

HATCH AND PARENT 21 East Carrillo Street Santa Barbara, CA 93101

1 2. Watermaster adoption and Court approval of Revised Rules and Regulations for Chino Basin by February 1, 2001; and 2 3. Submission of Reports Nos. 1 through 10 in accordance with the schedule set forth in the discussion above; and 3 4. Inclusion in such reports of schedule and budget information essentially in a form equivalent to Exhibit "E" and Table 4-14 of the Phase I Report; and Watermaster cooperation in the independent assessment and verification of the data 5. 4 included in Reports Nos. 1 through 10 to be provided to the Court by the Special 5 Referee and her technical expert. 6 According to the Court's timetable for submission of the Reports referenced in conditions 3, 4, and 5, the first report is not to be submitted to the Court until March 31, 2001. Thus, there is 7 no need to update the Court on the progress with respect to these conditions at this time. The purpose 8 of this report is rather to provide the Court with an update on the progress of the parties with respect 9 to the first and second conditions. 10

II.

PROGRESS ON CONDITIONS ONE AND TWO

DESALTER PURCHASE CONTRACTS AND RECISSION OF WESTERN'S A. RESOLUTION

16 On July 31, 2000, Western Municipal Water District ("Western") approved the Peace Agreement through the adoption of Resolution 2120 of the Western Board of Directors. However, 17 Western expressly reserved its consent to any obligation imposed under Articles I and VII of the 18 Peace Agreement concerning desalters, until two sets of conditions had been satisfied. The first set 19 of conditions broadly requires that the purchase contracts for water from the new desalter facilities 20 maintain consistency with Western's obligations in the Chino Basin, insure that the financing of 21 regional desalting facilities is coordinated with funds from Proposition 13, and improve the 22 reliability and backup of the regional desalting facilities through appropriate interties. It also requires that the City of Norco has readily available and direct access to water produced by the regional desalter facilities.

25 The second set of conditions seek to ensure the financial feasibility and stability of the new 26 desalting facilities by requiring the identified purchasers of water from the new desalters to commit to purchase a minimum quantity of water produced from the facilities. 27

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The purchasers and sellers of have been meeting regularly over the past several months in 2 order to craft a master purchase contract for water from the facilities. The parties believe that such a contract must include details on issues that go far beyond merely satisfying the conditions contained in Western's Resolution. The purchasers and sellers have been negotiating not only the issues of coordination and consistency on a regional basis of the facilities and minimum purchase quantities, they have also been negotiating issues such as rate of delivery, means of delivery, cost of water, adjustments to the cost of water and refinements on the price cap imposed by the Peace Agreement, as well as many other issues.

8 Such negotiations are difficult and complicated under the best of circumstances. These 9 negotiations, however, have proceeded with the additional difficulty that the facilities in question 10 are still at the earliest planning stages so that information regarding costs is highly speculative. 11 Unfortunately, an important financial feasibility report from RBF Engineering that was to be delivered to the sellers and purchasers on December 20, 2000, has been delayed until January 22, 12 2001. Despite this, the parties have shown great deference to the deadlines before them, and have 13 been willing to commit themselves as far as possible given their lack of hard data. Both the 14 purchasers and sellers have committed to weekly meetings through January. Copies of the draft 15 agreements shared between the parties are enclosed with this transmittal as Exhibit "A." 16

.In a demonstration of its commitment to reaching a satisfactory agreement, Western has 17 twice extended the original deadline contained in Resolution 2120 for satisfaction of the conditions 18 of the Resolution. The most recent extension was made by Resolution 2136 and provides an 19 extension of the deadline until January 30, 2001. A copy of Resolution 2136 is enclosed with this 20 transmittal as Exhibit "B."

21 Western has also recently entered into a financing agreement with the Orange County Water District, the Inland Empire Utilities District and the Santa Ana Watershed Project Authority in order 22 to provide up to \$20 million in advance funding to move the desalter project forward until funds 23 from Proposition 13 are available. Western's portion of this total is up to \$9 million. A copy of this 24 agreement is enclosed with this transmittal as Exhibit "C." 25

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B. **RULES AND REGULATIONS**

The parties have continued to meet on a weekly basis and for the past three months have been 27 occupied almost exclusively with the negotiation and drafting of revised Rules and Regulations for 28 the Chino Basin. Guided by the Special Referee's Reports of September 13 and 25, as well as her 3 254756 PROGRESS REPORT

HATCH AND PARENT Santa Barbara, CA 93101 21 East Carrillo Street

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comments regarding the Post-Order Memorandum, the parties have made substantial headway in
completing the arduous task of completely rewriting the Rules and Regulations for the Chino Basin
as well as unifying the numerous current Rules and Regulations.

Numerous drafts of these revised Rules and Regulations have been circulated to the parties and the various provisions have been drafted and redrafted in response to the needs of all of the parties yet within the parameters established by the Judgment and the Peace Agreement. On December 20 and 21st the parties met in two all-day sessions and crafted a draft that is anticipated to be circulated to the Joint Pools and Advisory Committee as well as the Watermaster Board as soon as January 5, 2001, in order to receive additional feedback. With the great progress that has been made by the parties in recent weeks on the Rules and Regulations, there is every reason to believe that the parties will fully meet condition two of the Court's September 25, 2000 Order.

DATED: 12/27/00

HATCH AND PARENT abie / feel

SCOTT S. SLATER MICHAEL T. FIFE Attorneys for Chino Basin Watermaster

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EXHIBIT A

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MASTER AGREEMENT FOR THE PRODUCTION OF WATER FROM THE INTEGRATED CHINO-ARLINGTON DESALTER SYSTEM (ICADS)

THIS AGREEMENT ("Master Agreement") is made and entered into this _____ day of ______, 2000 ("Effective Date"), by and between the following groups of public agencies entities:

CITY OF CHINO, a municipal corporation ("CHINO"); CITY OF CHINO HILLS, a municipal corporation ("CHINO HILLS"); CITY OF NORCO, a municipal corporation ("NORCO"); CITY OF ONTARIO, a municipal corporation ("ONTARIO"); JURUPA COMMUNITY SERVICES DISTRICT, a community services district ("JURUPA"); SANTA ANA RIVER WATER COMPANY, a California corporation ("SANTA ANA");

AND

INLAND EMPIRE UTILITIES AGENCY, a municipal water district ("IEUA"); ORANGE COUNTY WATER DISTRICT, a <u>special act water agency</u> ("OCWD") WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY, a municipal water district ("WESTERN").

