



Santa Clarita Group
26920 Monterey Ave.
Santa Clarita, CA 91355

5-23-16

Eric Wu, Ph.D.
Chief of Groundwater Permitting Unit
Los Angeles Regional Water Quality Control Board

Via Email to: Eric.Wu@waterboards.ca.gov

Re: TENTATIVE WASTE DISCHARGE REQUIREMENTS (WDRs) /WATER RECLAMATION REQUIREMENTS (WRRs) FOR VISTA CANYON WATER FACTORY-CITY OF SANTA CLARITA (FILE NO. 14-031, ORDER NO. R4-2016-XXXX, CI-10041, GLOBAL ID WDR1 00016910)

Dear Mr. Wu:

The Sierra Club wishes to begin its comments by stating that it fully supports the use of recycled water for non-potable and landscaping purposes. We are also in the process of developing a policy regarding direct potable re-use. This policy discussion has not yet been completed, but that fact doesn't pertain to this project since as far as we can tell, direct potable re-use is not proposed for the Vista Canyon Sanitation Plant.

This proposal is for a tertiary wastewater treatment and reclamation plant¹ that will recycle water from residential and commercial project uses including sewage generation and ship the solids generated to the Saugus treatment plant. The water for the project will be pumped from the Santa Clara River or supplied from water shipped from Northern California through the state water project, since currently many of the water wells in the Eastern basin of the Santa Clara River are dry and not producing. The Regional Board should note that water well levels in this area of the river have dropped to their lowest levels since the low recordings of the 1991 drought.²

7-1 [We object to a sanitation plant being called a "water factory". Neither the project nor this sanitation plant will "create or make" water as the project proponent implies by the use of the word "factory" We believe this terminology is confusing and misleading to the public and ask that the term "sanitation plant" replace "water factory" wherever the later term appears.

7-2 [**Introduction - Item 4**

This paragraph incorrectly describes how the recycled water will be distributed. In fact, although the City of Santa Clarita will own and operate the sanitation plant and is responsible for ensuring that all water quality standards are met, the City will *not* be distributing the recycled water. All

¹ Introduction to WDR – Item 2.

² See Newhall County Water District agenda for May 12th meeting well level reports at http://ncwd.org/OB/Agendas/Agenda_items_2016-5-12/G4.pdf

See also Santa Clarita Water Div May 9th, 2016 at

<http://clwa.org/docs/wp-content/uploads/2016/05/ROC-Packet-050916.pdf> Well graphs begin at page 9

7-2 recycled water will be distributed by the Castaic Lake Water Agency (CLWA) through its pipes only to areas controlled by its Santa Clarita Water Division. We have attached the Agreement signed with CLWA as Exhibit 1.

WE wish to raise a concern at this time that as stated above, the excess water will only be distributed to the retail company, Santa Clarita Water Co. owned by Castaic Lake Water Agency. This distribution scheme is apparent in the recently released Notice of Preparation for its recycled water plan were it states:

7-3 "Phase 2B would involve a partnership between CLWA, Santa Clarita Water Division (SCWD), and the Vista Canyon development to utilize recycled water produced from the Vista Canyon Water Factory (VCWF), which is proposed as part of the Vista Canyon land development and is expected to be in service at the time the development is completed."³

We believe that this distribution plan does not fairly distribute water in the Eastern end of the basin, but rather, favors distribution only to the company that is owned by CLWA.

Item 15 C. Water Factory

7-4 "The sludge (21,000 GPD) generated from the Water Factory, the remaining un-recycled treated effluent, and any off-spec effluent generated from the Vista Canyon Project will be discharged to the downstream facilities of the SCVSD, including the Saugus Water Reclamation Plant (WRP) or/and the Valencia WRP. The Saugus WRP will be the primary plant to treat solids. The Valencia WRP is the backup plant to treat the extra solids generated beyond the solid treatment capacity of the Saugus WRP." (WDR at page 4)

It is our understanding that the Saugus treatment plant is at full capacity and all sewage has been transported to the Valencia Water Treatment plant many miles further on via a gravity feed pipeline. Therefore all water quality standards must meet the Valencia Water Reclamation Plant requirements.

7-5 We also wish to express our concern that removal of the recycled water may cause improper function of the gravity feed system and a resulting failure to properly transport solids. We understand that the City of Los Angeles has experienced such problems as it continues to encourage water conservation and reduced flow toilets. We ask that the Regional Board consult with the Los Angeles County Sanitation Districts to validate which plant will in fact accommodate the additional sewage and what plans have been made to transport the solids. Sewage releases into the Santa Clara River, the source of much of the Valley's drinking water supply are not acceptable. Problems should be anticipated and contingencies developed BEFORE a foreseeable potential emergency occurs.

D. Influent Quality

7-6 "a. The Santa Clarita Water District (SCWD) is the primary water district which

³ NOP. Page 1 The entire Notice of Preparation describing this recycled water plan can be viewed here: http://clwa.org/docs/wp-content/uploads/2016/03/NOP_FINAL.pdf

7-6 [supplies potable water to communities in the Santa Clarita Valley, including the Vista Canyon Project.” (WDR page 5)
 This statement is incorrect in that Santa Clarita Water Co., owned by Castaic Lake water Agency is one of the four water retailers in the Santa Clarita Valley. It will supply water to the Vista Canyon Project.

7-7 [**Effluent Water Quality**
 The influent water quality seems to be accurately described in the previous chart, but for some reason the effluent water quality chart indicates that the chloride levels will not change from the indicted influent level of 112 mg/l. It is our understanding that standard household use adds approximately 50mg/l of chlorides due to soap, detergents, and urine. Restaurant uses may add additional amounts. We do not see where these increases due to household use are added into your calculations.

7-8 [We note again that to our knowledge, the Saugus treatment plant is fully utilized. We therefore believe that water quality for this plant must meet the VWR plant standards since that is where it may be released.

7-9 [**G. Effluent Storage Equalization Tank**
 “a. A 200,000-gallon effluent storage equalization tank (Figure 5) will be constructed adjacent to the Water Factory and along the Santa Clara River bank in order store the as following. Water in excess of this capacity will be sent downstream to either the Saugus or Valencia reclamation facilities.” (Page 6)

We restate again that to our knowledge, the Saugus treatment plant is fully utilized. We therefore believe that water quality for this plant must meet the VWR plant standards since that is where it may be released.

7-10 [**Facility to be built in the floodplain of the Santa Clara River**

While the City has required a retaining wall to be built, it still appears that the sanitation plant will be built dangerously close to the floodway of the Santa Clara River. We do not understand why this location is being permitted.

7-11 [**Requirements**

- 3. The City shall monitor groundwater for a minimum of two years prior to operation of the Water Factory to understand the groundwater quality in the shallow and deep aquifer before any discharge and/or recycled water application.
- 4. The City shall demonstrate that the discharge and recycled water use from the Water Factory do not contribute to the degradation of groundwater quality by meeting all groundwater quality limits specified in Table 9. In the event that the groundwater quality exceeds the limits specified in Table 9, the discharger shall demonstrate that the discharge/recycled water use do not contribute to the groundwater quality exceedance. (WDR Page 17)

We ask that these monitoring reports be retained on file at the Los Angeles Regional Water Quality Control Board and be made available to the public upon receipt when notification is requested.

We thank you in advance for your attention to our concerns.

Sincerely,

David Morrow

David Morrow, M.D.
Chairman, Santa Clarita Group

EXHIBIT

1

Vista Canyon/ Castaic Lake Water Agency Recycled Water Agreement

VISTA CANYON FACILITY CAPACITY FEE AND CREDITS AGREEMENT

This Vista Canyon Facility Capacity Fee And Credits Agreement ("Agreement"), effective this 12th day of March 2013 ("Effective Date"), is made by and between Castaic Lake Water Agency ("CLWA"), a public agency, and Vista Canyon Ranch, LLC, a California limited liability company ("Vista"). Vista and CLWA are referred to herein individually as a "Party" and collectively as "the Parties."

RECITALS

This Agreement is made and entered into on the basis of the facts and understandings of the Parties set forth in these recitals:

A. Vista is the owner and developer of certain real property presently located in unincorporated Los Angeles County, situated south of State Route 14, west of Sand Canyon, east of Fair Oaks Ranch and north of the Metrolink railroad tracks ("Vista Canyon Project" or "Project"). The Vista Canyon Project has been approved by the City of Santa Clarita ("City") and Local Agency Formation Commission for the County of Los Angeles for annexation into the City, and the Project site is situated within the service areas of CLWA and the Santa Clarita Water Division ("SCWD"). The Vista Canyon site is approximately 185 acres.

B. CLWA is a public agency duly organized and operating in accordance with California Water Code Appendix, Chapter 103 ("California ACT"), for the purpose of, among other things, acquiring water and water rights, and providing and selling such water at wholesale and retail to customers in Los Angeles County and Ventura County, California.

C. As stated in the California ACT and California Government Code section 66013, CLWA is authorized to establish, impose, and collect a Facility Capacity Fee ("FCF"), for the right to make a new retail connection to the water distribution system of any retail water distributor within CLWA's service area that obtains all, or any portion, of its water supplies from CLWA. The FCF is imposed for public facilities in existence at the time the charge is imposed and/or for new public facilities to be acquired or constructed in the future that are of proportional benefit to the property being charged, including supply or capacity contracts for rights or entitlements, real property interests, and entitlements and other rights of CLWA involving capital expense relating to its use of existing or new public facilities. The amount of the FCF is determined in accordance with the California ACT and applicable California law. FCFs will be charged to Vista as a condition precedent to CLWA providing water service to the Vista Canyon Project.

D. In order to enhance water reliability and sustainability, CLWA actively promotes the expansion of recycled water facilities and infrastructure within its service area. To date, CLWA has constructed Phase I of its Recycled Water Master Plan, which can deliver up to 470 acre feet per year ("afy") of recycled water. At build-out, the Recycled Water Master Plan, along with other development, is expected to recycle up to 17,400 afy of treated, tertiary wastewater suitable for reuse on golf courses, landscaping, and other non-potable uses.

