

1 Scott S. Slater (State Bar No. 117317)
Michael T. Fife (State Bar No. 203025)
2 HATCH AND PARENT
21 East Carrillo Street
3 Santa Barbara, CA 93101
805-963-7000
4 805-965-4333

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San Bernardino County Clerk
SEP 20 2001

5 Attorneys for CHINO BASIN WATERMASTER

By *James King*
Deputy

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8 SUPERIOR COURT OF THE STATE OF CALIFORNIA
9 COUNTY OF SAN BERNARDINO - RANCHO CUCAMONGA DIVISION
10

11 CHINO BASIN MUNICIPAL WATER) CASE NO. RCV 51010
12 DISTRICT)
13 Plaintiff,) Honorable J. MICHAEL GUNN
14 vs.) DESALTER STATUS REPORT
15 THE CITY OF CHINO)
16 Defendants.)
DATE: Nov. 15, 2001
TIME: 2:00 pm
DEPT: 8

17
18 INTRODUCTION

19 Watermaster files this Status Report to update the Court on the parties' progress on
20 implementation of the desalter component of the OBMP and to notify the Court that the Parties to
21 the Term Sheet, which sets forth the respective rights and obligations of the purchasers and sellers of
22 desalted water, intend to request this Court by noticed motion to issue an Order regarding their
23 discharge of obligations under Article VII of the Peace Agreement.
24

25 Since execution of the Peace Agreement the parties to the Judgment have worked toward
26 implementing each of the components of the OBMP. A centerpiece of the OBMP is the design,
27 construction and implementation of the Desalters referenced in Article VII of the Peace Agreement.
28 (Article VII is attached hereto and incorporated herein by this reference as Exhibit "A")

1 The Peace Agreement designated a set of willing purchasers and sellers of the desalted water
2 that was to be produced through implementation of the OBMP. Through a series of lengthy
3 negotiations, the purchasers and sellers continue to make incremental progress towards design,
4 finance, construction, management and implementation.

5 While the purchasers and the sellers continue to make progress towards completion,
6 additional implementation challenges lie ahead. No challenge has been identified that would render
7 the OBMP Desalters infeasible or that would create substantial delay in implementation.
8

9 The prospective purchasers and sellers of desalted water have all executed an agreement
10 ("Term Sheet" a copy of which is attached hereto and incorporated herein by this reference as
11 Exhibit "B") that sets forth their rights and responsibilities inter-se in an effort to fully discharge
12 their respective obligations under the Peace Agreement regarding Desalted water (excluding Future
13 Desalters). All conditions precedent having been satisfied, Watermaster and the prospective
14 purchasers and sellers are proceeding in accordance with the Term Sheet.
15

16 Section 7(b) of the Term Sheet requires the parties to the agreement to prepare and file a
17 "joint submittal" by noticed motion that requests the Court to issue an order on November 15, 2001
18 that the respective obligations of the parties arising from the Article VII of the Peace Agreement are
19 discharged as provided in the Term Sheet. An Order of the Court is necessary to confirm that the
20 actions of Watermaster, and the purchasers and sellers, are in conformance with the OBMP and the
21 Peace Agreement to avoid a future challenge by parties to the Peace Agreement that are *not* parties
22 to the Term Sheet after tens of millions have been spent in pursuit of this project.
23

24 STATUS REPORT

25 A. Term Sheet

26 The State of California, the Cities of Ontario, Chino, Chino Hills and Norco, the Jurupa
27 Community Services District, and the Santa Ana River Mutual Water Company, the Inland Empire
28 Utilities Agency, the Western Municipal Water District and the Orange County Water District have

1 all executed the Term Sheet. As such, all identified and necessary parties have reached agreement
2 on the essential terms of how to plan, design, construct, manage, operate and implement the
3 Desalters described under Article VII of the Peace Agreement.

4 The Term Sheet sets forth two conditions precedent to its effectiveness in Section 11. Both
5 conditions have been fulfilled. First, Section 11(a) requires an action by SAWPA by resolution
6 pursuant to which SAWPA agreed to delegate all executive authority to Project Committee No. 9
7 and No. 14, to carry out the provisions of Project Agreement No. 9 and No. 14 and the
8 implementation of these projects under the Term Sheet. This resolution has been adopted by
9 SAWPA, a copy of which is attached hereto and incorporated herein by this reference as Exhibit
10 "C".
11

12 Second, Section 11(b) requires SAWPA to complete in good faith all processes necessary to
13 allocate Proposition 13 Bond Proceeds in accordance with the provisions of the Term Sheet.
14 Watermaster is informed that all such processes have been satisfied.
15

16 **B. Western Resolution**

17 In accordance with Section 7(a) of the Term Sheet, upon execution WMWD rescinded its
18 prior conditional approval of the Peace Agreement and replaced it with a resolution expressing its
19 unqualified approval of the Peace Agreement. (A copy of this WMWD Resolution is attached hereto
20 and incorporated herein by this reference as Exhibit "D".)
21

22 **C. Proposition 13 Bond Proceeds**

23 SAWPA is the State Agency responsible for distributing the Proposition 13 funds to the
24 Chino Basin parties as provided in the Peace Agreement. Three members of the five-member
25 SAWPA Board are representatives from IEUA, WMWD and OCWD. These three members have
26 executed the Term Sheet.
27
28

1 Section 11 of the Term Sheet expressly required concurrence by SAWPA in the method of
2 allocating grant funds as referenced in Section 4(c) of the Term Sheet. Specifically, Section 4(c)
3 provides that a grant of \$56 million dollars from Proposition 13 funds will be made available by
4 SAWPA for the Integrated Chino-Arlington Desalters System. By its adoption of the resolution
5 attached as Exhibit C, SAWPA has concurred in this allocation and has agreed to comply with all
6 processes to ensure the funding is provided.
7

8 **D. Formation of Joint Powers Agency**

9 Pursuant to Section 2(b)(vi) of the Term Sheet, the purchasers of desalted water agreed to
10 form a joint enterprise group that is comprised of some or all of the purchasers to contract with the
11 sellers "as soon as practicable." The purchasers have met frequently and have completed the
12 documentation for the formation of a joint powers agency to be known as the Chino Basin Desalter
13 Authority ("CDA"). All purchasers have already approved the CDA Agreement, and Watermaster
14 remains hopeful that CDA will be legally formed prior to the November 15 court hearing. At the
15 present time, the only barrier to formation is a condition associated with the City of Chino Hills
16 approval that depends on the resolution of a dispute between the Cities of Chino Hills and the City of
17 Chino. If the dispute between the City of Chino and the City of Chino Hills is resolved amicably, or
18 if the City of Chino Hills waives the earlier condition and executes the CDA Agreement, CDA will
19 be formed in full compliance with the Term Sheet.
20
21

22 Section 2 of the Term Sheet also requires to nominate a designated representative for the
23 purpose of communicating with the sellers within 30 days of the date of execution. This provision of
24 the Term Sheet was satisfied by the purchasers' group making the JCSD its representative.

25 **E. Lease Purchase Agreement**

26 The Term Sheet clearly contemplated a lease-purchase arrangement between the purchasers
27 and sellers of desalted water, whereby the purchasers would acquire the desalter facilities over time.
28 However, it appears through the process of continuous review and negotiation that parties have

1 concluded that the lease component of the transaction is probably unnecessary. Consequently, they
2 presently intend to proceed with a straight purchase transaction.

3 The elimination of the lease component serves to dramatically simplify the transaction and
4 should operate to reduce the time necessary for the transition of management, operation and
5 ultimately progress towards completion of the project. The purchasers have retained their own
6 financial advisor to assist them in the evaluation of financing options.

7
8 The purchasers and sellers have been meeting frequently in a good faith effort to pursue the
9 best transition structure. In recognition that the purchasers' voice in present operations and
10 management should be more influential while they await the legal documentation and financing for
11 the transition of the desalter assets from the sellers, the parties collectively determined that the best
12 method of proceeding was to develop an agreement governing this interim period. A "bridge
13 agreement" has been negotiated and approved by SAWPA and the JCSD. (A copy of the Bridge
14 Agreement is attached hereto and incorporated herein as Exhibit "E".)

15
16 To be sure, there is still a substantial legal task of completing the documentation to support
17 the transfer of desalter assets. However, the challenge is not beyond those traditionally associated
18 with commercial purchase and sale of assets, and there are no known difficulties that should prevent
19 the parties from proceeding.

20 **F. Future Actions**

21 The parties must prepare a number of agreements, including water supply agreements
22 between CDA and its members, the purchase and sale agreement. There is also the matter of
23 developing a mitigation plan for the desalter well-field and securing Watermaster approval to ensure
24 against material physical injury, among others. Watermaster continues to believe that the parties are
25 committed to completion of the desalter component of the OBMP, and that these tasks can be
26 managed by continued diligence by all concerned.
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CONCLUSION

Watermaster believes that good progress has been made. The necessary agreements have been forthcoming and the Proposition 13 funds are secure, provided that the parties continue to proceed with due diligence. Watermaster will be prepared to make a further status report at the next regularly scheduled court hearing.

DATED: 9/19/01

HATCH AND PARENT

Michael T. Fife
By _____

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

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Exhibit "A"

Article VII of the Peace Agreement

long as there is no potential or threatened Material Physical Injury to a member of the Agricultural Pool or the Basin.

- 6.3 Waiver of Compensation. For the term of this Agreement, the members and representatives of the Agricultural Pool shall waive any claims or rights they might raise or possess, and shall not be entitled, to any compensation from a Storage and Recovery Program irrespective of whether it be in the form of money, revenues, credits, proceeds, programs, facilities, or other contributions (compensation). Further, the members of the Appropriative Pool and the Non-Agricultural Overlying Pool shall have the exclusive rights to any such compensation. This Section shall not apply to the charges adopted by CBWCD for storage and recovery purposes. This paragraph shall not be construed as a limitation on the ability of the State of California to make application to the Watermaster for a Storage and Recovery Program pursuant to Section 5.2.

VII DESALTERS

- 7.1 Need for Desalters. The OBMP requires construction and operation of Desalters. The Desalters shall be owned, operated and maintained by IEUA and WMWD acting independently or in their complete discretion, acting through PC14 consistent with the terms of this Agreement.

7.2 Ownership and Operation.

(a) Chino I Desalter.

- (i) The existing "Chino I Desalter," also known as the "SAWPA Desalter," consisting of extraction wells, transmission facilities for delivery of groundwater to the Chino I Desalter, Desalter treatment and delivery facil-

ities for product water, including pumping and storage facilities, and treatment and disposal capacity in the SARI System, is owned and operated by SAWPA, which has created "The Project Committee No. 14 (PC14)" comprised of SAWPA members, IEUA, WMWD, and OCWD, pursuant to "Project Agreement No. 14" dated April 2, 1991, to exercise all the powers and responsibilities of Section 18 of the SAWPA Joint Exercise of Powers Agreement, which now constitutes the executive authority through which SAWPA acts with respect to the Chino I Desalter and to fund repayment for any loans for construction and operation and maintenance of such Desalter and a "Financing Agreement" dated April 1, 2000.

- (ii) The Chino I Desalter is operated pursuant to (a) "take or pay" agreements with the purchasers of water made available from such Desalter; (b) an agreement with the Metropolitan Water District (MWD) subsidizing that Desalter to reduce the cost of the water made available by that Desalter compared to the alternative cost of uninterruptible treated imported water available from MWD; and (c) an agreement with the Watermaster, all Pools of Producers from the Chino Basin, Kaiser Ventures, Inc., formerly known as Kaiser Resources, Inc. (Kaiser) and the California Regional Water Quality Control Board, Santa Ana Region (RWQB), regarding provision of certain water with which to satisfy the Replenishment obligation for operating the Desalter.

(b) Chino II Desalter and Chino I Expansion.

IEUA and WMWD acting independently or in their complete discretion through PC14 must own and operate the Chino II

Desalter and the Chino I Expansion in the same manner as the Chino I Desalter, except as otherwise provided in this Agreement.

(c) Future Desalters.

IEUA and WMWD acting independently or in their complete discretion through PC14 must own and operate Future Desalters, if and only if, they can secure funding from state, federal or sources other than the Parties to pay the capital costs required to construct Future Desalters.

7.3 Design and Construction of Chino II Desalter, Chino I Expansion and Future Desalters.

- (a) IEUA and WMWD acting independently or in their complete discretion, acting through PC14 shall design and construct the Chino II Desalter on the eastside of the Chino Basin and expand the capacity of the Chino I Desalter already in existence on the Date of Execution, from 8 mgd up to 14 million gallons per day.
- (b) The Chino II Desalter shall have an initial capacity of 10 mgd and shall be designed to deliver water to Jurupa Community Services District, the City of Ontario, and if requested, others subject to the limitations of available funding. The existing capacity of the Chino I Desalter shall be expanded by a minimum of 2 mgd and up to 6 mgd, depending on the rate of development and availability of funding and shall be designed to deliver water to the Cities of Chino, Chino Hills and the State of California as provided in this Section.

