

**CONTRACT
FOR GROUNDWATER REDUCTION PLANNING,
ALTERNATIVE WATER SUPPLY, AND
RELATED GOODS AND SERVICES
BY AND BETWEEN
THE SAN JACINTO RIVER AUTHORITY AND
1404 BLAKETREE, L.P.**

TABLE OF CONTENTS

| | |
|---|----|
| RECITALS | 1 |
| AGREEMENT | 3 |
| ARTICLE I | |
| <i>Definitions; Interpretations; Consideration</i> | 3 |
| Section 1.01: <u>Definitions</u> | 3 |
| Section 1.02: <u>Titles, Headings, and Exhibits</u> | 7 |
| Section 1.03: <u>Interpretation of Contract</u> | 7 |
| Section 1.04: <u>Nature and Sufficiency of Consideration</u> | 8 |
| ARTICLE II | |
| <i>Groundwater Reduction Plan; Review Committee</i> | 8 |
| Section 2.01: <u>Purposes of GRP</u> | 8 |
| Section 2.02: <u>Development of the GRP</u> | 8 |
| Section 2.03: <u>Filing and Certification of the GRP</u> | 10 |
| Section 2.04: <u>Amendment of the GRP</u> | 10 |
| Section 2.05: <u>Implementation and Enforcement of GRP</u> | 10 |
| Section 2.06: <u>Review Committee</u> | 10 |
| Section 2.07: <u>Appointment of Certain Review Committee Members by Vote</u> | 11 |
| Section 2.08: <u>Terms of Office; Removal; Vacancies</u> | 12 |
| Section 2.09: <u>Compensation and Qualification</u> | 13 |
| Section 2.10: <u>Activities of Review Committee</u> | 13 |
| Section 2.11: <u>Coordination with Review Committee</u> | 15 |
| Section 2.12: <u>Review of Fees, Rates, and Charges</u> | 16 |
| ARTICLE III | |
| <i>Participant's Permits and Water Demands; Co-Permitting;</i> <i>Conversion Credits; Water Conservation</i> | 17 |
| Section 3.01: <u>Participant's Permits, Contracts, and Service Area</u> | 17 |
| Section 3.02: <u>Participant's Historical Use and Demand Projections</u> | 17 |
| Section 3.03: <u>Co-Permitting</u> | 17 |
| Section 3.04: <u>Conversion Credits</u> | 18 |
| Section 3.05: <u>Water Conservation; Drought Contingency</u> | 18 |
| ARTICLE IV | |
| <i>The Project; Connection to the Project;</i> <i>On-Site Facilities; Quantity and Quality of Water</i> | 19 |
| Section 4.01: <u>Development of the Project; Title to Project</u> | 19 |
| Section 4.02: <u>Design, Permitting, and Construction of the Project</u> | 19 |
| Section 4.03: <u>Easements</u> | 20 |
| Section 4.04: <u>Non-Mandatory Connection to Project</u> | 21 |
| Section 4.05: <u>Mandatory Connection to Project</u> | 21 |
| Section 4.06: <u>On-Site Facilities</u> | 22 |
| Section 4.07: <u>Milestones; Approvals; Inspections of Participant's System</u> | 23 |
| Section 4.08: <u>Reimbursement for On-Site Facilities</u> | 25 |
| Section 4.09: <u>Contract Quantity</u> | 25 |
| Section 4.10: <u>Warranties Regarding Water</u> | 27 |

| | |
|--|----|
| <u>Section 4.11: Recovery from Participant</u> | 27 |
| <u>Section 4.12: Passing of Title to Water; Re-use</u> | 28 |
| <u>Section 4.13: Service Area Expansion; Re-Sale</u> | 29 |
| ARTICLE V | |
| <i>Metering</i> | 31 |
| <u>Section 5.01: General</u> | 31 |
| <u>Section 5.02: Installation of Authority Meters</u> | 31 |
| <u>Section 5.03: Maintenance and Testing of Meters</u> | 31 |
| <u>Section 5.04: Billing Adjustments for Inaccurate Meters</u> | 32 |
| <u>Section 5.05: Disputes as to Testing</u> | 33 |
| <u>Section 5.06: Check Meters</u> | 33 |
| <u>Section 5.07: Rate Order Provisions</u> | 33 |
| ARTICLE VI | |
| <i>Fees, Rates and Charges</i> | 33 |
| <u>Section 6.01: Payment Commencement Date</u> | 33 |
| <u>Section 6.02: Monthly Fees and Rates</u> | 34 |
| <u>Section 6.03: Charges</u> | 34 |
| <u>Section 6.04: Rate Order</u> | 35 |
| <u>Section 6.05: Self-Reporting and Payment of Pumpage Fee</u> | 39 |
| <u>Section 6.06: Invoicing and Payment of Water Rate</u> | 40 |
| <u>Section 6.07: Payment of Charges</u> | 40 |
| <u>Section 6.08: Failure to Pay when Due; Early Payment Discount</u> | 40 |
| ARTICLE VII | |
| <i>Gifts, Grants and Special Projects</i> | 40 |
| <u>Section 7.01: Gifts and Grants</u> | 40 |
| <u>Section 7.02: Special Projects; Assessments</u> | 41 |
| <u>Section 7.03: Other Reimbursement to Participant</u> | 41 |
| ARTICLE VIII | |
| <i>Bonds; Pledge of Revenues</i> | 41 |
| <u>Section 8.01: Bonds</u> | 41 |
| <u>Section 8.02: Pledge of Revenues</u> | 42 |
| <u>Section 8.03: Certificates; Other Documents and Showings</u> | 42 |
| <u>Section 8.04: Disclosure Obligations</u> | 42 |
| ARTICLE IX | |
| <i>Special Covenants</i> | 43 |
| <u>Section 9.01: The Authority as Water Supplier</u> | 43 |
| <u>Section 9.02: The Authority as Participant</u> | 46 |
| <u>Section 9.03: The Authority as GRP Administrator</u> | 47 |
| <u>Section 9.04: Amendments to Contract</u> | 51 |
| <u>Section 9.05: Legislative Action</u> | 51 |
| <u>Section 9.06: Sufficient Income</u> | 51 |
| <u>Section 9.07: Temporary Right of Termination</u> | 52 |

ARTICLE X

| | |
|--|----|
| <i>Performance by the Parties</i> | 52 |
| <u>Section 10.01: Force majeure</u> | 52 |
| <u>Section 10.02: Delivery Limitations</u> | 52 |

ARTICLE XI

| | |
|---|----|
| <i>Default and Remedies</i> | 53 |
| <u>Section 11.01: Liability of the Authority</u> | 53 |
| <u>Section 11.02: Default and Remedies</u> | 54 |
| <u>Section 11.03: Mediation</u> | 55 |
| <u>Section 11.04: Termination Not a Remedy</u> | 57 |
| <u>Section 11.05: Waiver of Governmental Immunity</u> | 57 |
| <u>Section 11.06: Costs</u> | 57 |
| <u>Section 11.07: Enforcement</u> | 57 |
| <u>Section 11.08: Choice of Law: Venue</u> | 57 |
| <u>Section 11.09: No Additional Waiver Implied</u> | 57 |

ARTICLE XII

| | |
|---|----|
| <i>Term</i> | 58 |
| <u>Section 12.01: Contract Term</u> | 58 |
| <u>Section 12.02: Termination</u> | 58 |
| <u>Section 12.03: Continuation of Service</u> | 58 |

ARTICLE XIII

| | |
|--|----|
| <i>Miscellaneous Provisions</i> | 59 |
| <u>Section 13.01: Contract Subject to Laws and Regulations</u> | 59 |
| <u>Section 13.02: Severability and Reformation</u> | 59 |
| <u>Section 13.03: Notices</u> | 60 |
| <u>Section 13.04: Approvals: Execution by General Manager</u> | 60 |
| <u>Section 13.05: Parties in Interest</u> | 60 |
| <u>Section 13.06: Assignments</u> | 61 |
| <u>Section 13.07: Reservation of Rights</u> | 61 |
| <u>Section 13.08: Merger</u> | 61 |
| <u>Section 13.09: Authority to Enter Into Contract</u> | 61 |

EXHIBITS

| | |
|------------------|--|
| <u>Exhibit A</u> | [The Authority's Service Area] |
| <u>Exhibit B</u> | [Participant's Service Area] |
| <u>Exhibit C</u> | [Participant's Well Permits] |
| <u>Exhibit D</u> | [Participant's Historical Use] |
| <u>Exhibit E</u> | [Participant's Projected Future Demands] |
| <u>Exhibit F</u> | [Conceptual Drawing of the Project] |
| <u>Exhibit G</u> | [Form of Easement] |

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1404 BLAKETREE, L.P.**

THIS CONTRACT FOR GROUNDWATER REDUCTION PLANNING, ALTERNATIVE WATER SUPPLY, AND RELATED GOODS AND SERVICES ("Contract") is made and entered into as of June 1, 2010, by and between the **SAN JACINTO RIVER AUTHORITY ("Authority")**, a conservation and reclamation district, body politic and corporate and a governmental agency of the State of Texas created and operating under the provisions of Chapter 426, Acts of the 45th Texas Legislature, Regular Session, 1937, as now or hereafter amended (the "Act"), enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution, and **1404 BLAKETREE, L.P.**, a Texas limited partnership ("Participant").

W I T N E S S E T H:

RECITALS

WHEREAS, the Lone Star Groundwater Conservation District (the "Conservation District") was created by the Texas Legislature to conserve and protect the groundwater aquifers beneath Montgomery County and, in that regard, the Conservation District has established a District Regulatory Plan (the "Plan") to reduce groundwater production from certain aquifers located within Montgomery County by its establishment of regulatory deadlines subject to enforcement; and

WHEREAS, the Authority provides wholesale water service to the territory shown on Exhibit A hereto through the Authority's pumpage of groundwater from wells operated pursuant to various permits issued by the Conservation District; and

WHEREAS, Participant utilizes groundwater to service the territory shown on Exhibit B hereto through Participant's pumpage of groundwater from wells operated pursuant to permits issued by the Conservation District listed and described on Exhibit C hereto; and

WHEREAS, the Authority and Participant are each a non-exempt large volume groundwater user subject to the Conservation District's groundwater reduction requirements under the Plan ("Regulated User"); and

WHEREAS, the Plan requires each Regulated User to submit to the Conservation District a groundwater reduction plan which sets forth, among other items, (a) a source for water supply, or water conservation methods in certain circumstances, that will effect a reduction in the

Regulated User's groundwater pumpage sufficient to meet the Conservation District's groundwater reduction requirements, (b) evidence, if and as necessary, that a current or proposed water supplier to the Regulated User has sufficient alternative water supplies and/or rights to effect the Regulated User's required reduction in groundwater pumpage under the Plan based on the Regulated User's present and projected total water demands, (c) a preliminary engineering feasibility report of the proposed facilities to be designed, permitted, constructed, operated, maintained, and administered in order for the Regulated User to meet the first phase of the Conservation District's groundwater reduction requirements; and (d) conceptual plans of the proposed facilities to be constructed in order for the Regulated User to meet the second and any subsequent phases of the Conservation District's groundwater reduction requirements; and

WHEREAS, the Plan allows two or more Regulated Users to (a) enter into contractual agreements to share costs or cooperate in ways that achieve orderly reductions in total groundwater usage and conversions to alternative water supplies, and/or (b) join with other Regulated Users for the purpose of reducing groundwater withdrawals and achieving orderly compliance with the Conservation District's groundwater reduction requirements; and

WHEREAS, the Authority has developed supplies of surface water that, when taken together with groundwater withdrawals to be permitted by the Conservation District under the Plan, are reasonably believed to be adequate to satisfy the present and projected total water demands of Montgomery County for the planning period extending through 2045, as established by the Conservation District under the Plan, and may hereafter further develop supplies of surface water in accordance with certain procedures set forth herein that, when taken together with groundwater withdrawals to be permitted by the Conservation District under the Plan, are adequate to satisfy the present and projected total water demands of Montgomery County through the Contract Term; and

WHEREAS, the Authority has heretofore prepared and submitted to the Conservation District a Water Resources Assessment Plan (the "WRAP") which preliminarily addressed many of the items to be included in a groundwater reduction plan sufficient to meet the Conservation District's requirements; and

WHEREAS, as set forth in the WRAP, a number of Regulated Users and the Authority have preliminarily developed a preliminary, collective solution in response to the Conservation District's groundwater reduction requirements whereby a surface water treatment and transmission system (the "Project") is proposed to be designed, permitted, constructed, operated, maintained, and administered by the Authority in order to provide phased treatment, transmission and delivery of the Authority's surface water supplies to certain Regulated Users serving densely populated areas of Montgomery County, for blending with the groundwater supplies of such Regulated Users, so that other Regulated Users may continue to pump groundwater; and

WHEREAS, the Authority and Participant deem it necessary and appropriate at this time to enter into a contract setting forth the terms and conditions under which the Authority, Participant, and any other Regulated User that executes a written agreement in a form substantially similar hereto (collectively, the "Participants"), will form a group to achieve overall compliance with the Plan in an efficient and cost effective manner, similar in concept to the

proposal in the WRAP, but subject to the further terms and conditions set forth herein, by and through the Authority's provision of certain goods and services to Participants, including: (a) the development and administration of a groundwater reduction plan ("GRP") by the Authority that includes all Participants, (b) the design, permitting, construction, operation, maintenance, and administration of the Project and related facilities, improvements, appurtenances, property, and interests in property by the Authority, (c) the sale of treated surface water by the Authority to certain Participants and, to the extent necessary and feasible, the development by the Authority of additional surface water supplies, (d) the delivery of treated surface water to certain Participants through the Project, (e) the administration of the GRP and the Project by the Authority in a manner that will over-convert certain Participants to treated surface water supplies (but not necessarily eliminate the need for groundwater usage by such Participants under certain conditions), such that other Participants and future Participants may continue to develop, produce, and utilize groundwater, (f) the financing by the Authority of design, permitting, construction, and other costs related to the Project, (g) the establishment and administration of the Project and of rules, regulations, policies, and procedures relating to the development, implementation, operation, maintenance, and enforcement of the Project and the GRP ("Rules"), and (h) the establishment, collection, enforcement, and application of fees, rates, and charges for treated surface water delivered to certain Participants through the Project, groundwater pumped by Participants, breach or violation of this Contract or any similar Participant contract, or any Rule, in order to timely and adequately fund the costs associated with the Project, and achieve and maintain compliance with the GRP and the groundwater reduction requirements under the Plan; and

WHEREAS, the Authority is authorized to enter into this Contract pursuant to the Act and Section 49.213 of the Texas Water Code; and

WHEREAS, Participant is authorized to enter into this Contract pursuant to its governing partnership agreement.

AGREEMENT

NOW, THEREFORE, for and in consideration of the premises and of the mutual covenants and agreements herein contained, and the goods and services to be provided and rendered by the Authority hereunder, and the payments to be made by the Authority and Participant hereunder, the Authority and Participant do mutually agree as follows:

ARTICLE I

Definitions; Interpretations; Consideration

Section 1.01: Definitions. In addition to terms defined elsewhere in this Contract, and unless the context requires otherwise, the following terms used in this Contract have the meanings set forth below and, to the extent applicable, supplement terms defined elsewhere in this Contract:

(a) "Applicable Interest Rate" means the highest net effective interest rate, as defined by Section 1204.005, Texas Government Code, on any outstanding issue or series of Bonds of the Authority sold in a public offering to finance or maintain all or any portion of the Project, or if none, an interest rate calculated by the Authority equal to one percent (1%) above the highest average interest rate reported by the Daily Bond Buyer in its weekly "20 Bond Index" during the one-month period preceding the date of such calculation.

(b) "Alternative Strategies" is defined in Section 2.02 hereof.

(c) "Authority" is defined in the Recitals hereto and means and includes the legal successors or assigns of the Authority.

(d) "Authority Meters" is defined in Section 5.02 hereof.

(e) "Bonds" is defined in Section 8.01 hereof.

(f) "Conservation District" is defined in the Recitals hereto and means and includes the legal successors or assigns of the Conservation District.

(g) "Contract" is defined in the Recitals hereto and means and includes any supplements or amendments to this Contract.

(h) "Contract Term" is defined in Section 12.01 hereof.

(i) "Contract Quantity" is defined in Section 4.09 hereof.

(j) "Days" means calendar days and not business days, unless otherwise expressly provided in this Contract.

(k) "Effective Date" means the date first written above.

(l) "Emergency Condition" means a condition that poses an unacceptable risk of a serious health hazard, an unreasonable risk of economic loss to the Project or GRP, or an unreasonable risk that Conservation District deadlines under the Plan will not be time met, and which requires immediate action.

(m) "GRP" is defined in the Recitals hereto and means and includes the groundwater reduction plan to be developed, filed, and amended as necessary, by the Authority pursuant to Article II hereof, and administered by the Authority hereunder, including any supplements, revisions, or amendments to the GRP.

(n) "GRP Administrator" means the General Manager of the Authority, or his or her designee, including any Deputy General Manager or other staff member of the Authority, a representative of an independent engineering firm engaged by the Authority to act as "Program Manager," or any other public or private entity or person who may hereafter by delegation from the Authority exercise the functions of the GRP Administrator.

(o) "Houston Contract" means that certain Water Supply Contract between the City of Houston, Texas, and the Authority, effective as of October 16, 2009.

(p) "Measuring Equipment" is defined in Section 4.06(a)(2) hereof.

(q) "On-Site Facilities" is defined in Section 4.06(a) hereof.

(r) "Participant" is defined in the Recitals hereto and means and includes the legal successors or assigns of Participant.

(s) "Participant Meters" is defined in Section 4.06(a)(1) hereof.

(t) "Participants" is defined in the Recitals hereto and means and includes the Authority, Participant, and any other Regulated User that enters into and remains subject to a written agreement with the Authority in a form substantially similar to this Contract.

(u) "Participant's System" means all Wells, pipelines, storage facilities, and other facilities comprising Participant's water supply and distribution system.

(v) "Participant System Site" means the water plant site, or water plant sites, upon which the facilities of Participant's System for receiving Water are principally located.

(w) "Party" means either the Authority or Participant.

(x) "Parties" means both the Authority and Participant.

(y) "Payment Commencement Date" means August 1, 2010.

(z) "Plan" is defined in the Recitals hereto and means and includes any amendments, revisions or supplements thereto as may be adopted by the Conservation District on or after the Effective Date.

(aa) "Point of Delivery" for Participant means the point or points (i.e., the downstream flange of the Authority Meter(s)) where Water from the Project is delivered to Participant's System.

(bb) "Private Well Owner" means a Participant that is a water supply corporation, private entity (including one that generates electricity, manufactures goods, or owns or operates a golf course), or an investor owned utility.

(cc) "Project" is defined in the Recitals hereto and means and includes the entire project to be developed by the Authority pursuant to this Contract to divert, treat, and supply potable water (whether derived from surface water, groundwater, or other sources) to the Point of Delivery, including all land, rights-of-way, easements, contract rights, plants, pipelines, machinery, equipment, appurtenances, and related tangible and intangible properties comprising same, and any water rights and related raw water facilities and conveyances acquired or

constructed for the benefit of the Participants with Project revenues pursuant to Section 9.01(b) hereof, save and except (i) On-Site Facilities; (ii) any surface water diversion, treatment, storage, pumping, transmission, transportation, or delivery facilities and equipment heretofore or hereafter developed, acquired, or constructed by the Authority out of revenues or resources other than Project revenues, unless otherwise intended for the benefit of the Participants pursuant to Section 9.01(b) hereof, and any related water rights, water supply contracts, or similar permits, certificates, or rights to divert, store, or appropriate surface water; (iii) all or any part of any water supply systems or facilities (whether or not physically connected to the Project) designed, permitted, financed, constructed, purchased, or otherwise acquired by the Authority, or by any customer of The Woodlands Division of the Authority, or the successors or assigns of any such customer, without the use of Project revenues (other than with respect to any On-Site Facilities), for producing, transporting, treating, and distributing water within or for providing service to the Authority's service area shown on Exhibit A hereto, as such Authority service area may be expanded, reduced, or otherwise modified from time to time, together with such improvements, extensions, enlargements, replacements, additions, modifications, or betterments thereto now or hereafter designed, permitted, constructed, purchased, or otherwise acquired by the Authority, and including all or any part of any such water supply system or systems from which water supply services are or will be furnished or made available to such Authority service area; and (iv) all works, facilities, improvements, interests in property, plants, equipment, contract rights, water rights, permits, and other assets and properties of the Authority needed for and used in connection with the conservation, storage, diversion, appropriation, use, transportation, distribution, treatment, or delivery of water, under or pursuant to the rights, powers, and authority granted under or evidenced by Certificate of Adjudication Nos. 10-4963, 10-4964, and 08-4279, and Water Permit Nos. 5271, 5807, 5808, and 5809, as amended, issued by the TCEQ, or its predecessor, as same may be now or hereafter amended, including, without limitation, any such permits and certificates relating to the Authority's undivided interest in and to the Lake Conroe Dam and Reservoir, located on the West Fork of the San Jacinto River near the City of Conroe, Texas, the Authority's Highlands Reservoir, located in southeast Harris County near the unincorporated community of Highlands, Texas, the Authority's Canal System, extending from Lake Houston to and beyond Highlands Reservoir in southeast Harris County, and all related pump stations, pipelines, canals, siphons and storage, control, diversion, measurement, distribution, and delivery facilities and all improvements, extensions, enlargements, replacements, additions or betterments thereto now existing or hereafter purchased, constructed or acquired by the Authority, or under or pursuant to any further or additional water rights, certificates, or permits hereafter acquired by the Authority, other than through the use of Project revenues.