E. The Final Environmental Impact Report ("EIR") for the 185-acre Vista Canyon site was certified by the City on April 26, 2011 and the City's final approval of the Project's residential, mixed-use, and non-residential development was issued on May 10, 2011. The approved Vista Canyon Project consists of: (i) 1,100 single-family, multi-family, and apartment units; (ii) 950,000 square feet of retail, office, and hotel uses; (iii) a Multi-Modal Transit Center, consisting of a Bus Transfer Station, Metrolink Station, and associated parking structure; (iv) a Water Reclamation Plant ("Project WRP"); (v) recreational amenities, including a Town Green, Oak Park and Community Garden, which total approximately 21 acres; (vi) preservation and enhancement of north-south and east-west animal movement corridors along the Santa Clara River; (vii) preservation and dedication of the Santa Clara River Corridor to the City of Santa Clarita, with the Corridor width averaging over 800 feet throughout the site; and, (viii) other related infrastructure, services and amenities (e.g., roadway improvements, trails, buried bank stabilization). As set forth in more detail below, the Project will be built out in phases over time. SCWD will serve as the retail water provider to properties within the Project.

F. The Project WRP is a water reclamation plant designed to treat certain wastewater generated by the Project, and to treat a portion of the wastewater flow from an existing City sewer line that currently crosses the Project site and serves existing development upstream of the site. The Project WRP will produce disinfected tertiary recycled water in accordance with all applicable state and federal standards, including the California Code of Regulations Title 22 requirements. There will be no solids processed by the Project WRP. All solids from the Project WRP will be sent to an existing, downstream sewer line for processing, treatment, and disposal at the existing Valencia WRP, which treats wastewater, including solids.

G. The Project WRP will be constructed as a turnkey facility for the City and have a treatment capacity of 392,135 gallons per day. It is anticipated that the City will contract with a licensed operator for operation of the Project WRP. All ongoing maintenance expenses for the Project WRP will be paid through the establishment of an assessment district within the Project. The Project WRP will be constructed, completed, and tested for operation in compliance with all applicable local, state and federal water treatment and wastewater treatment standards and requirements during the first phases of Project development.

H. The recycled water generated by the Project WRP will be utilized first to fully satisfy the non-potable demands of the Project. As such, the recycled water will be used on site for: (i) irrigation of landscaped areas; (ii) irrigation of re-vegetated areas above the soil cement bank protection; and, (iii) public toilet facilities in the retail, office, and commercial spaces. Additionally, because the amount of recycled water generated by the Project WRP will exceed the non-potable demands of the Project, the Project WRP will provide a new source of recycled water available for purchase and distribution outside the Project area through CLWA's Recycled Water Master Plan delivery system ("Project WRP Excess Recycled Water"). Additional facilities will be constructed by CLWA to allow the Project WRP Excess Recycled Water to be interconnected with CLWA's recycled water system ("Interconnection Facilities"). After the Project WRP is interconnected with CLWA's recycled water system, Project WRP Excess Recycled Water will be available to CLWA recycled water users outside the Project. The Interconnection Facilities are not necessary to satisfy the water demands of the Vista Canyon Project.

I. Construction of the Project WRP and associated recycled water facilities will alleviate the need for CLWA to construct, or incur the costs of constructing, certain recycled water facilities otherwise required in its Recycled Water Master Plan. Additionally, the availability of recycled water for purchase by CLWA will enhance the reliability and sustainability of potable water supplies in CLWA's service area.

J. CLWA shall not be considered an owner or operator of the Project WRP and CLWA shall have no responsibility now or in the future for compliance with any water quality standards or any other laws, rules, regulations, standards, policies or procedures applicable to the Project WRP or the quality of the recycled water discharged from the Project WRP. CLWA shall not be responsible for producing any recycled water or for providing additional treatment needed to comply with any recycled water quality requirements. If the recycled water quality requirements change then the Project WRP shall modify its treatment process as required to comply with any future recycled water quality requirements.

K. Any excess water generated by the Project WRP during the winter months or prior to the distribution of recycled water to CLWA recycled water users will be discharged to two, adjacent percolation ponds/infiltration basins in compliance with applicable state and federal laws. There will be no discharge of effluent to the Santa Clara River from the Project WRP.

L. The Parties desire to provide for the payment of CLWA FCFs applicable to the Project, and to provide Vista with a credit for a portion of the FCFs otherwise required to be paid for the Project based on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the Parties to this Agreement agree as follows:

1.0 **Recitals.** The recitals set forth above are true and correct and by this reference are made an operative part of this Agreement.

2.0 **FCF Payments and FCF Credits.** The FCF payments owed to CLWA in connection with the Project will be determined and charged to Vista as a condition of water service. FCF credits, which shall offset a portion of the FCF payments owed to CLWA for the Project, shall be available to Vista as further set forth in this Agreement.

2.1. Based on estimates prepared by Vista, the total water use for the Project is 326.9 afy of water, which consists of 190.0 afy of potable water and 136.9 afy of recycled water, as shown in **Exhibit "A"** to this Agreement. Actual FCF payments and FCF credits shall be calculated and imposed using CLWA demand factors at the time the payment or credit is calculated for the Vista Canyon Project's first phase. FCF payments for the first phase may be subsequently adjusted based upon the required audit in Paragraph 2.4 below. Any FCF credits resulting from the audit of the first phase shall be applied on subsequent phases of the project. All subsequent phases shall be calculated and imposed using Vista's estimated demand factors, subject to any revisions pursuant to Paragraph 2.4 below, at the time the payment or credit is calculated.

2.2 Based upon the estimated water use for the Project and CLWA's current FCF schedule, as amended from time to time, Vista would, in the absence of this Agreement and as a condition precedent to the issuance of building permits for the Project, be obligated to pay CLWA FCFs at the current rate or the amount adopted by CLWA's Board of Directors for the Water Service Area within which the Project site is located as of the Effective Date of this Agreement. The CLWA FCFs are subject to change from time to time as determined in the discretion of the CLWA Board of Directors ("Current FCFs").

2.3 Because the Vista Canyon Project will be constructed in phases, Vista shall pay the then Current FCFs on a phase-by-phase basis. The total FCF payment owing to CLWA for each phase of the Project shall be the difference between the Current FCFs and the FCF credits that are calculated and determined to be available to Vista pursuant to paragraphs 3, 4 and 7 of this Agreement. **Exhibit "E"** to this Agreement illustrates the approach that will be utilized by CLWA in assessing the net FCF payment chargeable to Vista.

2.4 Within 90 days of the complete occupancy of each phase of the Project, an audit of water demand for such phase will be conducted by CLWA. This audit will compare installed landscape types, irrigation areas, product types and water demands with the estimates as set forth in Paragraph 2.1 above. If CLWA determines, after consultation with Vista, that the actual water demands are different than the estimates set forth in Paragraph 2.1, CLWA will recalculate and adjust the FCF credits applicable to that phase of the Project.

2.5 Based on estimates prepared by Vista, the Project WRP is projected to produce 439.2 afy (392,135 gallons per day) of recycled water, which consists of 136.9 afy for use on site by the Project and 302.3 afy of Project WRP Excess Recycled Water for use outside of the Project by CLWA for its recycled water users. These estimates are subject to adjustment based on actual production capacity of the Project WRP and/or the Project's revised recycled water demand, if any, per the required audits. If the production capability of the Project WRP or the amount of Project WRP Excess Recycled Water available to CLWA is less than the estimates set forth herein, CLWA will recalculate and adjust the FCF credits applicable to the Project under this Agreement.

3.0 Recycled FCF Credit.

3.1 Based on the estimated recycled water production and use projections set forth in Paragraph 2.5 above, and the cost estimates and cost allocations utilized in the 2010 Data Document and set forth in Exhibit B, the Project WRP will provide CLWA with a value of \$1,495,676, which corresponds to the costs CLWA would otherwise have incurred to construct recycled water facilities under its Recycled Water Master Plan sufficient to provide future recycled water users with the equivalent amount of recycled water to be made available to CLWA as Project WRP Excess Recycled Water (the "Recycled FCF Credit").

3.2 Because the Vista Canyon Project will be constructed in phases, CLWA shall provide a credit equivalent to a Recycled FCF Credit to Vista on a phase-by-phase basis subject to the conditions in paragraph 7.0, *infra*. The Recycled FCF Credit provided to Vista shall be the amount set forth in Paragraph 3.1, *supra*, as modified to reflect the Data Document adopted by CLWA's Board at the time such recycled water is made available to and beneficially

used and sold by CLWA. The Recycled Water Credit can only be utilized by Vista to pay Vista's FCF obligations for phases of the Vista Canyon Project. In the event that credits remain when the Vista Canyon Project is completed, any unused credits resulting from the audit of the final phase will be paid to Vista by CLWA in cash.

4.0 Non-FCF Recycled Water Credit.

4.1 Based on the estimated recycled water production and use projections presented in Paragraph 2.5 above, and the cost estimates and cost allocations utilized in the 2010 Data Document and set forth in Exhibit B, the proportionate share of the planned capital improvements under the Recycled Water Master Plan not attributable to CLWA's Current FCFs, which corresponds to the existing users portion of the recycled water production provided by the Project WRP, is \$1,831,585 (the "Non-FCF Recycled Water Credit").

4.2 Subject to other provisions of this Agreement, the Parties agree that CLWA shall apply the Non-FCF Recycled Water Credit to Vista on a phase-by-phase basis as set forth in Paragraph 7 below.

5.0 Purchase Agreement for Recycled Water.

5.1 Upon execution of this Agreement, Vista will coordinate with the City and CLWA to prepare and execute an acceptable agreement that allows CLWA to purchase recycled water from the Project WRP ("Recycled Water Purchase Agreement"). The Recycled Water Purchase Agreement shall include appropriate provisions for indemnities between CLWA and the City and assurances from the City regarding the reliability and quality of recycled water supplies available to CLWA from the Project WRP.