- (c) There is no minimum initial capacity established for Future Desalters as the size and timing of Future Desalters are dependent upon variables not presently subject to reliable estimates.
- (i) It is contemplated by the Parties that Future Desalters, and a further expansion of the Chino I Desalter to a capacity greater than the Chino I Expansion or the Chino II Desalter to a capacity greater than 10 mgd may occur;
- (ii) IEUA and WMWD shall design and construct Future Desalters, whether acting independently, or in their complete discretion, through PC14, provided that their obligation shall be conditioned upon their ability to secure funding from the state or federal sources other than the Parties to pay the capital costs of construction. Absent such funding, the IEUA and WMWD, acting independently or, in their complete discretion, acting through PC14, shall have no obligation to construct Future Desalters;
- (d) The specific location of wells to supply the Chino II Desalter and Future Desalters shall be determined with Watermaster approval and shall be in a location, which is consistent with and shall carry out the purpose of the OBMP. The design and construction of the Chino II Desalter, Chino I Expansion, and Future Desalters shall be in accordance with the OBMP and subject to Watermaster approval. Watermaster approval shall not be unreasonably withheld and shall insure that the operation of the Desalters will implement the OBMP and not result in Material Physical Injury to any party to the Judgment or the Basin.
- (e) Wells operated in connection with the Desalters shall be designed and constructed to Produce water with high total

dissolved solids (TDS) and be located in areas consistent with the purposes of the OBMP.

7.4 Funding.

- (a) The capital costs of the Chino I Desalter are not affected by this Agreement.
- (b) The capital costs of designing and constructing the Chino II Desalter and the Chino I Desalter Expansion shall be partially derived from Proposition 13 funds. The Parties shall exercise their Best Efforts to secure said funds from the appropriate state agencies. However, all unmet capital, operation and maintenance costs relative to the Chino II Desalter shall be paid from the following sources and in the following order of priority:
 - (i) The net amount of funding received by SAWPA from its existing preliminary gross allocation of \$87,000,000 from the \$235,000,000 Proposition 13 bond funding provided for the Santa Ana River Watershed sub-account, which currently includes \$20,000,000-30,000,000 earmarked for the Chino II Desalter and \$5,000,000 for the Chino I Desalter Expansion;
 - (ii) All other eligible Proposition 13 bond funding;
 - (iii) All other available federal, state or SAWPA funding;
 - (iv) MWD subsidies or other funding without committing the storage space of the Chino Basin under any storage and recovery or conjunctive use agreement, such as that secured pursuant to Agreement Number 7658, between MWD, SAWPA, IEUA, WMWD and OCWD dated

December 7, 1995, and entitled "Chino Basin Desalination Program, Phase I, Joint Participation Agreement for Recovery and Utilization of Contaminated Groundwater;"

- (v) Revenue derived from the sale of water made available from the Desalters; and
 - (vi) Any additional revenue arranged by IEUA and WMWD acting independently or in their complete discretion, acting through PC14, pursuant to an agreement substantially similar to or an amendment of the SAWPA PC14 Agreement entered into on or about April 2, 1991.
- (c) IEUA's and WMWD's obligation to construct Future Desalters whether acting independently, or in their complete discretion, through PC14, shall be conditioned upon their ability to secure state or federal funding to pay for the capital costs related to such construction. Absent such state and/or federal funding, the IEUA and WMWD, acting independently or, in their complete discretion, acting through PC14, shall have no obligation to construct Future Desalters.
- (i) If, after the earlier of ten years, or the conversion of 20,000 acres of agricultural land, Watermaster, in its discretion, determines that Future Desalters are necessary to implement the OBMP, IEUA or WMWD, acting independently or in their complete discretion acting through PC14, shall have a period up to thirty-six (36) months to secure sufficient funding from State or Federal sources to pay for all the capital costs required to construct "Future Desalters;"

- (ii) If IEUA and WMWD acting independently or, in their complete discretion, acting through PC14 cannot secure the necessary funding, the Parties, other than the Agricultural Pool, will exercise their Best Efforts to negotiate new terms and conditions so as to accomplish the implementation of this portion of the OBMP;
- (iii) If, however, the Parties, other than the Agricultural Pool, are unable to negotiate new terms to this Agreement within twenty-four (24) months from the initiation of negotiations, the Parties may appoint a mutually agreed upon mediator. Failing an agreement, the Parties reserve all legal rights and remedies, provided that the Agricultural Pool shall not be liable for the costs of the Future Desalters. The remainder of this Agreement shall remain in full force and effect.

7.5 Replenishment Water. Replenishment for the Desalters shall be provided from the following sources in the following order of priority.

- (a) Watermaster Desalter Replenishment account composed of 25,000 acre-feet of water abandoned by Kaiser pursuant to the "Salt Offset Agreement" dated October 21, 1993, between Kaiser and the RWQB, and other water previously dedicated by the Appropriative Pool.
- (b) New Yield of the Basin, unless the water Produced and treated by the Desalters is dedicated by a purchaser of the desalted water to offset the price of desalted water to the extent of the dedication;
- (c) Safe Yield of the Basin, unless the water Produced and treated by the Desalters is dedicated by a purchaser of the desalted

water to offset the price of desalted water to the extent of the dedication;

- (d) Additional Replenishment Water purchased by Watermaster, the costs of which shall be levied as an Assessment by Watermaster.

7.6 Sale of Water.

- (a) The terms and conditions for the purchase and sale of water from the Chino I Desalter shall be as provided by separate agreement.
- (b) The terms and conditions for the purchase and sale of desalted water from the Chino II Desalter and Chino I Expansion are as follows.
 - (i) Members of the Appropriative Pool and the State of California shall have the first priority right to purchase desalted water developed by Chino II and Chino I Expansion on an equal basis, pursuant to a water supply contract, which is not a "take or pay" contract but contains a minimum annual quantity of water available to be purchased and is consistent with the provisions of this Agreement.
 - (ii) OCWD shall have the second priority right to purchase desalted water from the Chino II Desalter and the Chino I Expansion provided that IEUA and WMWD have elected to act through PC14.
 - (iii) If the members of the Appropriative pool, the State of California and the OCWD do not contract for the delivery of all desalted water made available by Chino

II Desalter and the Chino I Expansion, other persons may purchase the water.

- (c) The terms and conditions for the purchase and sale of desalted water from Future Desalters are contingent upon IEUA and WMWD acting independently or, in their complete discretion, acting through PC14, securing sufficient funding to pay the capital costs of transporting the desalted water from the Chino II Desalter and Chino I Expansion to other parties to the Judgment that are members of the Appropriative Pool and that desire to purchase desalted water. If sufficient funding is acquired, then other parties to the Judgment that are members of the Appropriative Pool shall have the right to purchase desalted water under the terms and conditions provided in this Article.
- (d) The price of desalted water to the parties to the Judgment that are members of the Appropriative Pool, the State of California and OCWD when purchasing water pursuant to Section 7.6(b)2 above, shall be the actual cost of providing the water but shall not exceed \$375.00 per acre foot, as adjusted by the purchase and sale agreement between IEUA, WMWD, PC14 and the purchasing party, but in no event shall such adjustment exceed the annual consumer's price index for the LA/Anaheim/Riverside Area or the percent increase in the MWD treated water rates, or its equivalent, whichever is less as measured from the Effective Date.
- (i) If a party to the Judgment elects to Produce water for the Chino II Desalter, the Chino I Expansion or Future Desalters they shall be entitled to a credit against the purchase price in an amount equivalent to the cost of alternative Replenishment Water then available from MWD as interruptible, untreated water or the then pre-

vailing value of the avoided Replenishment obligation, whichever is less;

- (ii) If the purchaser is a person other than a party to the Judgment, the price shall be no less than the cost of the alternative water supplies with comparable reliability and quality or if no purchasers are identified then at the highest price that may be attained under the circumstances;
 - (iii) Fifty percent of any annual revenues received by the Project 14 Committee in excess of the actual ongoing operation, maintenance and Replenishment expenses which revenues are derived from sales of water to any person not a Producer under the Judgment, or the OCWD, shall be provided to Watermaster for use as an off-set against any future assessments against the Parties by Watermaster.
- (e) The term of such Water Supply Contract shall be not less than 30 years if requested by a Party to this Agreement.

VIII TERM

8.1 Commencement. This Agreement shall become effective on the Effective Date and shall expire on the Termination Date.

8.2 Expiration. Unless extended pursuant to paragraph 8.3, this Agreement shall expire and thereupon terminate on December 31 of the thirtieth (30th) calendar year starting on January 1, of the first calendar year following the Effective Date.



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Exhibit "B"

"Term Sheet"

Desalter Status Report
Date: November 15, 2001
Time: 2:00 pm
Dept: 8

INTEGRATED CHINO-ARLINGTON DESALTERS SYSTEM TERM SHEET

1. **The Parties.** The Parties to this Term Sheet include the Western Municipal Water District ("WMWD"), Inland Empire Utilities Agency ("IEUA") and the Orange County Water District ("OCWD") (collectively "the Sellers"), and the Cities of Chino, Chino Hills, Norco and Ontario, the Jurupa Community Services District ("JCSD"), Santa Ana River Water Company (collectively "the Purchasers"), and the State of California ("State").

2. **Statement of General Covenants.** WMWD, IEUA and OCWD, through Project Committees No. 9 and No. 14 ("PC No. 9 and PC No. 14") as they are defined in their authorizing agreements of the Santa Ana Watershed Project Authority ("SAWPA"), plan to design, finance and construct the Integrated Chino - Arlington Desalters System ("ICADS"). WMWD, IEUA and OCWD, through PC No. 14, plan to design, finance and construct the Chino I Expansion and the Chino II Desalter only after consultation with the Joint Enterprise Group ("JEG"). WMWD and OCWD, through PC No. 9, will plan, design, finance and construct improvements to the Arlington Desalter that are designed to maximize the quantity of desalted water that can be produced from the facility within the limits of the grant funding and financing available for such improvements. The Chino I Desalter, the Chino I Expansion, the Chino II Desalter and the Arlington Desalter will all be included in the ICADS Project. ICADS will result in the physical integration of the operation of the three desalters as provided in this Term Sheet. Desalted water from the Arlington Desalter, if available, will be offered first to the Home Gardens County Water District ("Home Gardens"), the City of Norco and the State for use on lands south of the Santa Ana River ("River") in an annual amount not to exceed 1,200 acre-feet per year as provided below, and then to the JEG under the terms of a long-term water supply contract that allows, but does not require, the JEG to purchase the water. Thereafter, water that is not sold to JEG will be made available to the State for use north or south of the River as the next priority, and then to OCWD, the Purchasers, the State and other entities. In general conformity with the terms set forth below, the Parties to this Term Sheet will undertake the following commitments with regard to the ICADS Project:

(a) The Sellers will:

- (i) through PC No. 14, consult with JEG, and as directed by JEG, design, finance and construct Chino I Expansion and the Chino II Desalters, as such facilities are described in this Term Sheet, and in furtherance of the Chino Basin Optimum Basin Management Program ("OBMP") and the Peace Agreement. PC No. 14

shall defer to the express direction of JEG provided that JEG assumes full legal and financial responsibility for the direction it provides to PC No. 14 as provided within this Term Sheet; and

- (ii) through PC No. 9, contract to sell water from the Arlington Desalter in the following order of priority: (1) to the Home Gardens, the City of Norco and the State for use on its lands south of the River in an amount not to exceed 1,200 acre-feet; (2) to JEG; (3) to the State for use on lands north or south of the River; (4) to OCWD and (5) to the Purchasers and the State; and (6) to other entities.

(b) The Purchasers will:

- (i) through JEG, execute with Sellers a lease to purchase agreement for the Chino I, Chino I Expansion and the Chino II Desalters and assume the debt service. The lease/purchase amount shall be generally equivalent to the debt service of these facilities. In exchange for each Purchaser's assumption of their pro-rata costs of debt service and their agreement to pay the costs of producing the desalted water, including operations and maintenance expenses, each Purchaser shall have the right to use the desalted water generated by the facilities. A Purchaser may assume this responsibility under a purchase contract, as a participating member of JEG or both;
- (ii) exercise good faith and best efforts to provide direction to PC No. 14, regarding design, finance, planning and construction of the Chino I Expansion and the Chino II Desalters;
- (iii) operate and maintain the Chino I, Chino I Expansion and the Chino II desalter facilities and operate and maintain production from the Chino I Expansion and the Chino II Desalters at or above the minimum quantities specified in the Peace Agreement (14 mgd);
- (iv) have the right to exercise an option to receive desalted water from the Arlington Desalter that is surplus to the needs of the Home Gardens, the City of Norco and the State for use on lands south of the River in a quantity not to exceed 1,200 acre-feet per year under a water supply contract with a higher priority than OCWD;
- (v) have the right to purchase desalted water under a second and independent option to purchase surplus to the needs of the State for use on lands north of the River

and OCWD;

- (vi) form a JEG that is comprised of some or all of the Purchasers (and in the sole discretion of the Purchasers, include members other than the Purchasers) with a sufficient constituency to assume the debt service for the Chino I, Chino II Expansion and the Chino II Desalters. The JEG shall hold the rights to the desalted water made available by Chino I, the Chino I Expansion and the Chino II Desalters and desalted water made available under contract with the Arlington Desalter. The JEG shall allocate its water inter-se. The Purchasers will exercise best efforts to form the JEG as soon as practicable; and
- (vii) within 30 (thirty) days from the date of execution, nominate a designee to serve as the point of communication between the Purchasers and the other Parties to this Agreement.