(dd) "Rate Order" means the prevailing order or resolution duly adopted by the Board of Directors of the Authority, to the extent not contrary to, inconsistent with, or prohibited by the terms and provisions of this Contract, which sets forth (i) the groundwater pumpage fee established for purposes of Section 6.02(1) hereof and any related provisions of this Contract, and (ii) the rate for Water for purposes of Section 6.02(2) hereof and any related provisions of this Contract, and (iii) any other charges permitted to be established, charged, collected, or enforced hereunder.

(ee) "Regulated User" is defined in the Recitals hereto and means and includes any public or private entity or person that is or becomes subject to the Plan on or after the Effective Date.

(ff) "Review Committee" means the committee to be organized and established pursuant to Section 2.06 hereof.

(gg) "Rules" is defined in the Recitals hereto and means and includes any rules, regulations, policies, or procedures deemed necessary and proper and duly adopted by the Board of Directors of the Authority for or relating to the development, implementation, operation, maintenance, or enforcement of the Project and the GRP, to the extent not contrary to, inconsistent with, or prohibited by the terms and provisions of this Contract, and all related amendments, revisions or supplements thereto.

(hh) "TCEQ" means the Texas Commission on Environmental Quality and includes any board, agency, commission, or department of the State of Texas succeeding to the principal duties and responsibilities of the TCEQ.

(ii) "Water" means treated surface water delivered through the Project.

(jj) "Well" means any current or future groundwater well operated by Participant, whether currently in operation or, at Participant's discretion, placed into operation hereafter, and specifically including each groundwater well identified under Exhibit C, that is subject to the Conservation District's groundwater reduction requirements under the Plan.

(kk) "Wells" means each and every Well, collectively, whether one or more.

Section 1.02: Titles, Headings, and Exhibits. (a) The titles, heading, and captions appearing in the articles of this Contract and following each numbered section of this Contract are inserted and included solely for convenience and shall never be considered or given any effect in construing this Contract, or any provision hereof, or in connection with the duties, obligations, or liabilities of the respective Parties hereto or in ascertaining intent, if any questions of intent should arise.

(b) The exhibits attached hereto are incorporated as part of this Contract for all purposes.

Section 1.03: Interpretation of Contract. (a) This Contract and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of this Contract.

(b) Unless the context requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and *vice versa*, and words of the singular number shall be construed to include correlative words of the plural number and *vice versa*. The word "include", and any of its derivatives, shall be interpreted as

language of example and not of limitation, and shall be deemed to be followed by the words "without limitation", unless otherwise expressly provided herein.

(c) The Parties agree that this Contract shall not be construed in favor of or against a Party on the basis that the Party did or did not author this Contract.

Section 1.04: Nature and Sufficiency of Consideration. By and through the execution of this Contract, the Authority agrees to provide certain goods and services to Participant, including: (a) the development and administration of a GRP that includes Participant, (b) the design, permitting, construction, operation, maintenance, and administration of the Project and related facilities, improvements, appurtenances, property, and interests in property by the Authority, as necessary to implement the GRP and thereby benefit Participant, (c) the sale of treated surface water by the Authority to certain Participants, as necessary to implement the GRP and thereby benefit Participant, (d) the administration of the GRP and the Project by the Authority, (e) the financing by the Authority of design, permitting, construction, and other costs related to the Project, (f) the establishment and administration of the Project, the GRP, and the Rules, and (g) the establishment, collection, enforcement, and application of fees, rates, and charges. The Authority acknowledges that an essential element of the consideration for Participant to enter into this Contract is that the Authority will adopt, implement and enforce the GRP in good faith and with due diligence for the purpose and objective of achieving and maintaining compliance with the Plan. In consideration of the foregoing, Participant agrees to pay the Authority certain fees, rates, and charges pursuant to the terms and provisions of this Contract, including Article VI hereof. The Parties acknowledge the sufficiency of such consideration.

ARTICLE II

Groundwater Reduction Plan; Review Committee

Section 2.01: Purposes of GRP. The purpose of the GRP is to set forth the general plan of the Authority to reduce groundwater withdrawals by certain Participants so that, collectively, all Participants will achieve and maintain compliance with the Conservation District's groundwater reduction requirements under the Plan, including information regarding (a) the Authority's development and procurement of all necessary contractual rights and agreements needed to reduce the groundwater withdrawals of the Participants, (b) the design, permitting, construction, operation, and maintenance of infrastructure necessary to reduce the groundwater withdrawals of the Participants, (c) the land, easements, rights-of-way, and other interests in real property needed in connection with such infrastructure, (d) any permits or regulatory authorizations required under federal, state, or local laws, and (e) the manner and methods by which the Authority proposes to finance the foregoing.

Section 2.02: Development of the GRP. (a) The Authority shall develop a single GRP for all Participants. In general, the intent of the Participants is that the GRP will be based upon the Project such that the Authority will design, permit, construct, own, operate, maintain, and administer certain infrastructure, in phases, that will withdraw raw surface water from Lake Conroe, and other sources that may be developed if necessary, for treatment and transmission to

certain Participants. As provided in this Contract, such Participants will be required by the Authority to utilize surface water and groundwater resources in a manner that will allow other Participants and new Participants to continue to develop and utilize groundwater resources and minimize the costs to all Participants to comply with the Conservation District's groundwater reduction requirements under the Plan. Further, the intent of the Participants is that the GRP will provide for an amount of surface water to be utilized by certain Participants that will be sufficient to allow for the continued development and use of groundwater resources by all Participants, including those utilizing surface water, in a manner that, to the greatest extent practicable, is unimpeded by the requirements of the Plan.

(b) In order to equitably distribute the costs of compliance among the Participants, all Participants will pay certain fees to the Authority for their groundwater usage, and those Participants that will be served by the Project will additionally pay the Authority the prevailing rate for Water. As provided in this Contract, the Authority's fees, rates, and charges will be established so that Participants are neither benefited nor penalized for being required to take Water from the Project, or for relying solely upon groundwater resources to meet their demands. The Authority's determination as to which Participants will receive Water will be made based upon factors (i) through (v) described in Section 4.02(a).

(c) The Authority reserves the right to include strategies in the GRP, in addition to the Project, that are reasonably determined by the Authority to be beneficial to all Participants, for the reduction in groundwater usage and compliance with the Conservation District's groundwater reduction requirements under the Plan, which strategies (collectively, "Alternative Strategies") may include (i) the re-use of treated wastewater effluent for beneficial purposes that would otherwise require the use of groundwater supplies, (ii) the sale of raw or untreated surface water for beneficial uses that would otherwise require the use of groundwater supplies, (iii) incentives to conserve water usage or implement water re-use, or (iv) other projects that confer a benefit to all Participants such that equity requires that the costs of same be shared among all Participants. The Parties acknowledge that this Contract is not intended, and shall not be deemed or construed, to authorize or permit the Authority to require Participant to undertake any Alternative Strategies nor to require Participant to take any water from the Authority other than Water. The Authority reserves the right to contract with Regulated Users and/or Participants relative to the implementation of Alternative Strategies for such purposes. If implemented by the Authority, Alternative Strategies shall be made available to all Participants, as reasonably practicable, on a uniform basis.

(d) The GRP Administrator shall make available (in digital format) one or more drafts of the proposed GRP for review by Participant. Participant agrees to review each draft and promptly provide any comments it may have to the GRP Administrator.

(e) The Authority may amend the proposed GRP, as it reasonably determines necessary or appropriate, to respond to comments it may receive from Participant, other Participants, the Conservation District or any state, federal, or other regulatory authority having jurisdiction, and it shall thereafter distribute (in digital format) the proposed GRP, as and if amended, to all Participants.

Section 2.03: Filing and Certification of the GRP. The Authority will use good faith and due diligence to (i) timely file a Declaration of Intent regarding the proposed GRP with the Conservation District, and Participant shall be included in such Declaration of Intent; (ii) timely file the proposed GRP for certification by the Conservation District to secure compliance with the Plan for the benefit of the Participants; and (iii) timely obtain approvals of the GRP in the time periods required by the Conservation District during the Contract Term so that the Participants, collectively, at all times during the Contract Term remain in compliance with the Plan and the groundwater reduction requirements imposed by the Conservation District. Upon certification of the GRP, the GRP Administrator shall provide written notice of same to the Participants and, if applicable, advise the Participants of any revisions to the GRP that were required in order to obtain such certification. The GRP Administrator shall provide a copy (in digital format) of the GRP, as certified, to the Participants if GRP Administrator determines that the latest copy provided under Section 2.02 hereof has been materially revised in order to obtain certification from the Conservation District.

Section 2.04: Amendment of the GRP. After certification of the GRP by the Conservation District, the Authority may amend the GRP only after providing all Participants with written notice of the proposed amendments, an explanation of the purpose of the proposed amendments, and a reasonable opportunity for the Participants to review and comment on the proposed amendments. The Authority may proceed with the proposed amendments, or may make modifications to same as it reasonably determines necessary or appropriate to respond to comments it may receive from Participant, other Participants, the Conservation District, or any state, federal, or other regulatory authority having jurisdiction, and it shall thereafter distribute (in digital format) the proposed GRP, as amended, to all Participants. If required, the Authority shall file the amended GRP with the Conservation District and seek certification of such amended GRP. Upon certification of the amended GRP, the GRP Administrator shall provide written notice of same to the Participants and, if applicable, advise the Participants of any revisions to the GRP that were required in order to obtain such certification. The GRP Administrator shall provide a copy (in digital format) of the amended GRP, as certified, to the Participants if the GRP Administrator determines that the latest copy provided under Sections 2.02, 2.03, or this Section 2.04, has been materially revised in order to obtain certification from the Conservation District.

Section 2.05: Implementation and Enforcement of GRP. The Authority covenants and agrees that it will diligently implement and enforce the GRP with the purpose that all Participants achieve and maintain compliance with the requirements of the Plan in a cost effective manner.

Section 2.06: Review Committee. (a) The GRP Administrator shall organize a Review Committee consisting of six (6) members for the purpose of advising the Authority as to the matters set forth in Section 2.10 hereof. The Review Committee shall be composed of the following:

- (1) one member appointed by the Board of Trustees of The Woodlands Joint Powers Agency, or its successor;

- (2) one member appointed by the City Council representing the City of Conroe;
- (3) one member appointed pursuant to Section 2.07 hereof by Participants that are municipalities, exclusive of the City of Conroe;
- (4) one member appointed pursuant to Section 2.07 hereof by Participants that are conservation and reclamation districts, other than members of The Woodlands Joint Powers Agency, or its successor, which are located primarily to the west of Interstate Highway 45;
- (5) one member appointed pursuant to Section 2.07 hereof by Participants that are conservation and reclamation districts, other than members of The Woodlands Joint Powers Agency, or its successor, which are located primarily to the east of Interstate Highway 45; and
- (6) one member appointed by the Conservation District who is an employee, director, or officer of a Private Well Owner.

(b) The members of the Review Committee shall be entitled to vote on all matters before the Review Committee. If the City of Conroe is not a Participant at the time the Review Committee is first organized, then the member to be appointed by the City Council for the City of Conroe shall be replaced by an at-large member appointed by the Conservation District. If the City of Conroe subsequently becomes a Participant, such at-large member shall be removed and replaced by a member appointed by the City of Conroe to serve for the remainder of the removed member's term.

(c) The Review Committee shall be constituted and organized by the GRP Administrator as soon as reasonably practicable. The Review Committee may be constituted and organized prior to the appointment of members pursuant to the provisions of Section 2.07 hereof, but no official actions of the Review Committee shall be taken or recognized prior to the initial appointment of the three (3) members identified in subdivisions (3) through (5) of subsection (a) hereof. In order to conduct the initial appointment of the members identified in subdivisions (3) through (5) of subsection (a) in an expedited fashion, the GRP Administrator is authorized to modify the dates described in Section 2.07 hereof.

Section 2.07: Appointment of Certain Review Committee Members by Vote. (a) The three (3) members identified in subdivisions (3) through (5) of Section 2.06(a) hereof shall be initially appointed, reappointed, or replaced pursuant to the provisions of this section.

(b) For each class of Participants to be represented by the Review Committee members identified in subdivisions (3) through (5) of Section 2.06(a) hereof, the GRP Administrator shall first determine the Participants comprising such class, and shall thereafter determine the number of votes each Participant within each such class may cast. The number of votes for a Participant is determined by dividing the total volume of water used by such Participant during the calendar year preceding the year in which the Review Committee member

is to be appointed, by the total volume of water used by all Participants within such Participant's class, multiplying that quotient by 100, and rounding that result to the nearest one-tenth. For purposes hereof, the GRP Administrator shall determine the amount of water used. The GRP Administrator shall provide the presiding officer of each Participant with written notice of the number of votes that may be cast by the governing body of such Participant.

(c) Pursuant to reasonable procedures established by the GRP Administrator, the governing body of a Participant by resolution may nominate one candidate for membership on the Review Committee representing such Participant's class. A Participant shall submit the name of its candidate, if any, to the GRP Administrator by July 1. If, by July 1, only one candidate's name is submitted by all Participants of the same class for such member position, the Review Committee may declare the unopposed candidate elected and may cancel the appointment procedures generally required by this section for that position. If more than one candidate's name is submitted for a position, before August 1, the GRP Administrator shall prepare a ballot listing all of the candidates for such position and shall provide copies to the presiding officer of the Participants of the class appointing such member.

(d) An individual may not be listed as a candidate on the ballot for more than one position. If a candidate is nominated for more than one position, the candidate must choose to be on the ballot for only one position.

(e) The governing body of each Participant shall cast its votes by resolution submitted to the GRP Administrator before November 1. In casting its ballot, the governing body of each Participant may vote for only one candidate on the ballot. For each member position being appointed, the GRP Administrator shall count the votes, and the Review Committee shall thereafter declare appointed the candidate who received the greatest number of votes for each member position. The GRP Administrator shall submit the results before December 1 to the governing body of each Participant.

(f) The GRP Administrator shall adopt all necessary procedural rules consistent with the provisions of this section.

Section 2.08: Terms of Office; Removal; Vacancies. (a) Members of the Review Committee shall serve staggered four-year terms. At the organizational meeting of the Review Committee, the members shall draw lots to select three (3) members that shall each initially serve a two-year term, and the remaining members shall each initially serve a four-year term. Members of the Review Committee may be reappointed without limitation.

(b) A member of the Review Committee may not be removed or recalled before the expiration of such member's term.

(c) A vacancy created by the death, incapacity, or resignation of a member of the Review Committee shall be filled by the appointing entity, entities, or person for the remaining term of such member, but if such member was appointed pursuant to the provisions of Section 2.07 hereof, the Review Committee shall promptly take all actions necessary to fill such vacancy

using the general procedures set forth in Section 2.07 hereof. In such event, the Review Committee is authorized to modify the dates described in Section 2.07 hereof.

Section 2.09: Compensation and Qualification. No member of the Review Committee may, while serving on the Review Committee, also serve on the governing body of the Conservation District or the Authority or be an employee of the Conservation District or the Authority. No member of the Review Committee shall receive compensation from the Authority for their service, nor shall membership on the Review Committee constitute a civil office of emolument. A member who is an employee of a Participant may be compensated by such Participant. A member who serves on the governing body of a Participant may be compensated by such Participant. Members of the Review Committee may: (i) be appointed without regard to the common law doctrines of conflict of interest or incompatibility of official duties; and/or (ii), be members of any governing bodies of any Participants, or employees thereof, except as provided in this Section 2.09.

Section 2.10: Activities of Review Committee. (a) The Review Committee shall be authorized to make recommendations to the GRP Administrator regarding the following matters pertaining to the GRP or the Project:

- (1) conducting a review of (i) the initially proposed GRP, (ii) the then-current GRP not more frequently than annually, and (iii) any proposed amendments to the then-current GRP, including routing of the Project;
- (2) the development of (i) policies regarding the implementation of Alternative Strategies, (ii) minimum standards for water conservation plans pursuant to Section 3.05 hereof, and (iii) minimum standards for drought contingency plans pursuant to Section 3.05 hereof;
- (3) requests from Participants to make connections to the Project under Section 4.04 hereof;
- (4) proposed mandatory connections to the Project under Section 4.05 hereof;
- (5) requests from Participants to increase the Contract Quantity specified by the GRP Administrator under Section 4.09(b) hereof;
- (6) participating in progress reviews with respect to Project infrastructure at the preliminary design and final design stages and making related recommendations to the GRP Administrator;
- (7) the construction, maintenance, and operation of the Project;
- (8) fees, rates, or charges adopted or to be adopted by the Authority under the Rate Order or pursuant to this Contract;

- (9) the annual budget to be adopted by the Authority, pursuant to Section 9.03(a)(1)(i) hereof, and any amendments thereto;
- (10) the terms of the Bonds pertaining to the Project or the GRP that are to be issued by the Authority;
- (11) breaking a tie in the selection of a mediator, as provided in Section 11.03 hereof; and
- (12) other matters pertaining to the GRP and its implementation that the GRP Administrator and/or the Authority may request from time to time;

provided, however, that the Review Committee shall not be authorized to review or make recommendations regarding (i) the hiring, engagement, compensation, supervision, management, discipline, discharge, or termination of any employees or third-party consultants, or contractors not directly performing services related to the Project and/or the GRP, (ii) the organizational structure of the Authority and the general and administrative services provided by the Authority in connection with the Project and/or the GRP, including accounting procedures or cost allocation methods utilized by the Authority, except to the extent that the costs for the Authority's general and administrative services are a component of the fees, rates, or charges adopted or to be adopted by the Authority under the Rate Order, or are a component of the annual budget to be adopted pursuant to Section 9.03(a)(1)(i) hereof, or (iii) the acquisition of real property or interests in real property in connection with the Project. Nothing herein shall be deemed or construed to limit the Review Committee's consideration, discussions or recommendations to the GRP Administrator regarding any other matters pertaining the GRP or the Project that are not listed in items (1) through (12) above; provided, however, that any recommendations on such other matters shall not be subject to or serve to initiate the procedures described in Section 2.11 hereof.

(b) The Review Committee shall adopt procedures not inconsistent with the provisions of this Contract applicable to the conduct of meetings and the procedures and the activities of the Review Committee. If any member should be absent at a meeting of the Review Committee, or in the event of a failure to appoint a member or a vacancy of a member on the Review Committee, a majority of the members of the Review Committee present shall be sufficient and required for any vote to be effective or to transact business except as provided in Section 2.12 hereof.

(c) The Review Committee shall be subject to the requirements of Chapters 551 (Open Meetings Act) and 552 (Public Information Act) of the Texas Government Code.

(d) The GRP Administrator shall provide necessary administrative support for the Review Committee including notices for meetings, meeting facilities, and clerical assistance for meeting notes, minutes, correspondence, and filing. The Authority shall provide the Review Committee with prompt access to, and a reasonable number of copies of, records, reports, and data pertaining to the Project, the GRP, and/or any fees, rates, and charges imposed or to be

imposed under this Contract which are not proprietary, confidential, or otherwise exempted from disclosure under Chapter 552, Texas Government Code.

(e) The Authority shall, as an expense of the GRP, maintain directors and officers liability insurance coverage with a responsible insurance company or companies for the benefit of the members of the Review Committee in an amount not less than the amount of insurance provided for members of the Board of Directors of the Authority. To the extent allowed by such insurance coverage, the Authority shall defend and indemnify the members of the Review Committee for any losses, damages, claims, expenses, costs, or judgments, including reasonable attorneys fee and court costs, incurred by any of them as a result of or in connection with their good faith discharge of their duties on the Review Committee. All reasonable costs and expenses of the Review Committee shall be costs of the GRP and will be paid directly by the Authority.

Section 2.11: Coordination with Review Committee. (a) Recommendations of the Review Committee made to the GRP Administrator or Board of Directors of the Authority are advisory only and shall not be binding upon the GRP Administrator and/or the Authority.