5.2 The Parties hereby intend that the terms and conditions of the Recycled Water Purchase Agreement contemplated by Paragraph 5.1 above shall be similar to the agreement that CLWA has entered into with the Santa Clarita Valley Sanitation District ("SCVSD"), dated July 24, 1996 (the "1996 Agreement") as Exhibit "C" hereto. The Parties hereto acknowledge and understand that CLWA's cost to purchase recycled water from SCVSD may increase in the future, and the Parties intend that CLWA's cost to purchase recycled water from the Project WRP under the Recycled Water Purchase Agreement with the City shall not exceed CLWA's cost to purchase recycled water from the SCVSD.

5.3 In the event that CLWA and the City fail to enter into the Recycled Water Purchase Agreement upon terms acceptable to CLWA and as provided in this Paragraph 5, the Parties hereto expressly understand and agree that this Agreement, and any and all of CLWA's obligations hereunder, shall be null and void.

5.4 As further set forth by Recital J of this Agreement, CLWA shall not be considered an owner or operator of the Project WRP, and CLWA shall have no responsibility, obligation or liability of any kind for compliance with any laws, regulations, rules, permits, policies or other requirements that may apply now or in the future to the Project WRP. CLWA shall not be responsible in any way or at any time for producing any recycled water from the Project WRP or for providing any level of treatment needed for the Project WRP to remain in full compliance

with all laws, regulations, rules, permits, policies or other requirements applicable to the Project WRP or its production or discharge of recycled water. CLWA shall have no responsibility, obligation or liability of any kind for the operation or maintenance of the Project WRP (excluding those facilities that CLWA will operate and maintain as shown on Exhibit D-2) or for the insurance thereof. The Parties hereto understand and agree that if the recycled water requirements applicable to the Project WRP change at any time, the City and/or Vista shall be responsible in every way, and CLWA shall not be responsible in any way, for making any and all changes or modifications necessary to ensure full compliance with all laws, regulations, rules, permits, policies or other requirements applicable to the Project WRP and to ensure that CLWA is able to purchase and use recycled water from the Project WRP as contemplated by this Agreement. CLWA shall have no responsibility, obligation, or liability under this Agreement or of any other nature in relation to any legal, regulatory, engineering, physical, political, and practical or any other type of limitation that may arise which prevents or frustrates CLWA's ability to purchase and use recycled water from the Project WRP as contemplated by this Agreement.

6.0 Permitting, Design, Construction, Performance Testing, and Operation of the Recycled Water Facilities.

6.1 Vista shall be solely responsible for and shall at all times proceed with reasonable diligence in the permitting, design, construction, completion and performance testing of the Project WRP and associated recycled water facilities. Vista shall provide to CLWA for review and comment copies of any engineering reports, design plans and specifications and any modifications thereof for the Project WRP and recycled water facilities required for the Project. Vista shall be responsible for obtaining approval of any engineering reports and plans and specifications from the applicable regulatory agencies and shall prepare modifications to said reports and plans and specifications as needed for regulatory approval for the Project WRP and recycled water facilities required for the Project. CLWA shall have sixty (60) days upon receipt from Vista in which to review and provide written comments to Vista regarding any engineering reports, plans and specifications or modifications thereof. If CLWA does not provide written comments within sixty (60) days of receipt, said reports, plans and specifications, and modifications, if any, shall be considered approved by CLWA. Vista shall respond to and incorporate all reasonable review comments provided by CLWA.

6.2 CLWA's payment for Project WRP Excess Recycled Water shall be governed by the terms and conditions set forth in the Recycled Water Purchase Agreement, subject to the provisions of Paragraph 5 above.

6.3 CLWA shall be responsible for the preparation of the Title 22 Engineering Report, permitting, design, construction, and testing of the recycled water Interconnection Facilities (i.e. groundwater wells, pumps, reservoirs, and piping). Such Interconnection Facilities may be located on or off of the Vista Canyon Project site – subject to further evaluation and determination by CLWA. Capital costs and construction obligations shall be provided as shown on **Exhibit "D-1."** CLWA shall be responsible for the maintenance and insurance for CLWA's recycled water Interconnection Facilities.

6.4 CLWA shall be responsible for California Environmental Quality Act ("CEQA") compliance for any recycled water Interconnection Facilities. Acting as the lead agency, CLWA shall have discretion as to how to comply with CEQA. The certified Vista Canyon Final EIR may be relied upon by CLWA in achieving CEQA compliance.

6.5 CLWA's and Vista's financial and construction obligations related to the permitting, design, construction and testing of recycled water facilities under this Agreement are as shown on Exhibit "D-1" of this Agreement. CLWA's and Vista's financial, operation, and maintenance obligations of the recycled water facilities are shown on Exhibit "D-2" of this Agreement.

6.6 Vista shall not be responsible for retrofit costs of existing recycled water facilities.

6.7 Upon execution of this Agreement, Vista shall diligently work and cooperate with CLWA, and other applicable permitting agencies, on an implementation schedule agreed upon by the Parties, for the permitting, design, construction, and performance testing of the Project WRP and recycled water facilities required for the Project.

6.8 Vista shall be solely responsible for all compliance costs associated with any applicable federal, state or local laws, regulations, rules, policies or other requirements that are existing, enacted or modified prior to the issuance any required permits or other authorizations for the Project WRP from the Regional Water Quality Control Board, Department of Public Health or other regulatory agency. The Parties agree that the City and/or Vista shall be wholly responsible and that CLWA shall not be responsible for any compliance costs associated with any applicable federal, state or local laws, regulations, rules, policies or other requirements that are enacted or modified after the issuance of any required permits or other authorizations for the Project WRP from the Regional Water Quality Control Board, Department of Public Health, or other regulatory agency.

6.9 Any facilities constructed by Vista associated with the Project or Project WRP that will become part of CLWA's recycled water system shall be dedicated to CLWA. The term "dedicate" or "dedication" as used in this Agreement means that Vista shall have acquired all necessary right, title and interest in such facilities and in such lands and/or rights-of-way needed for such facilities, and that said facilities shall have been constructed as required by this Agreement, and thereafter that Vista shall offer to convey all of its right, title and interest in such facilities, lands and rights-of-ways to CLWA at no cost to CLWA. Vista shall offer the facilities at the time required by CLWA's General Manager in the exercise of his or her reasonable discretion. The satisfaction of Vista's obligations with respect to the dedication of the facilities, lands and rights-of-ways shall be contingent upon the CLWA Board of Director's acceptance of Vista's dedications, which acceptance shall not be unreasonably held and shall occur in a manner consistent with CLWA's standards and policies.

7.0 Payment of Recycled Water Credits.

7.1 Notwithstanding the phased allocation of FCF credits to Vista as set forth in Paragraphs 2, 3 and 4 above, CLWA shall provide Vista a combined \$1,000,000 Recycled FCF Credit and Non-FCF Recycled Water Credit for the first phase of the Project, provided that the Current FCFs applicable to the first phase of the Project exceed the combined \$1,000,000 FCF credit amount. In the event that the Current FCFs applicable to the first phase of the Project are less than the combined \$1,000,000 FCF credit amount identified in this Paragraph, CLWA shall provide Vista a combined Recycled FCF Credit and Non-FCF Credit in the amount of the Current FCFs applicable to the first phase of the Project. This credit shall be applied to Vista within 90 days of the completion and acceptance of the Project WRP.

7.2 For each phase of the Project that is subsequent to the first phase, CLWA shall provide Vista a combined Recycled FCF Credit and Non-FCF Recycled Water Credit that is attributable and proportionate to that phase in accordance with Paragraphs 3 and 4 above; provided, however, that all of the following conditions have been satisfied prior to CLWA's provision and application of any such FCF credit to subsequent phases:

7.2.1 The Project WRP has been constructed, completed, fully tested and meets all requirements contained in this Agreement and any applicable permits and/or other authorizations for the Project WRP and associated facilities;

7.2.2 The Project WRP has been dedicated to and accepted by the City;

7.2.3 All associated recycled water facilities have been dedicated to and duly accepted by CLWA;

7.2.4 Recycled Water Purchase Agreement has been fully executed by the City and CLWA in accordance with Paragraph 5.0 of this Agreement;

7.2.5 The Project WRP and project required recycled water facilities have received all necessary regulatory permits and/or other authorizations necessary for the delivery and use of recycled water by CLWA as contemplated by this Agreement;

7.2.6 CLWA has identified customers both in and outside of the Project site to which CLWA can sell and deliver Project WRP Excess Recycled Water; and

7.2.7 The Current FCFs for the Project exceed the combined Recycled FCF Credit and Non-FCF Recycled Water Credit.

7.3 Notwithstanding the Parties' compliance with their respective obligations under this Agreement, in the event that CLWA cannot sell and deliver the Project WRP Excess Recycled Water for use to customers outside of the Vista Canyon project site within five (5) years after completion of the Project WRP, CLWA will provide the full credit amount of the Recycled FCF Credit and Non-FCF Recycled Water Credit based on the completed Project WRP capacity and associated credit calculations performed at the time that recycled water was made available.

8.0 Miscellaneous Provisions.

8.1 **Term.** This Agreement shall take effect on the Effective Date and shall continue in full force and effect until the Parties exchange written notices that all rights and obligations hereunder have been realized and performed, or otherwise provided for. Notwithstanding any other provision of this Agreement, the Parties recognize and agree that, in the event Vista does not proceed with construction of the first phase of the Project within ten (10) years of the Effective Date of this Agreement, this Agreement shall automatically terminate and this Agreement and the Parties' respective obligations hereunder shall be null and void.