3. **Description of Facilities.** The facilities that are integral to the production and delivery of desalted water are commonly known as the ICADS Project Alternative 10A, and are generally described and depicted in Exhibit "A" attached hereto. The Parties to the Term Sheet shall exercise good faith and mutual best efforts to promptly and efficiently agree upon changes or substitutions to Alternative 10A that do not compromise the integrity of the project by (a) reducing production quantities below those set forth in Alternative 10A, or (b) unreasonably increasing the price of the desalter water, unless no Purchaser objects to the increase in price, and (c) the Purchasers assume the full legal and financial responsibility associated with any changes or substitutions that are directed by the Purchasers under this Term Sheet.

4. **Design, Finance and Construction.** The design, finance and construction of the desalter facilities shall be the primary responsibility of the Sellers as provided herein.

(a) **Chino I Expansion and Chino II Desalter.** WMWD, IEUA and OCWD, through PC No. 14, shall consult with and receive direction from JEG. Through JEG, Purchasers will assume responsibility for directing PC No. 14 in all aspects of design, operations, maintenance, management and control of Chino I, Chino I Expansion and Chino II Desalters.

(i) Any direction provided by JEG to PC No. 14 regarding finance, design, planning, and construction of these Desalters shall control so long as JEG assumes full legal and financial consequences associated with the direction it provides to PC No. 14 under this Term Sheet.

- (ii) PC No. 14 shall contract with JEG for contract management of design and construction.
 - (iii) The Purchasers and Sellers shall exercise best efforts to prudently and efficiently limit the costs of construction to ensure that the facilities actually constructed are funded to the maximum extent possible through the grant funds made available by Proposition 13. PC No. 14 shall continue to manage the debt on the Desalters, including the Metropolitan Water District ("MWD") incentives to exercise best efforts to obtain a continuation of the incentives for the benefit of the Purchasers and the State. The Sellers will refinance the debt on Chino I to address the current revenue deficits in a manner to provide for the lowest possible per unit cost of water.
- (b) Arlington Desalter. WMWD and OCWD, through PC No. 9, shall finance and construct the improvements to the Arlington Desalter. The Arlington Desalter will be physically integrated with the Chino Desalters.
- (c) Allocation of Funds. A grant of \$56 million to be made available by Proposition 13 for ICADS, and that has been earmarked by SAWPA for such purpose, will be allocated for both the Arlington Desalter improvements and the Chino Desalters as follows, if actually required to complete construction of Alternative 10A:
- (i) 77 percent of the actual project costs for the Chino I Expansion and Chino II Desalter facilities and related improvements shall be paid from Proposition 13 grant funds, but in an amount not to exceed \$48 million.
 - (ii) 75 percent of the actual project costs for the Arlington Desalter and related improvements shall be paid from Proposition 13 grant funds, but in an amount not to exceed \$8 million.
- (d) Additional Grant Funds. Additional grant funds of up to \$2 million shall be made available and committed to the purpose of completing the Arlington bridge crossing and upgrades to Alternative 10A to enhance the quantity of desalted water produced by the Arlington Desalter. This funding shall be repaid from the following sources:
- (i) Any of the Proposition 13 grant funds allocated to the ICADS Project that are not necessary because actual ICADS project costs are less than projected.
 - (ii) Other SAWPA projects receiving Proposition 13 grant funds to the extent

Proposition 13 grant funds are not necessary because the actual costs of the other SAWPA projects are less than projected.

- (iii) Other projects of WMWD, IEUA, or OCWD that have or will receive Proposition 13 grant funds, to the extent additional funding is secured for such projects from sources other than Proposition 13.
- (iv) A pro-rata reduction from other total Proposition 13 funding that was previously designated for IEUA, WMWD and OCWD.

5. **Operations Maintenance and Liability.** Responsibility for the operations, maintenance and liability of the desalter facilities shall be assigned as follows.

- (a) **Chino I, Chino I Expansion and Chino II Desalters.** Through JEG, the Purchasers are responsible for all aspects of design, operations, maintenance, management and control of Chino I, Chino I Expansion and Chino II Desalters, including water sales, legal liability and other matters (except as provided below in Section 7(c)) associated with these desalter facilities, irrespective of whether such liability arises out of the design, construction, operation, maintenance or control of such desalter facilities.
- (b) **Arlington Desalter.** WMWD and OCWD through PC No. 9 are responsible for all aspects of design, operations, maintenance, management and control of the Arlington Desalter, including water sales, legal liability and other matters (except as provided below in Section 7(c)) associated with the Arlington Desalter facilities, irrespective of whether such liability arises out of the design, construction, operation, maintenance or control of such desalter facilities. The desalted water shall be sold to JEG and the State at a price no greater than the actual cost of service for the Arlington Desalter as provided in Section 6.
- (c) **Third-Party Claims.**
 - (i) The Purchasers and Sellers shall jointly secure and maintain an insurance policy against claims that may be submitted by persons other than the Purchasers and Sellers (third parties) arising out of the groundwater production for the Chino I and the Chino I Expansion. The Purchasers shall secure and maintain an insurance policy against third-party claims arising out of the groundwater production from the Chino II Desalter. Personal injury, workers' compensation or negligence actions unrelated to groundwater production from the Chino I, Chino I Expansion and the Chino II Desalter facilities shall not be considered to be a third-party claim. The

costs of the insurance for the Chino I and the Chino I Expansion shall be divided equally between the Sellers and the Purchasers and shall be maintained until formal legal title to such facilities is transferred from the Sellers to JEG. The costs of insurance for the Chino II Desalter shall be the sole responsibility of the Purchasers.

- (ii) PC No. 14 shall warrant that it has or will settle all known claims arising from the design, construction and operation of the Chino I Desalter, or assume full legal responsibility for such claims, prior to the transfer of operation and maintenance responsibility to JEG under the lease/purchase agreement.
- (iii) In the event that third-party claims, as defined herein, are filed arising out of activities related to the production of groundwater for the desalter operations and there is insufficient insurance, the Parties to the Term Sheet shall have the same responsibilities and liabilities that they may or may not have under general law. This Term Sheet shall not be construed or relied upon by any party in asserting the respective liability of another party to this Term Sheet relative to any future third-party claims.
- (iv) The existing contractual rights and obligations of the Parties under existing contracts regarding the inter-se allocation of liability for third-party claims and insurance, whatever they may be, are not waived or altered.

6. Water Supply

- (a) Desalted Water Made Available by the Chino I, Chino I Expansion and Chino II Desalters. The desalted water shall be made available to the Purchasers from the Chino I, Chino I Expansion and Chino II Desalters and shall be allocated among the Purchasers and the State as generally described in Alternative 10A.
 - (i) If the Santa Ana River Water Company cannot receive its full entitlement to desalted water as contemplated by Alternative 10A, then JCSD and Ontario, through JEG, shall abate their respective use to ensure that Santa Ana River Water Company can receive its full entitlement from JEG. However, JCSD and Ontario shall only have this obligation if Santa Ana River Water Company's demand is at a "steady rate."
 - (ii) The price of all desalted water among the members of JEG shall be all-inclusive. There shall be no separate or additional costs for wheeling or transportation, with

the price per acre-foot being established at each agency's designated point of delivery.

- (iii) The cost for the Chino I, Chino I Expansion and the Chino II Desalters shall be melded upon formation of the JEG so that the per unit cost of desalted water to each Purchaser's designated point of delivery shall be the same.
 - (iv) First priority for the sale of desalted water shall be to the Purchasers through JEG for their own municipal, industrial and domestic use. Second priority for the sale of water surplus to the needs of the Purchasers through JEG set forth above, shall be to the State and then to other entities in the complete discretion of JEG. The Purchasers are prohibited from re-marketing the desalted water for use by others until the State has been offered and has declined the use of the surplus water.
 - (v) The quality of desalted water at the point of delivery for each Purchaser and the State from JEG shall be at least as good as the quality specified in Alternative 10A (25 ppm nitrates and 350 ppm total dissolved solids), unless the Purchasers otherwise agree.
- (b) Desalted Water Made Available From Arlington to JEG. WMWD and OCWD will offer to sell the desalted water from Arlington surplus to the needs of Home Gardens, the City of Norco, and the State for use on lands south of the River in an amount not to exceed 1,200 acre-feet per year in lieu of that portion of the deliveries to the City of Norco that would be necessary to serve the same purpose, to JEG. In addition, if there is still surplus water, WMWD and OCWD will offer the surplus to the State for use on lands north of the River and then to OCWD and then to JEG. The desalted water from Arlington made available to JEG shall be allocated among the Purchasers as provided in this Term Sheet. The desalted water shall be sold at a price equal to the cost of service for the Arlington Desalter, no greater than the price of desalted water provided to the City of Norco subject to any incremental adjustment associated with the transportation of the desalted water.
- (i) The City of Norco shall exercise best efforts to take all of its deliveries of desalted water from the Arlington Desalter. Subject to its exercise of best efforts to rely upon the Arlington Desalter to meet its demands, the City of Norco shall retain its contractual rights to 1,000 acre-feet of water from Chino I to satisfy the City's remaining needs up to 620 gpm maximum.
 - (ii) The price of the desalted water sold to JEG and the State from the Arlington Desalter shall not exceed the price of water sold by PC No. 9 to the City of

Norco from the Arlington Desalter, plus any reasonable incremental adjustments to account for variables such as delivery costs, if any.

- (c) Sale of Desalted Water From the Arlington Desalter to Other Entities. Any desalted water produced by the Arlington Desalter, surplus to the water sold to Home Gardens, the City of Norco, the State for use on lands south of the River in an amount not greater than 1,200 acre-feet per year in lieu of deliveries to the City of Norco for the same purpose, and the JEG, may be sold to the State for use on lands north or south of the River, to OCWD, and then again offered to the JEG and finally to other entities.

7. Actions Upon Execution of the Term Sheet.

- (a) WMWD Rescission of Conditional Resolution. Upon the execution of this Term Sheet by all the Parties hereto, WMWD will rescind its prior Resolution expressing conditional approval of the Peace Agreement and replace it with a Resolution that indicates its unqualified support of the Peace Agreement, consistent with and as implemented by this Term Sheet and the agreements to be executed pursuant hereto.
- (b) Joint Submittal re Satisfaction of Obligations, Responsibilities, and Liabilities under Section VII of the Peace Agreement.
- (i) If Sellers perform the terms of this Term Sheet and any agreements executed in furtherance hereof, then the Parties to this Term Sheet expressly acknowledge and agree that such performance by Sellers shall discharge and satisfy the 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. Sellers' 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 full performance by Sellers is made impossible by an action of the Parties to this Term Sheet or any third party.
- (ii) To effectuate this section, the Parties agree to submit a joint notification to the Court that they intend that the construction and operation of the Chino I Expansion and the Chino II Desalters described in Exhibit "A" satisfies WMWD's and IEUA's obligation under the Peace Agreement to design and construct desalters with a cumulative minimum capacity of 14 mgd. The Parties to this Term Sheet shall collectively request that the Court exercising continuing jurisdiction in the

Chino Basin Judgment issue an order in its case No. 51010, declaring that performance of this Term Sheet and any agreements executed in furtherance hereof, shall fully discharge and satisfy all obligations, responsibilities, and liabilities of IEUA and WMWD under the Peace Agreement under Article VII of that Agreement, with the exception of those provisions of Article VII regarding "Future Desalters."

(iii) Upon execution of final agreements for desalted water consistent with this Term Sheet, the Parties will jointly notify the Court of completion and request a further finding that the construction and operation of the desalter facilities described in Exhibit "A," as provided in the contracts between the Parties, satisfies all the obligations, responsibilities, and liabilities of all the Purchasers acting through JEG under the Peace Agreement set forth in Article VII of the Peace Agreement regarding the purchase, use and delivery of desalted water other than those obligations, responsibilities and liabilities related to "Future Desalters." In addition, all other obligations of Purchasers acting through JEG under the Peace Agreement including, but not limited to, the requirement that desalters be operated in a manner that will not cause material physical injury, shall be unaffected.

(c) Good Faith and Best Efforts. The Parties mutually covenant to exercise reasonable best efforts and shall proceed in accordance with the covenant of good faith and fair dealing. They shall proceed to translate this Term Sheet into a contract that reduces all material terms to writing within ninety (90) days from the date of execution of this Term Sheet. OCWD, WMWD, and IEUA shall exercise best efforts in securing SAWPA's adoption of a Resolution supporting this Term Sheet and an allocation of funds as provided herein.

(d) Warranty. IEUA, WMWD and OCWD warrant that they have the legal authority, as individual public agencies, members of SAWPA and its PC No. 14 and PC No. 9, to incur all of their obligations under this Term Sheet, and they agree that they will use such legal authority and additional best efforts to perform those obligations.

8. State of California.

(a) As of the date of execution of this Term Sheet, the State as a priority purchaser of desalted water under the Peace Agreement has not identified any specific quantity of desalted water that it can commit to purchase at this time.