Hereinafter, the entities of CHINO, CHINO HILLS, JURUPA, NORCO, ONTARIO, and SANTA ANA shall be collectively referred to as the "PRIORITY PURCHASERS," and the entities of IEUA, OCWD, and WESTERN shall be collectively referred to as the "SELLERS."

RECITALS

A. Judgment and OBMP Adoption.

In 1969, the Superior Court of Orange County entered a judgment in its case No.117628 adjudicating the inter basin rights to water in the Santa Ana River Watershed. In 1978, the San Bernardino Superior Court entered a judgment in its case No. 164327, now designated No. RCV 51010, as subsequently amended ("Chino Basin Judgment"), adjudicating the intra basin rights of parties to produce and store water in the Chino Basin and imposing a Physical Solution, pursuant to which a Watermaster was created and required to adopt an Optimum Basin Management Program ("OBMP").

B. <u>Peace Agreement.</u>

On June 29, 2000, certain parties to the Chino Basin Judgment entered into an agreement, by which they agreed to adopt and implement the OBMP through the Watermaster in accordance with the terms of that agreement ("Peace Agreement"). The parties to this Master Agreement are all

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parties to the Peace Agreement. On July 13, 2000, the Superior Court of San Bernardino County entered an "Order Concerning Adoption of OBMP" in its case No. RCV 51010, endorsing and ordering adoption of the OBMP in accordance with the terms of the Peace Agreement. Section VII of the Peace Agreement requires the SELLERS to construct, own, operate and maintain desalter facilities, known as the "Chino II Desalter" and the "Chino I Expansion," for the purpose of producing certain quantities of water for sale and purchase by PRIORITY PURCHASERS.

C. Integrated Chino-Arlington Desalter System.

Currently, there are two other desalter facilities in and around the Chino Basin, known as the "Chino I Desalter" and the "Arlington Desalter," both of which are owned and operated by SELLERS pursuant to certain agreements. To improve the efficiency, effectiveness, and reliability of producing and delivering product water to the PRIORITY PURCHASERS, SELLERS intend to fully integrate the Arlington Desalter, Chino I Desalter, Chino I Expansion, and Chino II Desalter into a single operation and delivery system referred to as the "Integrated Chino-Arlington Desalter System" or "ICADS." The ICADS will include the following major components:

1. The existing 6 million gallons per day (mgd) Arlington Desalter and the proposed improvements consisting of disinfection facilities, telemetry modifications, on-site reservoir, pumping plant, and product water pipeline connecting the Arlington Desalter to the product water pipeline for the Chino I Desalter, as shown more specifically in Exhibit "A."

2. The existing 8 mgd Chino I Desalter and the proposed expansion of its capacity by 2 mgd, including additional source water and product facilities, as shown more specifically in Exhibit "A."

3. The proposed 10 mgd Chino II Desalter, including source water and product water facilities, as shown more specifically in Exhibit "A."

D. Purpose.

In conjunction with each Purchase & Sale Agreement as defined herein, the purpose of this Master Agreement is to clarify the rights, obligations, and liabilities of SELLERS and PRIORITY PURCHASERS under Article VII of the Peace Agreement, and to fully implement the terms of Section VII of the Peace Agreement so as to satisfy SELLERS' and PRIORITY PURCHASERS' respective rights obligations, and liabilities.

TERMS

NOW, THEREFORE, the parties agree as follows:

1. Purchase & Sale Agreements.

The purchase and sale of all water produced by the ICADS pursuant to this Master Agreement shall be effectuated through the execution of individual agreements between SELLERS and PRIORITY PURCHASERS, in accordance with the terms of this Master Agreement ("Purchase & Sale Agreement"). Each SELLER shall be responsible for executing Purchase & Sale Agreements with PRIORITY PURCHASERS located within the SELLERS' jurisdictional boundaries. The template that shall be used for the execution of all Purchase & Sale Agreements with PRIORITY PURCHASERS is attached hereto as Exhibit "B." Prior to SELLERS having any enforceable duty or obligation to design or construct the ICADS, or any other enforceable duty or obligation under this Master Agreement, Purchase & Sale Agreements must be executed with all PRIORITY PURCHASERS listed in Section 2(a) of this Master Agreement If the PRIORITY PURCHASERS listed in Section 2(a) do not execute Purchase & Sale Agreements with the SELLERS within two (2) years after Effective Date of this Master Agreement, then this Master Agreement and any Purchase & Sale Agreement executed pursuant hereto, shall be null and void, and no party shall have any further right, obligation, responsibility, or liability under this Master Agreement or any Purchase & Sale Agreement. Upon the execution of Purchase & Sale Agreements pursuant to Section 2(a), SELLERS shall commence the award of contracts for the design and construction of the ICADS facilities necessary to satisfy the obligations set forth in Section 2(a). Upon the execution of Purchase & Sale Agreements pursuant to Section 2(b), SELLERS shall commence the award of contracts for the design and construction of the ICADS facilities necessary to satisfy the obligations set forth in Section 2(b).

2. Quantity of Product Water to be Purchased.

a. <u>Firm Commitments.</u> Subject to the execution of individual Purchase & Sale Agreements, JURUPA, ONTARIO, and SANTA ANA hereby agree to collectively purchase pursuant to Section 3, and the SELLERS hereby agree to collectively deliver, a total quantity of at least-11,200 acre-feet per year of product water from the ICADS, at a rate not to exceed 11,000,000 gallons per day (7,638.89 gallons per minute). The terms concerning the commencement of deliveries, the timing of deliveries, and the points of delivery shall be set forth in the individual Purchase & Sale Agreements. SELLERS obligation to deliver the quantity of product water at the rate set forth herein, is subject to reductions as may be required to mitigate impacts to third-parties from the operation of the ICADS.

b. <u>Contingent Commitments.</u> Upon the execution of additional Purchase & Sale Agreements by one or more PRIORITY PURCHASERS, SELLERS hereby collectively agree to make available, pursuant to Section 3, up to 1,000,000 gallons per day (694.44 gallons per minute) of additional capacity in the ICADS for the delivery product water.