(b) Except in the event of an Emergency Condition, as reasonably determined by the GRP Administrator, the GRP Administrator and Authority, prior to taking any action on any matter identified in Section 2.10(a)(1) through (12) hereof, shall present the matter to the Review Committee, according to the procedure set forth herein, to review and comment on the matter. In the event of an Emergency Condition, the GRP Administrator or Authority may take any reasonable action deemed appropriate by them without first presenting the matter to the Review Committee. In such event, the GRP Administrator shall notify the Review Committee members in writing of the nature of the Emergency Condition and the action taken by the Authority related thereto within three (3) days after the action is taken.

(c) The Review Committee shall meet no more often than once per month on a date that is at least one week prior to the regular monthly meeting of the Board of Directors of the Authority for that month, at which time the Review Committee will conduct its business, including considering recommendations made by the GRP Administrator or making recommendations to the GRP Administrator for presentation to the Board of Directors of the Authority. The Review Committee may, upon formal request to and approval by the GRP Administrator, meet less often than once per month. At least one week prior to each Review Committee meeting, the GRP Administrator shall: (i) provide the Review Committee with written recommendations of the GRP Administrator regarding any matters on which the GRP Administrator or the Authority intend to take action during that month; (ii) make available reasonably necessary information, records, data, and reports to enable the Review Committee to analyze same or to analyze any recommendations made or to be made by the Review Committee; and (iii) identify any recommended actions which, if not approved or rejected by the Review Committee at such meeting, are likely to result in an Emergency Condition and the reasons therefor.

(d) If the Review Committee approves the GRP Administrator's recommendation, the matter then goes before the GRP Administrator or the Board of Directors of the Authority, as

appropriate, for action. If the Review Committee is unable or unwilling to approve or reject the GRP Administrator's recommendation, the Review Committee may request additional information, records, data, or reports to aid its evaluation, and will consider the matter again at its next monthly meeting. If the Review Committee then approves the GRP Administrator's recommendation, or is still unable or unwilling to approve or reject the GRP Administrator's recommendation, the matter then goes before the GRP Administrator or the Board of Directors of the Authority, as appropriate, for action. Notwithstanding the foregoing, the Review Committee may not defer to its next monthly meeting any action regarding the award of a construction contract, the payment of construction contract pay requests, or the issuance of change orders to construction contracts. If the GRP Administrator approves a recommendation of the Review Committee made pursuant to Section 2.10(a) hereof, the matter then goes before the GRP Administrator or the Board of Directors of the Authority, as appropriate, for final action.

(e) If the Review Committee rejects the recommendation of the GRP Administrator, or makes its own a recommendation that is rejected by the GRP Administrator, the Board of Directors of the Authority shall reasonably consider as soon as practicable, but not later than thirty (30) days thereafter, the Review Committee's rejection or its recommendation, as appropriate. The Board of Directors of the Authority shall be obligated to give reasonable consideration to all recommendations received from the Review Committee. If the Board of Directors of the Authority rejects a recommendation of the Review Committee, approves a recommendation of the GRP Administrator that was rejected by the Review Committee, or overrules a recommendation of the GRP Administrator that was approved by the Review Committee, the Board of Directors of the Authority shall prepare and deliver a written explanation to the members of the Review Committee and the reasons for the action of the Board of Directors of the Authority within fifteen (15) days of the date the Board of Directors of the Authority makes a final determination; and (ii) provide such written explanation to all Participants within the 15-day period by regular mail or by e-mail (if available), or by posting same within said 15-day period on the Authority's website. In no event is the GRP Administrator authorized to take action contrary to a recommendation of the Review Committee made pursuant to Section 2.10(a) hereof unless the GRP Administrator has submitted the matter to the Board of Directors of the Authority and the Board of Directors of the Authority has rejected the Review Committee's recommendation pursuant to this subsection (e).

Section 2.12: Review of Fees, Rates, and Charges. If requested by resolution or other written instrument adopted by an affirmative vote of a majority (but not less than three (3) members) of the Review Committee, the Board of Directors of the Authority shall engage an independent rate analyst to review and prepare a report regarding the fees, rates and charges adopted or to be adopted by the Authority pursuant to this Contract; provided, however, that such review shall not (i) be undertaken more frequently than annually, or (ii) unless authorized in writing by the Authority, encompass a review of the adopted and published rates of the Authority for the sale or reservation of raw water.

ARTICLE III

Participant's Permits and Water Demands; Co-Permitting; Conversion Credits; Water Conservation

Section 3.01: Participant's Permits, Contracts, and Service Area. (a) Participant represents that all of Participant's current Well permits issued by the Conservation District, and any applications pending with the Conservation District, are listed and described in **Exhibit C** attached hereto.

(b) Upon request by the GRP Administrator, Participant shall timely provide the Authority a copy of any contract entered into by Participant whereby (i) Participant has the right to purchase water from another person or entity that is not a Participant, including emergency water supply contracts; or (ii) Participant has the obligation to sell or deliver water or capacity in Participant's System to another person or entity, whether a Participant or a non-Participant.

(c) Participant agrees and acknowledges that the service area map attached hereto as **Exhibit B** depicts the geographic area served by Participant with reasonable accuracy, including any geographic area currently served under any contract entered into by Participant whereby Participant has the obligation to sell or deliver water (except for emergency water supply) or capacity in Participant's System to another person or entity, whether a Participant or a non-Participant. Participant shall amend such service area map, pursuant to the procedures set forth in Section 4.13 hereof, as necessary to keep such service area map accurate throughout the Contract Term.

Section 3.02: Participant's Historical Use and Demand Projections. (a) Participant represents that the annual amount of groundwater that has been pumped from each of its Wells for each of the past five years is as set forth in the table attached hereto as **Exhibit D**.

(b) Participant represents that its good faith projections of its total water demands through the year 2045 are set forth in the table attached hereto as **Exhibit E**. Participant agrees and acknowledges that such projections make reasonable allowance for any water that (i) Participant may purchase from another person or entity, and (ii) Participant has the obligation to sell or deliver to another person or entity. The Authority understands and agrees that such projections are merely estimates based on assumptions that will likely change over time and Participant does not warrant the accuracy thereof. Participant shall provide the Authority updated projections from time to time upon request by the GRP Administrator, or as Participant deems necessary from time to time in the absence of such a request by the GRP Administrator, and the GRP Administrator shall periodically review such updated projections for the purpose of establishing revisions to the Contract Quantity and/or the GRP as provided herein.

Section 3.03: Co-Permitting. Participant agrees to allow co-permitting of its Wells if co-permitting is required by the Plan or any other rules or regulations of the Conservation District. If co-permitting is undertaken by the Authority, the GRP Administrator shall prepare and submit co-permitting documents, if and as required, to the Conservation District, including renewal documentation, and the costs therefor shall be considered a cost of the Project.

Participant agrees to provide the GRP Administrator such data and information as may be necessary for the Authority to prepare and file such documents. The GRP Administrator shall provide a copy of the co-permit and any renewals to Participant. Notwithstanding any co-permitting pursuant to the foregoing, Participant shall maintain ownership of its Wells and operational responsibility therefor, and, subject to the terms of this Contract, the right to pump groundwater therefrom in accordance with such co-permit. In the event the Conservation District adopts rules or regulations requiring consolidated Well permits, the Authority shall develop policies and procedures to accomplish same in coordination with the Review Committee and by providing Participants the ability to review and comment upon such policies and procedures.

Section 3.04: Conversion Credits. Participant agrees that to the extent it earns any surface water conversion credits, groundwater reduction credits, or similar credits, as and if offered and issued by the Conservation District, that directly result from the delivery of Water to Participant or directly result from an Alternative Strategy project funded with Project revenues, such credits shall be transferred to the Authority for the benefit of all Participants at no cost. Notwithstanding any provision of this Contract, any Alternative Strategies, or brackish groundwater production pursuant to Section 6.04(j) hereof, implemented or constructed by Participant without use of Project revenues, which result in surface water conversion credits, groundwater reduction credits, or similar credits, as and if offered and issued by the Conservation District, are not required to be transferred to the Authority hereunder and may be used, transferred, or otherwise disposed of by Participant in Participant's sole discretion. The Authority reserves the right to revise or update Participant's projected groundwater requirements under the GRP from time to time, including revisions or updates necessary to address Participant's modifications to its service area, Participant's groundwater conservation efforts, or Participant's implementation of Alternative Strategies or brackish groundwater production pursuant to Section 6.04(j). In no event shall the Authority be obligated to make payment to Participant to so revise or update Participant's projected groundwater requirements under the GRP.

Section 3.05: Water Conservation; Drought Contingency. Participant agrees to adopt and enforce a water conservation plan meeting the applicable minimum requirements of the Conservation District and the TCEQ (30 T.A.C. §§ 288.1-288.7, or any successor rules), as well as a drought contingency plan meeting the applicable minimum requirements of the Conservation District and the TCEQ (30 T.A.C. §§ 288.20-288.22, or any successor rules). Participant may, but shall not be obligated, to include provisions in such plans that exceed or are more stringent than the minimum requirements described in the preceding sentence. Such plans must be completed and filed with the GRP Administrator at such times as may be reasonably required by the GRP Administrator, without regard to whether Participant will connect to the Project. In addition, after review by the Review Committee, the Authority may require Participant to adopt and enforce minimum requirements adopted by the Authority for such water conservation plans and drought contingency plans but only if: (i) such minimum requirements apply on an equal and uniform basis to all Participants and to all entities located in whole or in part in Montgomery County to which the Authority supplies wholesale groundwater or Water; and (ii) the Authority has the legal right to impose such minimum requirements on all such entities to which the Authority supplies wholesale groundwater or Water.

ARTICLE IV

The Project; Connection to the Project; On-Site Facilities; Quantity and Quality of Water

Section 4.01: Development of the Project; Title to Project. As between the Parties, the Authority shall be responsible for the design, permitting, financing, construction, operation, and maintenance of the Project, and shall have sole and exclusive title to the Project at all times. The Authority agrees that it will follow applicable laws, rules, and procedures in letting contracts for the construction and delivery of the Project. Unless Participant, at its discretion, agrees otherwise by separate instrument, in no event shall the Authority be allowed to: (i) use Participant's System to transport, store, pump, or pressurize Water (or any other type of water) delivered, or to be delivered, by the Authority; or (ii) require Participant to deliver Water (or any other type of water) to any person or entity.

Section 4.02: Design, Permitting, and Construction of the Project. (a) The Project shall be designed, permitted, and constructed, in phases, to achieve and maintain compliance with the various groundwater reduction requirements and deadlines of the Plan and to further the purposes of the GRP, as described in Section 2.01 hereof. In order to achieve compliance with the Plan in an efficient and cost effective manner, the Project may be designed, permitted, and constructed in such a manner that Water is supplied only to certain Participants, but in sufficient quantities to achieve overall compliance among all Participants. The design, permitting, and construction of the Project, as well as any determination as to which Participants may or shall connect to the Project under Sections 4.04 and 4.05 hereof, shall be undertaken in a manner that, to the extent practicable, gives consideration to (i) minimizing the overall costs of the Project, (ii) equalizing the costs for Participants to provide retail water services, including investment in groundwater facilities, (iii) avoiding conferring a special benefit or imposing a special burden on any particular Participant, group of Participants, or portion of Montgomery County, based upon proximity to, or the geographic location of, the Project, (iv) the need for Water due to then-current or anticipated water quality or quantity difficulties in groundwater supplies, and (v) any other factors deemed appropriate by the Authority and/or the GRP Administrator consistent with the objectives of the GRP. Notwithstanding the foregoing, the Authority reserves the right to reasonably determine to design, permit, and construct the Project in such a manner that Water is supplied to Participants with current or anticipated groundwater quality or quantity issues, even if other designs could achieve overall compliance with the Plan at a lower cost. Nothing herein shall be deemed or construed to permit or require the Authority to utilize GRP or Project funds for extensions, enlargements, improvements, repairs, modifications, or replacements to Participant's System, other than with respect to On-Site Facilities or as reasonably determined necessary by the GRP Administrator to deliver the Contract Quantity. A conceptual drawing of the Project is attached hereto as Exhibit F for informational purposes only. In a manner consistent with this Contract, the Project is subject to revision by the Authority, in whole or in part, at any time, and Exhibit F hereto shall not be construed to obligate the Authority to design, permit, construct, operate, or maintain the Project in accordance with same.

(b) To the extent that all or any portion of the Project will be constructed within or across property, road rights-of-way, or public utility easements owned, controlled or administered by Participant, or easements filed of record in favor of Participant, the Authority shall, prior to commencement of construction, submit plans therefor to Participant for review and approval, which approval shall not be unreasonably withheld or subjected to unreasonable review standards. Participant agrees that comments to such plans shall be provided to the Authority within thirty (30) days following submittal, or within ten (10) days following any re-submittal. After completion of construction of such portion of the Project, the Authority shall promptly notify the Participant of such completion, provide the Participant with record drawings of such portion of the Project, and request the inspection and approval by the Participant of any such portion of the Project, which approval will not be unreasonably withheld or delayed. In addition, the Authority shall comply with all of Participant's generally applicable requirements regarding construction, operation, or maintenance within Participant's jurisdiction, including building permit and traffic control requirements. If and to the extent Participant has jurisdiction with respect to the review or approval of plans, or the issuance of permits, related to the design, permitting, or construction of any other portion of the Project, no such plan review or approval or permits shall be required; provided, however, that the Authority shall nevertheless (i) consult with Participant prior to the commencement of construction of such other portion of the Project, and (ii) provide Participant with record drawings with respect to such other portion of the Project promptly following the completion of construction of same.

(c) If the Authority or its contractors or employees damage any streets, buildings, lights, trees, landscaping, irrigation lines, water lines, sanitary sewer lines, storm sewer lines, tanks, canals, or other facilities or structures owned, controlled, or operated by Participant (the "Participant Facilities"), then the Authority, as a Project cost and expense, will be responsible for the repair or replacement of the damaged Participant Facilities as nearly as practicable their prior condition, and the Authority shall immediately notify Participant of such damage. Such cost and expense shall be considered a Project cost and will be a responsibility of the separate operating division to be created and established pursuant to Section 9.03(a)(1) hereof, and not an obligation or responsibility of any other operating division of the Authority. The Authority will require its construction contractors to likewise be responsible for such costs and to maintain adequate liability insurance to cover such costs, but Participant shall (in addition to all other available remedies) have recourse against the Authority, as herein provided, and need not seek recourse from such contractors. The damaged Participant Facilities will be repaired or replaced by Participant or, if authorized by Participant, by the Authority's contractors or employees. If the Authority, or its contractors, shall make written request to Participant to locate and mark underground Participant Facilities prior to commencement of construction and Participant shall fail or refuse to accurately do so within five (5) business days of receipt of said request, then, to the extent any damage to Participant Facilities was caused as a result of such failure or refusal, no recourse shall be had against the Authority or its contractors under this subsection.

Section 4.03: Easements. All easements affecting real property owned by Participant which are reasonably required by the Authority in connection with the Project shall be granted by Participant to the Authority, in a form substantially the same as that attached hereto as Exhibit G, unless otherwise approved in writing by the GRP Administrator, within forty-five (45) days after receipt of a written request therefor and without cost to the Authority. The

Authority agrees to confine any such required easement to a location reasonably acceptable to Participant and to use reasonable diligence to minimize impact of the easement and the Authority's use of the easement upon Participant's facilities and operations. Any relocation or modification of Participant's facilities within the easements to accommodate the Project shall be at the cost and expense of the Authority, borne as a Project cost, and the plans and specifications for same shall be subject to Participant's review and approval pursuant to the provisions of Section 4.02(b) hereof. Contemporaneous with its delivery of any such easements, Participant shall provide the Authority with the written consent, in a form acceptable to the GRP Administrator, of any lienholders having an interest in the property affected by such easements. Except as provided in this Section 4.03, the Authority shall obtain all other interests in property reasonably required for the Project.

Section 4.04: Non-Mandatory Connection to Project. Participant may submit a written request that the Authority supply Water from the Project at an earlier date than the projected date on or by which Participant would otherwise be required to connect to the Project under Section 4.05 hereof. The Authority may approve or deny any such request, in whole or in part, or upon terms and conditions it reasonably deems favorable and appropriate and consistent with the purposes of the GRP and the obligations of the Authority to all Participants, and shall enter into a written supplemental agreement with Participant if such request is approved in whole, in part, or subject to further terms and conditions. The agreement shall specify the respective financial, legal, and engineering responsibilities of the Parties relative to any necessary facility design, permitting, and construction, including additions or modifications to the Project, and shall establish minimum quantities and maximum flow rates for Water to be so provided, in addition to any other matters the Parties may address therein.

Section 4.05: Mandatory Connection to Project. (a) The GRP Administrator shall decide when, if ever, Participant must connect to the Project; provided, however, the GRP Administrator shall not, without Participant's consent, require Participant to take Water prior to September 1, 2014. The Authority's determination in the preceding sentence will be made based upon factors (i) through (v) described in Section 4.02(a) hereof.

(b) When the GRP Administrator determines that Participant must connect to the Project, the GRP Administrator will consult with Participant regarding (i) the Contract Quantity the Participant must take from the Project, (ii) the Participant System Site where such Contract Quantity will be delivered by the Project, (iii) the conditions and standards applicable to the connection of Participant's System to the Project, (iv) the preliminary routing of any Project facilities to be constructed to deliver the Contract Quantity to Participant, and (v) a preliminary estimate of dates relative to the completion of construction of any Project facilities necessary to deliver the Contract Quantity to Participant. After due consideration of any comments provided by Participant as part of such consultation, the GRP Administrator will provide Participant written notice specifying therein the Contract Quantity, the Point of Delivery, and the conditions and the standards applicable to the connection of Participant's System to the Project; provided, however, that no such notice shall take effect prior to March 1, 2013, regardless of the date of receipt of such notice. Participant shall connect to the Project at the specified Point of Delivery in accordance with such conditions and standards, and shall obtain all necessary approvals by the Authority under Section 4.07 hereof, within 18 months after the later of March 1, 2013, or the

date of receipt of such notice. The Project shall be designed, permitted, and constructed in a manner such that the Point of Delivery shall be located upon the Participant System Site and within an easement to be conveyed pursuant to Section 4.03 hereof. The Authority reserves the right to enter into agreements with Participant to supplement this Contract, if and as the Authority deems circumstances so require, in order to make firm commitments to Participant regarding the Contract Quantity Participant must take from the Project, the particular Participant System Site where such Contract Quantity will be delivered, and other details related to the delivery of Water to the Participant System Site.

(c) The Authority may not impose or collect a capital impact fee, capital recovery fee, tap fee, or any other fee of a similar kind or character, against or from a Participant required to connect to the Project under this Section 4.05.

Section 4.06: On-Site Facilities. (a) Unless otherwise provided by separate written agreement between the Parties, Participant shall install the following facilities ("On-Site Facilities") at the Participant System Site that will receive Water (or with respect to measuring equipment for imported water or for disinfection treatment equipment, at the location described below):

- (1) measuring equipment at the Participant System Site properly sized and able to measure the amount of groundwater withdrawn from Participant's Wells, and measuring equipment at the location of importation properly sized to measure the amount of water imported by Participant, all within the accuracy tolerances specified in Section 5.03 hereof ("Participant Meters");
- (2) monitoring equipment on Participant's ground storage tank, Wells, booster pumps, and any other receiving facilities designated by the GRP Administrator ("Monitoring Equipment");
- (3) air gap to prevent backflow located at Participant's ground storage tank, configured such that Water enters the top of the ground storage tank and there are no connections on the water transmission main between the Point of Delivery and the ground storage tank;
- (4) additional storage, if reasonably determined by the GRP Administrator to be necessary to accommodate the delivery of Water to Participant;
- (5) flow restriction equipment;
- (6) disinfection treatment equipment at all Participant water plant sites; and
- (7) electrical equipment of a kind, character, and nature, as reasonably specified by the GRP Administrator in order to supply electricity to such portion of the Project that serves Participant and is located on the Participant System Site.