(b) The State may exercise some or all of the following options for water: (1) take service from the City of Chino under any terms that are mutually agreeable to the State and the City of

Chino; (2) take service from the City of Chino on the same terms and conditions generally applicable to customers within its service territory; and (3) take service from the City of Chino, through water supplied from the ICADS Project, subject to the following special conditions applicable to service under this Section 8(b)(3)(i-viii) that:

- (i) The amount of desalted water for such service is no more than 100 acre-feet per year, plus any additional amount that is surplus to the then available quantity within the capacity of the Chino I, Chino I Expansion and Chino II desalter facilities;
 - (ii) The surplus amount is not already sold to other purchasers;
 - (iii) All other purchasers of desalted water from ICADS through JEG then having prior contractual commitments to buy such water, will abate their production on a pro-rata basis for the initial 100 acre-feet of desalted water in order to accommodate this new State service demand. However, no abatement will be necessary for the sale of surplus desalted water, because it will not then be subject to any obligation by JEG to sell it to others;
 - (iv) The State will pay any and all additional capital and operation and maintenance costs necessary to connect to and receive service from the ICADS Project;
 - (v) The State will reimburse other purchasers for the proportionate share of capital costs attributable to the amount of the State's ICADS desalted water, including debt service, previously paid by the Purchasers for construction and preservation of the ICADS production capacity with which to provide such service to the State;
 - (vi) The State pays the same price for such water as other purchasers from the JEG of ICADS desalted water from the Chino I, Chino I Expansion or Chino II ICADS desalter facilities;
 - (vii) The service will be limited to institutional or agricultural uses of the State itself; and
 - (viii) The State's right to surplus desalted water from the Chino I, Chino I Expansion and the Chino II ICADS desalter facilities shall have priority to the Purchaser's rights to remarket desalted water for use by others.
- (c) The State may elect between either of the following two options to serve the State on its lands south of the River with additional water: (1) as a customer of the City of Norco or (2) from the Arlington Desalter through PC No. 9.

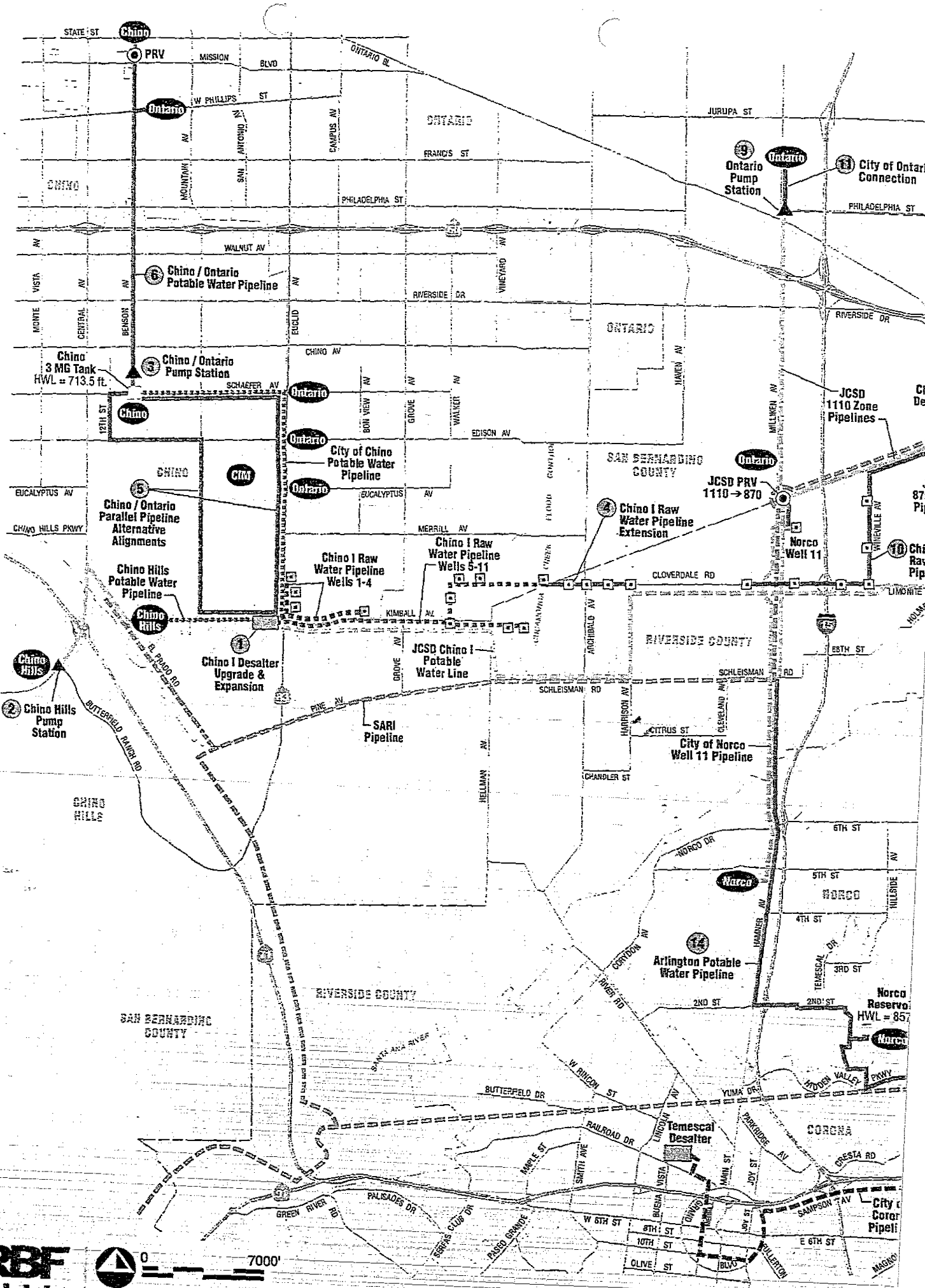
- (i) Water service provided by the City of Norco to the State shall be on terms and conditions generally applicable to customers within its service territory or under any terms that are mutually agreeable to the State and the City of Norco.
- (ii) If, after the exercise of good faith efforts, the State is unable to reach an agreement with the City of Norco on terms and conditions mutually agreeable to obtain sufficient water to meet its needs, the State may elect to purchase desalted water for use on land south of the River from PC No. 9, before JEG and before OCWD, subject to the following terms and conditions:
 - (1) The State must provide notice of its decision in writing and transmit its request to PC No. 9 and the City of Norco within six (6) months from the Date of Execution. The State's right to make this election shall expire if not exercised within six (6) months from the Date of Execution. This means that the State's right or priority to desalted water in an amount up to 1,200 acre-feet from the Arlington Desalter for use on lands south of the River, wherever such a right or priority is referenced in this Term Sheet, will expire if not exercised within six (6) months following the Date of Execution.
 - (2) The State's use of water from the Arlington Desalter shall be expressly limited to its lands and facilities south of the River.
 - (3) The State may request and receive up to 1,200 acre-feet per year from the Arlington Desalter, provided that it agrees to purchase the quantity requested under a long-term "take or pay" - "steady rate" arrangement.
 - (4) The State's priority to the 1,200 acre-feet per year of desalted water from the Arlington Desalter shall be equal to the priorities held by the City of Norco and Home Gardens, and the deliveries to the State for use on lands south of the River shall be in lieu of that portion of the deliveries of desalted water designated for the City of Norco to serve the same purpose.
 - (5) The price of the desalted water shall be equal to the per acre-foot price charged to the City of Norco by PC No. 9, plus any differential cost.

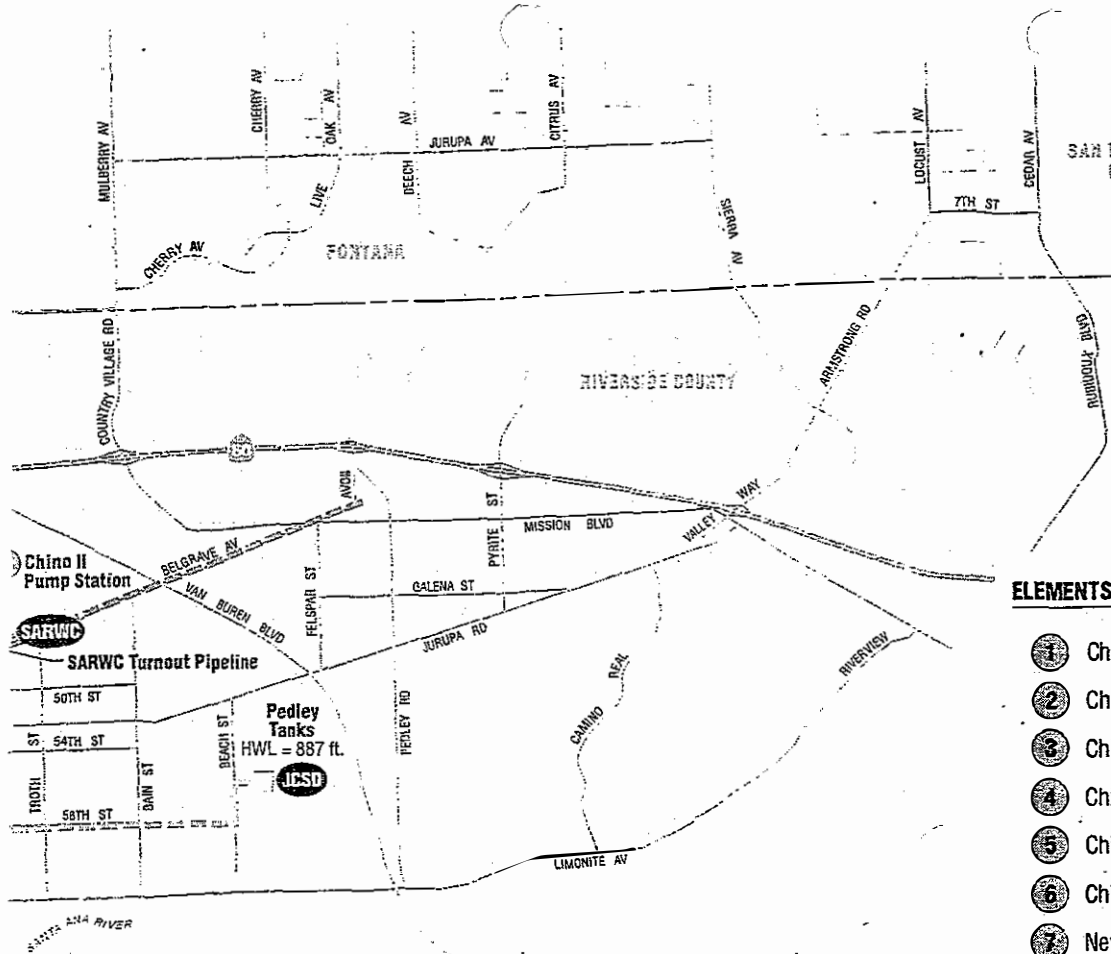
- (6) The State shall pay any and all additional capital, operation and maintenance costs necessary to connect and receive service from the Arlington Desalter.
- (d) The State shall have the option to purchase desalted water from PC No. 9 for use on lands north and south of the River if there is water surplus to the needs of Home Garden, the City of Norco, the State for use on lands south of the River in a quantity not to exceed 1,200 acre-feet per year, and JEG.
- (e) Nothing herein shall be construed as placing any limitation on the State's rights:
 - (i) To request reimbursement from the Chino Basin Watermaster for the reasonable costs to be incurred in the design, construction and operation of future facilities that further the implementation of the OBMP as provided in Article X of the Watermaster Rules and Regulations or in the Peace Agreement;
 - (ii) To contend that desalter operations have or will cause material physical injury to the State or the Chino Basin;
 - (iii) To pursue any legal remedy under the law to redress compensable injury to the State arising out of the desalter operations; or
 - (iv) To exercise its rights under the Peace Agreement and the Rules and Regulations other than to the extent the Parties to the Peace Agreement have discharged their respective obligations under this Term Sheet and the findings that are made pursuant to Section 7 (b) above.

- 9. **No Waiver of Judgment Rights.** Nothing herein shall waive any rights of the Parties arising under the Judgment entered in Chino Basin Municipal Water District v. City of Chino.
- 10. **Terms Not Exhaustive.** The Parties mutually agree that the preceding terms represent essential terms to be incorporated into a final lease agreement for the Chino Desalters and the final agreements for the purchase and sale of desalted water. However, these terms are not intended to be exhaustive. They do, however, represent a meeting of the minds as to the matters expressly referenced.
- 11. **Condition Precedent to Performance.** As an express condition precedent to the effectiveness of the final agreements, the Commission of SAWPA must endorse this Term Sheet by the adoption of a resolution pursuant to which SAWPA agrees to (a) delegate all executive authority to PC No.

14 and PC No. 9 to carry out the provisions of Project Agreements 14 and 9 and the implementation of these projects under the Term Sheet, and (b) to complete in good faith all processes necessary to allocate Proposition 13 bond proceeds in accordance with the provisions of this Term Sheet. However, Section 7(a) through 7(d) of this Term Sheet shall be binding and of full force and effect on all Parties to the Term Sheet on the Date of Execution.

12. **Term Sheet Effective Upon Full Execution.** This Term Sheet shall not be effective until executed by all of the Parties to the Term Sheet and the endorsement by SAWPA as provided in Section 9.
13. **Date of Execution.** The Date of Execution of this Term Sheet shall be the day upon which the last of the Parties to the Term Sheet executes the Term Sheet.