8.2 **Duty to Indemnify, Defend and Hold Harmless.** To the fullest extent permitted by law, Vista shall indemnify, defend and hold harmless CLWA, and its respective elected officials, directors, officers, employees, agents, assigns, contractors, subcontractors, and consultants ("Indemnified Parties") from and against any and all suits, actions, claims, proceedings, losses or liabilities, regardless of nature or type, arising out of, resulting from, or related to the design, construction, testing or operation of the Project WRP or the project required recycled water facilities, and any legal or administrative challenge of any environmental review, permitting or approval process undertaken for the Project WRP or the project required recycled water facilities. Liabilities subject to Vista's duties to indemnify, defend and hold harmless include, without limitation, all claims, losses, damages, penalties, fines, and judgments; associated investigation and administrative expenses; defense costs, including but not limited to reasonable attorney's fees; court costs; and costs of alternative dispute resolution. Vista's obligation to defend and hold harmless under this Paragraph is a separate and distinct obligation from Vista's duty to indemnify. Immediately upon tender to Vista of a claim, Vista shall be obligated to defend and hold harmless in all legal, equitable, administrative, or special proceedings, with legal counsel and any required experts that are jointly selected and agreed to by both Vista and CLWA. Vista's obligation to defend and hold harmless extends through final judgment, including exhaustion of any appeals. Vista's duties under this Paragraph shall survive completion of the Project WRP and the project required recycled water facilities, and also survive the termination of this Agreement; provided, however, that Vista's duties under this Paragraph shall terminate at such time that materially similar obligations to indemnify, defend and hold harmless CLWA and the Indemnified Parties as provided in this Paragraph are assumed by another party in a manner acceptable to CLWA. In the event that Vista or CLWA are sued by a third party for damages caused or allegedly caused by negligent or other wrongful conduct by Vista or any of Vista's elected or appointed officials, officers, agents, employees, contractors, subcontractors, consultants or attorneys, Vista shall not be relieved of its obligations under this Paragraph by any settlement with any such third party unless that settlement includes a full release and dismissal of all claims by the third party against CLWA and the Indemnified Parties identified herein.

8.3 **Material Breach.** In the event that either Party is in material breach of any provision of this Agreement, the non-breaching Party shall provide written notice to the breaching Party, identifying with reasonable specificity the nature of the claimed breach. If the breaching Party has not cured the event(s) of material breach identified in the notice required by this Paragraph within ten (10) business days of receipt of such written notice, the non-breaching Party shall be entitled to any and all remedies which may be available to it at law or in equity.

8.4 **Amendments.** No provision of this Agreement may be amended or added to except by an agreement in writing signed by the Parties or their respective successors in interest and permitted assigns of the Parties.

8.5 **Successors and Assigns.** Each and all of the terms, covenants, and agreements contained herein by or on behalf of the Parties shall bind and inure to the benefit of their respective successors in interest and permitted assigns.

8.6 **Assignment.** No Party to this Agreement shall assign or otherwise transfer its respective rights and obligations hereunder without the prior written consent of the other Party, which consent shall not be unreasonably withheld.

8.7 **No Recourse.** The obligations of Vista under this Agreement shall be without recourse to the assets of any partner, member, officer, investor, shareholder, director, unitholder or employee of Vista.

8.8 **Warranty of Authority.** The Parties hereby covenant, represent, warrant, and guarantee that each has the power and authority to enter into this Agreement.

8.9 **Interpretation.** The language of this Agreement shall be construed according to its fair meaning and not strictly for or against Vista or CLWA, pursuant to the laws of the State of California.

8.10 **Waiver.** The waiver by the Parties or by either Party of any term, covenant, agreement, or condition contained herein shall not be deemed to be a waiver of such term, covenant, agreement, or condition on any subsequent breach of the same or any other term, covenant, agreement, or condition contained herein.

8.11 **Notices.** Notices required to be given by this Agreement, or by any law now or hereinafter in effect, shall be effective only when in writing and delivered to the Party to whom notice is being given by personal delivery or by overnight mail to the address as follows:

To Vista: Vista Canyon Ranch, LLC
27451 Tourney Road, Suite 100
Valencia, California 91355
Attn: James S. Backer and Glenn Adamick

To CLWA: Castaic Lake Water Agency
27234 Bouquet Canyon Road
Santa Clarita, California 91350
Attn: Dan Masnada, General Manager

Either Party may change the place of notice to any other location by giving notice to the other Party pursuant to the notification provisions provided above.

8.12 **Governing Law.** This Agreement shall be construed and enforced in accordance with the laws of the State of California. Venue shall be in the Los Angeles County Superior Court.

8.13 **Computation of Time.** In computing any period of time under this Agreement, where the last day would fall on a Saturday, Sunday, or federal or California state holiday, the period shall run until 5:00 p.m. Pacific Time on the next working day.

8.14 **Cooperation.** The Parties agree to execute and deliver such further documents and to perform such further acts as may be reasonable and necessary to carry out the provisions of this Agreement or to effectuate its intent.

8.15 **Joint Drafting and Negotiation/Legal Counsel.** This Agreement has been jointly negotiated and drafted. The language of this Agreement shall be construed as a whole according to its fair meaning and without regard to or aid of Civil Code Section 1654 or similar judicial rules of construction. Each Party has been advised in connection herewith by legal counsel of its own choosing.

8.16 **No Third Party Beneficiaries.** No third party shall be entitled to claim or enforce any rights under this Agreement.

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

8.18 **Attorneys' Fees.** In the event of litigation between the Parties or their respective successors or permitted assigns, arising from or in connection with this Agreement, the prevailing party shall be entitled to recover its reasonable attorneys' fees and costs as determined by the court, in addition to any other relief awarded.

8.19 **Entire Agreement.** This Agreement is the entire agreement between the Parties with respect to the subject matter hereof and supersedes all prior agreements between the Parties with respect thereto.

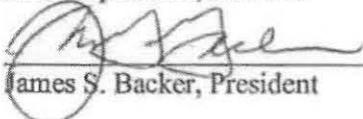
8.20 **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, and all of which, taken together, shall constitute one and the same instrument. Signatures sent by e-mail or facsimile shall be deemed originals.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the Effective Date first written above.

VISTA CANYON RANCH, LLC, a California limited liability company

By: **JSJ PARTNERS, LLC**,
a California limited liability company, its Manager

By: JSB Development, Inc.,
a California corporation, Member

By: 
James S. Backer, President

By: Valencia Realty Partners, LLC,
a California limited liability company, Member

By: 
Stephen F. Valenziano, Manager

CASTAIC LAKE WATER AGENCY

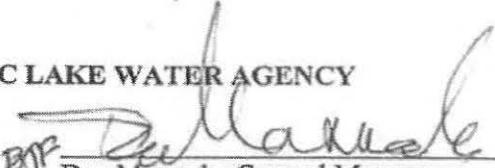
By: 
Dan Masnada, General Manager

EXHIBIT "A"

VISTA CANYON PROJECT
WATER DEMANDS

VISTA CANYON WATER DEMANDS				
Land Use	Acreage	Units or Square Footage	Total Demand, ac-ft/yr	Total Demand, gpd
Res-SF	5.7	90	27.2	24,284
Res-MF	26.1	1,010	96.6	86,213
Commercial	14.1	950,000	116.2	103,780
Landscape/OS/Park	33.4	-	53.4	47,715
Bank Protection	22.3	-	33.5	29,867
Santa Clara River	60.0	-	-	-
Hardscape	23.7	-	-	-
TOTAL	185.3	1,100 950,000	326.9	291,860

VISTA CANYON WATER DELIVERIES				
Land Use	Potable Deliveries		Recycled Water Deliveries	
	ac-ft/yr	Gpd	ac-ft/yr	Gpd
Res-SF	27.2	24,284	0.0	0
Res-MF	96.6	86,213	0.0	0
Commercial	66.3	59,155	50.0	44,626
Landscape/OS/Park	0.0	0	53.4	47,715
Bank Protection	0.0	0	33.5	29,867
TOTAL	190.0	169,653	136.9	122,208

EXHIBIT "B"

VISTA CANYON PROJECT
CLWA FACILITY CAPACITY FEE CREDIT CALCULATION

Component	Existing Users (Non-FCF) Credit ¹	Future Users Credit ²	Total
RW Projects II-XI	\$ 65,281,076	\$ 49,923,614	\$ 115,204,690
Interconnection	\$ -	\$ 3,150,000	\$ 3,150,000
RW Seasonal Storage	\$ 5,323,112	\$ 4,581,888	\$ 9,905,000
Total RW CIP ³	\$ 70,604,188	\$ 57,655,502	\$ 128,259,690
CLWA RW CIP RW Requirement (AFY) ⁴	16,930		
Credit Rate (per AFY) ⁵	\$ 4,170	\$ 3,406	\$ 7,576
WRP Production (GPD)	392,135		
WRP Production (AFY)	439.2		
Credit ⁶	\$ 1,831,585	\$ 1,495,676	\$ 3,327,261

Notes:

Utilization of Vista Canyon produced recycled water allows CLWA to reduce recycled water CIP
CLWA's recycled water program benefits both existing and future users.

1. Existing Users (Non-FCF) Credit:

Existing users' share of CIP costs is 55%

Existing users' CIP funding is from 1% property tax revenues

2. Future Users Credit:

Future users' share of CIP costs is 45%

Future users' CIP funding is from FCF revenues

3. Recycled Water CIP costs are from 2010 Data Document

4. Recycled Water Master Plan = 17,400 AFY - 470 AFY already developed (Phase 1) = 16,930 AFY

5. Credit rate is calculated by dividing existing or future users' costs by recycled water

requirement (i.e. $\$70,604,188/16,930 = \$4,170$ per AFY and $\$57,655,502/16,930 = \$3,405$ per AFY)

6. Credit is calculated by multiplying credit rate x WRP production (AFY)

EXHIBIT "C"
CLWA/SCVSD AGREEMENT

AGREEMENT

This Agreement is made and entered into this 24th day of July, ¹⁹⁹⁶~~1995~~, by and between County Sanitation Districts Nos. 26 and 32 of Los Angeles County, hereinafter referred to as "Districts" and the Castaic Lake Water Agency, hereinafter referred to as "Castaic".