(b) Notwithstanding anything to the contrary in this Contract (i) in light of the cost to the Project and minimal benefit associated with installing Participant Meters for measuring water imported from another Participant, Participants are not required to install such meters; (ii) Participant Meters for measuring water imported from a non-Participant shall be installed and placed in service by Participant no later than six (6) months after the Effective Date, except to the extent such requirement is waived by the GRP Administrator with respect to emergency water supply only; and (iii) except as provided in the preceding clauses (i) and (ii), all other Participant Meters shall be installed and placed in service by Participant no later than sixty (60) days from the Effective Date. . Specifications for the Participant Meters and the location for all points of measurement of groundwater withdrawal from Participant's Wells, or imported by Participant, must be approved in writing by the GRP Administrator, which approval will not be unreasonably withheld or delayed; provided, however, that the GRP Administrator may by written agreement allow Participant up to six (6) months from the Effective Date to install and place in service such Participant Meters meeting the GRP Administrator's specifications at all required points of measurement upon terms and conditions specified therein. Such agreement shall include terms and conditions, not inconsistent with this Contract, related to Participant's calculation of the amount of groundwater withdrawn from its Wells, or imported, for purposes of making payment of applicable fees, rates, and charges to the Authority under this Contract. After inspection and approval of the Participant Meters and the Monitoring Equipment pursuant to Section 4.07(a) hereof, the Authority shall have the right to cause Participant to replace, upgrade, or otherwise modify such Participant Meters and/or Monitoring Equipment at any time upon written request, it being understood that metering and monitoring equipment and related data collection methods may advance over time such that the operations and administration of the Project may be enhanced thereby; provided, however, that Participant's direct cost and expense for same shall be timely reimbursed by the Authority and treated as an expense of the Project.

(c) Participant shall own, operate, and maintain the On-Site Facilities at no cost and expense to the Authority. Design, permitting, construction, and other initial capital costs associated with On-Site Facilities and incurred by Participant shall be reimbursable by the Authority to the extent and upon the conditions set forth in Section 4.08 hereof.

Section 4.07: Milestones; Approvals; Inspections of Participant's System. (a) In order to ensure that On-Site Facilities are timely completed if Participant is to connect to the Project under Section 4.05(a) hereof, the GRP Administrator shall be authorized to adopt reasonable milestones concerning the dates by which (i) preliminary planning of the On-Site Facilities shall be completed, (ii) necessary permit applications for the On-Site Facilities shall be filed, (iii) financing or funds for the On-Site Facilities shall be secured, (iv) final design drawings for the On-Site Facilities shall be submitted to the GRP Administrator for review and approval, (v) construction of the On-Site Facilities shall be commenced and completed, (vi) completed On-Site Facilities shall be inspected and approved by the GRP Administrator, (vii) the connection of the Project to the On-Site Facilities shall be made and tested, and (viii) any other relevant milestones established by the GRP Administrator consistent with the GRP, shall be met. Such milestones may be established with respect to all On-Site Facilities or with respect to any component thereof. The Rules, the Rate Order, or any separate written order of the Authority

may establish penalties for failure to timely meet such milestones, if deemed reasonably necessary and proper by the Authority; provided, however, that such penalties shall not be imposed to the extent that the Authority causes or contributes to Participant's failure to timely meet such milestones.

(b) In order to ensure that On-Site Facilities comply with applicable requirements and specifications established by the GRP Administrator, Participant must obtain written approval by the GRP Administrator of the plans and specifications for any On-Site Facilities prior to commencement of construction. The GRP Administrator's approval will not be unreasonably withheld or subjected to unreasonable review standards. The GRP Administrator shall be obligated to review and provide comments on design plans and specifications within thirty (30) days following submittal, or within ten (10) days following any re-submittal. After completion of construction of the On-Site Facilities, Participant shall notify the GRP Administrator of such completion, provide the GRP Administrator with record drawings of the On-Site Facilities, and request the inspection and approval by the GRP Administrator of any such On-Site Facilities, which approval shall not be unreasonably delayed and shall be given if the On-Site Facilities (or applicable portion thereof) have been constructed substantially in accordance with the plans and specifications reviewed and approved under Section 4.07(b) hereof. The GRP Administrator may approve On-Site Facilities constructed or installed prior to the Effective Date if such facilities reasonably conform to the GRP Administrator's requirements.

(c) Participant shall be in breach of this Contract if it fails to connect to the Project by the time set forth in the notice provided under Section 4.05(b) hereof, including the failure to construct On-Site Facilities in a manner that reasonably complies with the requirements of the GRP Administrator and to obtain timely approval of same by the GRP Administrator. The Authority shall not be construed to be in breach of this Contract for refusing to approve On-Site Facilities that have not been constructed substantially in accordance with plans and specifications for same reviewed and approved under Section 4.07(b) hereof.

(d) If Participant has connected to the Project, or has received a notice to connect to the Project from the GRP Administrator under Section 4.05 hereof, it is specifically understood and agreed that in order to protect the Project, Participant's System shall be designed, permitted, constructed, operated, and maintained to comply with the rules promulgated by the TCEQ, the Rules of the Authority, and the requirements of the GRP Administrator regarding backflow prevention and cross connections. The Authority shall have the right to conduct inspections from time to time to determine that no violation of these requirements exists in Participant's System which would or might adversely affect the Project, and to the extent an easement providing a right of ingress and egress therefor has not been conveyed to the Authority in accordance with the provisions of Section 4.03 hereof, the Authority shall have the right of ingress and egress in, upon, under, and over any and all land, easements and rights-of-way of Participant upon which are constructed any facilities of the Project or Participant's System during the Contract Term. Should a condition in violation of these requirements be discovered, Participant shall promptly cure same. Failure to promptly cure such a violation shall be cause for the Authority, based on its reasonable determination, to (i) immediately discontinue providing Water to Participant, or (ii) cure such violation and charge Participant its actual costs of such cure.

(e) In no event shall review or approval by the GRP Administrator or the Authority be required with respect to components of Participant's System other than the On-Site Facilities.

Section 4.08: Reimbursement for On-Site Facilities. The Authority agrees to reimburse reasonable and necessary legal, permitting, engineering, and other costs incurred by Participant to design, construct, and complete On-Site Facilities, subject to the provisions of this section. The Authority will not reimburse Participant for costs not specifically associated with On-Site Facilities, such as replacement of aged or worn equipment, maintenance/painting of existing equipment or piping, or work related to other components of Participant's System other than the On-Site Facilities, unless the GRP Administrator reasonably determines that reimbursement of such costs is cost effective and beneficial to the Participants in achieving or maintaining compliance with the Plan. In connection with the GRP Administrator's review of Participant's plans and specifications for On-Site Facilities pursuant to Section 4.07(b) hereof, the GRP Administrator shall advise Participant if any of the proposed work and related facilities, improvements, repairs, modifications, or replacements are not subject to reimbursement by the Authority under the foregoing limitations. Participant agrees that it will follow the procedures generally applicable to Participant in letting a contract for the construction of On-Site Facilities, or if none are applicable, the procedures generally applicable to the Authority in letting construction contracts. Within a reasonable time after the date the GRP Administrator approves the completion of such On-Site Facilities pursuant to Section 4.07(b) hereof, but not more than one (1) year after such date, the Authority shall reimburse Participant for eligible costs incurred by Participant to design, construct, and complete such approved On-Site Facilities; provided, however, that reimbursable legal, engineering, and other non-construction costs shall not exceed thirty percent (30%) of the total construction costs for the On-Site Facilities unless specifically agreed to by the GRP Administrator. The Authority may adopt Rules not inconsistent with this section to provide further details for such reimbursement procedures and standards.

Section 4.09: Contract Quantity. (a) If Participant is required to connect to the Project under Section 4.05 hereof, then Participant shall take Water at the Point of Delivery in accordance with the requirements of this Contract and when directed by written notice from the GRP Administrator, but, unless Participant consents otherwise, not before September 1, 2014. The GRP Administrator shall determine and notify Participant in writing as to the maximum amount of Water that Participant can receive from the Project, and the minimum amount of Water that Participant must take from the Project, on a daily, hourly, peak or instantaneous basis (said minimum amount being referred to herein as the "Contract Quantity", as same may be amended from time to time), based on the capacity of the Project and the requirements of the GRP; provided, however, that Participant shall not be required to take Water from the Project at any Participant System Site in excess of an amount equal to ninety percent (90%) of the average daily amount of groundwater (except for any brackish groundwater produced pursuant to Section 6.04(j) hereof) supplied from any such site during the low-demand period preceding the date of calculation of the Contract Quantity. For such purposes, the "low-demand period" shall be the period of three (3) consecutive calendar months in the two preceding calendar years during which the least amount of water was supplied from such site under normal operating conditions.

(b) The Contract Quantity may be increased by the GRP Administrator from time to time, subject to the foregoing parameters, but the Contract Quantity shall not be reduced by the GRP Administrator without the written consent of Participant. In connection with the increase of the Contract Quantity, the GRP Administrator may reasonably determine that additional On-Site Facilities must be designed, permitted and constructed by Participant, including additional storage capacity to receive the increased Contract Quantity. The GRP Administrator shall provide the Participant with a reasonable amount of time to design, permit and construct any such additional On-Site Facilities. The provisions of Sections 4.07 and 4.08 hereof shall generally apply to such additional On-Site Facilities. Participant may submit a written request to the GRP Administrator for an increase in the Contract Quantity. The Authority may approve or deny any such request, in whole or in part, or upon terms and conditions it reasonably deems favorable and appropriate and consistent with the purposes of the GRP and the obligations of the Authority to all Participants.

(c) If Participant connects to the Project, then Participant is not guaranteed hereunder any specific quantity of Water due to a *force majeure* event (as defined in Section 10.01(b) hereof) when the Project's or the Authority's supply is interrupted, limited or insufficient, or when the Project's or the Authority's equipment may become inoperative due to mechanical failure, breakage, failure of power supply, or scheduled maintenance and repairs, nor is Participant guaranteed that Water will be supplied at a specified pressure under any circumstances. The Authority shall provide Participant notice of such scheduled maintenance and repairs at least ten (10) full business days in advance, which notice must specify the anticipated duration of such maintenance and repairs.

(d) The Authority shall be authorized to adopt and enforce penalties under the Rate Order, or under separate written order, for Participant's failure to so take the Contract Quantity.

(e) It is the intent of the Parties that the Contract Quantity shall be taken in quantities and/or at rates of flow specified by the GRP Administrator pursuant to this Section 4.09 and that, as between the Parties, the Participant shall be solely responsible for meeting any and all water demands in excess of such amounts and/or rates of flow with conservation, storage, groundwater supplies, or other sources of supply, and, subject to any other terms and conditions set forth in this Contract, Participant is hereby authorized and permitted to take such actions as may be necessary or convenient to discharge such responsibilities. Participant, and not Authority, has the right and responsibility to finance, design, construct, operate, and maintain some or all of its Wells such that Participant may adequately supply water for its purposes, over and above the Contract Quantity or when the Authority is not obligated to provide the Contract Quantity to Participant under the terms of this Contract. Further, Participant, and not Authority, shall be responsible to determine when, if ever, to take one or more of its Wells out of operation.

(f) THIS CONTRACT IS INTENDED ONLY TO ENSURE PARTICIPANT'S COMPLIANCE WITH THE PLAN, AND UNLESS AND UNTIL PARTICIPANT CONNECTS TO THE PROJECT UNDER SECTION 4.04 OR 4.05 HEREOF, THIS CONTRACT SHALL NOT BE DEEMED OR CONSTRUED AS A GUARANTEE OR ASSURANCE TO PARTICIPANT OF A SPECIFIC QUANTITY OF WATER FROM THE AUTHORITY, THE PROJECT, OR ANY OTHER SOURCE, EXCEPT AND TO THE

EXTENT EXPRESSLY PROVIDED HEREIN. THE AUTHORITY, ACCORDING TO ITS REASONABLE DETERMINATION UNDER THIS CONTRACT, SHALL DECIDE THE DATE, IF EVER, UPON WHICH THE AUTHORITY SHALL COMMENCE SUPPLY OF WATER TO PARTICIPANT FOR THE PURPOSE OF IMPLEMENTING THE GRP.

Section 4.10: Warranties Regarding Water. (a) IF PARTICIPANT IS PERMITTED OR REQUIRED TO CONNECT TO THE PROJECT UNDER SECTIONS 4.04 OR 4.05 HEREOF, THEN, AFTER SUCH CONNECTION IS MADE, AND SUBJECT TO THE REMAINING PROVISIONS OF THIS SECTION 4.10, THE AUTHORITY SHALL PROVIDE PARTICIPANT WITH WATER AT THE DESIGNATED POINT OF DELIVERY IN AN AMOUNT AT LEAST EQUAL TO THE CONTRACT QUANTITY AND OF A QUALITY THAT MEETS ALL APPLICABLE TEXAS AND FEDERAL REGULATIONS REGARDING WATER QUALITY, INCLUDING THE SAFE DRINKING WATER ACT. FURTHER, IF PARTICIPANT IS PERMITTED OR REQUIRED TO CONNECT TO THE PROJECT UNDER SECTIONS 4.04 OR 4.05 HEREOF, THEN THE AUTHORITY SHALL PROVIDE THE PARTICIPANT WITH ALL INFORMATION CONCERNING THE QUALITY OF SUCH WATER AS MAY BE REQUIRED TO BE DISCLOSED UNDER APPLICABLE TEXAS AND FEDERAL REGULATIONS, AND SUCH FURTHER INFORMATION REGARDING THE QUALITY OR CHARACTER OF WATER AS THE AUTHORITY MAY HAVE AND THE PARTICIPANT MAY REQUEST FROM TIME TO TIME.

(b) EXCEPT AS PROVIDED IN THIS SECTION 4.10, THE AUTHORITY MAKES NO WARRANTY, EXPRESSED OR IMPLIED, REGARDING THE QUALITY, QUANTITY, OR DELIVERY PRESSURE OF TREATED WATER FROM THE PROJECT, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

(c) THE PARTICIPANT HEREBY RELEASES AND DISCHARGES THE AUTHORITY FROM ANY AND ALL FINES, DEMANDS, JUDGMENTS, LIABILITIES, OR CLAIMS OR CAUSES OF ACTION ARISING BY REASON OF OR IN CONNECTION WITH THE DELIVERY OF WATER WHICH MEETS THE REQUIREMENTS OF THIS SECTION 4.10.

Section 4.11: Recovery from Participant. In addition to all other available rights and remedies, the Authority shall have and reserves the right to recover from Participant by any lawful means, including intervention in legal proceedings of Participant, for any losses, damages, claims, expenses, costs, or judgments, including reasonable attorneys fees and court costs incurred by the Authority, and interest not to exceed the interest rate permitted by Section 2251.025, Texas Government Code, resulting directly or indirectly from (a) Participant's breach or violation of this Contract, the GRP, the Rules, or any laws, rules or regulatory requirements relating to Participant's System, (b) improper or inadequate design, construction, permitting, or operation of Participant's System, (c) improper or inadequate design, construction, permitting, or operation of Participant's On-Site Facilities, or (d) claims by third parties, including customers of Participant's System, resulting, in whole or in part, from the negligence, gross negligence, breach of contract, or willful acts or omissions of Participant; provided, however, the Authority shall not so recover from Participant for such losses, damages, claims, expenses, costs, or judgments as

were caused, in whole or in part, by the acts or omissions of the Authority. As further set forth in Section 9.02 hereof, the provisions of this Section 4.11 apply to the Authority in its capacity as a Participant with respect to the Woodlands Division of the Authority.

Section 4.12: Passing of Title to Water; Re-use. (a) Except as otherwise provided herein, if Water is supplied to Participant under Section 4.04 or 4.05 hereof, then title to and possession and control of such Water shall remain with the Authority until it passes through the Point of Delivery, whereupon title to and possession and control of such Water shall pass from the Authority to Participant at the Point of Delivery. After title to such Water has passed to Participant at the Point of Delivery, Participant shall be responsible for storage, security, treatment, retreatment, disinfection, pressurization, distribution, and all other actions necessary to make use of such Water for Participant's purposes.

(b) Notwithstanding subsection (a) above, but subject to any limitations contained in any water rights permit or certificate, imposed by applicable laws, rules or regulations, or applicable under the Houston Contract or any future agreement between the Authority and a third party for the acquisition of water or water rights for the supply of water for the GRP or to be delivered through the Project, the Authority hereby consents to the direct re-use of Water by Participant; provided, however, that (i) unless specifically approved in writing by the Authority, any reduction in water demand of Participant resulting from such re-use of Water shall not serve to reduce the Contract Quantity, and (ii) the provisions of Section 3.04 hereof shall be applicable to such re-used Water. The Authority agrees that, other than as may be included in any future agreement between the Authority and a third party for the acquisition of water or water rights for the supply of water for the GRP or to be delivered through the Project, it will not impose limitations on the re-use of Water (or any other type of water) by Participant which are more restrictive than such limitations as may be applicable under the Houston Contract.

(c) Notwithstanding subsection (a) above, Water shall be subject to indirect re-use by Participant but only with the prior written consent of the Authority, which consent shall be given subject to the limitations and conditions in subsection (b) above and Section 3.04 hereof, and upon such terms and conditions as the Authority reasonably deems appropriate to ensure that such re-use:

- (1) does not negatively impact the GRP or any particular Participant as a result;
- (2) does not adversely impact the Authority's storage, diversion, or other water rights; and
- (3) complies with applicable laws, rules and regulations of all governmental bodies with jurisdiction, and is subject and subordinate to any future changes in such laws, rules or regulations.

The Authority reserves the right to enter into additional agreements with a Participant whereby the Authority agrees to contribute Project funds to defray such Participant's costs of a re-use project, but only where the Authority determines that such use of Project funds would be cost effective and beneficial to the Participants as an Alternative Strategy.

(d) To the extent that the Authority or Participant utilizes, sells, or otherwise makes or has contracted for the beneficial re-use of its treated wastewater effluent as of the effective date of the Houston Contract, the continued beneficial re-use of such effluent shall be permitted for the purposes, to the extent, and on the terms existing as of the effective date of the Houston Contract, notwithstanding that a portion of such effluent may thereafter be derived from Water. After the Effective Date, any such re-use of effluent derived from Water shall require the consent of the Authority, if required under subsection (c) above, and Participant shall be responsible for (i) making appropriate provisions in any contracts for the sale of such effluent to the effect that supply may be limited if the Participant connects to the Project, and (ii) securing the Authority's consent, if Authority consent is required under subsection (c) above, before making investments in re-use projects to address the potential that Participant may connect to the Project in the future and, as a result, be limited in the amount of effluent that is available for re-use.

(e) In order for the Authority to secure rights for the indirect re-use of Water that has been used by Participant, the Authority, and/or other Participants, Participant agrees to provide the Authority such documents and information and to execute such approvals related to Participant's use of Water and/or the discharge of wastewater effluent by Participant derived from Water as may be reasonably required by the Authority for such purposes. Participant hereby waives any objection or right of protest to the Authority's permit applications for such purposes. No provision of this Contract or the Rate Order shall give the Authority a separate right to regulate or control the quality of the wastewater effluent discharged by Participant; provided, however, the Authority reserves all rights under applicable laws, rules, or regulations to contest the quality of such wastewater effluent discharges.

(f) Notwithstanding any other provision of this Contract, the Authority shall not charge any import fees, or any other fees, rates or charges, to Participant in connection with or due to Participant's re-use of Water, water, or treated wastewater effluent allowed by this Contract, regardless of whether Participant implements such re-use individually or collectively with other Participants or non-Participants.

(g) Subject to the provisions of Section 3.04 hereof, the provisions of this section are not applicable to the direct or indirect re-use of water by Participant from any source other than the Project.

(h) For purposes of determining, for a given period of time, the amount of wastewater effluent of Participant that is derived from Water, the total amount of Participant's wastewater effluent during such time period will be multiplied by a fraction, the numerator of which is the total amount of Water taken by Participant during such time period and the denominator of which is the sum of Participant's total amount of water usage from all sources (including Water) during such time period.

Section 4.13: Service Area Expansion; Re-Sale. (a) Participant may expand its service area shown in **Exhibit B** at its sole discretion without obtaining the prior approval of the Authority. Within sixty (60) days after Participant so expands its service area, Participant shall provide the GRP Administrator written notice of same and shall include therewith (i) a revised

service area map, signed and sealed by a professional engineer, which shall function to replace any prior Exhibit B to this Contract without the need for further amendments or supplements hereto, (ii) revisions to Participant's water demand projections, if any, that result from such expansion, and (iii) such other information as may be reasonably requested by the GRP Administrator in order to determine the effect of such expansion on the GRP and the need, if any, to amend the GRP as a result.

(b) Without the Authority's written consent, Participant may not sell Water outside of Participant's service area shown in Exhibit B, as same may be amended from time to time by Participant under subsection (a) hereof. Without Participant's consent, the Authority will not provide retail water service to any person or entity located within Participant's service area shown in Exhibit B, as same may be amended from time to time by Participant under subsection (a) hereof. No provision of this Contract shall be construed to require Participant to obtain the Authority's consent for the sale of Water outside of Participant's service area shown in Exhibit B, as same may be amended from time to time by Participant under subsection (a) hereof, if the sale of the Water is done on an emergency basis or done pursuant to a written agreement entered into by Participant prior to the Effective Date regarding the sale of potable Water (or any other form of potable water). No provision of this Contract shall be construed to require Participant to obtain the Authority's consent for the sale of re-used Water inside or outside of Participant's service area shown in Exhibit B, as same may be amended from time to time by Participant under subsection (a) hereof, if such re-use of Water is not prohibited by Section 4.12 hereof and any Authority consent has been provided, if applicable and required by Section 4.12 hereof.