3. <u>Purchase Price</u>.

The purchase price per acre-foot for all product water delivered to any PRIORITY PURCHASER pursuant to any Purchase & Sale Agreement shall be the Actual Cost for SELLERS'

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production and delivery of such product water. "Actual Cost" is defined as Total Costs,¹ minus Existing Sources of Revenues,² divided by Total Product Water Produced³ by the ICADS._Actual

²"Existing Sources of Revenue" means all sources of revenue, whether received from the sale of product water, from grants, or from subsidies, for every component of the ICADS, except revenues received from the sale of product water to PRIORITY PURCHASERS. Such sources of revenue include, but are not limited to, purchases of product water from any component of the ICADS, incentive subsidies received by the SELLERS from the Metropolitan Water District of Southern California for operation of the Chino I Desalter and the Arlington Desalter, grants received from the State of California for the Chino I Expansion-and, Chino II Desalter, or other

RVPUBUPM\605159

¹"Total Costs" means all costs and expenses incurred by SELLERS in their the design, <u>construction, and</u> operation of the ICADS and their the delivery of product water to any purchaser, including PRIORITY PURCHASERS, at a specified point of delivery. Such costs and expenses include, but are not limited to: all debt service associated with financing the design <u>and construction of</u> the ICADS; all operation, maintenance, repair, and replacement costs for the ICADS or any facilities to deliver the product water to any specified point of delivery, including any debt associated with such costs; any funds reserved for contingencies such as membrane replacement or other major capital expenditures; and any cost of mitigating third-party impacts caused by operation of the ICADS.

Cost includes all costs associated with the delivery of product water to the point of delivery specified in the applicable Purchase & Sale Agreement, so long as no party to this Master Agreement seeks any payment from SELLERS for the cost of moving product through any water delivery facilities owned by any party. Actual Cost shall not exceed \$375.00 per acre-foot ("Price Cap"). The Price Cap shall be subject to the following adjustments: (a) a periodic adjustment to the electrical energy cost component of the Price Cap, to reflect changes in energy consumption and rate; (b) a periodic adjustment to the chemical cost component of the Price Cap, to reflect changes in chemical consumption and unit cost; and (c) a periodic adjustment to remaining cost components of the Price Cap using the Consumer Price Index. Beginning on the date product water is first delivered pursuant to this Master Agreement, the Price Cap shall be adjusted annually by the percentage increase in the Consumer Price Index. If the Actual Cost is within the ten percent (10%) of the Price Cap, the Parties shall review and determine the actual historical increase for the following components of the Total Cost: (1) energy consumption and rate, (2) chemical consumption and unit cost, and (3) other costs beyond the control of Sellers ("Adjustable Components"). To the extent the actual historical increase of the Adjustable Components is greater than the historical increase of the Consumer Price Index, then the Price Cap shall be adjusted to account for actual historical increases in the Adjustable Components.

4. <u>Sale of Surplus Product Water.</u>

Any water produced by the ICADS that is in excess of the water <u>requestedrequired</u> by and delivered to PRIORITY PURCHASERS <u>pursuant to this Master Agreement and a Purchase & Sale Agreement</u>, may be made available for sale by SELLERS to any potential purchasers through the execution of agreements outside and independent of this Master Agreement.

5. Revenues from Sale of Surplus Product Water to Non-Producers.

Fifty percent (50%) of any annual revenues received by SELLERS, in excess of the Actual Cost for the ICADS, as defined in Section 3, which revenues are derived from the sale of product water to any person not a "Producer" under the Chino Basin Judgment, as defined in the Peace

components of the ICADS.

³"Total Product Water Produced" means all product water generated by the ICADS and available for purchase, excluding any product water generated by the Arlington Desalter and the Chino I Desalter, and excluding any product water sold to purchasers other than PRIORITY PURCHASERS. The Total Product Water Produced shall be expressed in terms of acre-feet.

Agreement, or from the sale of product water to OCWD, shall be provided to Watermaster for use as an off-set against any future assessments by Watermaster against parties to the Peace Agreement.

6. <u>Water Quality.</u>

PRIORITY PURCHASERS acknowledge that SELLERS may find it beneficial to blend the water produced by the ICADS with water from other sources which are available to SELLERS. SELLERS shall exercise reasonable efforts diligence to ensure that the ICADS is designed and, constructed, and operated to produce product water having total dissolved solids of not more than 360350 milligrams per liter and nitrogennitrate (NO₃) content of not more than 25 milligrams per liter. Notwithstanding the above, the quality of the product water delivered to any PRIORITY PURCHASER shall always meet the requirements for potable water, as established by the State Department of Health Services or equivalent agency, unless specifically agreed to otherwise in the PRIORITY PURCHASER'S individual Purchase & Sale Agreement. SELLERS shall establish such systems and/or procedures as are reasonably necessary to notify PRIORITY PURCHASERS if the quality of the product water deviates by more than ten percent (10%) from the water quality standards in this section. SELLERS shall notify PRIORITY PURCHASERS of any such deviation with two (2) hours of the occurrence and shall cease deliveries unless a PRIORITY PURCHASER consents to continued delivery. The parties shall cooperate to develop a mutually-acceptable standard operating procedure for providing the notification required herein and to develop mutuallyacceptable shutdown and/or delivery modifications in the event of malfunction or water quality deviation.

a. <u>Notice</u>. If the quality of the product water delivered to any PRIORITY PURCHASER deviates by more than ten percent (10%) from the quality standards set forth in this section, SELLERS shall notify the PRIORITY PURCHASER of such deviation within two (2) hours of its occurrence, and SELLERS shall cease delivery of the product water unless the PRIORITY PURCHASER consents to continued delivery.

b.—__<u>No-Payment Obligation</u>. If the quality of the product water-delivered by SELLERS to any PRIORITY PURCHASER deviates by more than ten percent (10%) from the quality standards set forth in this section, and is delivered to the PRIORITY PURCHASER without its consent, the PRIORITY PURCHASER shall not have any payment obligation to SELLERS for such product water.

