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February 3, 2005

RECEIVED

FEB - 7 2005

MPWMD

Mr. Dave Berger, General Manager  
Monterey Peninsula Water Management District  
Post Office Box 85  
Monterey, CA 93942

Re: Water Issues

Dear Mr. Berger:

This will confirm that my clients, the members of the Independent Reclaimed Water Users Group ("IRWUG"), do not object to the inclusion within the Recycled Water Sales Agreement for Stevenson School of Section 6.4 from the Stevenson School's 1992 Water Sales Agreement. I understand that provision reads as follows:

"Special Circumstances of Buyer in Future Water Supply Emergencies. The parties acknowledge that Buyer operates the School as a private, non-profit secondary educational institution, and that the athletic fields to be irrigated with Reclaimed Water are an integral part of the School's campus which also includes facilities which require potable water for domestic purposes such as classroom and dining facilities for resident and day students and faculty, resident student dormitories and faculty housing. The parties further acknowledge that Buyer's ability to reduce potable water use for the domestic purposes described above is limited, on account of permanent conservation measures implemented by Buyer, and that Buyer, to fully meet the potable water reductions required by water rationing in past water supply emergencies, has relied on reducing potable water irrigation of the athletic fields. WMD recognizes and agrees that Buyer's ability to reduce its total Cal-Am water consumption during water supply emergencies and/or water rationing will be diminished as a result of Buyer's participation in the Reclamation Project.

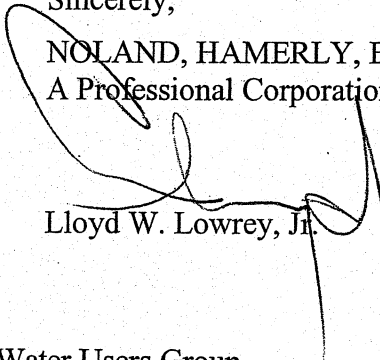
In the event that, after the Commercial Operation Date, WDM declares a water supply emergency and/or imposes water rationing on users of potable water within the Cal-Am service area, WDM

Mr. Dave Berger, General Manager  
Monterey Peninsula Water Management District  
February 3, 2005  
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agrees that consideration shall be given to Buyer's participation in the Reclamation Project and the resulting effect on Buyer's ability to comply with the water rationing requirements effective at that time, so that Buyer does not suffer a detriment or disadvantage in Buyer's ability to meet the water rationing requirements then in effect on account of Buyer's participation in the Reclamation Project. This consideration shall not bind or limit the WMD Board's discretion."

Sincerely,

NOLAND, HAMERLY, ETIENNE & HOSS  
A Professional Corporation

  
Lloyd W. Lowrey, Jr.

LWL:mc

cc: Independent Reclaimed Water Users Group

water available through the Distribution System shall be allocated among all of the Open Spaces in the manner agreed by all of the Owners. In the absence of such agreement, the aggregate amount of Reclaimed Water and potable water available during any given Shortfall Period shall be allocated among each of the Owners as follows:

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

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

(c) If Buyer's Property consists of more than one of the Open Spaces, then Buyer's Minimum Allotment and Percentage Share shall be the aggregate of the Minimum Allotments and Percentage Shares for all the Open Spaces owned by Buyer. In that case, Buyer may use its Minimum Allotment and its Percentage Share of any additional Reclaimed Water and potable water available during any Shortfall Period on all or any of the Open Spaces owned by Buyer in any manner Buyer determines in its sole discretion.

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

6.4 Special Circumstances of Buyer in Future Water Supply Emergencies. The parties acknowledge that Buyer operates the School as a private, non-profit secondary educational institution, and that the athletic fields to be irrigated with Reclaimed Water are an integral part of the School's campus which also includes facilities which require potable water for domestic purposes such as classroom and dining facilities for resident and day students and faculty, resident student dormitories and faculty housing. The parties further acknowledge that Buyer's ability to reduce potable water use for the domestic purposes described above is limited, on account of permanent conservation measures implemented by Buyer, and that Buyer, to fully meet the potable water reductions required by water rationing in past water supply emergencies, has relied on reducing potable water irrigation of the athletic fields. WMD recognizes and agrees that Buyer's ability to reduce its total Cal-Am water consumption during water supply

emergencies and/or water rationing will be diminished as a result of Buyer's participation in the Reclamation Project.

In the event that, after the Commercial Operation Date, WMD declares a water supply emergency and/or imposes water rationing on users of potable water within the Cal-Am service area, WMD agrees that consideration shall be given to Buyer's participation in the Reclamation Project and the resulting effect on Buyer's ability to comply with the water rationing requirements effective at that time, so that Buyer does not suffer a detriment or disadvantage in Buyer's ability to meet the water rationing requirements then in effect on account of Buyer's participation in the Reclamation Project. This consideration shall not bind or limit the WMD Board's discretion.

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

#### 7. Operation of the Reclamation Project.

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

#### 7.2 Insurance on Irrigation System.

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