(c) In the event Participant is a municipality and acquires Wells formerly owned or operated by another Regulated User, the following shall apply. If Participant's acquisition of the Wells occurs due to its dissolution of a conservation and reclamation district that entered into a contract with the Authority similar to this Contract, then Participant will assume the rights and obligations of such contract as provided by state law without any action required from the Authority. If Participant's acquisition of the Wells occurs due to its acquisition of Wells owned or operated by an entity other than such a district that entered into a contract with the Authority similar to this Contract, then Participant, as part of its acquisition of the Wells, will obtain such entity's assignment of the contract, and the Authority hereby consents to such assignment and no action from the Authority is required. If the Wells acquired by Participant were formerly owned or operated by a conservation and reclamation district or entity other than such a district that functioned under a groundwater reduction plan separate from the GRP, then Participant, at its option, may: (i) notify the Authority that the Wells owned or operated by the district or entity have become part of the GRP and are subject to the terms of this Contract, provided, however, no import fee, equalization fee, or any other type of catch-up fee shall be charged to Participant, and the same groundwater pumpage fee charged to other Participants shall be charged to Participant commencing the day after Participant provides such notice to the Authority, or (ii) notify the Authority that the Wells owned or operated by the district or entity will remain part of the groundwater reduction plan that is separate from the GRP, and in that event, the Authority will not charge Participant any fees or charges associated with the pumpage or importation of water from such Wells, and the Authority will in no way penalize or charge Participant any charges for owning or operating such Wells or participating in a groundwater reduction plan that is separate

from the GRP. In any such event, Participant shall comply with the provisions of subsection (a) hereof.

ARTICLE V

Metering

Section 5.01: General. The quantity of groundwater withdrawn from Participant's Wells, and the quantity of water imported by Participant from a non-Participant, shall be measured by the Participant Meters. If Participant has connected to the Project, or has received a notice to connect to the Project from the GRP Administrator under Section 4.05 hereof, then Water delivered through the Point of Delivery shall be measured by Authority Meters installed by the Authority pursuant to this Article V. The Participant Meters and Authority Meters shall be maintained and tested by the Parties as provided in this Article V. To the extent Participant loses Water as a result of any malfunction of Project facilities or other acts or omissions of the Authority, Participant shall not be required to pay fees, rates, or charges established under Section 6.02(2) with respect to such lost Water.

Section 5.02: Installation of Authority Meters. As an expense of the Project, the Authority shall design, permit, construct, operate, and maintain, at any appropriate measuring points that may be identified by the GRP Administrator (which may require the conveyance of an easement from Participant to the Authority pursuant to Section 4.03 hereof), such measuring equipment with related meters, totalizers, vaults, lines, and voice or data transmission devices (including towers or antennae), and recording devices of a type specified by the GRP Administrator for measuring and recording the quantity of Water delivered through the Point of Delivery within the accuracy tolerances specified in Section 5.03 hereof ("Authority Meters"). Authority Meters shall be considered part of the Project for all purposes.

Section 5.03: Maintenance and Testing of Meters. (a) Participant shall maintain the Participant Meters, at no expense to the Authority, unless otherwise specifically provided in this Article V, within the accuracy tolerances specified in this Section 5.03 by periodic tests. Participant shall conduct such tests at least once every 12 months and shall notify the Authority at least 48 hours (but not less than two (2) full business days) in advance of the time and location at which tests are to be made. If the Authority requests an additional test earlier than 12 months after any such test, then Participant shall make the test, and the Authority will provide Participant with a credit towards any fees, rates, or charges then payable by Participant to the Authority in an amount equal to Participant's cost to perform such test, unless the test reveals that any such Participant Meters register more than one hundred and two percent (102%) or less than ninety-seven percent (97%) of the correct flow amount for a given rate of flow. The Authority shall have the right to be present and to witness any test performed by Participant.

(b) The Authority shall maintain Authority Meters within the accuracy tolerances specified in this Section 5.03 by periodic tests. The Authority shall conduct such tests at least once every 12 months and shall notify Participant at least 48 hours (but not less than two (2) full business days) in advance of the time and location at which tests are to be made. If Participant requests an additional test earlier than 12 months after any such test, then the Authority shall

make the test and charge Participant an amount equal to the Authority's cost to perform such test, unless the test reveals that any such Authority Meter registers more than one hundred and two percent (102%) or less than ninety-seven percent (97%) of the correct flow amount for a given rate of flow. Participant shall have the right to be present and to witness any test performed by the Authority.

Section 5.04: Billing Adjustments for Inaccurate Meters. (a) Should a test of the Participant Meters show that same registers either more than one hundred and two percent (102%) or less than ninety-seven percent (97%) of the groundwater withdrawn from Participant's Wells, or imported by Participant from any source, for a given rate of flow, the total quantity of groundwater measured by the inaccurate Participant Meter shall be deemed to be the "average daily amount," as measured by such Participant Meter when in working order, and Participant shall calibrate such Participant Meter to the manufacturer's specifications (in the case of Venturi meters), or to the American Water Works Association specifications (for all other types of meters) for the given rate of flow, or shall replace such Participant Meter with an accurate Participant Meter that has been tested by Participant before being placed in service.

(b) Should a test of the Authority Meters show that same register either more than one hundred and two percent (102%) or less than ninety-seven percent (97%) of the Water delivered for a given rate of flow, the total quantity of Water withdrawn or delivered through the inaccurate Authority Meter shall be deemed to be the "average daily amount," as measured by such Authority Meter when in working order, and the Authority shall calibrate such Authority Meter to the manufacturer's specifications (in the case of Venturi meters), or to the American Water Works Association specifications (for all other types of meters) for the given rate of flow, or shall replace such Authority Meter with an accurate Authority Meter that has been tested by the Authority before being placed in service.

(c) Any billing adjustment under this Section 5.04 shall be for a period extending back to the time when the inaccuracy began, if such time is ascertainable. If such time is not ascertainable, (i) an adjustment with respect to groundwater withdrawn from Participant's Well, or imported by Participant from any source shall be based on the average daily amount, as described above, for a period extending back to the last test of the inaccurate Participant Meter, or 120 days, whichever is shorter, (ii) an adjustment with respect to Water shall be based on readings from Participant's check meters, if installed pursuant to Section 5.06 hereof and if operating within the tolerances described above, for a period extending back to the last test of the inaccurate Authority Meter, or 120 days, whichever is shorter, or (iii) an adjustment with respect to Water shall be based on the average daily amount, as described above, for a period extending back to the last test of the inaccurate Authority Meter, or 120 days, whichever is shorter, in the event that Participant has not installed check meters pursuant to Section 5.06 hereof or if such check meters are not operating within the tolerances described above.

(d) As used in this Section 5.04, the expression "given rate of flow" means one of the following specified or selected by the GRP Administrator for each calibration or test:

- (1) the total quantity of water passing through the Participant Meter or the Authority Meter, as applicable, during the preceding period (usually a

calendar month) as reflected by the totalizer, converted to gallons per minute;

- (2) high, low, and intermediate rates of flow in the flow range, as reflected by the flow recording devices;
- (3) the applicable minimum monthly quantity converted to gallons per minute; or
- (4) AWWA-specified test flow rates for that size and type of meter.

Section 5.05: Disputes as to Testing. In the event of a dispute between Participant and the Authority as to the accuracy of the testing equipment used to conduct an accuracy test of the Participant Meters or the Authority Meters, an independent check may be mutually agreed upon between Participant and the GRP Administrator, to be conducted by an independent measuring equipment company suitable to both Participant and the GRP Administrator. The cost of such test shall be at requesting Party's sole expense. The GRP Administrator may accept the test results of the independent measuring equipment company, but is not required to do so unless the refusal to accept such results would be unreasonable.

Section 5.06: Check Meters. Participant may install, at its own cost and expense, such check meters downstream of Authority Meters as it deems appropriate, and subject to reasonable safety and security requirements of Participant, the Authority shall have the right of ingress and egress to such check meters during all reasonable hours; provided, however, that billing computations shall be on the basis of the results of Authority Meters described above unless Authority Meters are not operating within required tolerances.

Section 5.07: Rate Order Provisions. Reasonable provisions and procedures related to the periodic testing of meters, the audit of meters, and the adjustment of readings of inaccurate meters may be adopted by the Authority from time to time and included in the Rate Order to supplement the provisions or procedures set forth in this Contract, so long as such provisions and procedures are not contrary to, inconsistent with, or prohibited by the terms and provisions of this Contract.

ARTICLE VI

Fees, Rates and Charges

Section 6.01: Payment Commencement Date. (a) Except as hereinafter provided, fees, rates, and charges for the goods and services provided by the Authority to Participant under this Contract shall begin to accrue as of the Payment Commencement Date.

(b) If Participant executes this Contract after the Payment Commencement Date, then the Participant shall pay an equalization fee on the Effective Date which equals (i) the entire amount of the payments that Participant would have made from and after the Payment Commencement Date under the requirements of this Contract and the Rate Order, plus interest

thereon compounded annually at the Applicable Interest Rate, and (ii) the Authority's actual or estimated increased costs incurred in connection with the development and implementation of the GRP and the design and permitting of the Project, plus interest thereon compounded annually at the Applicable Interest Rate, as calculated by the GRP Administrator, that would have been avoided if this Contract had been executed by Participant on or before the Payment Commencement Date, all as reasonably determined by the GRP Administrator.

Section 6.02: Monthly Fees and Rates. The fees and rates due from Participant for each whole or partial calendar month, as appropriate, from and after the Payment Commencement Date shall be calculated as follows:

- (1) For all groundwater pumpage by Participant, Participant shall pay an amount determined by the formula:

$P \times Q$, where:

P is the prevailing fee for groundwater pumpage, per thousand gallons, adopted by the Authority in its Rate Order; and

Q is the quantity of groundwater pumped by Participant, in thousands of gallons, during the calendar month.

- (2) In addition to any groundwater pumpage fees due under subdivision (1), for Water delivered to Participant by the Authority after the date on which Participant connects to the Project, Participant shall pay an amount determined by the formula:

$W \times Q$, where:

W is the prevailing rate, per thousand gallons, adopted by the Authority in its Rate Order for Water delivered by the Project; and

Q is the quantity of Water taken by Participant, in thousands of gallons, during the calendar month.

Section 6.03: Charges. (a) The Authority is hereby authorized to impose reasonable charges under the Rate Order, or other written order of the Authority, necessary for the recovery of damages, losses, delay costs, litigation fees, interest not to exceed the interest rate permitted by Section 2251.025, Texas Government Code, or other costs or expenses, incurred by the Authority, including reasonable attorneys fees, court or administrative agency fees, or judgments, resulting, directly or indirectly from a Participant's breach or violation of this Contract, the GRP, the Rate Order, the Rules, the rules of all regulatory and permitting authorities with jurisdiction, or any other applicable rules, laws, or regulatory requirements, or any losses, damages, costs, interest, or expenses incurred by the Authority resulting, directly or indirectly, from the Authority's acts or omissions under this Contract, except as otherwise provided in Section 11.01 hereof.

(b) In addition to any charges under subsection (a) above, in the event Participant (i) fails to make the required connection to the Project under Section 4.05 hereof, (ii) takes more groundwater than is authorized under the GRP, or (iii) takes or omits to take any action required hereunder, or under the GRP, the Rate Order, or other written order of the Authority, the Rules, or other applicable rules, laws, or regulatory requirements, which results in any fee, fine, penalty, charge, judgment, or assessment to or against the Authority, then Participant shall reimburse the Authority, together with interest not to exceed the interest rate permitted by Section 2251.025, Texas Government Code, and reasonable collection costs and fees, upon written demand by the Authority and/or the GRP Administrator.

(c) In the event Participant is in substantial compliance with this Contract and related Rules, and the Conservation District nonetheless imposes or seeks to impose fines or administrative penalties against Participant for failure to comply with the Conservation District's groundwater reduction requirements under the Plan, then Authority shall, out of GRP funds, defend and hold harmless Participant against such fines or administrative penalties, including making payment of such fines or penalties directly to the Conservation District on behalf of Participant.

Section 6.04: Rate Order. (a) The Authority has heretofore adopted a Rate Order that establishes fees, rates, and charges applicable to the Participants and, throughout the Contract Term, the Authority shall maintain such Rate Order in force and effect in accordance with the provisions of this Section 6.04. The Rate Order may include reasonable classifications of Participants for the purposes of applying fees, rates, and charges as deemed reasonably necessary by the Authority to implement and enforce the GRP and discharge its obligations under this Contract. The fees, rates, and charges adopted under the Rate Order shall be at all times the lowest which are:

- (1) consistent with good management practices by the Authority;
- (2) necessary and proper under subsection (d) and compliant with subsections (b), (c), and (e);
- (3) consistent with the Authority's statutory and constitutional duties and responsibilities; and
- (4) just, reasonable, and nondiscriminatory.

(b) The Rate Order shall be amended from time to time to specify the prevailing pumpage fee for purposes of Section 6.02(1) hereof such that, as nearly as practicable in the Authority's reasonable determination (i) the Participants are neither benefitted nor penalized for utilizing groundwater from Wells, and (ii) reasonable allowance is made for the Participants' costs of operating and maintaining their Wells (exclusive of any costs of depreciation, debt service, or similar charges in respect of the design, permitting, construction, reconstruction, rehabilitation, or redevelopment of such Wells). The prevailing pumpage fee for purposes of

Section 6.02(1) hereof shall be equal and uniform among all classes of Participants that pump groundwater.

(c) Prior to placing the Project in service, and at all times after the Project is placed in service, the Rate Order shall be amended from time to time to specify the Authority's prevailing rate for Water delivered to Participants for purposes of Section 6.02(2) hereof such that, as nearly as practicable in the Authority's reasonable determination (i) the Participants are neither benefitted nor penalized for being required to take Water from the Project under the GRP, and (ii) reasonable allowance is made for Participants' costs of operating and maintaining On-Site Facilities, as well as operating and maintaining their Wells (exclusive of any costs of depreciation, debt service, or similar charges in respect of the design, permitting, construction, reconstruction, rehabilitation, or redevelopment of such On-Site Facilities or Wells). The prevailing rate for Water for purposes of Section 6.02(2) hereof shall be equal and uniform among all classes of Participants that receive Water.

(d) In its Rate Order, or any separate written order, the Authority shall adopt such fees, rates, and charges, including those identified in Sections 6.02 and 6.03 hereof, that are sufficient to:

- (1) achieve and maintain compliance with the Plan, the Rules, and the GRP;
- (2) develop, implement, or enforce the GRP;
- (3) accomplish the purposes of this Contract and the GRP;
- (4) recoup any unrecovered losses, damages, costs, or expenses incurred by the Authority, together with interest thereon at a rate not to exceed the interest rate permitted by Section 2251.025, Texas Government Code, resulting, directly or indirectly, from Participant's breach or violation of this Contract or other Participants' breach of similar contracts, the GRP, the Rules, the rules of all regulatory and permitting authorities with jurisdiction, or any other applicable rules, laws or regulatory requirements, or any losses, damages, costs, interest, or expenses incurred by the Authority resulting, directly or indirectly, from its acts or omissions under this Contract, except as otherwise provided in Section 11.01 hereof;
- (5) recoup (i) the reasonable costs incurred by the Authority in connection with the discharge of its obligations under Section 9.03(a) hereof, and (ii) any actual costs incurred by the Authority that are associated with the development of the WRAP (except to the extent Authority has already received funds for the WRAP), the GRP, or the Project, or that otherwise specifically pertain to the subject matter of this Contract;
- (6) purchase, lease, reserve, option, or contract for alternative water supplies by, through, or with third parties or the Authority for the benefit of the Project and the GRP;

- (7) meet administrative, operation, maintenance, repair, and replacement expenses relating to the Project and the GRP;
- (8) pay the principal of, interest on, and redemption prices or costs of any Bonds or other obligations of the Authority issued or incurred, or to be issued or incurred, in connection with the Project or the GRP, pursuant to Article VIII;
- (9) satisfy all rate covenants relating to any such Bonds or other obligations of the Authority relating to the Project or the GRP;
- (10) establish, accumulate, maintain, or replenish one or more operating, debt service, contingency, or emergency reserve funds relating to the Project or the GRP, as deemed reasonably necessary by the Authority;
- (11) offset impacts to GRP and/or Project revenues or expenses related to or arising out of the effects of water conservation, drought contingency, or environmental quality measures or programs of the Authority or others; and
- (12) offset any other costs or expenses, of a like or different nature, resulting from changes in applicable laws, rules, or regulatory requirements or from altered or unforeseen events or circumstances.

(e) The fees, rates, and charges of the Authority shall at all times be established and imposed in order to equitably apportion the costs of the implementation of the GRP among the Participants, as nearly as practicable on a uniform basis, such that no special advantage or disadvantage is realized by any of the Participants because of proximity or access to the Project, other alternative water supplies of the Authority, geographical location, the time of inclusion within the GRP, the nature or extent of a Participant's water demands, or the source of water supply to a Participant.

(f) The fees, rates, and charges imposed by the Authority under the Rate Order shall be reviewed and adjusted from time to time (but not less frequently than annually) by the Authority in order to ensure that they are not in excess of the needs of the Project and the GRP. The Authority further agrees that it shall, not more often than every five (5) years, engage an independent rate analyst to review and prepare a written report regarding the fees charged by the Authority to reserve raw water for the benefit of the Participants and the rates at which such raw water has been or may be sold by the Authority for use in connection with the Project.

(g) The Authority agrees that except as specifically provided in Section 9.01(h)(1) with respect to sales of excess water and in subsections (a) and (b) of Section 9.03, the fees, rates, and charges imposed by the Authority under the Rate Order, or imposed in any other manner by this Contract, shall be used for the Project and GRP and not for any other purpose of the Authority.

(h) The adoption of the current Rate Order prior to the Effective Date is hereby acknowledged by Participant; provided, however, the Authority shall not adopt, implement, or enforce any provision of the Rate Order that is contrary to, inconsistent with, or prohibited by the terms and provisions of this Contract. To the extent any provision of the current Rate Order is contrary to, inconsistent with, or prohibited by this Contract, the Authority will amend the Rate Order so that it conforms to this Contract. On and after the Effective Date, the Authority shall comply with all applicable legal requirements relative to providing public notice of the amendment of the Rate Order, or any separate written order or any amendment thereto adopted pursuant to this Contract, including duly posting agendas for meetings of the Board of Directors of the Authority under the Texas Open Meetings Act, and in certain circumstances, publication of notice under other applicable laws of the State of Texas. In addition, the Authority shall use commercially reasonable efforts to provide Participants with written notice at least forty-five (45) days prior to the consideration by the Board of Directors of the Authority of the adoption of any amendment to the Rate Order, or any separate written order, or any amendment thereto adopted pursuant to this Contract. Failure of the Authority to provide, or of Participant to receive, such notice shall not affect the validity of any action taken by the Board of Directors of the Authority with respect to the Rate Order, or any separate written order adopted pursuant to this Contract, or any amendments thereto.

(i) The Authority shall never be authorized or permitted to impose fees, rates, or charges on any water imported by Participant: (i) from another Participant, or (ii) from a non-Participant in the event that Participant has connected to the Project under Sections 4.04 or 4.05 hereof and the Authority is unable to deliver Water to Participant due to a *force majeure* event or when the Project's or the Authority's equipment may become inoperative as further described in Section 4.09(c) or in the event the Authority otherwise fails to deliver Water to which Participant is entitled under this Contract. The Authority may impose such fees, rates, and charges on water imported by a Participant from a non-Participant as would otherwise be applicable to groundwater pumped from such Participant's Wells; provided, however, that the Authority shall not impose fees, rates, or charges on water imported by Participant from a non-Participant if (i) such importation is necessary due to an emergency impacting the ability of Participant's System to meet its water demands, (ii) such period of importation lasts for less than fifteen (15) consecutive days, and (iii) Participant has not imported water during more than thirty (30) days during the current calendar year.

(j) Notwithstanding any other provision of this Contract, if the Conservation District allows brackish groundwater to be considered an "alternate water source" similar to surface water or treated wastewater effluent, then: (i) the Participant may, at its sole cost, develop and acquire, individually or collectively with other Participants or non-Participants, brackish groundwater supplies for its use, provided however, unless specifically approved in writing by the Authority, any reduction in water demand of Participant resulting from brackish groundwater production shall not serve to reduce the Contract Quantity, (ii) the Authority shall not charge any import fees or groundwater pumpage fees, or any other fees, rates or charges, to Participant in connection with or due to such brackish groundwater production, and (iii) the provisions of Section 3.04 shall apply to such brackish groundwater use.