7. Partial Delivery.

The parties understand and agree that the ICADS <u>maywill not always</u> be able to consistently deliver the minimum <u>monthly or</u> annual quantity or flow ratequantities of product water required by either this Master Agreement or a particular Purchase & Sale Agreement. Additionally, the ICADS may not produce any product water during periods when operation of the ICADS, or any component thereof, is discontinued for maintenance and/or repair. <u>If SELLERS are unable to deliver to any</u> PRIORITY PURCHASER the quantity of product water required in any calender month-by this

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Master Agreement or a particular Purchase & Sale Agreement, SELLERS shall deliver the undelivered portion of that month's quantity in the succeeding calender months, in monthly increments to be mutually agreed upon. Notwithstanding the above, if SELLERS deliver ninety percent (90%) or more of the contracted monthly quantity of product water, the PRIORITY PURCHASER shall be required to pay SELLERS the full price for delivery of the contracted monthly quantity in the succeeding calender months in the agreed upon increments. Notwithstanding the fact that SELLERS may not be able to deliver the required minimum monthly or annual quantities of product water, PRIORITY PURCHASERS shall nevertheless pay to SELLERS all sums due hereunder for the entire quantity of product water requested by the PRIORITY PURCHASER pursuant to this Master Agreement or a particular Purchase & Sale Agreement, subject to the following provisions:

<u>a.</u> If the actual quantity of product water delivered to any PRIORITY PURCHASER during any calender month is less than the quantity required to be delivered, than SELLERS shall deliver the undelivered portion of that month's quantity in the succeeding calender months pursuant to a mutually agreed upon delivery schedule.

b. If the actual quantity of product water delivered to any PRIORITY PURCHASER during a fiscal year is equal to five percent (5%) or less of the quantity required to be delivered, then SELLERS shall deliver the undelivered portion of that fiscal year's quantity in the following fiscal year pursuant to a mutually agreed upon delivery schedule.

c. If the actual quantity of product water delivered to any PRIORITY PURCHASER during a fiscal year is greater than five percent (5%) of the quantity required to be delivered, then SELLERS shall refund to the PRIORITY PURCHASER, by September 1 of the following fiscal year, the amounts paid for the quantity of undelivered water in excess of five percent (5%) of the required annual quantity.

8. Excess Deliveries.

a. If the actual quantity of product water delivered to any PRIORITY PURCHASER during a fiscal year exceeds by five percent (5%) or less the quantity required to be delivered, then SELLERS shall reduce the quantity of product water delivered to the PRIORITY PURCHASER in the following fiscal year by a proportionate amount.

b. If the actual quantity of product water delivered to any PRIORITY PURCHASER during a fiscal year exceeds by more than five percent (5%) the quantity required to be delivered, then the PRIORITY PURCHASER shall pay to the SELLERS, pursuant to Section 3, all sums due for the quantity of water delivered in excess of five percent (5%) of the required annual quantity.

89. Groundwater for OBMP Desalter Facilities and Replenishment Obligations.

RVPUBUPM\605159

a. All rights to produce groundwater in the Chino Basin necessary to make available the quantity of product water required or requested by a purchaser of product water <u>under the terms of a</u> Purchase & Sale Agreement, shall be obtained and maintained by that purchaser in accordance with the Chino Basin Judgment, the OBMP, the Peace Agreement, and any rules and regulations established by the Watermaster. Any obligation to provide replenishment water for the production of groundwater necessary to make available the quantity of product water required or requested under the terms of a Purchase & Sale Agreement by a purchaser of product water, shall be provided by thethat purchaser of the product water in accordance with the Chino Basin Judgment, the OBMP, the Peace Agreement by a purchaser of product water, shall be provided by thethat purchaser of the product water in accordance with the Chino Basin Judgment, the OBMP, the Peace Agreement.

b. The parties hereby acknowledge and agree that any product water purchased by OCWD pursuant to Section 4 shall be deemed to be product water that was produced by and delivered from the Arlington Desalter, no matter the actual source or facility that produced such product water, such that no obligation to provide replenishment water shall be incurred by OCWD. This provision shall be in effect only to the extent that an equal or greater quantity of product water was produced by the Arlington Desalter and delivered by SELLERS to a PRIORITY PURCHASER.

10. Funding.

a. The rights, obligations, responsibilities, and liabilities of the parties under this Master Agreement are contingent on the parties' ability to secure at least \$56,000,000 in grant funds from federal, state, and local sources, to pay for capital costs related to the design and construction of the ICADS. If the parties are unable to secure at \$56,000,000 in grant funds for the ICADS, then this Master Agreement and any Purchase & Sale Agreement executed pursuant hereto, shall be null and void, and no party shall have any further right, obligation, responsibility, or liability under this Master Agreement or any Purchase & Sale Agreement.

b. Any capital costs for the design and construction of the ICADS in excess of \$75,000,000, shall be borne solely by SELLERS and shall not be included as a cost component of Actual Cost under Section 3.

911. Satisfaction of Obligations, Responsibilities, and Liabilities under Section VII of the Peace Agreement.

If SELLERS satisfactorily perform the terms of this Master Agreement and the terms of any Purchase & Sale Agreement executed with a PRIORITY PURCHASER, then the parties expressly acknowledge and agree that such satisfactory performance by SELLERS shall discharge and satisfy all obligations, responsibilities, and liabilities of SELLERS under Article VII of the Peace Agreement, with the exception of those provisions of Article VII regarding "Future Desalters," as defined in the Peace Agreement.__To effectuate this section, upon execution of the Master Agreement, all parties shall collectively request that the court exercising continuing jurisdiction in the Chino Basin Judgment issue an order in its case No. 51010, declaring that full performance of the terms of this Master Agreement and the terms of any Purchase & Sale Agreement executed with a

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PRIORITY PURCHASER, shall fully discharge and satisfy all obligations, responsibilities, and liabilities of SELLERS under Article VII of the Peace Agreement, with the exception of those provisions of Article VII regarding "Future Desalters," as defined in the Peace Agreement. <u>SELLERS satisfactory performance and the discharge and satisfaction of SELLERS obligations, responsibilities, and liabilities as provided in this section, shall be deemed complete and binding, even if this Master Agreement and any Purchase & Sale Agreements are rendered null and void pursuant to those contingencies set forth in Sections 1 and 10(a).</u>

1012. Mutual Indemnification.

Each party to this Master Agreement agrees to protect, defend, indemnify, and hold harmless every other party and its officers, directors, agents, employees, servants, and volunteers from any and all liability, claims, judgments, costs, and demands, including <u>demands arising from</u>-injuries or death of persons (including employees) and damage to property, <u>arising</u> directly or indirectly out of the obligations herein undertaken or out of the operations conducted by <u>the other partyitself</u>, its employees, agents, representatives, or subcontractors under or in connection with this Master Agreement, whether or not there is concurrent, passive or active negligence on the part of <u>theany</u> other party, its employees, agents, officers, directors, servants, and volunteers. Each party agrees to investigate, handle, respond to, provide defense for, and defend any such claims, demands, or suit required hereunder at their sole expense.