WITNESSETH

WHEREAS, Districts are a county sanitation district formed and operating pursuant to the county sanitation district act, Chapter 3, Part 3, Division 5 of the Health and Safety Code, Sections 4700 et seq.; and

WHEREAS, Districts are parties to an Amended Joint Powers Agreement, effective May 8, 1984, which provides, among other things, for the ownership and operation of water reclamation plants in the Santa Clarita Valley. The plants currently include the Saugus Water Reclamation Plant and the Valencia Water Reclamation Plant, hereinafter collectively referred to as "Valley Reclamation Plants"; and

WHEREAS, a number of County Sanitation Districts of Los Angeles County are parties to an Amended Joint Outfall Agreement, effective July 1 1980, which provides, among other things, for the ownership and operation of water reclamation plants. The plants currently include the Joint Water Pollution Control Plant, Long Beach Water Reclamation Plant, Los Coyotes Water Reclamation Plant, Whittier Narrows Water Reclamation Plant, San Jose Creek Water Reclamation Plant, and Pomona Water Reclamation Plant hereinafter collectively referred to as the "Basin Reclamation Plants". The Valley Reclamation Plants and Basin Reclamation Plants hereinafter collectively are referred to as the "Water Reclamation Plants"; and

WHEREAS, pursuant to said Amended Joint Powers Agreement, the Districts operate the Valencia Water Reclamation Plant, hereinafter referred to as "Valencia Plant"; and

WHEREAS, Districts are authorized to sell or otherwise put to beneficial use any water or wastewater effluent recovered from the operation of said Valencia Plant; and

WHEREAS, Castaic is a water agency formed and operating pursuant to the Castaic Water Agency Law Act 9099b of unmodified acts and is authorized to acquire water and water rights; and

WHEREAS, reclaimed water currently produced at said Valencia Plant is suitable for a number of uses including, but not limited to landscape irrigation; and

WHEREAS, Districts and Castaic desire to provide for the long term use of reclaimed water for landscape irrigation and other beneficial uses hereinafter described, thereby fulfilling their joint responsibilities for the conservation of natural resources; and

WHEREAS, Castaic wishes to purchase from Districts, and Districts wish to sell to Castaic a portion of the reclaimed water produced at said Valencia Plant; and

WHEREAS, Castaic has initiated a project to distribute reclaimed water from the Valencia Plant throughout its own service area in a project referred to as the "Castaic Water Reuse Project";

NOW, THEREFORE, it is hereby agreed by and between the parties hereto as follows:

1. Facilities for Delivery and Distribution of Reclaimed Water

1.1 Districts agree to designate a point of connection to Districts' facilities from which reclaimed water may be drawn by Castaic. The point of connection shall be designated by the Chief Engineer and General Manager of Districts ("Chief Engineer"). The plan of connection and facilities to be used by Castaic shall be first approved by the Chief Engineer subsequent to the date first written.

1.2 Castaic agrees to construct or cause to be constructed, at no cost to Districts, all facilities required to withdraw at the point of connection and distribute the reclaimed water purchased by Castaic, including but not limited to a pump station or stations, wet well, pumps, pipelines, meters, controls, and other facilities.

Castaic shall also be solely responsible for all costs incurred by the operation and maintenance of these distribution facilities. Castaic agrees to construct such facilities in a manner which will maximize the potential for others to construct at the point of connection facilities for the withdrawal of reclaimed water. Castaic agrees to cooperate in the shared use of its facilities with other entities wishing to convey reclaimed water. Castaic also agrees to sell capacity in its facilities at a cost not greater than that necessary to recover the pro rata share of its actual costs of construction, operation and maintenance represented by such shared use. Likewise the Districts agrees not to allow others to construct facilities to withdraw reclaimed water which will interfere with the construction, operation, or maintenance of Castaic owned and operated facilities on Districts property.

1.3 Upon prior written approval of the Chief Engineer, Castaic may locate some of its facilities on Districts-owned property as a matter of convenience to Castaic. Notwithstanding the grant of prior approval and consent by the Chief Engineer, upon request by the Chief Engineer, Castaic shall, within ninety (90) days of notice, relocate any such facilities either off the Districts-owned property or if the relocation is on Districts-owned property then in a manner and at a location which is acceptable to the Chief Engineer. Castaic shall bear the cost of such relocation.

2. Quantity of Water Available to Castaic

2.1 Subject to the provisions hereafter set forth, Districts agrees to make available each fiscal year (July 1 through June 30) commencing July 1, 1995, during the term hereof to Castaic, a total of one thousand, six hundred (1,600) acre-feet (as hereinafter determined) of reclaimed water produced at the Valencia Plant. The maximum daily rate of withdrawal shall be limited to one and four-tenths (1.4) million gallons per day. The actual instantaneous rate of withdrawal will be apportioned throughout the day by the ratio that the instantaneous amount of reclaimed water produced at the Valencia Plant bears to the capacity of the Valencia Plant. Districts and Castaic agree to use their best efforts to correlate continuously the rate of withdrawal to the amount of reclaimed water then being produced at the Valencia Plant. This quantity of reclaimed water will be adjusted every five (5) years, beginning after the tenth (10th) full fiscal year of this Agreement, and Districts' obligation will then be limited to furnishing Castaic one hundred percent (100%) of Castaic's highest annual usage in any

of the three (3) fiscal years preceding the date of adjustment, up to one thousand six hundred (1,600) acre-feet, with the daily and instantaneous rate of withdrawal limitation prorated accordingly.

2.2 In addition, the Chief Engineer may, from time to time and for such periods of time as he determines to be appropriate, authorize the sale of such additional quantities of reclaimed water produced at said Valencia Plant as the Chief Engineer determines will be beneficially utilized by Castaic. The sale of any such additional quantity shall be subject to the terms and conditions of this Agreement and shall be only for such period of time as the Chief Engineer determines to be appropriate. Such authorization shall not increase the permanent entitlements of Castaic provided for by this Agreement.

3. Limitations on Contractual Commitments

3.1 Castaic understands and acknowledges that Districts are charged with the responsibility to operate their sewerage systems in a manner which they determine to be most beneficial to the users thereof. The rights of Castaic to reclaimed water under this agreement pertain only to the reclaimed water which actually is produced at the Valencia Plant. Nothing contained herein shall be construed to qualify in any manner Districts' right to operate the Valencia Plant at such level as it determines, in its absolute discretion to be appropriate, or to discontinue the operation of the Valencia Plant. Any right of Castaic to reclaimed water pursuant to this Agreement shall be subordinate to the rights and responsibilities of Districts as herein set forth.

3.2 Nothing herein shall be construed to commit any portion of the effluent from said Valencia Plant beyond that which the Chief Engineer reasonably determines will be used beneficially by Castaic, including resale for reasonable beneficial uses. No such determination which reduces the quantity available to Castaic, under Section 2 hereof shall be made unless the Chief Engineer has given to Castaic at least sixty (60) days advance written notice of such proposed determination and has afforded to Castaic an opportunity to meet and confer on the issue. The determination shall operate to suspend the contractual rights of Castaic under Section 2 for such period of time and to such quantity of reclaimed water as the Chief Engineer reasonably determines to be

appropriate. Districts reserve the right to enter into contracts with others for the sale of any reclaimed water in excess of the amount to which Castaic is entitled under this Agreement.

3.3 The parties recognize the social benefit to be derived from maximizing the beneficial use of reclaimed water. Districts have in the past and intend in the future to contract for the sale of reclaimed water from the Valencia Plant in quantities which will not cumulatively exceed those which will be produced at the plant. However, any circumstances beyond the Districts' control which cause a reduction in flow from normal capacity through the Valencia Plant or require the Districts to limit the amount of water which can be reused may, at the discretion of the Chief Engineer, result in a temporary or permanent decrease in water available to Castaic under this Agreement in such amounts as the Chief Engineer determines are necessary in order to fairly allocate any such reduced flow production so that the Districts are assured of an adequate supply to meet its own needs at the Valencia Plant, and other Districts owned or operated facilities. The Chief Engineer shall allocate reduced flow production among all of the users of reclaimed water produced at the Valencia Plant except for that quantity that is used by Districts for its needs in proportion to the actual use in the previous fiscal year of reclaimed water produced at the Valencia Plant. The reduced availability will continue in effect until such time as the Valencia Plant has been restored to normal capacity.

4. Quality of Water to be Purchased by Castaic

4.1 Districts agree to use its best efforts to supply reclaimed water from said Valencia Plant to Castaic which will conform to the requirements established from time to time by the California Regional Water Quality Control Board - Los Angeles Region (CRWQCB), or such other regulatory agency as may have authority thereover, for either reuse or discharge to the Santa Clara River, whichever is less restrictive. Should the CRWQCB requirements for Castaic usage be more stringent than those for current discharge to the Santa Clara River, Castaic may, at its discretion and at its expense, undertake steps to meet the requirements and shall indicate to the Districts in writing such intent within ninety (90) days of the adoption by the CRWQCB of the requirements; provided, however, that Districts shall have no duty to modify any of its facilities, including said

Valencia Plant, unless it agrees to such modification. If Castaic is unwilling to meet said requirements, it may terminate this Agreement by written notice to the Districts prior to expiration of said ninety (90) day period.

4.2 Both parties recognize that factors beyond the control of Districts could cause operational difficulties at said Valencia Plant resulting in the temporary production of reclaimed water which does not meet the current legal requirements established by the CRWQCB or other regulatory agency for Castaic's intended uses. In such case, the Chief Engineer, in his sole discretion, may temporarily suspend Castaic's availability of water from Districts' facilities. Districts shall use its best efforts to re-establish the production of reclaimed water of a suitable quality as prescribed in Section 4.1 of this Agreement and shall re-establish Castaic's supply of such water accordingly. Castaic recognizes that a standby water supply will be necessary to prevent any damages which might result from an interruption in the supply of reclaimed water and hereby waives any right which it might have to recover from the Districts damages attributable to such interruption.