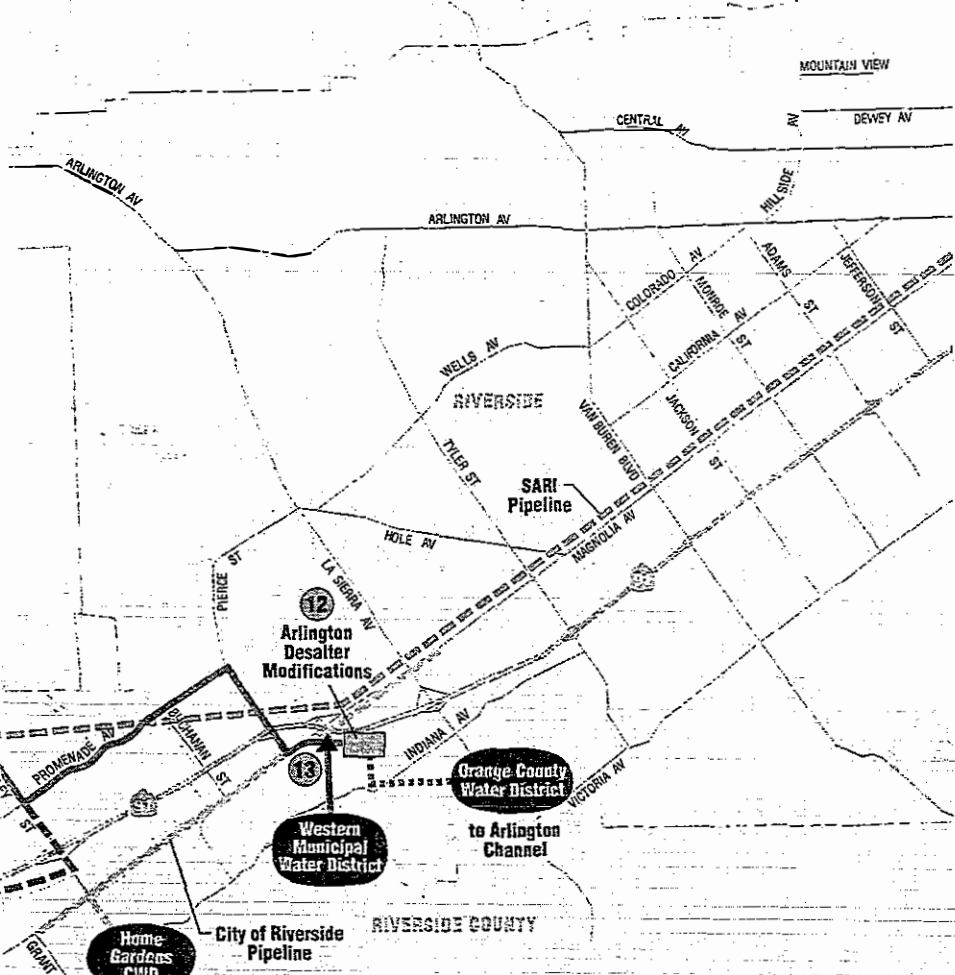


SAN BERNARDINO COUNTY

RIVERSIDE COUNTY

ELEMENTS OF PROJECTS

- 1 Chino I Desalter Upgrade & Expansion
- 2 Chino Hills Pump Station
- 3 Chino / Ontario Pump Station
- 4 Chino I Raw Water Pipeline Extension
- 5 Chino / Ontario Parallel Pipeline
- 6 Chino / Ontario Potable Water Pipeline
- 7 New Chino II Desalter
- 8 Chino II Pump Station
- 9 City of Ontario Pump Station
- 10 Chino II Raw Supply Line
- 11 City of Ontario Connection
- 12 Arlington Desalter Modifications
- 13 Arlington Pump Station Modifications
- 14 Arlington Potable Water Pipeline



LEGEND

DESCRIPTION	OWNER
Proposed Potable Water Pipeline	(SAWPA)
Existing Potable Water Pipeline	(SAWPA)
Proposed Raw Water Pipeline	(SAWPA)
Existing Raw Water Pipeline	(SAWPA)
Proposed Potable Water Pipeline	(Other)
Existing Potable Water Pipeline	(Other)
Proposed Emergency Supply	(SAWPA)
Existing Emergency Supply	(Other)
Proposed Well	
Existing Well	
Proposed Pump Station / Modifications	
Existing SARI Pipeline	
Desalter	
Agency Proposed / Future Turnouts	

**Integrated Chino-Arlington Desalters System (ICADS)
Project Alternative 10A Facilities Map**

EXHIBIT A-2

**INTEGRATED CHINO-ARLINGTON DESALTERS SYSTEM (ICADS)
PROJECT ALTERNATIVE 10A FACILITIES**

I.D. No.	Facility Description
I	CHINO I DESALTER FACILITIES
1	VOC Treatment Facilities
2	VOC Treatment [note 1]
3	Treatment Plant Expansion Modifications
4	Ion Exchange Facilities
5	Clearwell Pump Station Upgrade
6	Pump Stations
7	Chino/Ontario Pump Station
8	City of Chino Hills Pump Station
9	Pipelines/Turnouts
10	Chino I Raw Water Pipeline Extension
11	Chino/Ontario Parallel Pipeline
12	Chino/Ontario Potable Water Pipeline
13	Brine Disposal Line
14	Supply Wells for Treatment Plant Expansion
15	Well Construction and Equipment
II	CHINO II DESALTER FACILITIES
1	Treatment Plant
2	RO & Ion Exchange Facilities
3	Clearwell
4	Pump Stations
5	Jurupa Pump Station
6	Ontario Pump Station
7	Pipelines/Turnouts
8	Chino II Raw Water Pipeline
9	City of Ontario Connection
10	SARWC Turnout Pipeline
11	Brine Disposal Line
12	Supply Wells
13	Well Construction and Equipment
III	ARLINGTON DESALTER FACILITIES
1	Treatment Plant Modifications
2	Treatment Facility Modifications
3	Disinfection System
4	Pump Station
5	Clearwell
6	Other Facilities
7	Arlington Potable Water Pipeline
8	Brine Disposal Line

Note 1: VOC Treatment Facilities costs not included in ICADS project.

EXHIBIT A-3

INTEGRATED CHINO-ARLINGTON DESALTERS SYSTEM (ICADS)
PROJECT ALTERNATIVE 10A
WATER DELIVERIES FROM CHINO I EXPANSION AND CHINO II
(ACRE-FEET PER YEAR)

<u>PURCHASERS</u>	<u>DELIVERIES (AFY)</u>
City of Chino	5,000
City of Chino Hills	4,200
Jurupa Community Services District	8,200
City of Norco	1,000
City of Ontario	5,000
Santa Ana River Water Company(1)	1,200
Other	400
Total	25,000

(1) Deliveries from Chino I Expansion and/or Chino II

C

C

Exhibit "C"

SAWPA Resolution Delegation of Authority

Desalter Status Report
Date: November 15, 2001
Time: 2:00 pm
Dept: 8

RESOLUTION NO. 353

A RESOLUTION OF THE COMMISSION OF THE
SANTA ANA WATERSHED PROJECT AUTHORITY
DELEGATING AUTONOMOUS DECISION MAKING AUTHORITY
TO PROJECT 9 COMMITTEE AND PROJECT 14 COMMITTEE
FOR THE INTEGRATED CHINO-ARLINGTON DESALINATION SYSTEM

WHEREAS, the Project 9 Committee for the Arlington Desalter was created pursuant to paragraph 18 of Santa Ana Watershed Project Authority's ("SAWPA") Joint Exercise of Powers Agreement as a specific project which affects less than all members of SAWPA. Specifically, Orange County Water District ("OCWD") and Western Municipal Water District of Riverside County ("WMWD") are the only members of this Committee; and

WHEREAS, the Project 14 Committee for the Chino Basin Desalters was created pursuant to paragraph 18 of SAWPA's Joint Exercise of Powers Agreement as a specific project which affects less than all members of SAWPA. Specifically, Inland Empire Utilities Agency ("IEUA"), OCWD and WMWD are the only members of this Committee; and

WHEREAS, Project 9 and Project 14 Committees have conducted meetings for purposes of making policy and related decisions in connection with the Integrated Chino-Arlington Desalination System and Program which includes the Chino Desalter I, its upgrade, the construction of Chino Desalter II and the Arlington Desalter Upgrade and intertie with the Chino Desalters; and

WHEREAS, pursuant to Project 9 and Project 14 Agreements it was, and is, the intention of the parties to both Project Agreements that the Project Committee formed in connection with each of those Project Agreements was to constitute the executive authority through which SAWPA was to act for the benefit of the Project Committees; and

WHEREAS, effective May 13, 1997, OCWD and WMWD in connection with Project Agreement 9 and IEUA, OCWD and WMWD in connection with Project Agreement 14 have agreed to fully assume and solely bear all financial liability and responsibility of whatever kind or nature for their respective projects including, but not limited to all costs, expenses, debt repayment obligations and any and all other claims, demands, lawsuits, liabilities, and/or damages arising from, pertaining to or occasioned by the construction, operation and/or implementation of their respective projects, either directly or indirectly; and

WHEREAS, pursuant to the Agreement for the Development and Utilization of Water Produced From the Chino Basin Desalter Project, entered into on March 14, 2000, IEUA, OCWD and WMWD have expressly agreed to be solely and exclusively liable and financially responsible for all capital costs, debt service and revenue deficiency attributable to the Chino Basin Desalter Project; and

WHEREAS, pursuant to the Agreement for the Development and Utilization of Water Produced from the Chino Basin Desalter Project, IEUA, OCWD and WMWD expressly provided that SAWPA shall not be required to contribute any of its funds to satisfy the financial obligations of the Project; and

WHEREAS, the Project 9 Committee, Project 14 Committee, IEUA, OCWD and WMWD desire to streamline the Chino Basin Desalter Project including Chino Basin Desalter I Upgrade, Chino Basin Desalter II, and the Arlington Desalter Upgrade and intertie by having the SAWPA Commission delegate to the Project 9 Committee and Project 14 Committee the executive authority through which all decisions shall be made with SAWPA acting for the benefit of those Project Committees.


NOW, THEREFORE, the Commission of the Santa Ana Watershed Project Authority hereby resolves as follows:

1. Consistent with the intent of paragraph 18 of SAWPA's Joint Exercise of Powers Agreement, Project Agreement 9 and Project Agreement 14, the SAWPA Commission hereby vests and delegates to the Project 9 and Project 14 Committees the executive authority to make all decisions in connection with Project Agreement 9 and Project Agreement 14 and through which SAWPA shall act for the benefit of the respective Project Committees.
2. No action taken by the Project 9 Committee and the Project 14 Committee shall require ratification, approval or review of SAWPA's Commission except as otherwise required by law.
3. The minutes of the meetings of the Project 9 Committee and the Project 14 Committee need not be ratified or approved, or reviewed by the SAWPA Commission except for informational purposes.
4. All accounting books, records and financial records of the Project 9 Committee and the Project 14 Committee may be kept separate at the discretion of the Committees with separate audits at the sole and exclusive expense and cost of these Project Committees with the exception that such audits shall be included in the consolidated financial reports issued by SAWPA.
5. The Project 9 Committee and the Project 14 Committee may enter into contracts and other transactions in SAWPA's name, subject to the hold harmless and indemnity provisions contained in the Project Agreements, Indemnity Agreements of each Project Committee, the Agreement for the Development and Utilization of Water Produced From the Chino Basin Desalter Project, and equitable implied indemnity principles under California law.

Approved and adopted this 13th day of March 2001.

SANTA ANA WATERSHED PROJECT AUTHORITY

By 
Jerry King, Chairman

By 
Richard Hall, Secretary-Treasurer

C

C

Exhibit "D"

WMWD Resolution to Rescind Prior Conditional Approval & Approve the Peace Agreement

Desalter Status Report
Date: November 15, 2001
Time: 2:00 pm
Dept: 8

RESOLUTION 2162

A RESOLUTION OF THE BOARD OF DIRECTORS
OF WESTERN MUNICIPAL WATER DISTRICT OF
RIVERSIDE COUNTY TO APPROVE AND
AUTHORIZE THE EXECUTION OF THE PEACE
AGREEMENT FOR THE CHINO BASIN OPTIMUM
BASIN MANAGEMENT PLAN

WHEREAS, the judgment for the adjudication of the Chino Basin, known as Chino Basin Municipal Water District v. City of Chino, et al., San Bernardino Superior Court No. 16437 ("Judgment"), orders the creation of a watermaster for the Chino Basin to perform certain duties and functions subject to the court's continuing jurisdiction ("Watermaster");

WHEREAS, the Judgment directs the Watermaster to develop an Optimum Basin Management Plan for the Chino Basin, subject to the limitations of the Judgment ("OBMP");

WHEREAS, the Watermaster developed the OBMP and the Inland Empire Utilities Agency ("IEUA"), as the lead agency, prepared a Program Environmental Impact Report ("PEIR") for the OBMP;

WHEREAS, on May 2, 2000, the parties to the Judgment approved a Memorandum of Principles ("MOP") to provide a framework for a more definitive agreement that would enable implementation of the OBMP;

WHEREAS, based on the MOP, the legal counsel for certain parties negotiated and drafted an agreement to settle long-standing disputes between certain parties and find a common ground for interpretation of the Judgment, whereby the OBMP could be effectively implemented ("Peace Agreement");

WHEREAS, on July 12, 2000, the Watermaster adopted a resolution to approve the goals and plans of the OBMP Phase I Report, the OBMP Implementation Plan, and the Peace Agreement, and on the same date the IEUA reviewed and certified the PEIR for

the OBMP, and the Watermaster filed all of these documents with the court for its review, approval, and direction;

WHEREAS, Article VII of the Peace Agreement sets forth an obligation of the IEUA and Western Municipal Water District of Riverside County ("Western") to plan, design, construct, own, and operate certain desalters and related facilities, commonly known as the Chino I Desalter Expansion and the Chino II Desalter, as defined in the Peace Agreement ("Desalters");