- 1113. Standard Provisions.
 - (a) <u>Insurance</u>.

During the term of this Master Agreement the parties shall maintain at their sole expense, the following insurance or equivalent self-insurance.

(i) Minimum Scope of Insurance:

A. General Liability: \$1,000,000 combined single limit per occurrence for bodily injury, personal injury and property damage. Coverage shall be at least as broad as Insurance Services Office (ISO) commercial liability coverage "occurrence" for CG 00 01 11 85.

B. Automobile Liability: \$1,000,000 combined single limit per accident for bodily injury and property damage. Coverage shall bee at least as broad as Insurance Service Office form number CA 00 01 87 covering Automobile Liability, code 1 "any auto."

C. Workers' Compensation and Employers Liability: Workers' Compensation limits as required by the Labor Code of the State of California and employers Liability limits of \$1,000,000 per accident.

RVPUBUPM\605159

(ii) <u>Other Insurance Provisions</u>: The policies are to contain or be endorsed to contain the following provisions:

A. General Liability and Automobile Liability Coverage.

B. Each party to this Master Agreement shall include the other party, its officers, officials, employees, agents and volunteers as additional covered parties under their General Liability coverage.

C. Coverage maintained on its own account by an additional covered party shall be excess of the coverage provided as an additional covered party and not contribute with such coverage.

D. The insurance required by this section shall apply separately to each covered party, except with respect to the limits of liability.

E. One or more policies may be used to satisfy the requirements for the limits of liability. Any and all coverages used to satisfy the limits requirements shall be at least as broad as that coverage required by this section, except as respects the limits of liability.

(iii) <u>Workers' Compensation and Employers Liability Coverage</u>. The coverage provider shall agree to waive all rights of subrogation against any party to this Master Agreement, their officers, officials, employees, agents and volunteers arising from work performed under this Master Agreement.

(iv) <u>All Coverages</u>. Each coverage document required by this Master Agreement shall be endorsed to state that coverage shall not be suspended, voided, canceled by either party or reduced in coverage or in limits except after a thirty (30) day written notice has been given to the additional covered party.

(v) <u>Acceptability of Insurers</u>. If insurance is purchased, such insurance is to be placed with insurers with a Best's rating of no less than A: VII, and who are admitted insurers in the State of California.

(vi) <u>Verification of Coverage</u>. Each party shall furnish the other party with certificates of coverage and with original endorsements effecting coverage required by the party for themselves and all subcontractors prior to commencing work or allowing any subcontractor to commence work under any subcontract. The certificates and endorsements for each coverage are to be signed by an authorized representative of the coverage provider. All certificates and endorsements are subject to the approval of the parties to this Master Agreement before work commences; and each party reserves the right to require complete, certified copies of all coverage documents required of the other party, at any time.

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(b) Contingent on Adequate Funding.

The rights, obligations, responsibilities, and liabilities of the parties under this Master Agreement are contingent on the parties' ability to secure the following federal, state, and local funding to pay for the capital costs related to construction of the ICADS:

(i)	
(ii)	
(iii)	

In the absence of securing the funding detailed in this section, or such other funding as may be agreeable to all parties, this Master Agreement, and any Purchase & Sale Agreement executed pursuant hereto, shall be null and void, and no party shall have any further right, obligation, responsibility, or liability under this Master Agreement or any such Purchase & Sale Agreement.

(ed) Observing Laws and Ordinances.

All parties shall keep themselves fully informed of all existing state and federal laws and all county and city ordinances and regulations which in any manner affect the conduct of any tasks performed under this Master Agreement, and of all such orders and decrees of bodies or tribunals having any jurisdiction or authority over the same. The parties shall at all times observe and comply with all such existing laws, ordinances, regulations, orders and decrees, and shall protect and indemnify each other, their respective officers, employees and agents, against any claim or liability arising from or based on the violation of any such law, ordinance, regulation, order or degree, by any party or their respective employees, agents or contractors.

(de) <u>Conflict of Interest.</u>

No official, employee or agent of either party, who is authorized in such capacity and on behalf of their respective party, to negotiate, make, accept or approve, or to take part in negotiating, making, accepting or approving this Master Agreement, or any subcontract relating to services or tasks to be performed pursuant to this Master Agreement, shall become directly or indirectly personally interested in this Master Agreement.

(ef) <u>Attorneys' Fees.</u>

In the event an action is commenced by a party to this Master Agreement against the other to enforce its rights or obligations arising from this Master Agreement, the prevailing party in such action, in addition to any other relief and recovery ordered by the court, shall be entitled to recover all statutory costs, plus reasonable attorneys' fees.

RVPUBUPM\605159

(fg) Notices.

Any notice may be served upon any party by delivering it in person, or by depositing it in a United States Mail deposit box with the postage thereon fully prepaid, and addressed to the party at the address set forth below:

If to CHINO:	·
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If to CHINO HILLS:	
If to IEUA:	
If to JURUPA:	
II to JURUPA:	
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If to NORCO:	
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If to ONTARIO:	
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If to OCWD:	
If to SANTA ANA:	

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If to WESTERN:	

Any notice given hereunder shall be deemed effective in the case of personal delivery, upon receipt thereof, or, in the case of mailing, at the moment of deposit in the course of transmission with the United States Postal Service.

(gh) Successors and Assigns.

All of the terms, conditions and provisions of this Master Agreement shall inure to the benefit or and be binding upon the parties, and their respective successors and assigns. Notwithstanding the foregoing, no assignment of the duties or benefits of any party under this Master Agreement may be assigned, transferred or otherwise disposed of without the prior written consent of the other party; and any such purported or attempted assignment, transfer or disposal without the prior written consent of the other party shall be null, void and of no legal effect whatsoever.