4.3 Castaic agrees to release and indemnify and hold harmless Districts, the County of Los Angeles, and each City in Los Angeles County whose wastewater is tributary to the Valencia Plant, their officers, directors, agents and employees from and against any and all liability, loss, costs, demands, damages, causes of action (whether legal, equitable or administrative), fees of attorneys and other expenses, which are attributable to the use of reclaimed water furnished by Districts to Castaic that meets the quality standards described in Section 4.1 hereof.

Castaic also agrees to waive any cause of action that may arise against any of the foregoing agencies or individuals which is attributable to such use.

5. Price of Reclaimed Water

5.1 For the three (3) years subsequent to the day and year deliveries first commence, the unit price to be paid by Castaic for reclaimed water provided by Districts to Castaic under the terms of this agreement shall be the greater of:

(a) \$5.00 per acre foot; or

(b) one-half of the result determined by subtracting the Castaic Water Reuse Project Costs, as defined below, during the fiscal year divided by the total amount of reclaimed water delivered during the fiscal year, from the Water Rate, as defined below provided that deficits, if any, determined by adding the price to the amount determined by the above calculation may be carried over and considered as part of the Castaic Water Reuse Project's cost in the next fiscal year.

Water Rate for the purposes of this Agreement shall be defined as the greater of:

- (i) the price that Castaic charges its customers for potable water multiplied by ninety percent (90%), or
- (ii) the price that Castaic charges its customers for reclaimed water.

For the purposes of this Agreement, Castaic's Water Reuse Project Costs shall be defined as all operation and maintenance costs incurred by Castaic, properly allowable under generally accepted accounting standards and attributed to the Castaic Water Reuse Project including but not limited to: reasonable administration and special program costs related to the use of reclaimed water for the Castaic Water Reuse Project, pump station, reservoir and pipeline maintenance costs, energy cost taking into account all economic benefits realized through low interest loans, rebates and other subsidies obtained by the Castaic from external sources to defray the cost of providing reclaimed water and/or constructing reclamation facilities. A

determination of the price of reclaimed water pursuant to this Section 5.1 and 5.2 is included in this Agreement as Appendix "A".

5.2 At the end of the first three (3) years, the unit price to be paid by Castaic for reclaimed water provided by Districts to Castaic under the terms of this Agreement shall be the greater of:

- (a) one-fifth of the unit cost, as defined below, of operation and maintenance of the Water Reclamation Plants, during the fiscal year in which the reclaimed water was received, rounded to the nearest cent, or
- (b) the value determined by the method prescribed in Section 5.1.(b).

For purposes of this Agreement, the unit cost of operation and maintenance shall be determined on the basis of Districts' accounting records and shall be arrived at by dividing the total operation and maintenance costs of the applicable reclamation plants by the number of acre-feet of treated wastewater therefrom.

5.3 In no event shall the unit price of reclaimed water under Sections 5.1 and 5.2 exceed 100% of the unit cost of operation and maintenance of the Valley Reclamation Plants as defined in Section 5.2.

5.4 Castaic's Water Reuse Project costs shall be determined in accordance with the usual accounting practices of Castaic. Districts shall have the right to audit the books, accounts and records of Castaic during normal business hours upon at least forty-eight (48) hours prior notice to Castaic. Districts' operation and maintenance costs shall be determined in accordance with the usual accounting practices of Districts. Castaic shall have the right to audit the books, accounts and records of Districts during normal business hours upon at least forty-eight (48) hours prior notice to Districts.

5.5 The operation and maintenance costs of such reclaimed water delivery and distribution facilities that may be operated or maintained by Districts on behalf of Castaic shall be paid by Castaic to Districts. Operation and maintenance costs shall be determined in accordance with usual accounting practices of the Districts. Castaic shall have the right to review the books, accounts, and records of Districts during normal business hours upon at least forty-eight (48) hours prior notice to Districts.

6. Payment for Reclaimed Water

6.1 Each year Castaic agrees to make quarterly estimated payments for the total amount of reclaimed water delivered in each of the first three fiscal quarters at the unit price for the previous fiscal year. For the fiscal year in which reclaimed water deliveries commence, Castaic agrees to make quarterly estimated payments for the total amount of reclaimed water delivered in each of the first three fiscal quarters at the unit price of \$5.00 per acre-foot. The payment shall be made prior to October 31, January 31 and April 30 of each year.

6.2 Castaic shall notify Districts of both the total amount of reclaimed water delivered and the itemized costs associated with operating the reclaimed water distribution facilities during each fiscal year as specified in Paragraph 5.1 hereof within thirty (30) days of the end of the fiscal year.

6.3 Districts shall invoice Castaic for the price of the reclaimed water purchased by Castaic as specified in Paragraph 5.1 and the operation and maintenance costs incurred by the Districts on behalf of Castaic as specified in Paragraph 5.5 hereof, less the aforementioned monthly estimated payments, within thirty (30) days after receiving the itemized notification of costs from Castaic. Said invoices shall be paid within thirty (30) days after presentation thereof by Districts.

6.4 In the event of non-payment for sixty (60) days after mailing of invoice, Districts may disconnect Castaic's facilities at the point of connection and order all Castaic's facilities removed from Districts property. This remedy is in addition to all other remedies provided by law.

7. Aesthetic Maintenance

7.1 Castaic agrees to eliminate or control to the reasonable satisfaction of the Chief Engineer any unacceptable aesthetic conditions in Castaic's service area, caused by the use of reclaimed water, including but not limited to standing water, eutrophication of impoundments and overspray onto adjoining properties, and pedestrian and vehicle right-of-ways.

8. Metering and Measurement of Flows

8.1 Castaic agrees to install meters of a size and type approved by the Chief Engineer at no expense to the Districts for the purpose of measuring the quantity of reclaimed water provided pursuant to the terms of this Agreement from said Valencia Plant to Castaic. Castaic agrees to inform the Districts in writing of the total quantity of reclaimed water provided each quarter to each individual site where the reclaimed water is applied, and the purposes for which said quantity of reclaimed water were used. Such written notice shall be provided by the thirtieth (30th) day of the succeeding month.

8.2 Castaic agrees to calibrate, at its expense, the required meters which measure reclaimed water flow and have such meters adjusted or replaced as necessary. These flow meter calibrations shall be in accordance with a schedule deemed reasonable by the Chief Engineer.

8.3 Castaic agrees to permit Districts access to meters and records which measure and register reclaimed water flow for purposes of verifying the quantity of reclaimed water delivered.

9. Limitation of Use

9.1 Castaic understands and agrees that reclaimed water delivered from said Valencia Plant pursuant to terms hereof has limited uses, and Castaic agrees to use said reclaimed water for only those uses or purposes which are legally permissible under the laws of the state and the directives of the appropriate regulatory agencies.

10. Term

10.1 The term of this Agreement shall be twenty five (25) years from the day and year first written, provided that this Agreement may be terminated at any time by mutual agreement of the parties hereto.

11. Notices

All notices pursuant to this Agreement shall be addressed to Districts or Castaic as set forth below or as Districts or as Castaic may hereafter designate in writing and shall be sent through the United States Mail, State of California, duly registered or certified, return receipt requested with postage prepaid thereon. If any notice is sent by registered or certified mail as aforesaid, the same shall be deemed to have been served or delivered twenty-four (24) hours after mailing thereof as above-provided.

TO DISTRICTS:

Chief Engineer, General Manager
County Sanitation Districts of Los Angeles County
Post Office Box 4998
Whittier, CA 90607-4998

TO CASTAIC:

General Manager
Castaic Lake Water Agency
27234 Bouquet Canyon Road
Saugus, CA 91350

12. Litigation

Should litigation or arbitration be necessary to enforce or interpret any term or provision of this Agreement or to collect any portion of any amount payable under this Agreement, the prevailing party shall be entitled to recover reasonable attorneys' fees and expenses in addition to any other relief granted to which the prevailing party would otherwise be entitled.

13. Integrated Agreement

There are no understandings or agreements except as herein expressly stated.

14. Indemnification Against Service Duplication Claims

Castaic and Districts acknowledge that they have reviewed the Service Duplication Laws of the State of California embodied in Chapter 8.5 of Part 1, Division 1 of the Public Utilities Code (Section 1501, et seq.), and believe that the rights and responsibilities conferred by those statutes do not pertain to this Agreement. Castaic recognizes, however, that the Districts would be reluctant to enter into the Proposed Agreement without this Indemnity.

Castaic agrees to indemnify and hold harmless the Districts, their officers, agents and employees, from and against any and all liability, loss, costs, damages, causes of action (whether legal, equitable or administrative), fees of attorneys, and other expenses which the Districts may sustain or incur by reason of or in consequence of the assertion by others, whether successful or not, of rights expressed in the Service Duplication Laws referred to above or similar laws, with regard to the sale of reclaimed water to Castaic under this Agreement; provided that Castaic is promptly notified by the Districts in writing of any such assertion of rights and is granted the right to direct or otherwise participate in any defense of such claim. The foregoing indemnity shall extend to the Service Duplication Law and any similar law which may hereafter be enacted, to any amendments thereto hereafter enacted, and to any recodification thereof, irrespective of form, which may subject the Districts to liability to any privately owned public utility or any other person, association or corporation because of the sale of reclaimed water to Castaic.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year above set forth.