Section 6.05: Self-Reporting and Payment of Pumpage Fee. (a) Participant shall be responsible for reading the Participant Meters at the end of each month, beginning on the Payment Commencement Date. Such measurement shall be reported to the Authority on a reporting form duly adopted under the Rate Order. Participant shall remit payment of applicable pumpage fees along with the completed pumpage form to the Authority using the manner and method of payment specified under the Rate Order. The due date for remitting such payment and such completed pumpage form shall be not less than forty-five (45) days from the last of day of the reporting period; provided, however, the Rate Order may provide for the acceleration of such due date in the event Participant is past due with respect to any other fees, rates, or charges due the Authority under this Contract, but such acceleration shall not provide Participant less than ten (10) days for remitting such payment and such completed pumpage form.

(b) In the event Participant fails or refuses to read the Participant Meters, the Authority shall have the right to enter upon the land of Participant at any reasonable time in order to read the Participant Meters. If the Authority is required to read the Participant Meters, Participant will be charged a service fee for such reading, and the pumpage fee due under Section 6.02(1) hereof shall be calculated based on the Authority's readings, regardless of when the Authority reads the Participant Meters. In the event the Participant Meters have not been timely installed by Participant pursuant to Section 4.06 hereof, or inspected and approved by the GRP Administrator pursuant to Section 4.07 hereof, the GRP Administrator shall be authorized to calculate Participant's groundwater usage from the Payment Commencement Date through the date the Participant Meters are approved by the GRP Administrator based upon Participant's "average daily amount" of usage. In either event, the Authority shall invoice Participant for the pumpage fee due under Section 6.02(1) hereof, and any related service fees. The manner and method of payment of such invoice shall be as specified under the Rate Order. The due date for remitting payment shall be not less than forty-five (45) days from the date of such invoice; provided, however, the Rate Order may provide for the acceleration of such due date in the event Participant is past due with respect to any other fees, rates, or charges due the Authority under this Contract, but such acceleration shall not provide Participant less than ten (10) days for remitting such payment.

(c) The Authority shall have the right to audit the measurements submitted by Participant by reading the Participant Meters. The Authority and its representatives shall have the authority to enter upon the land of Participant at any reasonable time in order to audit the readings of the Participant Meters reported to the Authority.

(d) The Authority reserves the right to directly read, whether by entering upon a Participant System Site or by remote reading through transmission of data from such sites, the Participant Meters and to discontinue the self-reporting process established under this Section 6.05 upon written notice provided to Participant at least thirty (30) days in advance of same. In such case, the Authority shall adopt reasonable amendments to the Rate Order specifying the manner and method by which the Authority shall provide Participant an invoice for Water delivered, as well as the acceptable time, place and methods of payment of such invoice, interest on past due payments not exceed the interest rate permitted by Section 2251.025, Texas Government Code.

Section 6.06: Invoicing and Payment of Water Rate. If Participant connects to the Project pursuant to Sections 4.04 or 4.05 hereof, the Authority shall read the appropriate Authority Meters and record or calculate the amount of Water taken by Participant on a monthly basis and invoice Participant therefor. The manner and method of payment of such invoice shall be as specified under the Rate Order. The due date for remitting payment shall be not less than forty-five (45) days from the date of such invoice; provided, however, the Rate Order may provide for the acceleration of such due date in the event Participant is past due with respect to any fees, rates, or charges due the Authority under this Contract, but such acceleration shall not provide Participant less than ten (10) days for remitting such payment.

Section 6.07: Payment of Charges. Any other charges due to the Authority from Participant hereunder shall be set forth in reasonable detail in a written invoice from the Authority to Participant. Such invoice shall provide therein a due date for remitting payment in respect of any such charges established in accordance with Section 2251.021 Texas Government Code, as well as the acceptable manner and method of payment.

Section 6.08: Failure to Pay when Due; Early Payment Discount. (a) Should Participant fail to tender payment of any amount when due from Participant, interest thereon shall accrue as may be provided in this Section 6.08. In the event Participant fails to timely tender payment of any amount by the appropriate due date, and such failure continues for thirty (30) days thereafter, then the Authority may take any and all actions allowed by law as described in Article XI hereof. The Rate Order may (i) require the payment of interest on any late or unpaid fees, rates, and/or charges due to the Authority at a rate or rates that specified therein provided that same shall not exceed the interest rate permitted by Section 2251.025, Texas Government Code, as amended, and (ii) impose lawful penalties or administrative charges for the failure to completely or timely make payments to the Authority, but such penalties or charges shall not begin to accrue until at least three (3) business days after Authority has notified Participant in writing that Authority intends to impose same.

(b) The Authority reserves the right to implement discounts under the Rate Order for the payment of fees, rates, and charges prior to the dates same are otherwise due and payable under the terms specified hereinabove.

ARTICLE VII

Gifts, Grants and Special Projects

Section 7.01: Gifts and Grants. Unless otherwise prohibited by law, the Authority may accept, in its own name and/or on behalf of Participant, any one or more of the Participants, or any class of Participants, gifts, grants, gratuities, advances, and secured, non-recourse loans in any form from any source, including the United States, the State of Texas, any agency or instrumentality of same, or any other person, and may make and enter into contracts, agreements and covenants which the Authority considers necessary and proper in connection with the acceptance of such gifts, grants, gratuities, advances, or loans. The Authority agrees that it shall make use of the proceeds of same only for the intended beneficiary or beneficiaries, and in connection therewith, may make adjustments to its fees, rates, and charges, under the Rate Order

or otherwise, to such beneficiary or beneficiaries. In the event such gifts, grants, gratuities, advances, and secured, non-recourse loans benefit the Project or the GRP, they shall be credited to the benefit of the GRP and the Participants.

Section 7.02: Special Projects; Assessments. (a) The Authority may undertake improvement projects or services that confer a special benefit on all or a defined part of the service area of one or more Participants, including water delivery systems or facilities or water supplies for recreational, environmental, aesthetic, or other non-consumptive uses, whether or not same are connected to or made a part of the Project, but only pursuant to a separate written agreement between the Authority and such Participants specifying the respective financial, legal, and engineering responsibilities of the Authority and the Participants relative to such project or services.

(b) Unless otherwise agreed to in writing by the Authority and the Participants specially benefitted by any such improvement project or services undertaken pursuant to subsection (a), such benefitted Participants shall pay periodic assessments to the Authority, calculated on a basis that is mutually agreeable to the Authority and such Participants, in amounts sufficient to meet all costs for such improvement project or services and continuing in effect for the period required to fully and timely pay for such improvement project or services or any bonds, notes, or other obligations issued or incurred by the Authority to finance such improvement project or services.

(c) All costs associated with any improvement project or services undertaken by the Authority and one or more Participants pursuant to this Section 7.02 shall be separately accounted for by the Authority, and such costs shall not be considered Project costs or included in the Authority's adoption of fees, rates, or charges generally applicable to all Participants under Article VI.

Section 7.03: Other Reimbursement to Participant. Upon request from Participant and recommendation of the Review Committee, the Authority may, but is not obligated to, reimburse Participant for all or part of Participant's reasonable costs and expenses actually incurred in connection with this Contract, the Project, or the GRP, out of Project revenues, upon terms and conditions approved by the Board of Directors of the Authority. The foregoing provision shall not be deemed or construed to supersede any other express provision in this Contract requiring the Authority to reimburse Participant for all or part of Participant's costs and expenses incurred in connection with this Contract, the Project, or the GRP (including, without limitation, reimbursement for On-Site Facilities pursuant to Section 4.08 hereof), and shall be in addition to any other such provision.

ARTICLE VIII

Bonds; Pledge of Revenues

Section 8.01: Bonds. (a) In order to finance or refinance the development of the GRP and the design, permitting, construction, operations, maintenance, or administration of the Project, the Authority may issue, sell, and deliver from time to time, as deemed necessary and

appropriate, its notes, bonds, and other obligations ("Bonds"), in one or more issues or series, with such Bonds to bear interest, to be in such form and denomination, to be transferable and subject to exchange, replacement or refunding, and to mature in such installments or at such times, as may be provided in the documents or proceedings authorizing the issuance of such Bonds and permitted by the Act or by the general law of the State of Texas.

(b) The Bonds of the Authority, as to both principal and interest, shall be and remain obligations solely of the Authority, payable from the sources and secured in the manner provided therein, and shall never be deemed or construed to be obligations of Participant, except to the extent of Participant's obligations to make payments to the Authority hereunder.

(c) The Authority shall not issue Bonds secured by a mortgage or deed of trust lien on the Project or any portion thereof, except where such mortgage or deed of trust lien is (i) permitted by the Act, and (ii) created in favor of, or conveyed to, the United States, the State of Texas, or any agencies, dependants, boards, commissions, or other such governmental entities, in connection with the application, securing, closing, or other transaction of loans, gifts, or grants necessary and proper in connection with the Authority's financing of the Project.

Section 8.02: Pledge of Revenues. The Authority is specifically authorized hereby to pledge, create one or more liens on, or assign all or any portion of the payments to be made by Participant hereunder, together with similar payments from other Participants, to the payment of and security for the Bonds issued by the Authority in order to finance or refinance the development of the GRP and/or the design, permitting, construction, operation, maintenance, or administration of the Project.

Section 8.03: Certificates; Other Documents and Showings. Participant agrees to assist and cooperate with the Authority, to the extent reasonably determined necessary by the Authority, in the preparation, authorization, execution, and/or delivery of certificates, documents, information, or showings, reasonably necessary in connection with the sale, issuance, and delivery of its Bonds as authorized under this Article VIII. All costs and expenses related to such certificates, documents, information, or showings, with the exception of any of Participant's legal, engineering, or other consultant or employee costs and expenses, shall be borne by the Authority as a Project cost, and Participant shall assume no separate liability therefor.

Section 8.04: Disclosure Obligations. Participant agrees to assist and cooperate with the Authority, to the extent reasonably determined necessary by the Authority, in complying with any and all present and future valid laws, orders, rules, and regulations of the United States of America, the State of Texas, or any other regulatory body having jurisdiction, related to any obligation of the Authority to disclose financial information in connection with the sale, issuance, and delivery of its Bonds as authorized under this Article VIII, including the making of disclosures required under Rule 15c2-12 of the United States Securities and Exchange Commission. All costs and expenses related to such compliance, with the exception of any of Participant's legal, engineering, or other consultant or employee costs and expenses, shall be borne by the Authority as a Project cost, and Participant shall assume no separate liability therefor.

ARTICLE IX

Special Covenants

Section 9.01: The Authority as Water Supplier. (a) For so long as the Authority receives payment therefor from the separate operating division to be created and established pursuant to Section 9.03(a)(1) hereof of its rate and generally applicable fees adopted from time to time by the Board of Directors of the Authority for large volume raw water customers of the Authority for holding, leasing, reserving, optioning, or contracting for raw water ("reservation fees") derived from water rights owned by the Authority as of the Effective Date, the Authority agrees, directly or through one or more of its operating divisions, to make available and sell to such separate operating division, as needed, for the use and benefit of the GRP and the Participants, all of the available and uncommitted supplies of raw water owned by the Authority from the permitted and actual yield of Lake Conroe, at a rate equal to the prevailing and generally applicable rate for large volume raw water customers of the Authority for raw water derived from any water rights owned by the Authority as of the Effective Date ("System Rate"). Such System Rate shall be determined, and may be revised or adjusted from time to time by the Board of Directors of the Authority, on a Modified Cash Basis, as defined and provided in subsection (e) below.

(b) Within the limits of engineering and economic feasibility and responsible planning, as determined in its sole judgment and discretion, the Authority agrees to use reasonable diligence and good faith efforts to locate, identify, develop, purchase, hold, lease, reserve, option, or contract for additional water supplies, over and above the water supplies available from the permitted and actual yield of Lake Conroe, necessary to supply the Project so that the GRP may be successfully implemented throughout the Contract Term, and the Authority may, but shall not be obligated to:

- (1) utilize its own funds to do so; or
- (2) utilize Project revenues to do so;

provided, however, the Authority shall be obligated to use Project revenues for such purposes if the Authority has (i) not utilized, and has officially determined not to utilize, its own funds to do so, and (ii) been requested in writing by the Review Committee to do so.

(c) For so long as the Authority receives payment therefor from the separate operating division to be created and established pursuant to Section 9.03(a)(1) hereof of its rate and any applicable reservation fees, the Authority agrees, directly or through one or more of its operating divisions, to sell and make available to such separate operating division, as needed, for the use and benefit of the GRP and the Participants, water from all other additional sources or supplies acquired or contracted by the Authority with Project revenues pursuant to subsection (b), above, plus water obtained by the Authority under the Houston Contract, at a rate equal to the Authority's actual costs for locating, identifying, developing, purchasing, holding, leasing, reserving, optioning, or contracting for such additional water supplies.

(d) With respect to any additional sources of water supplies or other projects, programs, systems, facilities, or services acquired, contracted, or undertaken by the Authority after the Effective Date with funds other than Project revenues, the Authority may, in its sole discretion, but shall not be obligated, to: (i) offer for sale to such separate operating division, for the use and benefit of the GRP and the Participants, all or such portions of such additional water supplies, (ii) establish separate rates for the sale of such additional water supplies using any methodology, including or excluding the Modified Cash Basis described in subsection (e) below, and/or (iii) incorporate, all or any portion of such additional water supplies or projects, programs, systems, facilities or services, and/or all or any portion of the costs and expenses of same, into the System Rate described in subsection (a) above, but using the Modified Cash Basis described in subsection (e) below.

(e) "Modified Cash Basis", as used in this section, means a rate or rates which, when applied to the projected sales of raw surface water during a given budget period from the Authority's raw water system and any water rights owned by the Authority as of the Effective Date, and any additional water supplies as may be incorporated therein, as provided in subsection (d) above, are sufficient in the reasonable discretion of the Board of Directors of the Authority to generate revenues adequate to pay or accrue the following costs and expenses, without return on investment or loss to the Authority: (i) the direct and indirect operating and maintenance expenses of or related or allocated to such system; (ii) the direct and indirect general and administrative expenses of the Authority related or allocated to such system; (iii) capital improvements to such system; (iv) debt service on any bonds, notes, or other obligations of the Authority issued for the benefit of such system, and any reasonably required reserve and replenishment fund obligations related to any such debt issuance; (v) reserves for, among other purposes, capital improvements, working capital and emergencies; (vi) depreciation on improvements, facilities, or other infrastructure and related appurtenances comprising such system; (vii) reserves to allow the Authority to locate, identify, develop, permit, or acquire the use or ownership of additional water supplies for any corporate purpose of the Authority; (viii) reserves and allowances for research and development of any project, program, system, facility, or service consistent with the Authority's powers, duties, responsibilities, or purposes; (ix) impacts to revenues or expenses related to or arising out of the effects of water conservation, drought contingency, or environmental quality measures or programs of the Authority or others; (x) awards, settlements, judgments, court and litigation costs, fines, permits, assessments, or other contingent liabilities; and (xi) any other costs or expenses, of a like or different nature, resulting from changes in applicable laws, rules, or regulatory requirements or from altered or unforeseen events or circumstances. Such rates may be established so as to apply to reasonable classifications of customers of the Authority's raw water system; provided, however, that except as provided in subsection (d) above, such rates shall not be based during the Contract Term on costs and expenses of particular components of such system or on geographic area(s) served by defined portions of such system.

(f) The Authority will not utilize the Project to provide Water to any person or entity that is not a Participant or that is outside of Montgomery County, except as necessary to serve Participants with contiguous service areas located, in part, outside of Montgomery County.

(g) The Authority agrees that it will not enter into any new or additional contracts for the sale of Water to Participants, or require or permit the connection of additional Participants to the Project under Sections 4.04 and 4.05 hereof, to such an extent or for such quantities as, in the Authority's sound discretion, and on the basis of the then current requirements of the Plan, the projected demands of the Participants, the condition of the Project, the water supplies available to the Project from the permitted and actual yield of Lake Conroe or from additional water supplies secured for the benefit of the GRP and the Participants through the use of the Project revenues as provided in subsection (b) (collectively, "GRP Water"), and related conditions, would impair the Authority's ability to deliver Water to Participant at the Contract Quantity during the Contract Term. Additionally, and except for any amendment, renewal, extension, replacement or modification of a contract between the Authority and a third party in effect as of the Effective Date for the sale of surface water from Lake Conroe on a non-interruptible basis, and except as permitted by subsection (h)(1) of this Section 9.01, the Authority covenants that it will not hereafter enter into any new or additional contracts for the sale of GRP Water that would cause the then-current GRP Water to be inadequate to satisfy the then-current projected surface water needs of the GRP and Project to comply with the Plan during the Contract Term.

(h) As provided herein, Project revenues may be used by the Authority to pay reservation fees for GRP Water and other additional water supplies. To the extent that any fees, rates, charges, gifts, grants, or assessments collected by the Authority from the Participants are used to pay reservation fees to the Authority, or one or more of its other operating divisions, for GRP Water, or other additional water supplies of the Authority as may be sold or reserved for the benefit of the GRP and the Participants pursuant to subsection (d) above, the first and prior use of such water supplies shall be for the benefit of the Participants; provided, however, that:

- (1) nothing in this Contract shall be deemed or construed to limit the right and power of the Authority, or one or more of its other operating divisions, to sell, option, or reserve such portions of such water supplies as, in the sound judgment of the Authority, are surplus to the needs of the Participants, on a temporary, seasonal, periodic, or permanent basis, to other persons, so long as any net income or revenues from such sale, optioning, or reservation are first used to reimburse the Participants for any reservation fees or actual costs, expenses, or carrying costs and interest paid by or on behalf of the Participants for such water supplies;
- (2) unless and until fees, rates, charges, gifts, grants, or assessments collected by the Authority from the Participants are used to pay or reimburse the Authority, or one or more of its operating divisions, for the costs of identifying, locating, developing, permitting, holding, purchasing, leasing, reserving, optioning, or contracting for a specifically identified, additional, or prospective additional water supply, and except as provided in the subsection (b), above, the Authority shall have no fiduciary or other responsibility to the Participants with regard to such additional water supply;

- (3) should the Authority determine to pursue developing, holding, purchasing, leasing, reserving, optioning, or contracting for any such additional water supply for any of its corporate purposes using its own funds, whether directly or by and through any of its operating divisions, Participant specifically agrees that same shall not constitute a breach of any fiduciary or other responsibility of the Authority and hereby waives all claims at law or in equity against the Authority related to or arising out of same;
- (4) nothing in this Contract shall be deemed or construed to obligate the Authority to sell, reserve, option, hold, or make available for the Participants or for Project purposes all or any portion of its water supplies or rights existing on the Effective Date hereof, other than from the permitted and actual yield of Lake Conroe, after deducting such amounts therefrom as may now or hereafter be reserved by the Authority to its existing customers on the Effective Date that are served on a non-interruptible basis from such permitted yield of Lake Conroe; and
- (5) nothing in this Contract shall be deemed or construed as a representation or warranty by the Authority that (i) the permitted and actual yield of Lake Conroe, as same may be adjusted from time to time by changes in laws, rules, regulatory requirements, environmental restrictions, judicial or administrative rulings, physical characteristics or levels, or other circumstances beyond the control of the Authority, will be sufficient to meet all of the demands of Participant or the Participants, as same may be revised from time to time throughout the Contract Term, or (ii) the Authority will be successful in securing additional water supplies.

(i) In addition to all other remedies available to Participant, if the Authority is not able to acquire additional water supplies necessary for all Participants to achieve and maintain compliance with the Plan during the Contract Term, then: (i) without losing its right to receive the Contract Quantity at the rate for Water established under this Contract, Participant shall have the right, but not the obligation, to import water from any source without being subject to any fees, rates, or charges for said importation of water that may be imposed under this Contract or the Rate Order, and (ii) Participant shall have the right, but not the obligation, to establish its own groundwater reduction plan to comply with the Plan to the limited extent necessary to address such inability to acquire additional water supplies, but Participant shall remain obligated to pay the groundwater pumpage fee established under this Contract for the pumpage from its Wells and to pay for Water as and if delivered by the Project.

(j) The Authority reserves the right to sell water, at any time and at its sole discretion, from any source other than GRP Water.

Section 9.02: The Authority as Participant. The Authority, in its capacity as a Participant, shall have the same rights and privileges and the same duties and obligations as all Participants, including the obligation of a Participant to make full and timely payment of all amounts of the same kind and character as are chargeable to the Authority as a Participant under

Article VI hereof. All amounts so paid by the Authority shall be deposited into the same fund to which similar payments by other Participants are deposited.