(hi) Integration.

This Master Agreement represents the entire agreement of the parties as to those matters contained herein. No prior oral or written understanding or agreement shall be of any force or effect with respect to those matters covered by this Master Agreement. This Master Agreement also may not be modified, altered or amended except by written mutual agreement by the parties.

(ij) <u>Governing Law.</u>

This Master Agreement is to be governed by and construed in accordance with the laws of the State of California.

(jk) Force Majeure.

No party shall hold any other party responsible for the effects of acts occurring beyond their control; e.g., earthquakes and other natural disasters, wars, riots, strikes, etcetera.

(kl) Term of Agreement.

The term of this Master Agreement shall commence on the date when water produced by the ICADS is first delivered to any PRIORITY PURCHASER pursuant to a Purchase & Sale

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Agreement, and shall extend thirty (30) years thereafter, unless otherwise modified by Amendment to this Master Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Master Agreement to be entered into as of the day and year written above.

CITY OF CHINO	By:	
	-	Mayor
	Date:	<u> </u>
CITY OF CHINO HILLS	By:	Mayor
	Date:	· · · ·
INLAND EMPIRE UTILITIES AGENCY	By:	
	Date:	President
JURUPA COMMUNITY SERVICES DISTR	ICT By:	
		President
	Date:	
CITY OF ONTARIO	By:	Mayor
	Date:	·
ORANGE COUNTY WATER DISTRICT	By:	President
	Date:	
R VPUB\JPM\605159	-14-	DRAFT (REDLINE): 12/15/00

SANTA ANA RIVER WATER COMPANY	By:	President
	Date:	
WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY	By:	President
	Date:	

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PURCHASE AND SALE AGREEMENT FOR PRODUCT WATER FROM THE INTEGRATED CHINO-ARLINGTON DESALTER SYSTEM (ICADS)

THIS AGREEMENT ("Purchase & Sale Agreement") is made this _____ day of ______, 2000, by and between [SELLER], a municipal water district, and [PURCHASER], a ______.

RECITALS

A. On ______, 2000, an agreement entitled Master Agreement for the Production of Water from the Integrated Chino-Arlington Desalter System ("Master Agreement"), was executed to provide the framework for the purchase and sale of water produced by the Integrated Chino-Arlington Desalter System ("ICADS").

B. The purpose of this Purchase & Sale Agreement is to establish specific terms for the purchase and sale of product water as between [SELLER] and [PURCHASER] in accordance with the provisions of the Master Agreement.

TERMS

1. Quantity of Product Water to be Purchased.

[Provisions regarding quantity to be drafted consistent with the terms of the Master Agreement.]

2. <u>Purchase Price</u>.

[Provisions regarding purchase amount to be drafted consistent with the terms of the Master Agreement.]

3. Rate, Timing, and Point of Delivery.

[Provisions regarding the rate, timing, and the point of delivery for product water to be drafted consistent with the terms of the Master Agreement.]

4. Indemnification.

Each party agrees to protect, defend, indemnify, and hold harmless the other party and its officers, directors, agents, employees, servants, and volunteers from any and all liability, claims, judgments, costs, and demands, including demands-arising from injuries or death of persons (including employees) and damage to property, arising directly or indirectly out of the obligations herein undertaken or out of the operations conducted by the other party itself, its employees, agents,

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representatives, or subcontractors under or in connection with this Purchase & Sale Agreement, whether or not there is concurrent, passive or active negligence on the part of the other party, its employees, agents, officers, directors, servants, and volunteers. Each party agrees to investigate, handle, respond to, provide defense for, and defend any such claims, demands, or suit required hereunder at their sole expense.

5. Standard Provisions.

The terms set forth in Section 1113 of the Master Agreement shall be incorporated in this Purchase & Sale Agreement as if set forth in full herein and made specifically applicable to the parties, unless otherwise expressly stated in this Purchase & Sale Agreement.

6. <u>Special Provisions</u>.

[Additional or special provisions may be added by mutual agreement between the SELLER and PURCHASER.]

By:

IN WITNESS WHEREOF, the parties hereto have caused this Purchase & Sale Agreement to be entered into as of the day and year written above.

[SELLER]

[PURCHASER]

By:

Date:

Date:

EXHIBIT B

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12/21/00 THU 11:43 FAX 909 780 3837

RESOLUTION 2136

A RESOLUTION OF THE BOARD OF DIRECTORS OF WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY TO EXTEND THE BOARD'S PRIOR CONDITIONAL APPROVAL OF THE PEACE AGREEMENT FOR THE CHINO BASIN OPTIMUM BASIN MANAGEMENT PLAN

WHEREAS, on July 31, 2000, the Board of Directors ("Board") of Western Municipal Water District of Riverside County ("Western") adopted Resolution No. 2120 to approve and authorize the execution of the Peace Agreement for the Chino Basin Optimum Basin Management Plan ("OBMP"), subject to certain terms and conditions;

WHEREAS, Resolution No. 2120 required that all terms and conditions of Western's approval and execution of the OBMP Peace Agreement be completed and satisfied pursuant to a separate written agreement, signed and executed by all parties to the OBMP Peace Agreement no later than September 30, 2000;

WHEREAS, on September 30, 2000, the Board adopted Resolution No. 2127 extending the deadline for satisfying all terms and conditions of Western's approval of the OBMP Peace Agreement until November 30, 2000;

WHEREAS, the parties to OBMP Peace Agreement have been diligently negotiating and working towards satisfying the terms and conditions that would make Western's execution of the OBMP Peace Agreement effective; and

WHEREAS, the parties to the OBMP Peace Agreement have indicated that an additional sixty (60) days would assist in satisfying such terms and conditions as provided in Resolution No. 2120. -2-

R-2136

NOW THEREFORE, the Board of Directors of Western Municipal Water District of Riverside County hereby resolves as follows:

<u>SECTION 1.</u> Section 2 of Resolution No. 2120, which establishes the terms and conditions to the effectiveness of Western's approval and execution of the OBMF Peace Agreement, is hereby modified to provide that all terms and conditions set forth in Section 2 of Resolution No. 2120 must be fully satisfied pursuant to a separate written agreement, signed and executed by all parties to the OBMF Peace Agreement no later than January 30, 2001.