WHEREAS, on July 13, 2000, the court ordered the Watermaster to adopt the goals and plans of the OBMP Phase I Report and implement them pursuant to the OBMP Implementation Plan and the Peace Agreement, subject to unanimous approval of the Peace Agreement by the parties thereto no later than August 1, 2000;

WHEREAS, Western has been made a party to the Peace Agreement and the other parties thereto have requested that Western approve and execute the Peace Agreement;

WHEREAS, on July 31, 2000, Western's Board of Directors ("Board") adopted Resolution No. 2120 to approve and authorize the execution of the Peace Agreement, subject to certain terms and conditions;

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

WHEREAS, on November 15, 2000, the Board adopted Resolution No. 2136 extending the deadline for satisfying all

terms and conditions of Western's approval of the Peace Agreement until January 30, 2001;

WHEREAS, on January 24, 2001, the Board adopted Resolution No. 2146 extending the deadline for satisfying all terms and conditions of Western's approval of the Peace Agreement until March 30, 2001;

WHEREAS, on March 21, 2001, the Board adopted Resolution No. 2156 extending the deadline for satisfying all terms and conditions of Western's approval of the Peace Agreement until May 2, 2001;

WHEREAS, certain parties to Peace Agreement, including Western, have prepared and intend to execute a term sheet, a copy of which is attached to hereto as Exhibit "A" ("Term Sheet"), that makes significant progress towards addressing the terms and conditions of Western's approval of the Peace Agreement as set forth in Resolution No. 2120;

WHEREAS, Section 7(b) of the Term Sheet provides that Western's performance of the Term Sheet discharges all of Western's obligations, responsibilities, and liabilities under Article VII of the Peace Agreement (except those terms addressing "Future Desalters"), even if Western's full performance is made impossible by other parties to the Term Sheet or any third party;

WHEREAS, Section 7(a) of the Term Sheet provides that upon execution of the Term Sheet by all parties, Western will rescind its prior conditional approval of the Peace Agreement and replace it with a Resolution providing for Western's unqualified support of the Peace Agreement, consistent with and as implemented by the Term Sheet; and

WHEREAS, on April 25, 2001, the Board approved and executed the Term Sheet.

NOW THEREFORE, the Board of Directors of Western

Municipal Water District of Riverside County hereby resolves as follows:

SECTION 1. Western hereby rescinds Resolutions Nos. 2120, 2127, 2136, 2146, and 2156 in their entirety.


SECTION 2. Based on execution of the Term Sheet by all parties to the Term Sheet, as set forth in Exhibit "A," and the implementation and enforceability of the provisions set forth therein, Western hereby approves and authorizes execution of the Peace Agreement.

SECTION 3. This Resolution shall not be effective unless and until all parties to the Term Sheet, as set forth in Exhibit "A," have duly executed and signed the Term Sheet; otherwise this Resolution shall be null and void in its entirety.

SECTION 4. In adopting this Resolution and authorizing the execution of the Peace Agreement, Western is not committing to carry-out any project within the meaning of the California Environmental Quality Act ("CEQA"), unless and until all environmental reviews and assessments required by CEQA for the "project" have been completed.


SECTION 5. 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.

ADOPTED, this 25th day of April, 2001.


DONALD L. SCHROEDER
President

April 25, 2001

I HEREBY CERTIFY that the foregoing is a full, true, and correct copy of Resolution 2162 adopted by the Board of Directors of Western Municipal Water District of Riverside County at a duly-noticed special meeting held on April 25, 2001.


S.R. AL LOPEZ
Secretary-Treasurer

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Exhibit "E"

Bridge Agreement "Chino Basin Desalter Transitional Operations and Maintenance Agreement"

8/31/01

CHINO BASIN DESALTER TRANSITIONAL
OPERATION AND MAINTENANCE AGREEMENT

This Chino Basin Desalter Operation and Maintenance Agreement ("Agreement") is made and is effective this _____ day of _____, 2001, by and between the SANTA ANA WATERSHED PROJECT AUTHORITY ("SAWPA"), the INLAND EMPIRE UTILITIES AGENCY ("IEUA"), the ORANGE COUNTY WATER DISTRICT ("OCWD"), the WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY ("WMWD"), and JURUPA COMMUNITY SERVICES DISTRICT ("JCSD"). SAWPA, IEUA, OCWD, WMWD and JCSD are sometimes individually referred to as the "PARTY" and collectively referred to as the "PARTIES".

RECITALS

This Agreement is entered into on the basis of the following facts, mutual understandings and intentions of the PARTIES:

A. SAWPA is the owner of a groundwater desalination plant and appurtenant facilities, wells, pipelines, and reservoirs, as depicted on Exhibit "A" attached hereto, and commonly and collectively known as the "Chino Desalter".

B. SAWPA is the holder of a permit issued by the State of California Department of Health Services ("DHS Permit"), which authorizes SAWPA to market treated water produced by the Chino Desalter as potable water ("Product Water").

C. IEUA sells Product Water to the City of Chino and the City of Chino Hills. Pursuant to those agreements, the Cities agree to operate and maintain certain Product Water delivery facilities. WMWD has entered into similar agreement(s) with JCSD and the City of Norco.

D. On March 15, 2000, SAWPA, IEUA, OCWD and WMWD entered into the Chino Basin Desalter Project Operation and Maintenance Agreement providing for the terms and conditions for the operation and maintenance of the Chino Desalter. It is the intent of the PARTIES to supersede and replace that March 15, 2000 agreement with this Agreement.

E. By virtue of this Agreement, SAWPA, IEUA, OCWD and WMWD intend to fully delegate the operations and maintenance duties and obligations contemplated by that March 15, 2000 Operation and Maintenance Agreement to JCSD for the operation and maintenance of the Chino Desalter in accordance with the terms and conditions of this Agreement. It is the intent of the PARTIES to this Agreement that JCSD shall commence providing operation and maintenance services for the Chino Desalter promptly following the effective date of this Agreement, and upon JCSD's compliance with Sections 1.1 and 4.2 below.

F. The PARTIES hereby recognize that execution of this Agreement is in furtherance of Section 5 of the Term Sheet, approved by the Superior Court of the State of California on April 19, 2001, to which JCSD, IEUA, OCWD, and WMWD are signatories. This Agreement is not intended to alter or amend the Term Sheet.

G. It is the intent of the PARTIES that upon conveyance of the Chino Desalter to the Chino Basin Desalter Authority, JCSD will contract with the Chino Basin Desalter Authority, and the Chino Basin Desalter Authority will thereby succeed to all rights, duties and obligations of SAWPA under this Agreement. This Agreement is intended to provide for the transitional operations and maintenance of the Chino Desalter until such conveyance occurs or this Agreement is terminated, and the PARTIES recognize that the Chino Basin Desalter Authority may succeed to JCSD's position under this Agreement prior to such conveyance.

NOW, THEREFORE, in consideration of the foregoing facts and the mutual covenants, conditions and promises contained herein, the PARTIES agree as follows:

AGREEMENT

SECTION ONE: OPERATIONS AND MAINTENANCE SERVICES

1.1 DHS Permit. The DHS Permit requires that the operation and maintenance of the Chino Desalter be supervised by an individual possessing a DHS Grade 4 Water Treatment Operator Certificate. In performing the services required under this Agreement, JCSD shall comply with the DHS Permit and provide supervision of the operation and maintenance services by an individual possessing the DHS Grade 4 Water Treatment Operator Certificate. Prior to JCSD's commencement of operations and maintenance of the Chino Desalter, JCSD and SAWPA shall comply with the DHS Permit and DHS requirements to add JCSD and its DHS Grade 4 Water Treatment Operator as Operator of the Chino Desalter. Until there has been compliance with this Section and Section 4.2 below, IEUA, OCWD, and WMWD shall continue operations and maintenance of the Chino Desalter under the agreement referenced in Recital D above.

1.2 JCSD Services. JCSD warrants and represents that it is qualified and capable of providing all required and necessary operation and maintenance services for the Chino Desalter and in accordance with the DHS Permit, and all federal, state and local laws and regulations applicable to the operation and maintenance of the Chino Desalter. JCSD warrants and represents that it shall operate and maintain the Chino Desalter including the scheduling of water deliveries, major and minor, all in compliance with the DHS Permit requirements. The services provided by JCSD shall include, but not be limited to, the following:

- a. Supervising the day-to-day operations of the Chino Desalter and wellhead facilities;
- b. Performing major corrective maintenance on the Chino Desalter, wellhead facilities, raw water pipeline delivery system, Product Water pumping facilities, Product Water pipeline and reservoir;
- c. Performing routine and preventative maintenance on the Chino Desalter, wellhead facilities, raw water pipeline delivery system, Product Water pumping facilities, Product Water pipeline and reservoir;
- d. Coordinating, scheduling, and tracking water deliveries and serving as the liaison between IEUA and its purchasers of Product Water, and WMWD and its purchasers of Product Water;
- e. Upon SAWPA furnishing all necessary information and records in its possession or control, establishing or implementing any existing preventative maintenance schedule for each

item of equipment of the Chino Desalter for inclusion in JCSD's computer maintenance program for the purpose, among others, of tracking all labor and material costs incurred in the operations and maintenance of the Chino Desalter Plant and the wellhead facilities, and the production of weekly preventative and corrective maintenance work order;

f. Performing laboratory analysis of daily process control samples, including, but not limited to, nitrate, coliform and TDS;

g. Ensuring compliance with the requirements of the DHS Permit, and all applicable federal, state and local laws and regulations;

h. Subject to SAWPA's written approval in advance, JCSD may subcontract any or all operations and maintenance services with other public agencies or private contractors, including the Cities of Chino and Chino Hills, and IEUA, WMWD, OCWD or SAWPA.

SECTION TWO: OPERATIONS AND MAINTENANCE BUDGET

2.1 Budget. Upon execution of this Agreement, JCSD shall prepare a budget (on a fiscal year basis -- July 1 through June 30) for the remaining fiscal year ending June 30, 2002. Beginning on July 1, 2002, and in every fiscal year thereafter, JCSD shall also prepare a fiscal year budget. The budget shall project both the anticipated revenues to be derived from the sale of Product Water and the anticipated operations and maintenance costs, including the cost of debt service for the fiscal year for which the budget is prepared. The budget shall include, but is not limited to:

- a. Labor and consulting services;
- b. Chemicals;
- c. Operational supplies;
- d. Membrane replacement;
- e. Laboratory analyses;
- f. Plant and well utilities;
- g. SARI charges;
- h. JCSD's subcontracts for any or all operations and maintenance services with other public agencies or private contractors, including the Cities of Chino and Chino Hills, and IEUA, WMWD, OCWD or SAWPA;
- i. Capital improvements;
- j. Insurance;
- k. Debt service, including all SAWPA-related obligations incurred in connection with the Chino Desalter.

2.2 Budget Approval Process. The budget for the remaining fiscal year ending June 30, 2002 shall be submitted to SAWPA, by and through Project Committee 14, within 30 days from the effective date of this Agreement for its approval. In every subsequent fiscal year, the budget for the next fiscal year shall be submitted to SAWPA, by and through Project Committee 14, 30 days prior to the end of the current fiscal year. SAWPA, by and through Project Committee 14, shall promptly review the proposed

budget and, if it is not acceptable, return it to JCSD for revision and resubmittal to SAWPA, subject to Section 2.4 below.

2.3 Expenditure Authority. JCSD shall expend funds only for budgeted items. Except in emergencies in which health, welfare or environmental impacts are significant and imminent, SAWPA's prior approval shall be required for expenditures for non-budgeted items. JCSD shall develop a purchasing policy to be approved by SAWPA, which shall include appropriate spending restrictions.

2.4 Unbudgeted Expenditures. For any unbudgeted expenditures not approved by SAWPA, JCSD may make such expenditures and JCSD thereby assumes full legal and financial responsibility for such expenditures. JCSD shall first consult with SAWPA prior to making such expenditures.

2.5 Procedure for Administering Budget and Paying Bills. JCSD shall administer the budget, and prepare standard operating procedures for ensuring the payment of bills. JCSD shall arrange with OCWD, IEUA and/or WMWD for record keeping.

2.6 Compensation. Compensation for services provided by JCSD pursuant to this Agreement shall be established in connection with the development of the budget. Compensation shall be paid monthly within 30 days of submittal of invoices summarizing the work performed and the materials provided, accompanied by back-up documentation. Compensation shall include:

- a. 1.7 times the cost of actual salary for necessary labor;
- b. The actual cost of necessary materials and supplies;
- c. The standard cost of items in inventory, plus reasonable material handling costs;
- d. The cost of equipment at current rental rates; and
- e. The actual cost of outside services that were authorized by SAWPA in accordance with this Agreement.
- f. The actual cost of new insurance required pursuant to Sections 4.2 and 4.3.

Labor and equipment costs associated with on-going training of personnel shall be considered a part of overhead and, therefore, not compensated pursuant to this subsection.

SECTION THREE: PLANS, REPORTS AND MEETINGS

3.1 Plans. Within 30 days of the effective date of this Agreement, JCSD shall prepare and submit to SAWPA an operations plan that may reference any existing plan or method of operation which includes production, planned maintenance and operations, which plan shall be complimentary to the budget.