CASTAIC LAKE WATER AGENCY

COUNTY SANITATION DISTRICT NO. 26 OF
LOS ANGELES COUNTY

By: [Signature]
GENERAL MANAGER

By: [Signature]
Chairperson, Board of Directors

ATTEST:

ATTEST:

By: [Signature]

By: [Signature]
Secretary

DEC 1 1995

COUNTY SANITATION DISTRICT NO. 32 OF
LOS ANGELES COUNTY

By: [Signature]
Chairperson, Board of Directors

ATTEST:

By: [Signature]
Secretary

DEC 13 1995

APPROVED AS TO FORM:

APPROVED AS TO FORM:

KNAPP, MARSH, DORAN & JONES

By: [Signature]

By: [Signature]

APPENDIX A

DETERMINATION OF THE PRICE OF RECLAIMED WATER TO CASTAIC LAKE WATER AGENCY (CASTAIC)

As discussed in Paragraph 5.1, the actual price of reclaimed water to Castaic for the first 3 years of deliveries is the greater of (a) or (b) but not exceeding (c) where:

- (a) \$5/AF
- (b) $1/2(\text{Unit Water Rate} - \text{Unit Castaic Cost})$
- (c) 100% of O&M Valley Reclamation Plants Unit Cost

EXAMPLE: 1995 (see Table below)

- (a) \$5/AF
 - (b) $1/2(\$213/\text{AF} - \$285/\text{AF}) = -\$36/\text{AF}$
 - (c) \$373/AF
- thus, 1995 actual price is (b) \$5/AF.

As discussed in Paragraph 5.2, the actual price of reclaimed water to Castaic for the remainder of the Agreement is the greater of (a) or (b) but not exceeding (c) where:

- (a) $1/5(\text{O\&M Water Reclamation Plants Unit Cost})$
- (b) $1/2(\text{Unit Water Rate} - \text{Unit Castaic Cost})$
- (c) 100% of O&M Valley Reclamation Plants Unit Cost

EXAMPLE: 1998 (see Table below)

- (a) $1/5(\$181/\text{AF}) = \$36/\text{AF}$
 - (b) $1/2(\$252/\text{AF} - \$98/\text{AF}) = \$77/\text{AF}$
 - (c) \$444/AF
- thus, 1998 actual price is (a) \$77/AF.

DETERMINATION OF THE PRICE OF RECLAIMED WATER TO CASTAIC LAKE WATER AGENCY (CASTAIC)

FISCAL YEAR	1995	1996	1997	1998	1999	2000	2001	2002	2003
RECLAIMED WATER DELIVERED (AFY) (1)	50	1041	1574	1574	1574	1574	1574	1574	1574
CASTAIC COSTS:									
OPERATION AND MAINTENANCE (3)									
Variable O&M (Energy/Pumping)	\$4,244	\$88,357	\$137,604	\$141,732	\$145,984	\$150,364	\$154,875	\$159,521	\$164,306
Maintenance	\$10,000	\$7,755	\$12,312	\$12,928	\$13,574	\$14,253	\$14,965	\$15,714	\$16,499
Deficit from Previous Year	\$0	\$3,844	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CASTAIC TOTAL COST (2)	\$14,244	\$99,956	\$149,916	\$154,660	\$159,558	\$164,616	\$169,840	\$175,234	\$180,806
Unit Cost (\$/AF)	\$285	\$96	\$95	\$98	\$101	\$105	\$108	\$111	\$115
WATER RATE:									
90 % Castaic's Potable Water Unit Rate (\$/AF) (3)	\$213	\$210	\$251	\$252	\$253	\$261	\$270	\$279	\$289
90 % Castaic's Potable Water Total Cost	\$10,650	\$218,610	\$395,074	\$396,648	\$398,222	\$410,814	\$424,980	\$439,146	\$454,886
Castaic's Rate for Reclaimed Water (3)	\$170	\$168	\$201	\$202	\$202	\$209	\$216	\$223	\$231
Castaic's Revenue from Sale of Reclaimed Water	\$8,500	\$174,888	\$316,374	\$317,948	\$317,948	\$328,966	\$339,984	\$351,002	\$363,594
Price Determined by (a)(4)	\$5	\$5	\$5	\$36	\$38	\$41	\$43	\$46	\$48
Price Determined by (b)	(\$36)	\$57	\$78	\$77	\$76	\$78	\$81	\$84	\$87
O&M Valley Reclamation Plants (c) (5)	\$373	\$396	\$419	\$444	\$471	\$499	\$529	\$561	\$595
ACTUAL PRICE - Greater of (a) or (b) but <= (c)	\$5	\$57	\$78	\$77	\$76	\$78	\$81	\$84	\$87
Total Reclaimed Water Cost	\$250	\$59,327	\$122,579	\$120,994	\$119,332	\$123,099	\$127,570	\$131,956	\$137,040
Deficit To Be Carried Over (6)	\$3,844	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

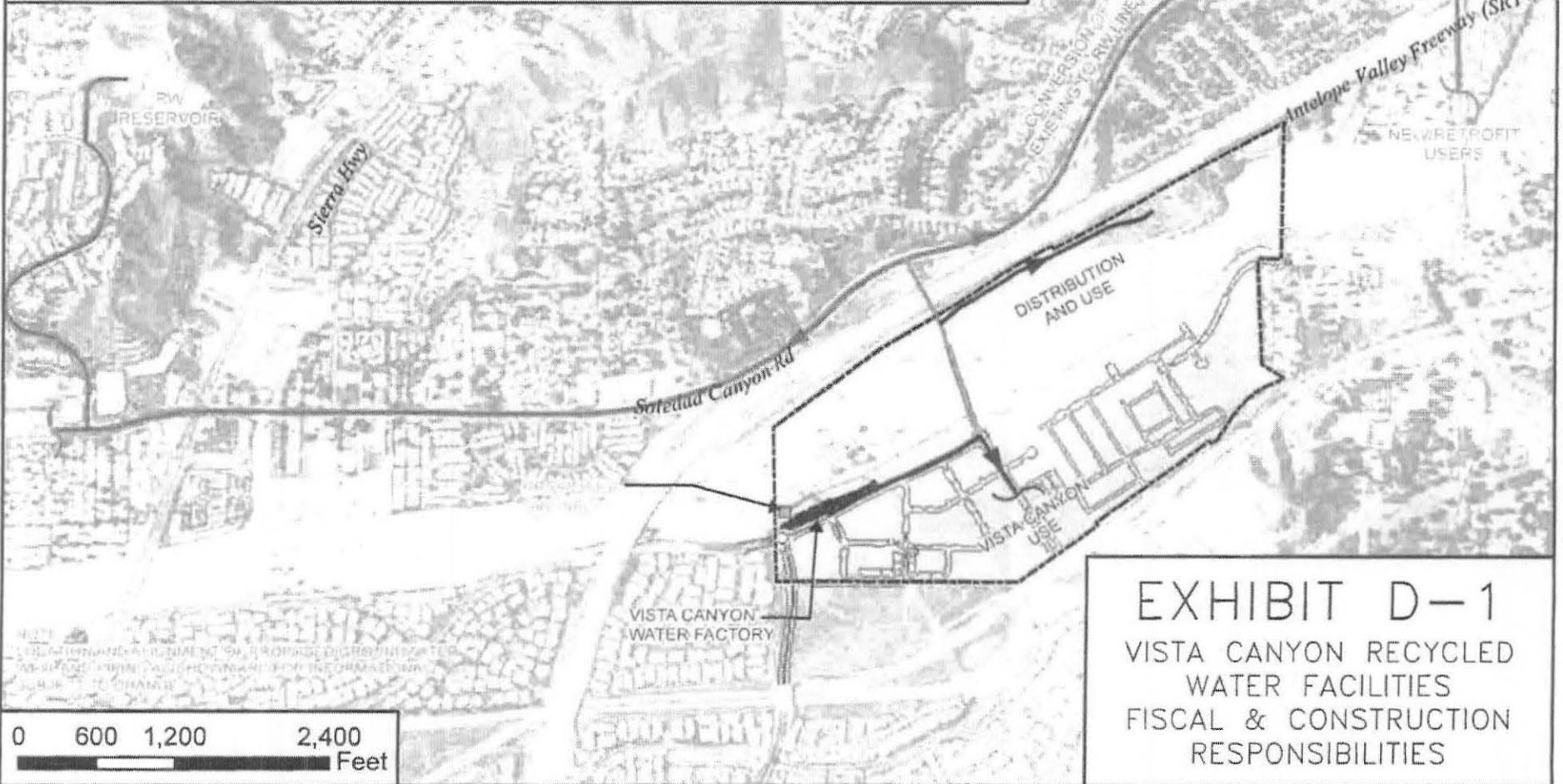
NOTES:

- (1) Assumed usage for purposes of example.
- (2) Total cost to Castaic excluding payment to the Sanitation Districts.
- (3) Based on projections by Castaic (except for 1995).
- (4) Based on Water Reclamation Plants O&M cost of \$143/AF in 1994 and Districts' projections.
- (5) Based on Valley Reclamation Plants O&M cost of \$352/AF in 1994 and Districts' projections.
- (6) Calculated negative deficit (i.e. surplus) is carried over as \$0 for subsequent year determination of cost.