Section 9.03: The Authority as GRP Administrator. (a) To facilitate the implementation of the GRP and the discharge of the Authority's obligations under this Contract, the Authority shall, subject to the conditions and limitations herein:

- (1) establish and maintain a separate operating division of the Authority with (i) a separate, annual budget that encompasses the annual revenues and expenses of the GRP, the Project, this Contract and contracts with the Participants that are substantially similar to this Contract, and (ii) separate books of account that shall be audited annually;
- (2) contract for, lease, or purchase, for the benefit of such separate operating division, the GRP Water and such other properties, services, land, equipment, and facilities, including administrative and management services and facilities, from the Authority, or one or more other operating divisions of the Authority, or from other persons, as may be deemed necessary and proper by the Authority to perform its obligations hereunder; and
- (3) allocate to such separate operating division a proportional share of the direct and indirect costs of the Authority's general and administrative, managerial, accounting, legal, fiscal, clerical, human resources, risk management, support services, and technical services related to the performance by the Authority of its obligations hereunder.

(b) Such separate operating division of the Authority shall be operated for the exclusive benefit of the Participants, and not for the use or benefit of any water user other than the Participants, without profit or loss to such separate operating division, such that, except as provided in Section 9.01(h)(1) hereof with respect to sales of excess water, and as otherwise provided in subsections (a) and (b) of this Section 9.03 and Section 11.01, the assets, income, responsibilities, liabilities, and debts of the separate operating division are not a charge against, an obligation or responsibility of, or an asset of or income source to any other operating division of the Authority. Nothing in this subsection shall be deemed or construed to limit or restrict the right and power of the Authority, or one or more of its other operating divisions, to:

- (1) prepare, maintain, audit, or report its financial position on a consolidated basis with one or more other operating divisions of the Authority;
- (2) use the revenues from the sale of GRP Water for other corporate purposes of the Authority;
- (3) sell raw water to such separate operating division from the Authority, or one or more other operating divisions of the Authority, from any source other than GRP Water, at the System Rate, including applicable

reservation fees, or with the approval of the Review Committee, at the generally prevailing and applicable rates for large volume purchases of raw water adopted by the Authority from time to time, including applicable reservation fees, for water from such other sources, and to use the revenues therefrom for other corporate purposes of the Authority;

- (4) allocate and charge to such separate operating division reservation fees for such portion of the GRP Water as is owned by the Authority on the Effective Date, based on the generally prevailing and applicable reservations fees adopted from time to time by the Authority, and to use the revenues therefrom for other corporate purposes of the Authority;
- (5) allocate and charge to such separate operating division the actual costs, including reservation fees, incurred by the Authority for holding, purchasing, leasing, reserving, optioning, or contracting for the portion of the GRP Water obtained by the Authority under the Houston Contract, or for other water supplies acquired or contracted by the Authority with Project revenues for the benefit of such separate operating division; or
- (6) recover or be reimbursed the actual and reasonable costs described in subsection (a) or for any other actual and reasonable costs incurred by the Authority prior to the establishment of such separate operating division that are associated with the development of the WRAP (except to the extent the Authority has already received funds for the WRAP), the GRP, or the Project, or that otherwise specifically pertain to the subject matter of this Contract.

(c) The creation of such separate operating division of the Authority, and the administration of the GRP, the Project, or this Contract by such separate operating division, shall not be construed as an assignment of this Contract by the Authority.

(d) The Parties agree and acknowledge that economies of scale generally benefit all Participants with respect to the implementation of the GRP and the sharing of Project costs. Accordingly, except as otherwise provided in Section 9.01(g) hereof, the Authority agrees to offer all Regulated Users the opportunity to participate in the GRP on terms and conditions that are similar, in all material respects, to this Contract. In addition, if the Authority at any time provides another Participant terms, conditions or benefits that are related to the Project or the GRP and that are more favorable than those provided to the Participant pursuant to this Contract, then the Authority will offer the same terms, conditions and benefits to Participant, which Participant may, at its option, accept or deny; provided, however, the foregoing shall not apply with respect to terms, conditions, or benefits related to (i) a Participant's request for non-mandatory connection to the Project under Section 4.04 hereof that has been considered by the Review Committee, or (ii) a Participant's request for an increase in Contract Quantity under Section 4.09(b) hereof that has been considered by the Review Committee.

(e) The Authority agrees to provide Participant with access to records, reports, and data, pertaining to the Project and/or the GRP, and applicable fees, rates, and charges under this Contract, to the same extent as provided in Section 2.10 hereof with respect to the Review Committee. The Authority agrees that the annual audit of the separate operating division created pursuant to this Section shall be made available by the Authority in digital format by posting same on the Authority's website. The Authority shall cause all meeting agendas of the Review Committee to be posted on the Authority's website at least three (3) business days prior to each such meeting. The Authority shall cause all meeting agendas of the Board of Directors of the Authority that in any way pertain to the GRP, the Project, or this Contract to be posted on the Authority's website at least (3) business days prior to each such meeting.

(f) In addition to any other rights and remedies provided for under this Contract, a Participant shall have the right to appeal a final decision of the GRP Administrator to the Board of Directors of the Authority. Notice of an appeal describing the nature of the appeal must be provided to the General Manager of the Authority within ninety (90) days of the date of such final decision. The Board of Directors of the Authority shall consider such appeal as soon as practicable, but not later than sixty (60) days following the receipt of such appeal by the General Manager. The Board of Directors of the Authority shall fairly consider such appeal and issue a final, written decision and an explanation therefor not later than thirty (30) days following the conclusion of the appeal proceedings. The Authority may, but shall not be obligated to, stay or suspend any such final decision or related actions pertaining to the GRP, the Project, this Contract, and/or the Participant pending such final, written decision. A Participant's failure to appeal shall not be construed to limit or impede, or serve as a precondition to the exercise of, its legal or equitable rights against the Authority.

(g) At all times during the Contract Term, the Authority covenants that it shall maintain the following insurance coverages:

- (1) Workers Compensation and Employer's Liability Insurance in form and substance equal to the minimum statutory requirements;
- (2) Commercial General Liability Insurance (bodily injury and property damage) on an occurrence basis with a combined single limit of not less than \$1,000,000;
- (3) Commercial Automobile Liability Insurance, including bodily injury and property damage, on an occurrence basis with a combined single limit of not less than \$1,000,000; and
- (4) Excess Liability Insurance on an occurrence basis with a minimum of \$5,000,000 limit of liability per occurrence.

All such policies shall be open to inspection by Participant and its representatives during regular business hours. In the event of any loss or damage related to the Authority's acts or omissions under this Contract that is recoverable from the Participants hereunder, the Authority covenants that it will look first to proceeds of the insurance policies covering such loss or damage, if and to

the extent such policies afford coverage therefor, before seeking to recover such loss or damage from the Participants as a whole through the rates, fees, and charges imposed under this Contract pursuant to Article VI hereof. In the event that such loss or damage was caused, in whole or in part, from the acts or omissions of particular Participants, the foregoing shall not limit the ability of the Authority to (i) first seek recovery from one or more of such particular Participants to the extent allowed under Section 4.11 hereof, or (ii) impose a charge against one or more of such particular Participants to the extent allowed under Section 6.03 hereof. The costs of such insurance shall be considered a cost of the Project and the GRP and reflected (or a share of the cost therefor allocated) in the budget adopted pursuant to subsection (a)(1)(i).

(h) The Authority covenants that it will at all times keep insured such parts of the Project as may be usual and customary with a responsible insurance company or companies against risks, accidents, or casualties for which, and to the extent, carrying such insurance is the usual and customary practice of political subdivisions of the State of Texas operating similar projects in similar locations and under similar circumstances; provided, however, that at any time while any contractor engaged in construction of all or any portion of the Project shall be fully responsible therefor and required by the contract documents to provide adequate insurance, the Authority shall not be required to carry such insurance with respect to such portion of the Project. All such policies maintained by the Authority, or any certificates of insurance provided by a contractor engaged by the Authority, shall be open to inspection by Participant and its representatives during regular business hours. In the event of any loss or damage, the Authority covenants that to the extent feasible and practicable, it will reconstruct, restore, or repair the destroyed or damaged portion of the Project and will apply the proceeds of the insurance policies covering such loss or damage solely for that purpose. The Authority covenants that it will begin such reconstruction, reservation, or repair within a reasonable time under the circumstances after such loss or damage occurs and will continue to pursue completion of same as expeditiously as possible and will pay, or cause to be paid, all costs and expenses in connection therewith out of such insurance proceeds to the extent available. Any insurance proceeds remaining after the completion of and payment for any such reconstruction, restoration, or repair shall first be deposited to the credit of the interest and sinking fund created or to be created in respect of any Bonds issued to acquire such parts of the Project, and thereafter, equitably distributed, along with any insurance proceeds attributable to such parts of the Project acquired with Project revenues, among the Participants by deposit to the credit of the fund designated by the Authority for the deposit of fees, rates, and charges received from the Participants pursuant to this Contract, or as otherwise reasonably determined by the Authority for the benefit and credit of the Participants. Any deficiency in insurance proceeds to pay for any such reconstruction, restoration, or repairs shall be deemed an operations and maintenance expense of the Project payable from the fund designated by the Authority for the deposit of fees, rates, and charges received from the Participants pursuant to this Contract, except to the extent that the Authority reasonably determines same to be a capital expense payable from any other funds legally available for such purposes. If it is not feasible or practicable for the Project to be reconstructed, restored, or repaired, such insurance proceeds shall be applied first to the payment of any outstanding Bonds, notes, obligations, expenses, or liabilities of the Project or the Authority hereunder, and thereafter shall be equitably distributed among the Participants by deposit to the credit of the fund designated by the Authority for the deposit of fees, rates, and charges received from the

Participants pursuant to this Contract, or as otherwise directed by the Authority for the benefit and credit of the Participants.

(i) To the extent that the Project or any portion thereof shall be taken by condemnation or eminent domain proceedings, any awards or compensation received representing damages for the portion of the Project so taken shall, upon receipt by the Authority, and to the extent feasible and practicable, be applied in the same manner as described in the foregoing subsection (g) relating to insurance proceeds.

(j) The Authority covenants that the properties constituting the Project will not be sold or otherwise disposed of in a third-party transaction resulting in the receipt by the Authority of cash or other compensation, except for a portion or component of the Project comprised of real or personal property reasonably determined as surplus or otherwise immaterial to the Project and disposed of in the ordinary course of business as permitted by the Act or the general laws of the State of Texas. Any such cash or compensation received by the Authority shall first be deposited to the credit of the interest and sinking fund created or to be created in respect of the Bonds, and thereafter shall be equitably distributed among the Participants by deposit to the credit of the fund designated by the Authority for the deposit of fees, rates, and charges received from the Participants pursuant to this Contract, or as otherwise reasonably determined by the Authority for the benefit and credit of the Participants, if and as authorized and permitted by any written order, resolution authorizing the issuance of any Bonds, the proceeds of which are used to acquire such properties, and/or by the Act or the general laws of the State of Texas.

(k) To the extent the Authority is allowed to enter Participant's land under the terms of this Contract or otherwise by law, the Authority's employees or agents shall observe Participant's reasonable rules and regulations concerning safety, internal security, and fire protection, shall provide advance notice to Participant of their presence, except in the event of an emergency, and shall exhibit proper credentials.

Section 9.04: Amendments to Contract. This Contract may be amended or otherwise modified only by a written agreement (i) between the Parties, which amendment may be of a general or specific nature, or (ii) by Participants representing an aggregate total water usage among all Participants during the prior calendar year of not less than eighty-five percent (85%) of such total water usage, which amendment shall be executed by the Authority and such Participants, and shall be generally applicable to all similarly situated Participants.

Section 9.05: Legislative Action. Participant understands and acknowledges that amendments may occur from time to time to the Act, including amendments that could grant the Authority the power to impose a fee for groundwater pumpage and a fee for sale of Water consistent with the terms of this Contract. The Authority reserves the right to seek amendments to the Act. Any legal powers of the Authority, whether established by current statute or otherwise, shall be exercised in a manner not inconsistent with all terms, limitations, and conditions set forth in this Contract.

Section 9.06: Sufficient Income. Participant recognizes its duty to, and covenants and agrees that at all times it will, establish and maintain, and from time to time adjust, the rates,

fees, and charges for its services to customers of Participant's System to the end that the revenues and funds received from such rates, fees, and charges, and any other lawfully available funds, will be sufficient at all times to pay any amount due or to become due from Participant under this Contract.

Section 9.07: Temporary Right of Termination. Either Party may terminate this Contract for any reason and be relieved of any and all obligations hereunder by providing written notice to such effect to the other Party on or before July 15, 2010, at 5:00 p.m. (Houston, Texas time), if, on July 1, 2010, at 5:00 p.m. (Houston, Texas time), the aggregate total groundwater usage (including the Authority's groundwater usage) during calendar year 2009 of all Participants that have executed and delivered a contract to the Authority, in substantially the same form as this Contract, is less than sixty percent (60%) of the aggregate total groundwater usage of all Regulated Users during calendar year 2009, according to the official records of the Conservation District.

ARTICLE X

Performance by the Parties

Section 10.01: Force majeure. (a) In the event either Party is rendered unable, wholly or in part, by *force majeure*, to carry out any of its obligations under this Contract, other than the payment of money, it is agreed that on such Party's giving written notice and full particulars of such *force majeure* to the other Party as soon as practicable after occurrence of the cause relied upon, then the obligations of the Party giving such notice, to the extent they are affected by *force majeure* and to the extent that due diligence is being used to resume performance at the earliest practicable time, shall be suspended during the continuance of any inability so caused, but for no longer period. Such cause shall as far as possible be remedied with all reasonable dispatch.

(b) The term "*force majeure*", as used herein, shall include, but not be limited to, acts of God, strikes, lockouts, or other industrial disturbances, acts of the public enemy, war, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, droughts, tornadoes, hurricanes, arrests and restraints of government and people, governmental, regulatory, judicial, or administrative restraint or order, explosions, breakage or damage to machinery, a Well, On-Site Facilities, equipment, pipelines or canals, sudden shortage, sudden insufficiency, failure, interruptions, or curtailment of water or energy supply, and any other incapacities of either Party, whether similar to those enumerated or otherwise, and not within the control of the Party claiming such inability, and which by the exercise of due diligence and care such Party could not have avoided. It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the Party having the difficulty, and the above requirement that any *force majeure* be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of the opposing party when such course is inadvisable in the discretion of the Party having the difficulty.

Section 10.02: Delivery Limitations. If Participant connects to the Project, then Participant is not guaranteed hereunder any specific quantity of Water due to an event of *force majeure* whenever the Project's or the Authority's water supply is interrupted, limited or

insufficient, or when the Project's or the Authority's equipment may become inoperative due to mechanical failure, breakage, failure of power supply, or scheduled maintenance and repairs, nor is Participant guaranteed that Water will be supplied at a specified pressure under any circumstances. The Authority shall provide Participant notice of such scheduled maintenance and repairs at least ten (10) full business days in advance and which notice must specify the anticipated duration of such maintenance and repairs. The Authority is in no case to be held to any liability for failure to furnish any specific pressure of treated water, except that the Authority will comply with Section 4.10 hereof. Further, Participant agrees that any representations to third parties regarding connection to the Project in order to address water quality or quantity issues shall not be binding upon the Authority unless approved by the GRP Administrator in writing.

ARTICLE XI

Default and Remedies

Section 11.01: Liability of the Authority. (a) Participant shall have and reserves the right to recover from the Authority, including by intervention in any legal proceedings of Authority, for any losses, damages, claims, expenses, costs, or judgments, including reasonable attorneys fees and court costs, incurred by Participant due to any act or omission of the Authority that does not constitute gross negligence or willful misconduct by the Authority and that results directly or indirectly from (i) damage described under Section 4.02(c) hereof, (ii) any act or omission relating to the Authority's performance under this Contract, including any breach or violation of this Contract or any laws, rules, or regulatory requirements relating to the Plan, the GRP, or the Project, (iii) improper or inadequate design, construction, permitting, or operation of the Project, or (iv) claims by third parties, including customers of the Project. Any damages or remedies available to Participant pursuant to this subsection (a) shall be a Project cost and a responsibility, liability, and debt of the separate operating division to be created and established pursuant to Section 9.03(a)(1) hereof, and not a responsibility, liability, or debt of any other operating division of the Authority.

(b) Participant shall have and reserves the right to recover from Authority, including by intervention in any legal proceedings of Authority, for any losses, damages, claims, expenses, costs, or judgments, including reasonable attorneys fees and court costs, incurred by Participant due to any act or omission of the Authority that constitutes gross negligence or willful misconduct and that results directly or indirectly from (i) damage described under Section 4.02(c) hereof, (ii) any act or omission relating to the Authority's performance under this Contract, including any breach or violation of this Contract or any laws, rules, or regulatory requirements relating to the Plan, the GRP, or the Project, (iii) improper or inadequate design, construction, permitting, or operation of the Project, or (iv) claims by third parties, including customers of the Project. Any damages or remedies available to Participant pursuant to this subsection (b) shall not be a Project cost and shall be the responsibility, liability, and debt of the Authority, and not of any such separate operating division created and established pursuant to Section 9.03(a)(1) hereof, the Participants, the Project, Project revenues, or the GRP. In any event, the Authority shall not include in the fees, rates, and charges imposed on Participant any losses, damages, interest, expenses, or costs incurred by the Authority that result directly or

indirectly from the gross negligence or willful misconduct of the Authority relative to the aforesaid items (i) through (iv) of this subsection.

(c) Nothing in this Section 11.01 shall be construed to limit the Authority's duties and obligations under Section 9.02 hereof.

(d) Neither the provisions of this Section 11.01, nor the waiver of governmental immunity under Section 11.05 hereof, shall be deemed, construed, or considered as (i) a waiver of governmental immunity by the Authority with respect to any third party, (ii) establishing a particular standard of care with respect to any third party, (iii) waiving any other rights, privileges, remedies, or defenses available to the Authority, at law or in equity, with respect to any third party, or (iv) except as provided in Section 4.02(c) hereof, waiving any rights, privileges, remedies, or defenses for the acts or omissions of any independent contractor of the Authority. All such rights, privileges, remedies, and defenses are hereby reserved by the Authority in all respects. Neither the provisions of this Section 11.01, nor the waiver of governmental immunity under Section 11.05 hereof, shall be deemed, construed, or considered as (i) a waiver of governmental immunity by the Participant with respect to any third party, (ii) establishing a particular standard of care with respect to any third party, or (iii) waiving any other rights, privileges, remedies, or defenses available to the Participant, at law or in equity, with respect to any third party. All such rights, privileges, remedies, and defenses are hereby reserved by the Participant in all respects.

(e) To the extent applicable and permitted by law, each Party shall have available at all times the rights of mandamus and specific performance against the other Party.

Section 11.02: Default and Remedies. (a) Default shall occur in the event either Party (i) fails to timely pay any fees, rates, charges, or other amounts due hereunder ("Payment Default"), or (ii) fails to perform or is in breach or violation of any of its other obligations hereunder ("Performance Default"). In the event of a Payment Default, notice of such default and the time for institution of proceedings for collection of any amounts due shall be given and conducted in the manner provided in this Contract, the applicable provisions of the Rate Order, any other order of the Authority relating thereto, and applicable law. In the event of a Performance Default, the non-defaulting Party shall give the defaulting Party written notice describing such default and demanding cure of such default.

(b) Should a Performance Default not be fully cured within a reasonable time, but not more than sixty (60) days after notice of default has been given to the defaulting Party, or should the defaulting Party deny or dispute such default, the Parties agree to submit such dispute to non-binding mediation in accordance with the provisions of Section 11.03 hereof; provided, however, that either Party may seek injunctive relief, and only injunctive relief, prior to such mediation in order to preserve the *status quo* or to prevent irreparable harm; provided, however, a Party may commence litigation if same could be barred within sixty (60) days by an applicable law or statute of limitations.

(c) Upon conclusion of mediation proceedings or in the event of failure by a defaulting party to mediate timely and in good faith, then except as provided in Section 11.04

hereof, the non-defaulting Party may pursue any and all remedies existing at law and in equity from any court, agency, or other entity with jurisdiction over the subject matter at such time.

Section 11.03: Mediation. (a) The Party seeking to initiate mediation (the "Initiating Party") shall give written notice to the other Party describing in general terms the nature of the dispute and the Initiating Party's claim for relief and identifying one or more individuals with authority to settle the dispute on the Initiating Party's behalf. The Party receiving such notice (the "Responding Party") shall have thirty (30) days within which to designate by written notice to the Initiating Party one or more individuals with authority to settle the dispute on such Party's behalf. The individuals so designated shall be known as the "Authorized Individuals."