3.2 Reports. JCSD shall be responsible for providing the following reports to SAWPA:

a. Quarterly Reports. Within 30 days after the end of each quarter, JCSD shall prepare and submit to SAWPA the following written reports and, if determined necessary by JCSD or SAWPA, schedule a meeting to address the following:

- i. Operations and maintenance budget performance;
- ii. Performance goals;
- iii. Production interruption(s)-cause and effects, lessons learned;

iv. Production costs.

b. Monthly Reports. Within 7 days after the end of each month, JCSD shall submit to SAWPA the following written reports;

- i. Well production and operation data;
- ii. Performance of the treatment processes;
- iii. Quantity and quality of blended water product;
- iv. Quantity of brine discharged;
- v. Type and quantity of chemicals used;
- vi. Electrical energy consumed;
- vii. Non-budgeted expenditures;
- viii. Workers safety records;
- ix. Maintenance management performance;
- x. Spare parts inventory;
- xii. Warranty maintenance.

c. Daily Reports. JCSD shall maintain a daily log at the Chino Desalter Plant, which log shall include, but not be limited to, a general description of duties performed, special problems and occurrences, condition of the treatment units, and unusual conditions.

d. Periodic Reports. Periodic oral or written reports shall include:

- i. Emergency reports, which shall include a description of the extent of damage or injury sustained, the repairs and corrective action taken and the costs thereof;
- ii. JCSD shall also provide to SAWPA such other written or oral summary reports as may be reasonably requested by SAWPA.

e. DHS Reports. JCSD shall produce and provide such reports as are required by the DHS Permit.

SECTION FOUR: SAFETY, INSURANCE AND INDEMNIFICATION

4.1 Safety. JCSD shall operate and maintain the Chino Desalter in a manner that will comply with all applicable federal, state and local regulatory requirements, and with applicable health and safety procedures adopted by the PARTIES. JCSD shall conduct periodic staff training in health and safety procedures.

4.2 General Insurance Requirements. JCSD shall procure and maintain insurance, or provide for equivalent self-insurance, for the duration of this Agreement, against claims for injuries to persons and damage to property, which may arise from, or in connection with, performance under this Agreement. All such insurance policies shall be issued by a responsible insurance company with a minimum A.M. Best Rating of "A-" Financial Category "X", and authorized and admitted to do business in, and regulated by, the State of California. Coverage shall expressly provide that it shall be primary and noncontributory in

relation to any other insurance or self-insurance, primary or excess, available to the SAWPA, IEUA, OCWD or WMWD, or their agents or employees. To the extent obtainable, such coverage shall be payable notwithstanding any act of negligence of SAWPA, IEUA, OCWD or WMWD, that might otherwise result in forfeiture of coverage. JCSD shall secure and maintain the following types of insurance for the duration of this Agreement:

a. Commercial General Liability/Umbrella Insurance. Occurrence version general liability insurance, or equivalent form, for bodily injury and property damage, with limits of \$11,000,000.00 per occurrence and \$22,000,000.00 in the aggregate. SAWPA, IEUA, OCWD and WMWD, and their respective employees and agents, shall be added as additional insureds. Coverage shall not be limited to the vicarious liability or supervisory role of any additional insured. Prior to the commencement of any work under this Agreement, JCSD shall provide SAWPA with a complete copy of the insurance policy required under this section for SAWPA's review and approval of the form, limits, exclusions, and coverage of the insurance policy.

b. Automobile Liability. Automobile liability insurance, or equivalent form or equivalent self-insurance with limits of \$11,000,000.00 per occurrence and \$22,000,000.00 in the aggregate. Such insurance shall include coverage for the ownership, operation, maintenance, or use of any auto owned, leased, hired, or borrowed by the insured or for which the insured is responsible. Prior to the commencement of any work under this Agreement, JCSD shall provide SAWPA with a complete copy of the insurance policy required under this section for SAWPA's review and approval of the form, limits, exclusions, and coverage of the insurance policy.

c. Workers' Compensation. Workers' compensation insurance, unless qualified as self-insured, as required by Section 3700 of the Labor Code, for all employees of the insured engaged in work pursuant to this Agreement. Prior to the commencement of any work under this Agreement, JCSD shall provide SAWPA with a complete copy of the insurance policy required under this section for SAWPA's review and approval of the form, limits, exclusions, and coverage of the insurance policy.

4.3 Indemnification. JCSD shall defend, indemnify, and hold harmless SAWPA, IEUA, OCWD, WMWD, their elected officials, officers, employees, agents and assigns (collectively the "Indemnified Party") against any and all losses, claims, damages, liabilities, fines, or penalties, joint or several, including attorneys fees and expenses in connection therewith, to which such Indemnified Party may become liable in connection with or arising from this Agreement, and the operations and maintenance activities contemplated by this Agreement. JCSD shall reimburse Indemnified Party for any legal or other expenses incurred by it in connection with investigating any claims against it and defending any actions, insofar as such losses, claims, damages, liabilities or actions arise out of or are related to this Agreement, and the operations and maintenance activities contemplated by this Agreement. JCSD shall indemnify and hold harmless Indemnified Party from and against any claims, losses, damages, attorneys fees and expenses arising from any and all contracts, contractors, subcontractors, suppliers, laborers, and any other person, entity or corporation furnishing or supplying such services, materials or supplies in connection with this Agreement, and the operations and maintenance contemplated by this Agreement. JCSD shall defend, indemnify and hold harmless Indemnified Party from any and all claims, losses, damages, attorneys fees and expenses that may arise from breach or default by JCSD in the performance of its obligations under this Agreement, or any act of negligence by JCSD or any of its agents, contractors, subcontractors, servants, employees or licensees concerning the subject matter of this Agreement. No indemnification is required under this Section for claims, losses or damages arising out of the sole and exclusive misconduct or negligence under this Agreement by SAWPA, IEUA, OCWD or WMWD. No indemnification is required under this Section for claims, losses or damages known to SAWPA prior to the effective date of this Agreement and arising solely from conditions existing prior to JCSD's commencement of operations and maintenance of the Chino Desalter under this Agreement.

SECTION FIVE: MISCELLANEOUS PROVISIONS

5.1 Commencement and Termination of Agreement. Upon JCSD's compliance with Sections 1.1 and 4.2 above, JCSD shall begin rendering services hereunder promptly following the effective date of this Agreement and shall continue to operate and maintain the Chino Desalter until this Agreement is terminated by SAWPA or JCSD on 90 days advance written notice or by virtue of conveyance of the Chino Desalter to the Chino Basin Desalter Authority.

5.2 Supersession and Amendment. Upon JCSD's compliance with Sections 1.1 and 4.2 above, this Agreement supersedes and replaces the March 15, 2000 Operations and Maintenance Agreement referenced in Recital D above. This Agreement may be amended in writing by mutual agreement of the PARTIES.

5.3 Arbitration. Any dispute which may arise under this Agreement by and between the PARTIES shall be submitted to binding arbitration. Arbitration shall be conducted by the Judicial Arbitration and Mediation Services, Inc., or its successor, or any other neutral, impartial arbitration service that the PARTIES mutually agree upon, in accordance with its rules in effect at the time of the commencement of the arbitration proceeding, and as set forth in this Paragraph. The arbitrator chosen shall decide each and every dispute in accordance with the laws of the State of California, and all other applicable laws. The arbitrator's decision and award are subject to judicial review by a Superior Court of competent venue and jurisdiction for material errors of fact or law. Upon a showing of good cause the arbitrator may permit limited discovery in the arbitration proceeding. Unless the PARTIES enter into a written stipulation to the contrary, prior to the appointment of the arbitrator, all disputes shall first be submitted to non-binding mediation, conducted by the Judicial Arbitration and Mediation Services, Inc., or its successor, or any other neutral, impartial mediation service that the PARTIES mutually agree upon in accordance with its rules for such mediation.

5.4 Independent Contractor. Nothing in this Agreement shall be construed to create, either expressly or by implication, the relationship of agency between and among SAWPA, IEUA, OCWD, WMWD and JCSD. In the performance of services hereunder, each PARTY is an independent contractor, and all employees of each such PARTY are solely employees of such PARTY.

5.5 Assignment. Neither this Agreement nor any duties or obligations hereunder shall be assigned by any PARTY without the prior written consent of the PARTIES.

5.6 No Third Party Beneficiaries. There are no intended third party beneficiaries of any right or obligation assumed by the PARTIES.

IN WITNESS WHEREOF, the PARTIES have caused this Agreement to be executed as of the day and year first written above.

SANTA ANA WATERSHED PROJECT
AUTHORITY

Dated: _____

By _____
Chairman, Board of Commissioners

INLAND EMPIRE UTILITIES AGENCY,
a Municipal Water District

Dated: _____

By _____
President, Board of Directors

ORANGE COUNTY WATER DISTRICT

Dated: _____

By _____
President, Board of Directors

WESTERN MUNICIPAL WATER DISTRICT
OF RIVERSIDE COUNTY

Dated: _____

By _____
President, Board of Directors

JURUPA COMMUNITY SERVICES DISTRICT

Dated: _____

By _____
President, Board of Directors

(

)

CHINO BASIN WATERMASTER

Case No. RCV 51010

Chino Basin Municipal Water District v. The City of Chino

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.

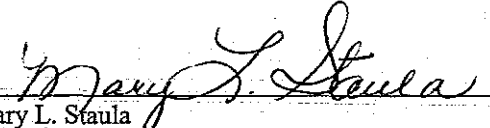
On September 19, 2001, I served the document identified below

DESALTER STATUS REPORT
for Court Hearing November 15, 2001 @ 2:00 p.m.

by placing a true copy of same in sealed envelopes for delivery by United States Postal Service mail at Rancho Cucamonga, California, to each of the addresses shown on the 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 September 19, 2001.


Mary L. Staula

RICHARD ADAMS II
DEPUTY COUNSEL - POMONA
ALVAREZ-GLASMAN & CLOVEN
505 S GAREY AVE
POMONA CA 91766

DAVID B. ANDERSON
DEPARTMENT OF WATER RESOURCES
1416 NINTH ST
P.O. BOX 94236
SACRAMENTO CA 94236-0001

WILLIAM J. BRUNICK ESQ.
BRUNICK ALVAREZ & BATTERSBY
P O BOX 6425
SAN BERNARDINO CA 92412

THOMAS S. BUNN III
LAGERLOF SENEAL BRADLEY
GOSNEY & KRUSE
301 N LAKE AVE 10TH FL
PASADENA CA 91101-4108

CHINO BASIN WATERMASTER
8632 ARCHIBALD AVE STE 109
RANCHO CUCAMONGA CA 91730

JEAN CIHIGOYENETCHE
GENERAL COUNSEL-IEUA
CIHIGOYENETCHE GROSSBERG &
CLOUSE
3602 INLAND EMPIRE BLVD STE C315
ONTARIO CA 91764

ROBERT DOUGHERTY
GENERAL COUNSEL-ONTARIO
COVINGTON & CROWE
P O BOX 1515
ONTARIO CA 91762

JIM ERICKSON
LAW OFFICES OF JIMMY GUTIERREZ
EL CENTRAL REAL PLAZA
12616 CENTRAL AVE
CHINO CA 91710

FREDERIC FUDACZ
NOSSAMAN GUTHNER KNOX & ELLIOTT LLP
445 S FIGUEROA ST 31ST FL
LOS ANGELES CA 90071-1672

ERIC GARNER
BEST BEST & KRIEGER LLP
P O BOX 1028
RIVERSIDE CA 92502-1028

JIMMY GUTIERREZ
ATTORNEY-CITY OF CHINO
EL CENTRAL REAL PLAZA
12616 CENTRAL AVE
CHINO CA 91710

SHARON JOYCE
LEGAL COUNSEL - STATE OF CA - CDC
1515 S STREET ROOM 125
SACRAMENTO, CA 95814

STEVEN KENNEDY
GENERAL COUNSEL-TVMWD
BRUNICK ALVAREZ & BATTERSBY
P O BOX 6425
SAN BERNARDINO CA 92412

ARTHUR KIDMAN
ATTORNEY-MVWD
MC CORMICK KIDMAN & BEHRENS
695 TOWN CENTER DR STE 400
COSTA MESA CA 92626

MARILYN LEVIN
STATE OF CALIFORNIA
OFFICE OF THE ATTORNEY GENERAL
300 S SPRING ST 11TH FL N TOWER
LOS ANGELES CA 90013-1232

JAMES L MARKMAN
RICHARDS WATSON & GERSHON
P O BOX 1059
BREA CA 92622-1059

DAN MC KINNEY
SPECIAL COUNSEL-AG POOL
REID & HELLYER
P O BOX 1300
RIVERSIDE CA 92502-1300

THOMAS H MC PETERS
MC PETERS MC ALEARNEY SHIMFF &
HATT
P O BOX 2084
REDLANDS CA 92373

JAMES P MORRIS
BEST BEST & KRIEGER LLP
P O BOX 1028
RIVERSIDE CA 92502-1028

JARLATH OLAY
DEPUTY GENERAL COUNSEL MWD
700 N ALAMEDA ST
LOS ANGELES CA 90012

TIMOTHY J RYAN
SAN GABRIEL VALLEY WATER
COMPANY
P O BOX 6010
EL MONTE CA 91734

JOHN SCHATZ
COUNSEL-JCSD
P O BOX 7775
LAGUNA NIGUEL CA 92607-7775

ANNE J SCHNEIDER
ELLISON & SCHNEIDER
2015 H ST
SACRAMENTO CA 95814-3109

JESS SENEAL
LAGERLOF SENEAL BRADLEY
GOSNEY & KRUSE
301 N LAKE AVE 10TH FL
PASADENA CA 91101-4108

GERALYN SKAPIK ATTORNEY
CITY OF CHINO HILLS
BURKE WILLIAMS & SORENSON
611 W 6TH ST STE 2500
LOS ANGELES CA 90071-1469

SCOTT SLATER
HATCH & PARENT
21 E CARRILLO ST
SANTA BARBARA CA 93101-2782

MICHELE A STAPLES
JACKSON DEMARCO & PECKENPAUGH
4 PARK PLAZA 16TH FL
IRVINE CA 92614

GENE TANAKA
BEST BEST & KRIEGER LLP
P O BOX 1028
RIVERSIDE CA 92502-1028

ANNE T THOMAS
BEST BEST & KRIEGER LLP
P O BOX 1028
RIVERSIDE CA 92502-1028

SUSAN TRAGER
LAW OFFICES OF SUSAN M TRAGER
19712 MacArthur Blvd Ste 120
Irvine, CA 92612

