six (6) month period shall be entitled to receive Surplus Reclaimed Water under its SRW Agreement relating to that period until the requirements of all SRW Agreements relating to earlier six (6) month periods are fully satisfied. Except for the SRW Agreement or SRW Agreements relating to the first six (6) month period for which a notice or notices have been given, all subsequent SRW Agreements shall contain a provision acknowledging the prior rights to Surplus Reclaimed Water granted by all prior SRW Agreements.

By way of illustration of the priority to Surplus Reclaimed Water intended by this Right of First Offer:

Assume

1. On December 30, 1994, Owner A notifies WMD of its desire to begin purchasing ten (10) acre feet of Surplus Reclaimed Water per year during the next six (6) month period (from January 1 to June 30, 1995), with such purchase to commence on March 1, 1995, and a term co-extensive with the term of the Agreement.
2. On January 1, 1995, Buyer notifies WMD of its desire to begin purchasing thirty (30) acre feet of Surplus Reclaimed Water per year during the next six (6) month period (from January 1 to June 30, 1995), with such purchase to commence on April 1, 1995, and a term co-extensive with the term of the Agreement.
3. Owner A and Buyer enter SRW Agreements with WMD on February 1, 1995, and March 1, 1995, respectively, for the quantity of Surplus Reclaimed Water specified in their respective notices.
4. On October 1, 1995, Owner B notifies WMD of its desire to begin purchasing ten (10) acre feet of Surplus Reclaimed Water per year during the next six (6) month period (from October 1, 1995, to March 31, 1996), with such purchase to commence on January 1, 1996, and a term co-extensive with the term of the Agreement. Owner B and WMD enter into a SRW Agreement on December 1, 1995.
5. During the period from June to August 1996, Owner A, Buyer, and Owner B require 10,000, 30,000 and 10,000 gallons of Surplus Reclaimed Water per day each, respectively, but the aggregate amount of Surplus Reclaimed Water available during this three (3) month period is only 20,000 gallons per day.

Based on these assumptions, the Surplus Reclaimed Water available during this three (3) month period would be allocated under the parties' respective SRW Agreements as follows

- (1) 5,000 gallons per day to Owner A.
- (2) 15,000 gallons per day to Buyer.
- (3) 0 gallons per day to Owner B.

This allocation is based upon dividing the quantity of Surplus Reclaimed Water specified in each of Owner A's and Buyer's respective notices by the aggregate quantity of Surplus Reclaimed Water specified in the two notices.

For Owner A:

$$\begin{aligned} 10,000 \div 40,000 &= 25\% \\ 25\% \times 20,000 \text{ gpd}^4 &= 5,000 \text{ gpd} \end{aligned}$$

For Buyer:

$$\begin{aligned} 30,000 \div 40,000 &= 75\% \\ 75\% \times 20,000 \text{ gpd} &= 15,000 \text{ gpd} \end{aligned}$$

Owner B is entitled to no Surplus Reclaimed Water during this period because Owner B gave its notice with respect to a later six (6) month period than either Owner A or Buyer, and therefore has no entitlement to receive Surplus Reclaimed Water until the requirements of Owner A and Buyer are satisfied.

b. Buyer and any other Owner may execute more than one SRW Agreement with WMD, and the priority of the rights to Surplus Reclaimed Water granted by each such SRW Agreement shall be determined as provided in paragraph 2.a. above.

c. The term of any SRW Agreement shall be as specified in Buyer's notice and shall be for a minimum duration of six (6) months and a maximum duration co-extensive with the term of the Agreement, provided, however, that Buyer shall have the right to terminate any SRW Agreement on six (6) months notice to WMD.

d. The Other Property to be irrigated with the Surplus Reclaimed Water shall be described in any SRW Agreement in a manner comparable to the description of the Open Spaces in the Agreement. Buyer shall have the right at any time and from time to time to change the Other Property subject to the terms any of its

⁴ Gallons per day.

SRW Agreements by giving notice to WMD of such change, including the new description of the Other Property subject to the particular SRW Agreements affected, provided, however, that Buyer cannot increase the quantity of Surplus Reclaimed Water specified by any particular SRW Agreement.

e. If in any complete calendar year Buyer purchases an aggregate quantity of Surplus Reclaimed Water that is less than the aggregate quantity specified in all of its SRW Agreements, for any reason other than the unavailability of sufficient Surplus Reclaimed Water during that year, then the quantity of Surplus Reclaimed Water specified in Buyer's last SRW Agreement and, if necessary, its second to last SRW Agreement, and so on proceeding in order from last to first, shall be reduced permanently so that the aggregate quantity of Surplus Reclaimed Water specified in all of its SRW Agreements executed up to that calendar year is equal to the aggregate quantity of Surplus Reclaimed Water purchased in that calendar year. Additionally, Buyer shall have the right to reduce the quantity of Surplus Reclaimed Water specified in any of its SRW Agreements at any time and from time to time by giving thirty (30) days notice to WMD. If the quantity of Surplus Reclaimed Water specified in any of Buyer's SRW Agreements is reduced in either of the above ways, the percentages calculated for each Owner, including Buyer, with respect to each of its SRW Agreements pursuant to paragraph 2.a. above shall be adjusted to reflect this reduction.

f. Charges to Buyer for Surplus Reclaimed Water shall be calculated in the same manner as charges to Buyer for Reclaimed Water under the Agreement.

g. All other terms and conditions of the SRW Agreement shall be the same, to the extent practicable, as the terms and conditions of the Agreement.