LEGEND

-  Vista Canyon Project Boundary
-  Water Factory Plant Site
- RW = Recycled Water
- GW = Groundwater
- TBD = To Be Determined
-  Vista Canyon Fiscal and Construction Responsibility for Vista Canyon
-  Vista Canyon and CLWA Fiscal Construction Responsibility (Capacity-Based)/ Vista Canyon Physical Construction Responsibility
-  CLWA Fiscal and Construction Responsibility ("Interconnection Facilities")
-  Vista Canyon and CLWA Fiscal Construction Responsibility (Capacity-Based)/ CLWA Physical Construction Responsibility ("Interconnection Facilities")

NOTE:
 "CONSTRUCTION" RESPONSIBILITIES REFERS TO PERMITTING, DESIGN, CONSTRUCTION, AND TESTING OF FACILITIES AS CONTEMPLATED IN SECTION 6.0 OF THE AGREEMENT



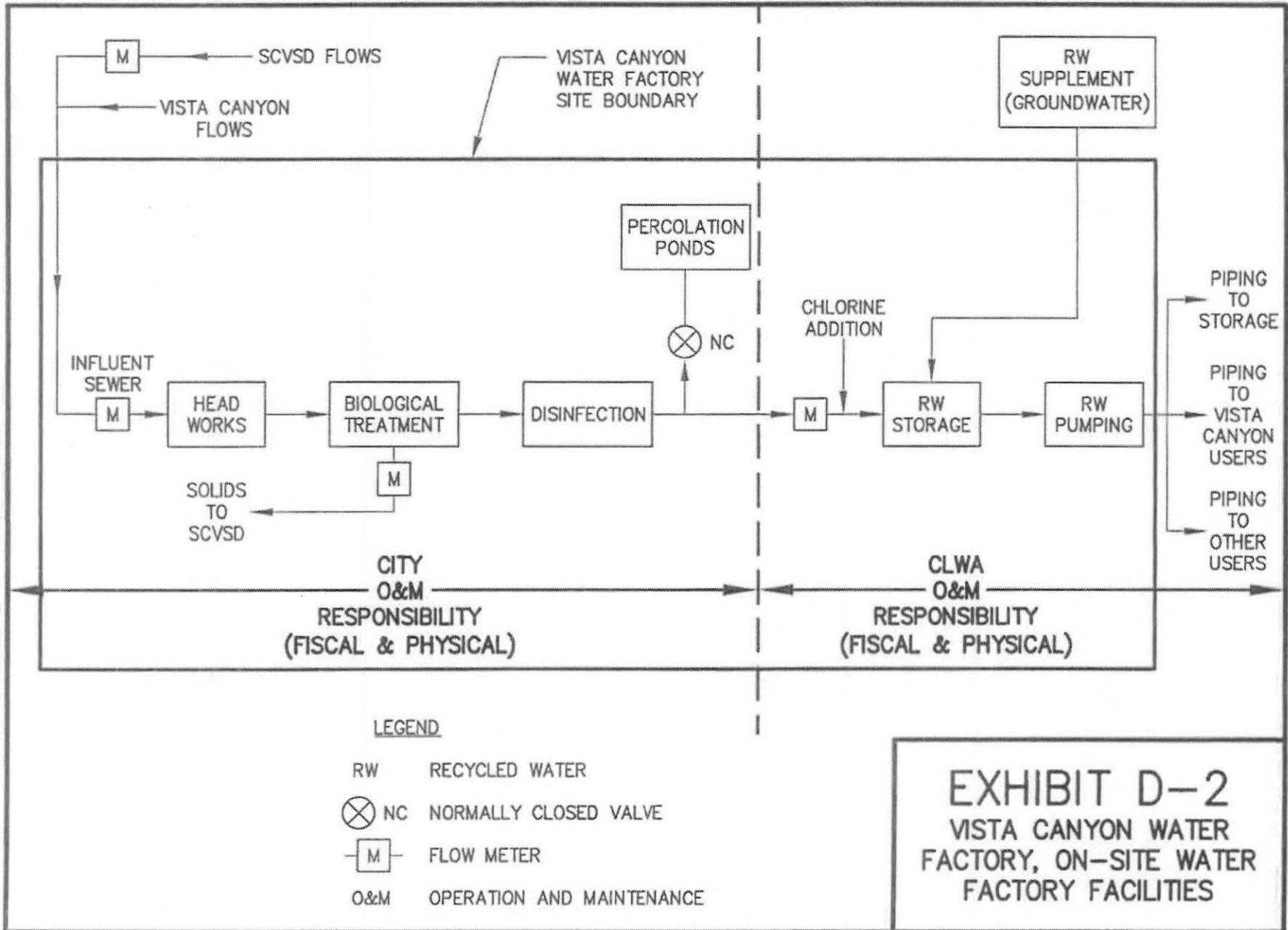


Exhibit "E"

Vista Canyon Project Sample FCF Payments and Credit Accounting

Based on Vista Canyon Demand Factors

FCF Payments and Credits														
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	
Phase (Year)	New Demand Capacity ¹ (AFY)	FCF (\$/AFY)	Calculated FCF (B) x (C)	% RW Produced AFY	Non-FCF Unit Credit ² \$/AFY	Non-FCF Credit (E) x (F)	FCF Unit Credit ² \$/AFY	FCF Credit (E) x (H)	Total VC WRP Unit Credit* \$/AFY	Total Calculated Credit (G) + (I)	Initial FCF Credit per Agreement	Balance ³	Payment Due from Vista Canyon	
1 (2014)	50.8	\$19,863	\$1,009,030	0.0%	(\$4,386)	\$0	(\$3,583)	\$0	N/A	\$0	\$0	\$1,009,030	\$1,009,030	
WRP Completed											(\$1,000,000)	(\$1,000,000)		
2 (2015)	85.2	\$20,371	\$1,735,633	41.6%	(\$4,499)	(\$821,971)	(\$3,674)	(\$671,375)	(\$8,173)	(\$1,493,346)	N/A	(\$757,712)	\$0	
3 (2016)	65.7	\$20,893	\$1,372,656	20.1%	(\$4,614)	(\$407,250)	(\$3,768)	(\$332,636)	(\$8,382)	(\$739,886)	N/A	(\$124,942)	\$0	
4 (2017)	31.3	\$21,428	\$670,685	9.6%	(\$4,732)	(\$198,984)	(\$3,865)	(\$162,527)	(\$8,597)	(\$361,511)	N/A	\$184,232	\$184,232	
5 (2018)	31.3	\$21,976	\$687,855	9.6%	(\$4,853)	(\$204,078)	(\$3,964)	(\$166,688)	(\$8,817)	(\$370,766)	N/A	\$501,321	\$687,855	
6 (2019)	31.3	\$22,539	\$705,464	9.6%	(\$4,977)	(\$209,302)	(\$4,065)	(\$170,955)	(\$9,042)	(\$380,258)	N/A	\$826,527	\$705,464	
7 (2020)	31.3	\$23,116	\$723,524	9.6%	(\$5,105)	(\$214,660)	(\$4,169)	(\$175,332)	(\$9,274)	(\$389,992)	N/A	\$1,160,059	\$723,524	
326.9		\$6,904,847		100.0%	(\$2,056,245)		(\$1,679,513)		(\$3,735,758)				\$3,310,104	

1. Demand Factors Used to Calculate "New Demand Capacity"

Phase 1: CLWA Demand Factors in place at time of application (not used in this example)

Phase 2 and later: Once actual demand/usage is obtained from actual on-site use, demand factors are adjusted

2. FCF Unit Credit and Non-FCF Unit Credits calculated as shown in Exhibit "B"

3. Some phases result in accrual of credit for future phase(s)

4. % RW Produced (Column E): Assumes on and off-site recycled water uses coming on-line (Example: Phase 2 = (50.8+85.2)/326.9 = 41.6%)

5. Phases and years subject to change - data shown in table for illustration purposes only

6. Consistent with Agreement Section 7.3, CLWA shall credit off-site component 5 years after completion of WRP

Exhibit "E"

**Vista Canyon Project
Sample FCF Payments and Credit Accounting**

Based on CLWA Demand Factors

FCF Payments and Credits													
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
Phase (Year)	New Demand Capacity ¹ (AFY)	FCF (\$/AFY)	Calculated FCF (B) x (C)	% RW Produced AFY	Non-FCF Unit Credit ² \$/AFY	Non-FCF Credit (E) x (F)	FCF Unit Credit ² \$/AFY	FCF Credit (E) x (H)	Total VC WRP Unit Credit* \$/AFY	Total Calculated Credit (G) + (I)	Initial FCF Credit per Agreement	Balance ³	Payment Due from Vista Canyon
1 (2014)	138.2	\$19,863	\$2,745,038	0.0%	(\$4,386)	\$0	(\$3,583)	\$0	N/A	\$0	\$0	\$2,745,038	\$2,745,038
WRP Completed											(\$1,000,000)	(\$1,000,000)	
2 (2015)	230.4	\$20,371	\$4,693,544	51.9%	(\$4,499)	(\$1,026,010)	(\$3,674)	(\$838,032)	(\$8,173)	(\$1,864,042)	N/A	\$1,829,502	\$0
3 (2016)	142.0	\$20,893	\$2,966,776	20.0%	(\$4,614)	(\$405,380)	(\$3,768)	(\$331,109)	(\$8,382)	(\$736,490)	N/A	\$4,059,788	\$0
4 (2017)	49.8	\$21,428	\$1,067,097	7.0%	(\$4,732)	(\$145,808)	(\$3,865)	(\$119,094)	(\$8,597)	(\$264,902)	N/A	\$4,861,982	\$4,861,982
5 (2018)	49.8	\$21,976	\$1,094,414	7.0%	(\$4,853)	(\$149,541)	(\$3,964)	(\$122,143)	(\$8,817)	(\$271,684)	N/A	\$5,684,713	\$1,094,414
6 (2019)	49.8	\$22,539	\$1,122,431	7.0%	(\$4,977)	(\$153,369)	(\$4,065)	(\$125,270)	(\$9,042)	(\$278,639)	N/A	\$6,528,505	\$1,122,431
7 (2020)	49.8	\$23,116	\$1,151,166	7.0%	(\$5,105)	(\$157,295)	(\$4,169)	(\$128,477)	(\$9,274)	(\$285,772)	N/A	\$7,393,899	\$1,151,166
	709.8		\$14,840,465	100.0%		(\$2,037,404)		(\$1,664,124)		(\$3,701,529)			\$10,975,032

1. Demand Factors Used to Calculate "New Demand Capacity"

Phase 1: CLWA Demand Factors in place at time of application

Phase 2 and later: Once actual demand/usage is obtained from actual on-site use, demand factors are adjusted

2. FCF Unit Credit and Non-FCF Unit Credits calculated as shown in Exhibit "B"

3. Some phases result in accrual of credit for future phase(s)

4. % RW Produced (Column E): Assumes on and off-site recycled water uses coming on-line (Example: Phase 2 = (138.2+230.4)/709.8 = 51.9%)

5. Phases and years subject to change - data shown in table for illustration purposes only

6. Consistent with Agreement Section 7.3, CLWA shall credit off-site component 5 years after completion of WRP