<u>SECTION 2.</u> All other provisions of Resolution No. 2120 shall remain in full force and effect.

SECTION 3. The President of the Board of Directors shall sign this Resolution, the Secretary-Treasurer of the Board of Directors shall attest thereto and cause a certified copy thereof to be delivered to all parties to the Peace Agreement, and this Resolution shall take effect and be in force according to law on the date of adoption set forth below.

ADOPTED, this 15th day of November, 2000.

Elizabeth L. Cunnison President

November 15, 2000

I HEREBY CERTIFY that the foregoing is a full, true, and correct copy of Resolution No. 2136 adopted by the Board of Directors of Western Municipal Water District of Riverside County at a duly-noticed regular meeting held on November 15, 2000.

LEFTER E. BOSTON, JR. Secretary-Treasurer

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EXHIBIT C

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AMENDMENT NO. 1

TO THE CHINO BASIN DESALTER PROJECT FINANCING AGREEMENT

This Amendment No. 1 ("Amendment") to the Chino Basin Desalter Project Financing Agreement is made and entered among the Inland Empire Utilities Agency ("IEUA"), the Orange County Water District ("OCWD"), Western Municipal Water District of Riverside County ("WMWD") and the Santa Ana Watershed Project Authority ("SAWPA").

RECITALS

A. IEUA, OCWD, WMWD and SAWPA entered into the Chino Basin Desalter Project Financing Agreement (the "Agreement") dated as of April 1, 2000.

B. The parties desire to amend the Agreement to permit the adjustment of the amount which IEUA agrees to advance to SAWPA from time to time and the purposes for which such advances may be used and to clarify the parties obligations with respect to certain refinancings.

NOW THEREFORE, THE PARTIES MUTUALLY AGREE AS FOLLOWS:

1. <u>Incorporation By Reference</u>. This amendment hereby incorporates by reference all terms and conditions set forth in the Agreement, unless specifically modified by this Amendment. All terms and conditions set forth in the Agreement which are not specifically modified by this Amendment shall remain in full force and effect.

- 2. <u>Terms of Amendment.</u>
 - A. The Second recital of the Agreement is amended to read as follows:

"WHEREAS, funds are needed to pay the cost of predesign, design engineering, environmental review, construction, operation and interconnection of the projects listed on Exhibit C hereto (the "Project Costs");"

B. The following definition is added to Section 1.1 of the Agreement:

"Project Committee 14" shall have the meaning set forth in the Project Agreement.

C. Section 2.1 of the Agreement is amended to read as follows:

"Section 2.1 <u>Advance of Monies.</u> Subject to the conditions, restrictions and procedures set forth in this Agreement, IEUA hereby agrees to advance monies to SAWPA, and SAWPA hereby agrees to accept such monies, for the purpose of paying Project Costs listed from time to time on Exhibit C hereto. Project Committee 14 may add to or delete the purposes set forth in Exhibit C hereto from time to time upon the approval of Project Committee 14 by substituting a revised Exhibit C, together with a revised amortization schedule (Exhibit A) and filing such substituted Exhibits with each of the parties hereto. Such substituted Exhibits shall not constitute amendments requiring approval of the governing bodies of the parties hereto. Notwithstanding any provision in this Agreement to the contrary, IEUA shall not be obligated to advance to SAWPA more than an aggregate total of \$20,000,000 under this Agreement." D. The first sentence of Section 2.5 of the Agreement is amended to read as follows:

"Section 2.5 Reimbursement of Advances. SAWPA shall reimburse IEUA for each advance made pursuant to this Agreement on each Reimbursement Date on the basis of a 25-year amortization schedule (an estimated schedule of which is attached hereto as Exhibit A). Such amortization schedule may be varied as may be requested in writing by IEUA, OCWD and WMWD and approved by IEUA and subject to consultation with SAWPA. Interest shall accrue on the amount of each advance at the rate of interest incurred by IEUA to fund such advance, as such rate may change from time to time to reflect IEUA's actual interest cost. IEUA, OCWD, WMWD and SAWPA acknowledge that IEUA initially intends to finance advances from proceeds of a commercial paper program but that IEUA, after consultation with OCWD, WMWD and SAWPA, may determine to convert such commercial paper to long-term fixed rate or variable rate or other types of financing. In addition to the foregoing, IEUA may, after consultation with OCWD, WMWD and SAWPA, refinance the loans listed in Section 2.7 of this Agreement. In such case, SAWPA's reimbursement obligations to IEUA hereunder will include an amount equal to debt service on such refunding obligations and the amortization schedule will be revised accordingly."

E. Exhibit A of the Agreement is replaced in its entirety with Exhibit A to this Amendment.

F. The attached new Exhibit C shall be added to the Agreement as a new Exhibit.

IN WITNESS WHEREOF the parties do hereby agree to the full performance of the terms set forth herein.

INLAND EMPIRE UTILITIES AGENCY	ORANGE COUNTY WATER DISTRICT
Ву:	Ву:
Title: Date:	Title: Date:
Attest:	Attest:
Ву:	Ву:
Title: Date:	Title: Date:
Approved as to form	Approved as to form
Ву:	Ву:
Title: Date:	Title: Date:

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WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY	SANTA ANA WATERSHED PROJECT
By: Clizabeth Lunnison	By: John L. anduson
Title:	Title: Date:
Attest:	Attest:
By: Color 2 John Title: Date:	By: Title: Date:
Approved as to form	Approved as to form
By:	Ву:
Title: / Date:	Title: Date:
Exhibit "A" - Estimated Amortization Sche Exhibit "C" - Project Costs	dule