3. **Additional Tertiary Capacity.** Under no circumstances, and for no purposes, shall this Right of First Offer apply to any water suitable for irrigation that is produced by the Facility as a result of any additional tertiary treatment capacity being added to the Facility subsequent to the Commercial Operation Date. This Right of First Offer is intended to apply only to Reclaimed Water produced or capable of being produced by the Facility at the capacity constructed as of the Commercial Operation Date.

EXHIBIT F

DESCRIPTION OF THE IRRIGATION SYSTEM IMPROVEMENTS PEBBLE BEACH GOLF COURSE

The sprinklers on #1 Tee and immediately in front are separately plumbed but will need to be connected to a new potable water source.

About 20 - 30 sprinklers may need to be either removed or modified in order to comply with setback requirements (if a setback requirement is finally imposed by the County Health Department).

A new potable water service will be required to service the rest room and drinking fountains on the course. A 3/4" or 1" meter should be adequate along with about 2500' of pipe.

An acceptable system of labeling outlets and warning signs will be required.

Summary of work:

- Reconnect sprinklers in area of #1 Tee to potable water source.
- Remove or move sprinkler heads to comply with setback requirements.
- Install new potable water lines for rest room and drinking fountain.
- Install necessary labeling and signage.

EXHIBIT F

DESCRIPTION OF THE IRRIGATION SYSTEM IMPROVEMENTS SPYGLASS HILLS GOLF COURSE

The existing irrigation system is essentially ready for Reclaimed Water except for installation of labeling and signage.

The rest room and drinking fountain by #5 tee need a new potable water service. A 3/4" meter should be adequate.

A new potable water service will need to service the sprinklers in the area of the pro shop and the grill if setback requirements are imposed. If the grill and pro shop are not both on a potable service separate from the existing irrigation system, then they would require a new potable water service.

Summary of Work:

- Install new potable water lines for rest room and drinking fountain.
- Connect sprinklers by pro shop and grill to potable water service if necessary.
- Install necessary labeling and signage.

EXHIBIT F

DESCRIPTION OF THE IRRIGATION SYSTEM IMPROVEMENTS SPANISH BAY GOLF COURSE

This system was installed to be ready for Reclaimed Water. Subsequent construction has placed about 20 sprinklers in a possible setback area near tennis courts and patios. The existing system will need some modifications to accommodate the Reclaimed Water and pressure differential and necessary labeling and signage.

Summary of Work:

- Connect sprinklers near tennis courts and patios to potable water service if necessary.
- Modify existing system as necessary to accommodate Reclaimed Water and pressure differential.
- Install necessary labeling and signage.

EXHIBIT F

DESCRIPTION OF THE IRRIGATION SYSTEM IMPROVEMENTS
PETER HAY 3-PAR GOLF COURSE

The existing system is hand watered with quick couplers. Coverage is substandard and the system is in relatively poor condition.

This system is unsuitable for reclaimed water and must be replaced with a new automatic system.

Summary of Work:

- Develop new site plan.
- Design and install new irrigation system for entire facility.
- Install necessary labeling and signage.

EXHIBIT F

DESCRIPTION OF THE IRRIGATION SYSTEM IMPROVEMENTS
PEBBLE BEACH DRIVING RANGE

The driving range presently has an automatic system which is reported to be in acceptable condition at the present time except that the system in the tee area needs to be renovated.

Summary of Work:

- Develop new site plan.
- Establish location of existing sprinklers.
- Design and install new system for teeing area.
- Install necessary labeling and signage.

EXHIBIT G

ESTIMATED CHEMICAL CHARACTERISTICS
of Reclaimed Water from the Reclamation Project

<u>Parameter</u>	<u>Concentration</u>		<u>Units</u>
Dissolved Solids	500	mg/L	
Alkalinity	250	"	
Boron	0.3		"
Calcium	37		"
Bicarbonate, as HC03	300	"	
Chloride	90		"
Total Hardness, as CaC03	160		"
Iron	0.14		"
Total Nitrogen, as N	32	"	
Ammonia Nitrogen, as N	10 to 30		"
Phosphorus, as P	10	"	
Potassium, as K	16	"	
Sodium	92		"
Sulfate	110		"
Ph	6.9 to 7.8		
Sodium Adsorption Ratio (SAR)	3.2		
Adjusted SAR	6.7		
Percent Sodium	54		%
N/P Ratio	3.1/1		
Residual Sodium Carbonate	1.85	meq/L	
Sodium Permeability Index	85.4		

**California Code of Regulations, Title 22,
Article 4, section 60313(b)**

Reclaimed water used for the irrigation of parks, playgrounds, schoolyards, and other areas where the public has similar access or exposure shall be at all times an adequately disinfected, oxidized, coagulated, clarified, filtered wastewater or a wastewater treated by a sequence of unit processes that will assure an equivalent degree of treatment and reliability. The wastewater shall be considered adequately disinfected if the median number of coliform organisms in the effluent does not exceed 2.2 per 100 milliliters, as determined from the bacteriological results of the last 7 days for which analyses have been completed, and the number of coliform organisms does not exceed 23 per 100 milliliters in any sample.

EXHIBIT F

**DESCRIPTION OF THE IRRIGATION SYSTEM IMPROVEMENTS
COLLINS FIELD/POLO FIELD/EQUESTRIAN CENTER**

The existing system is hand watered with quick couplers. Coverage is substandard and the system is in relatively poor condition.

This system is unsuitable for reclaimed water and must be replaced with a new automatic system.

Summary of Work:

- Develop new site plan.
- Design and install new irrigation system for entire facility.
- Install necessary labeling and signage.