BURTON J. GINDLER
MORRISON & FOERSTER LLP
555 W 5TH ST
LOS ANGELES CA 90013-1024

AAA AA
MAILING LIST 1
UPDATED 4/18/01

CURTIS AARON
CITY OF FONTANA
8353 SIERRA AVE
FONTANA CA 92335-3598

RICHARD ANDERSON
1365 W FOOTHILL BLVD STE 1
UPLAND CA 91786

A W ARAIZA
WEST SAN BERN CWD
P.O. BOX 920
RIALTO CA 92376-0920

STEVE ARBELBIDE
CBWM BOARD
417 PONDEROSA TR
CALIMESA CA 92320

DAVE ARGO
BLACK & VEATCH
6 VENTURE STE 315
IRVINE CA 92618-3317

DAN ARRIGHI
SAN GABRIEL VALLEY WATER CO
P.O. BOX 6010
EL MONTE CA 91734-2010

RICH ATWATER
IEUA
P.O. BOX 697
RCHO CUCA CA 91729-0697

RODNEY BAKER
COUNSEL FOR EGGSWEST & JOHNSO
BROS
P.O. BOX 438
COULTERVILLE CA 95311-0438

VIC BARRION
RELIANT ENERGY ETIWANDA
8996 ETIWANDA AVE
ETIWANDA CA 91739

KEITH BELAND
STATE OF CALIFORNIA CDC
P.O. BOX 942883
SACRAMENTO CA 94283-0001

BOB BEST
NAT'L RESOURCES CONS SVS
25864 BUSINESS CENTER DR K
REDLANDS CA 92374

GERALD BLACK
FONTANA UNION WATER CO
P.O. BOX 309
FONTANA CA 92334

MICHAEL BOCCADORO
THE DOLPHIN GROUP
925 L ST STE 800
SACRAMENTO CA 95814

PATTI BONAWITZ
IEUA
P.O. BOX 697
RCHO CUCA CA 91729-0697

ROBERT BOWCOCK
VULCAN MATERIALS
2417 N BONNIE BRAE
CLAREMONT CA 91711-1913

FRANK BROMMENSCHENKEL
134 DAVIS ST
SANTA PAULA CA 93060

JIM BRYSON
FONTANA WATER COMPANY
P.O. BOX 987
FONTANA CA 92334-0987

BRUCE CASH
UNITED WATER MGMT CO INC
1905 BUSINESS CENTER DR STE 100
SAN BERNARDINO CA 92408

TERRY CATLIN
CBWM BOARD
2344 IVY CT
UPLAND CA 91784

NEIL CLIFTON
IEUA
P.O. BOX 697
RCHO CUCA CA 91729-0697

LAURA COOMBS
ARROWHEAD WATER COMP
5772 JURUPA RD
ONTARIO CA 91761-3672

DAVID COOPER
SUNKIST GROWERS INC
760 E SUNKIST ST
ONTARIO CA 91761

STEVE CORTNER
VULCAN MATERIALS COMPANY
P.O. BOX 39756
LOS ANGELES CA 90039

DAVID B COSGROVE
RUTAN & TUCKER
611 ANTON BLVD STE 1400
COSTA MESA CA 92626

RON CRAIG
RBF & ASSOC
14725 ALTON PKWY
IRVINE CA 92718

DAVE CROSLEY
CITY OF CHINO
5050 SCHAEFER AVE
CHINO CA 91710-5549

DAVID DE JESUS
CBWM BD MEMBER (TVMWD)
146 E COLLEGE ST
COVINA CA 91723

ROBERT DEBERARD
CHAIRMAN-AG POOL
1886 UKIAH WAY
UPLAND CA 91784

ROBERT DELOACH
CUCAMONGA CTY WD
P.O. BOX 638
RANCHO CUCA CA 91729-0638

BILL DENDY
BILL DENDY & ASSOCIATES
429 F ST STE 2
DAVIS CA 95616-4111

GREG DEVEREAUX
CITY OF ONTARIO
303 E "B" ST
ONTARIO CA 91764

DOUG DRURY
IUEA
P.O. BOX 697
RANCHO CUCAMONGA CA 91730

GLENN DUNCAN
CHINO, CITY OF
P.O. BOX 667
CHINO CA 91708-0667

GLEN DURRINGTON
5512 FRANCIS ST
CHINO CA 91710

DICK DYKSTRA
10129 SCHAEFER
ONTARIO CA 91761-7973

MOHAMED EL AMAMY
CITY OF ONTARIO
1425 S BON VIEW
ONTARIO CA 91761-4406

BOB FEENSTRA
MILK PRODUCERS COUNCIL
13545 S EUCLID AVE
ONTARIO CA 91762-6656

RALPH FRANK
755 LAKEFIELD RD #E
WESTLAKE VILLAGE CA 91361

COLE FRATES
WESTERN DEVELOPMENT & STORAGE
5657 WILSHIRE BLVD STE 330
LOS ANGELES CA 90036

CARL FREEMAN
L. D. KING
2151 CONVENTION CENTRE WAY
ONTARIO CA 91764

SAM FULLER
SAN BERNARDINO VALLEY MWD
P.O. BOX 5906
SAN BERNARDINO CA 92412-5906

MARK GAGE P E
GEOMATRIX CONSULTANTS INC
2101 WEBSTER ST #1200
OAKLAND CA 94612

JIM GALLAGHER
SOUTHERN CALIFORNIA WATER CO
2143 CONVENTION CTR WAY STE 110
ONTARIO CA 91764

JOE GRINDSTAFF
SAWPA
11615 STERLING AVE
RIVERSIDE CA 92503

JACK HAGERMAN
STATE OF CALIFORNIA CIM
4158 CENTER ST
NORCO CA 91760

LISA HAMILTON
GE/MGR ENV REMEDIATION PRGM
640 FREEDOM BUSINESS CTR
KING OF PRUSSIA PA 19406

PATSY HAMILTON
STATE OF CALIFORNIA, CIW
P.O. BOX 6000
CORONA CA 91718

DONALD HARRIGER
CBWM BD/ALTERNATE (WMWD)
P.O. BOX 5286
RIVERSIDE CA 92517-5286

CARL HAUGE
DEPT OF WATER RESOURCES
1020 9TH ST 3RD FL
SACRAMENTO CA 95814

PAUL HOFER
CBWM BOARD
11248 S TURNER AVE
ONTARIO CA 91761

CLARK IDE
OCWD GENERAL COUNSEL
P.O. BOX 8300
FOUNTAIN VALLEY CA 92728-8300

ANNESLEY IGNATIUS
COUNTY OF SAN BERNARDINO FCD
825 E 3RD ST
SAN BERNARDINO CA 92415-0835

JOHN WILLIAM INGRAHAM
CNTY OF SAN BERNARDINO
7000 MERRILL AVE BOX 1
CHINO CA 91710-9027

KEN JESKE
CITY OF ONTARIO
1425 S BON VIEW AVE
ONTARIO CA 91761-4406

JOSEPHINE JOHNSON
CBWM BOARD
3635 RIVERSIDE DR
CHINO CA 91710

BARRETT KEHL
CBWCD
P.O. BOX 2400
MONTCLAIR CA 91763-0900

ROB KETTLE
STATE OF CALIFORNIA, CIW
P.O. BOX 6000
CORONA CA 91718

PATRICK KING
CONSULTANT TO SENATOR NELL SOTO
822 N EUCLID AVE
ONTARIO CA 91762

MARK KINSEY
MONTE VISTA WATER DISTRICT
P.O. BOX 71
MONTCLAIR CA 91763-0071

MARK KINSEY
MONTE VISTA IRRIGATION-CO
10575 CENTRAL AVE
MONTCLAIR CA 91763

GENE KOOPMAN
13898 ARCHIBALD AVE
ONTARIO CA 91761-7979

KRONICK ET AL
KRONICK MOSKOVITZ TIEDEMANN &
GIRARD
400 CAPITOL MALL 27TH FL
SACRAMENTO CA 95814-4417

KENNETH KULES
METROPOLITAN WATER DISTRICT
P.O. BOX 54153
LOS ANGELES CA 90054-0153

RONALD LA BRUCHERIE
12953 S BAKER AVE
ONTARIO CA 91761-7903

FRED LANTZ
CBWM BD/ALTERNATE (TVMWD)
P.O. BOX 2701
POMONA CA 91769

CARLOS LOZANO
STATE OF CA YTS
15180 S. EUCLID
CHINO CA 91710

MIKE MAESTAS
CITY OF CHINO HILLS
2001 GRAND AVE
CHINO HILLS CA 91709-4869

ALAN MARKS
CTY OF SAN BERN CTY CNSL
157 W 5TH ST
SAN BERNARDINO CA 92415

MIKE MCGRAW
CBWM BD MEMBER/FWC
P.O. BOX 987
FONTANA CA 92334-0987

CAROLE MCGREEVY
JURUPA COMM SVCS DIST
8621 JURUPA RD
RIVERSIDE CA 92509-3229

BILL MILLS
ORANGE COUNTY WATER DIST
P.O. BOX 8300
FTN VALLEY CA 92728-8300

ERIC MILLS
CITY OF POMONA
148 N HUNTINGTON ST
POMONA CA 91768

RUBEN MONTES
SAN BERNARDINO CTY FLD CONT DIST
825 E THIRD ST
SAN BERNARDINO CA 92415

JIM MOODY
CITY OF UPLAND
P.O. BOX 460
UPLAND CA 91785-0460

EILEEN MOORE
SECY ONTARIO CITY COUNCIL
303 E "B" STREET
ONTARIO CA 91764

CHRIS NAGLER
DEPT OF WATER RESOURCES
770 FAIRMONT AVE SUITE 102
GLENDALE CA 91203-1035

ROBERT NEUFELD
CHAIRMAN CBWM BOARD
14111 SAN GABRIEL CT
RANCHO CUCAMONGA CA 91739

ROBERT NICHOLSON
SAN GABRIEL VALLEY WC
P.O. BOX 6010
EL MONTE CA 91734-2010

DANA OLDENKAMP
MILK PRODUCERS COUNCIL
3214 CENTURION PL
ONTARIO CA 91761

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

STAN OWENS
STATE OF CA CIM
P.O. BOX 128
CHINO CA 91710

MARY PARENTE
8559 EDISON AVE
CHINO CA 91710-9242

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

JEFF PIERSON
2 HEXAM ST
IRVINE CA 92612

ROBB QUINCEY
CITY OF HESPERIA
15776 MAIN ST
HESPERIA CA 92345

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

LES RICHTER
CALIFORNIA SPEEDWAY
P.O. BOX 9300
FONTANA CA 92334-9300

DAVID RINGEL
MONTGOMERY WATSON
P.O. BOX 7009
PASADENA CA 91109-7009

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

PATRICK SAMPSON
P.O. BOX 660
POMONA CA 91769

DIANE SANCHEZ
DWR
770 FAIRMONT AVE
GLENDALE CA 91203-1035

JOSEPH C SCALMANINI
500 FIRST ST
WOODLAND CA 95695

JOE SCHENK
CITY OF NORCO
P.O. BOX 428
NORCO CA 91760-0428

DONALD SCHROEDER
CBWM BOARD
3700 MINTERN
RIVERSIDE CA 92509

JUDY SCHURR
30587 LOS ALTOS DR
REDLANDS CA 92373

DAVID SCRIVEN
KRIEGER & STEWART ENGINEERING
3602 UNIVERSITY AVE
RIVERSIDE CA 92501

MICHAEL SMITH
NICHOLS STEAD BOILEAU & KOSTOFF
223 W FOOTHILL BLVD #200
CLAREMONT CA 91711-2708

KYLE SNAY
SOUTHERN CA WATER CO
401 S SAN DIMAS CANYON RD
SAN DIMAS CA 91773

NELL SOTO
STATE CAPITOL
ROOM NO 4066
SACRAMENTO CA 95814

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

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

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

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

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

TRACI STEWART

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

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

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

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

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

R.E. THRASH
PRAXAIR
5705 AIRPORT DR
ONTARIO CA 91761

MANAGER
THREE VALLEYS M W D
1021 E MIRAMAR AVE
CLAREMONT CA 91711-2052

GEOFFREY VANDEN HEUVEL
CBWM BOARD
7551 KIMBALL AVE
CHINO CA 91710

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

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

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

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

MICHAEL WHITEHEAD
SAN GABRIEL VALLEY WC
P.O. BOX 6010
EL MONTE CA 91734

MARK WILDERMUTH
WILDERMUTH ENVIRONMENTAL INC
415 N EL CAMINO REAL STE A
SAN CLEMENTE CA 92672

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