DOCSOC\764578v8\24244.0000

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EXHIBIT A

ESTIMATED AMORTIZATION SCHEDULE

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
05/15/2000					
12/01/2000					
06/01/2001		4.500%			
12/01/2001					
06/01/2002		4.500%			
12/01/2002		1.00076			
06/01/2003		4.500%			
12/01/2003		4.20078			
06/01/2004		4.500%			
		4.300%			
12/01/2004		4 6000/			
06/01/2005		4.500%			
12/01/2005					
06/01/2006		4.500%			
12/01/2006					
06/01/2007		4.500%			
12/01/2007					
06/01/2008		4.500%			
12/01/2008					
06/01/2009		4.500%			
12/01/2009					
06/01/2010		4.500%			
12/01/2010					
06/01/2011		4.500%			
12/01/2011					
06/01/2012	r	4.500%			
12/01/2012		4.00070			
06/01/2013		4.500%			
12/01/2013		4.50078			
06/01/2014		4 50.0%			
		4.500%			
12/01/2014		4 50004			
06/01/2015		4.500%			
12/01/2015					
06/01/2016		4.500%			
12/01/2016					
06/01/2017		4.500%			
12/01/2017					
06/01/2018		4.500%			
12/01/2018					
06/01/2019		4.500%			
12/01/2019					
06/01/2020		4.500%			
12/01/2020					
06/01/2021		4.500%			
12/01/2021		4.00070			
06/01/2022		4.500%			
		4,200%			
12/01/2022					

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
06/01/2023		4.500%			
12/01/2023					
06/01/2024		4,500%			
12/01/2024					

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* Estimated, subject to change based on actual IEUA financing costs and any changes approved by IEUA pursuant to Section 2.5 hereto. If parties elect to defer any payments, interest will accrue on any deferred amounts at IEUA's actual costs until paid.

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EXHIBIT C

 $\left(\begin{array}{c} \end{array} \right)$

PROJECT COSTS

1. Chino Basin Desalter I

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- 2. Chino Basin Desalter II
- 3. Arlington Desalter

PROOF OF SERVICE

I declare that:

I am employed in the County of San Bernardino, California. I am over the age of 18 years and not a party to the within action. My business address is Chino Basin Watermaster, 8632 Archibald Avenue, Suite 109, Rancho Cucamonga, California 91730; telephone (909) 484-3888.

On January 02, 2001, I served the attached:

Chino Basin Watermaster Hearing Date: February 1, 2001, 2:00 p.m.

• PROGRESS REPORT

in said cause, by placing a true copy thereof enclosed with postage thereon fully prepaid, for delivery by United States Postal Service mail at Rancho Cucamonga, California, addressed as follows:

See attached service lists:

- Attorney Service List
- Mailing List A

I declare under penalty of perjury that the foregoing is true and correct and that this declaration was executed at Rancho Cucamonga, California, on January 02, 2001.

Muchelle Kau Michelle I

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SANDY OLSON WALNUT VALLEY WATER DISTRICT 271 S BREA CANYON RD WALNUT CA 91789

HENRY PEPPER CITY OF POMONA 505 S GAREY AVE POMONA CA 91766

BILL RICE RWQCB - SANTA ANA REGION 3737 MAIN ST STE 500 RIVERSIDE CA 92501-3339

ARNOLD RODRIGUEZ SANTA ANA RIVER WATER CO 10530 54TH ST MIRA LOMA CA 91752-2331

DIANE SANCHEZ DWR 770 FAIRMONT AVE GLENDALE CA 91203-1035

JUDY SCHURR 30587 LOS ALTOS DR REDLANDS CA 92373 DAVID SCRIVEN KRIEGER & STEWART ENGINEERING 3602 UNIVERSITY AVE RIVERSIDE CA 92501

BILL STAFFORD MARYGOLD MUTUAL WATER CO 9725 ALDER ST BLOOMINGTON CA 92316-1637

TOM STETSON STETSON ENGINEERS INC 3104 E GARVEY AVE WEST COVINA CA 91791

SWRCB SWRCB - DIV OF WATER RIGHTS P.O. BOX 2000 SACRAMENTO CA 95809-2000

MICHAEL THIES SPACE CENTER MIRA LOMA INC 3401 S ETIWANDA AVE BLDG 503 MIRA LOMA CA 91752-1126

GEOFFREY VANDEN HEUVEL CBWM BOARD 7551 KIMBALL AVE CHINO CA 91710

MARK WARD AMERON INTERNATIONAL 13032 SLOVER AVE FONTANA CA 92335-6990

MICHAEL WHITEHEAD SAN GABRIEL VALLEY WC P.O. BOX 6010 EL MONTE CA 91734 MICHAEL SMITH NICHOLS STEAD BOILEAU & KOSTOFF 223 W FOOTHILL BLVD #200 CLAREMONT CA 91711-2708

DAVID STARNES MOBILE COMMUNITY MGMT CO 1801 E EDINGER AVE STE 230 SANTA ANA CA 92705

CRAIG STEWART GEOMATRIX CONSULTANTS INC. 330 W BAY ST STE 140 COSTA MESA CA 92629

JIM TAYLOR POMONA UTILITY SVS DEPT. 148 N HUNTINGTON BLVD POMONA CA 91768

JOHN THORNTON PSOMAS AND ASSOCIATES 3187 RED HILL AVE, SUITE 250 COSTA MESA CA 92626

ERICK VAUGHN ANGELICA RENTAL SERVICE 1575 N CASE ST ORANGE CA 92867-3635

RAY WELLINGTON SAN ANTONIO WATER COMPANY 139 N EUCLID AVE UPLAND CA 91786-6036

MARK WILDERMUTH WILDERMUTH ENVIRONMENTAL INC 415 N EL CAMINO REAL STE A SAN CLEMENTE CA 92672 NELL SOTO STATE CAPITOL ROOM NO 4066 SACRAMENTO CA 95814

L HAIT STERN & GOLDBERG 9150 WILSHIRE BLVD STE 100 BEVERLY HILLS CA 90210

TRACI STEWART CHINO BASIN WATERMASTER 8632 ARCHIBALD ST STE 109 RANCHO CUCAMONGA CA 91730

JERRY THIBEAULT RWQCB - SANTA ANA REGION 3737 MAIN ST STE 500 RIVERSIDE CA 92501-3339

MANAGER THREE VALLEYS M W D P.O. BOX 1300 CLAREMONT CA 91711

ERIC WANG SUNKIST GROWERS INC 760 E SUNKIST ST ONTARIO CA 91761

CHARLES R. WHITE DWR-SO DIST 770 FAIRMONT AVE GLENDALE CA 91203-1035

JEROME WILSON CBWM BOARD 6035 FALLING TREE LN ALTA LOMA CA 91737