(b) The Authorized Individuals shall be entitled to make such investigation of the dispute as they deem appropriate, but agree to meet promptly, and in no event later than thirty (30) days from the date of the Initiating Party's written notice, to discuss resolution of the dispute. The Authorized Individuals shall meet at such times and places and with such frequency as they may agree. If the dispute has not been resolved within thirty (30) days from the date of their initial meeting, the Parties shall cease direct negotiations and shall submit the dispute to mediation in accordance with the procedure set forth below.

(c) The Authorized Individuals shall have five (5) business days from the date they cease direct negotiations to submit to each other a written list of not less than three (3) acceptable qualified mediators not affiliated with either of the Parties. Such list shall rank the mediators in numerical order of preference (e.g., "1" being the highest rank, "3" being the lowest rank). All mediator candidates must satisfy the qualification standards of Texas law, as prescribed under Section 154.052, Texas Civil Practice and Remedies Code. Within five (5) days from the date of receipt of such list, the Authorized Individuals shall rank the mediators submitted by the other Party in numerical order of preference and exchange such rankings. If one or more names are on both lists, the highest ranking person which appears on both lists shall be designated as the mediator. If no name is on both lists, the person receiving the highest combined ranking shall be designated as the mediator. If such mediator is not available to serve, the Parties shall proceed to contact the mediator who was next highest in combined ranking until they are able to select a mediator. In the event of a tie based on such combined ranking, the Review Committee shall break the tie. If a tie cannot be broken by the Review Committee within five (5) days after submission of the Review Committee, mediation shall be concluded.

(d) In consultation with the mediator selected, the Parties shall promptly designate a mutually convenient time and place for the mediation, and unless circumstances require otherwise, such time is to be not later than fifteen (15) days after selection of the mediator.

(e) In the event either Party has substantial need for information in the possession of the other Party in order to prepare for the mediation, the Parties shall attempt in good faith to agree on procedures for the expeditious exchange of such information, with the assistance of the mediator if required.

(f) At least seven (7) days prior to the first scheduled session of the mediation, each Party shall deliver to the mediator and to the other Party a concise written summary of its views on the matter in dispute, and such other matters required by the mediator.

(g) In the mediation, each Party shall be represented by an Authorized Individual and may be represented by counsel. In addition, each Party may, with permission of the mediator, have in attendance such additional persons as are needed to respond to questions, contribute information, and participate in the negotiations.

(h) The mediator shall determine the format for the meetings, designed to assure that both the mediator and the Authorized Individuals have an opportunity to hear an oral presentation of each Party's views on the matter in dispute, and that the Authorized Individuals attempt to negotiate a resolution of the matter in dispute, with or without the assistance of counsel or others, but with the assistance of the mediator. To this end, the mediator is authorized to conduct both joint meetings and separate caucuses with the Parties. The mediation session shall be private. The mediator will keep confidential all information learned in private caucus with any Party unless specifically authorized by such Party to make disclosure of the information to the other Party. The Parties commit to participate in the proceedings in good faith with the intention of resolving the dispute, if at all possible.

(i) The Parties agree to participate in the mediation procedure to its conclusion. The mediation shall be concluded by (i) failure to timely select a mediator, (ii) the execution of a settlement agreement by the Parties, (iii) a declaration of the mediator that the mediation is terminated, or (iv) a written declaration of a non-defaulting Party to the effect that the mediation process is terminated due to failure of the defaulting Party to mediate timely or in good faith, or at the conclusion of one or more mediation sessions lasting a total of not less than eight (8) hours. If a Party withdraws from the mediation by either refusing to participate or terminating mediation before one of the foregoing conditions are satisfied, then such Party shall be liable for all attorney fees and related costs arising from all subsequent litigation of the matter in dispute. If the mediation is terminated without a resolution of the dispute, any Party may commence legal proceedings in addition to any injunctive relief previously sought.

(j) The fees and expenses of the mediator shall be shared equally by the Parties. The foregoing shall not limit the ability of the Authority to treat such costs, including reasonable attorneys and other fees and costs, as a cost of administration and enforcement of the GRP, except in an instance of gross negligence or willful misconduct on the part of the Authority.

(k) Mediation hereunder is a compromise negotiation for purposes of the federal and state rules of Evidence and constitutes privileged communication under Texas law. Except to the extent required by law, the entire mediation process is intended to be confidential, and no stenographic, visual, or audio record shall be made. All conduct, statements, promises, offers, views, and opinions, whether oral or written, made in the course of the mediation by any Party or by an Authorized Individual, or by their agents, employees, representatives, or other invitees, and by the mediator are confidential and shall, in addition and where appropriate, be deemed to be privileged. Such conduct, statements, promises, offers, views, and opinions shall not be discoverable or admissible for any purposes, including impeachment, in any litigation or other

proceeding involving the Parties, and shall not be disclosed to anyone not an Authorized Individual or an agent, employee, expert, witness, or representative of any of the Parties; provided, however, that evidence otherwise discoverable or admissible is not excluded from discovery or admission as a result of its use in the mediation. The mediator shall be disqualified as a witness, consultant, expert or counsel of any Party with respect to the dispute and any related matters in any subsequent litigation.

Section 11.04: Termination Not a Remedy. The Parties agree that termination of this Contract in the event of a default shall not be a remedy available to the Parties; provided, however, that nothing herein shall be deemed or construed to prevent (i) the Authority from suspending or curtailing the delivery of Water to Participant in the event of a Payment Default or Performance Default hereunder that is continuing without cure beyond the time period for cure provided herein; (ii) the Participant from exercising self help under Section 9.01(i) hereof; or (iii) the Participant from terminating this Contract pursuant to Sections 9.07 or 12.02(d) hereof.

Section 11.05: Waiver of Governmental Immunity. The Authority and Participant agree that this Contract constitutes an agreement for the provision of goods and services and is subject to the provisions of the Subchapter I, Chapter 271, Texas Local Government Code, as amended, and any successor statute. In accordance with Sections 271.152 and 271.153 thereof, and as between the Parties, the Authority hereby waives and acknowledges waiver of all constitutional, statutory, or common law right to sovereign or governmental immunity from liability or suit and expressly consents to be sued and to be liable to the limited extent necessary for Participant to enforce this Contract against the Authority.

Section 11.06: Costs. If either Party prevails in any judicial, administrative, or other legal proceedings against the other Party brought under or arising out of this Contract, such prevailing Party shall additionally be entitled to recover court and administrative agency costs and reasonable and necessary attorney fees from the non-prevailing Party to such proceedings. Notwithstanding the foregoing, attorneys fees and costs associated with an administrative hearing pursuant to Texas Water Code Chapters 11, 12, or 13 are recoverable against the non-prevailing Party only in accordance with an order of the TCEQ.

Section 11.07: Enforcement. The General Manager of the Authority, or any Deputy General Manager of the Authority designated by the General Manager, shall have the right to declare the existence of an event of default and/or enforce all legal rights and obligations under this Contract without further authorization by the Board of Directors of the Authority.

Section 11.08: Choice of Law; Venue. This Contract shall be governed by the laws of the State of Texas, and venue shall be in a court of competent jurisdiction located in Montgomery County, Texas.

Section 11.09: No Additional Waiver Implied. The failure of either Party hereto to insist, in any one or more instances, upon performance of any of the terms, covenants, or conditions of this Contract shall not be construed as a waiver or relinquishment of the future performance of any such term, covenant, or condition by the other Party hereto, but the obligation of such other Party with respect to such future performance shall continue in full force and effect.

ARTICLE XII

Term

Section 12.01: Contract Term. This Contract shall be in force and effect from and after the Effective Date and shall expire on the later of (i) December 31, 2045, or (ii) the date of retirement of all of the Authority's then outstanding Bonds and discharge of any remaining obligations of the Authority incurred under or pursuant to this Contract (the "Contract Term"), so as to afford the Authority a reasonable time period to conclude its affairs related to this Contract. Any and all obligations of Participant to make payments to the Authority, to the extent such obligations were incurred prior to termination of this Contract, shall survive any expiration or termination of this Contract.

Section 12.02: Termination. (a) Either Party may terminate this Contract after July 1, 2010, and until 5:00 p.m. on July 15, 2010, as provided in Section 9.07 hereof.

(b) The Parties acknowledge that a material consideration of the Authority in entering into this Contract is that Participant does not have, and will not have, during the Contract Term, original jurisdiction under Chapter 13, Texas Water Code, or any similar law, rule or regulation currently in effect or hereafter enacted or adopted, over the raw water rates or reservation fees established by the Authority from time to time ("Original Jurisdiction"). Accordingly, in the event of a change in any such law, rule, or regulation that would provide Participant Original Jurisdiction, and the initiation of proceedings by Participant or the taking of any similar overt action by Participant to assert Original Jurisdiction, the Authority shall have the right, but not the obligation, to terminate this Contract; provided, however, that prior to such termination, the Authority will give Participant written notice of the Authority's intent to terminate and give Participant a reasonable opportunity to cease such proceedings or such similar overt action. If Participant promptly ceases such proceedings or such similar overt action, then the Authority shall not terminate this Contract.

(c) This Contract may not be terminated as a result of a default by either Party.

(d) Except as provided above in this section, or in this subsection, this Contract may only be terminated prior to the expiration of the Contract Term by mutual, written agreement of the Parties. The Authority may enter into an agreement with Participant for the termination of this Contract prior to the expiration of the Contract Term, but only upon (i) Participant's agreement therein to pay its pro-rata share of the Bonds or other obligations of the Authority issued or incurred in connection with the Project or the GRP pursuant to Article VIII hereof, which pro-rata share must be determined by the GRP Administrator, presented to the Review Committee for recommendations, and approved by the Board of Directors of the Authority; and (ii) the reasonable determination by the GRP Administrator that such termination will not adversely affect the GRP or the other Participants.

Section 12.03: Continuation of Service. If Participant has connected to the Project, or has been provided a notice to connect to the Project under Section 4.05 hereof, the Authority agrees

to continue to provide Water to Participant after the expiration of the Contract Term, but not after termination of this Contract (except for termination pursuant to Section 13.02(a) hereof), in quantities and on terms and conditions substantially similar to those set forth in this Contract, and at rates then payable by similarly situated customers of the Authority, for so long as the Authority has available sufficient water supplies from GRP Water to do so. This Section 12.03 shall survive the expiration of the Contract Term or the termination of this Contract pursuant to Section 13.02(a) hereof, but not the termination of this Contract for any other reason.

ARTICLE XIII

Miscellaneous Provisions

Section 13.01: Contract Subject to Laws and Regulations. This Contract shall be subject to all present and future valid and applicable laws, orders, rules, and regulations of the United States of America, the State of Texas, or any regulatory body having jurisdiction. The Authority shall not adopt, implement, or enforce any provision of its Rate Order, Rules, regulations, or any written order of the Authority that is contrary to, inconsistent with, or prohibited by the terms and provisions of this Contract. The Authority will not exercise its legal or statutory powers, as either of same may be amended hereafter, in a manner that is contrary to, inconsistent with, or prohibited by the terms and provisions of this Contract.

Section 13.02: Severability and Reformation. (a) If any provision of this Contract or any like provision of a substantially similar contract with any other Participant(s), other than the right of termination by the Authority pursuant to Section 12.02(b) hereof or any like provision of a substantially similar contract with any other Participant(s), is held by a final and non-appealable decision of a court of competent jurisdiction to be unenforceable or violative of laws, orders, rules, or regulations of the United States of America, the State of Texas, or any regulatory body having jurisdiction, all other parts hereof remain enforceable unless the result materially prejudices either Party. In the event of such a determination with respect to Section 12.02(b) hereof or any like provision of a substantially similar contract with any other Participant(s), and in the event that any Participant (other than the Authority) should before, contemporaneously with, or after such determination acquire Original Jurisdiction, then this Contract is automatically terminated as of the effective date of the later of such events, but Section 12.03 hereof shall survive such termination (i) for a reasonable period of time to permit the Parties and other Participants to mutually agree upon a reformation of this Contract and the other Participant contracts, or (ii) until a Participant or former Participant shall initiate proceedings or take any similar overt action to assert Original Jurisdiction.

(b) Except as provided in subsection (a) above, where any procedure hereunder may be held by a court of competent jurisdiction to be unenforceable or violative of any State or Federal statutory or constitutional provision, the Parties shall have the power by resolution, and the obligation, to adopt and promulgate reasonable and necessary alternative procedures which will conform thereto, and the Parties agree that they would have entered into this Contract without regard to such unenforceability or violative procedure.

Section 13.03: Notices. (a) Until the Authority is otherwise notified in writing by Participant, the address of Participant is and shall remain as follows:

1404 Blaketree L.P.
2701 Dallas Parkway, Suite 590
Plano, Texas 75093
Telefax: (972) 980-9705
E-mail: Jim@dugganrealty.com

Until Participant is otherwise notified in writing by the Authority, the addresses of the GRP Administrator and the Authority are and shall remain as follows:

General Manager/GRP Administrator
San Jacinto River Authority
1577 Dam Site Road
Conroe, Texas 77304
Telefax: (936) 588-3043
E-mail: legalnotices@sjra.net

(b) All written notices required or permitted to be given under this Contract from one Party to the other shall be given (i) by telefax or e-mail to the other Party at the telefax number or e-mail address set forth above, with a hard copy of same mailed within forty-eight (48) hours by certified mail (return receipt requested), with proper postage affixed thereto and addressed to the other Party at the address set forth above, or at such other address as the other Party may designate by written notice, or (ii) by the mailing of same by certified mail (return receipt requested), with proper postage affixed thereto and addressed to the other Party at the address set forth above or at such other address as the other Party may designate by written notice. Notice by telefax or e-mail shall be effective upon actual receipt. Notice by certified mail shall be effective when actually received, as reflected on the corresponding return receipt.

Section 13.04: Approvals; Execution by General Manager. (a) Unless otherwise expressly provided for herein, any consent or approval of the Parties shall be evidenced by an order or resolution duly adopted by the governing body of the Party, or an appropriate certificate executed by a person, firm, or entity previously authorized to determine and give such approval or consent on behalf of the Party pursuant to an ordinance, resolution, or other appropriate instrument adopted by the governing body or managing authority of such Party.

(b) Notwithstanding the above, the Board of Directors of the Authority has duly authorized the execution of this Contract by the General Manager of the Authority, and any approvals or consents required under this Contract may be given by the General Manager or the GRP Administrator, unless otherwise expressly provided herein.

Section 13.05: Parties in Interest. This Contract shall be for the sole and exclusive benefit of Participant and the Authority, and shall not be construed to confer any rights upon any other person, including, without limitation, any customer of Participant's System.

Section 13.06: Assignments. This Contract shall bind and benefit the respective Parties and their legal successors, but shall not otherwise be generally assignable, in whole or in part, by either Party without first obtaining the written consent of the other. This provision against assignment shall not apply in the event of an assignment by operation of law resulting from merger, acquisition, or consolidation, or a municipality succeeding to the assets and liabilities of Participant, in which case this Contract shall remain in full force and effect and the succeeding person shall be entitled to the benefits and shall assume and be bound by the obligations of Participant hereunder.

Section 13.07: Reservation of Rights. All rights, powers, privileges, and authority of the Parties not governed, restricted, or affected by the express terms and provisions of this Contract shall be and are hereby reserved by the Parties and may be exercised and enforced from time to time and as often as may be deemed necessary and proper by the Parties.


Section 13.08: Merger. This Contract contains all the agreements made between the Parties relative to the subject matters addressed hereinabove.

Section 13.09: Authority to Enter Into Contract. Each Party represents and warrants to the other Party that it is authorized to enter into this Contract by the Constitution and laws of the State of Texas.

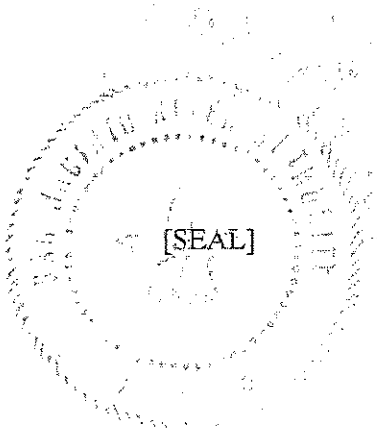
[SIGNATURES COMMENCE ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto to have signed this Contract in multiple copies, each of which shall be deemed to be an original, but all of which shall constitute but one and the same contract, as of the Effective Date.

SAN JACINTO RIVER AUTHORITY

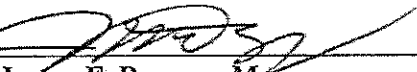
By: 
Reed Eichelberger, P.E.
General Manager

Date: 7-7-10



1404 BLAKETREE, L.P., a Texas limited partnership

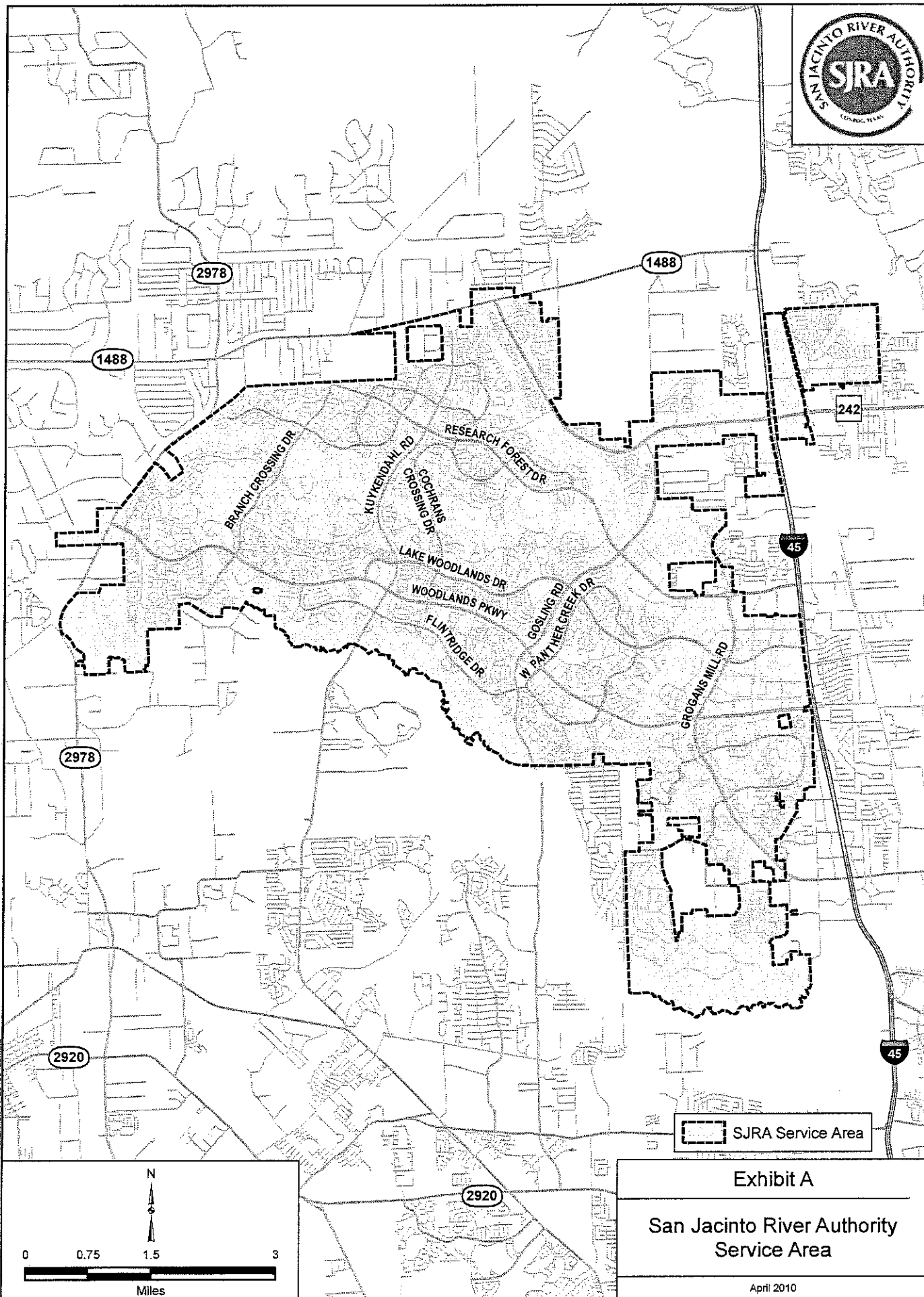
By: 1404 Blaketree GP, LLC, a Texas limited liability company, its General Partner

By: 
James F. Duggan, Manager

Date: 7-7-10

Exhibit A

San Jacinto River Authority Service Area



April 2010



Exhibit A1
San Jacinto River Authority
Service Area
April 2010

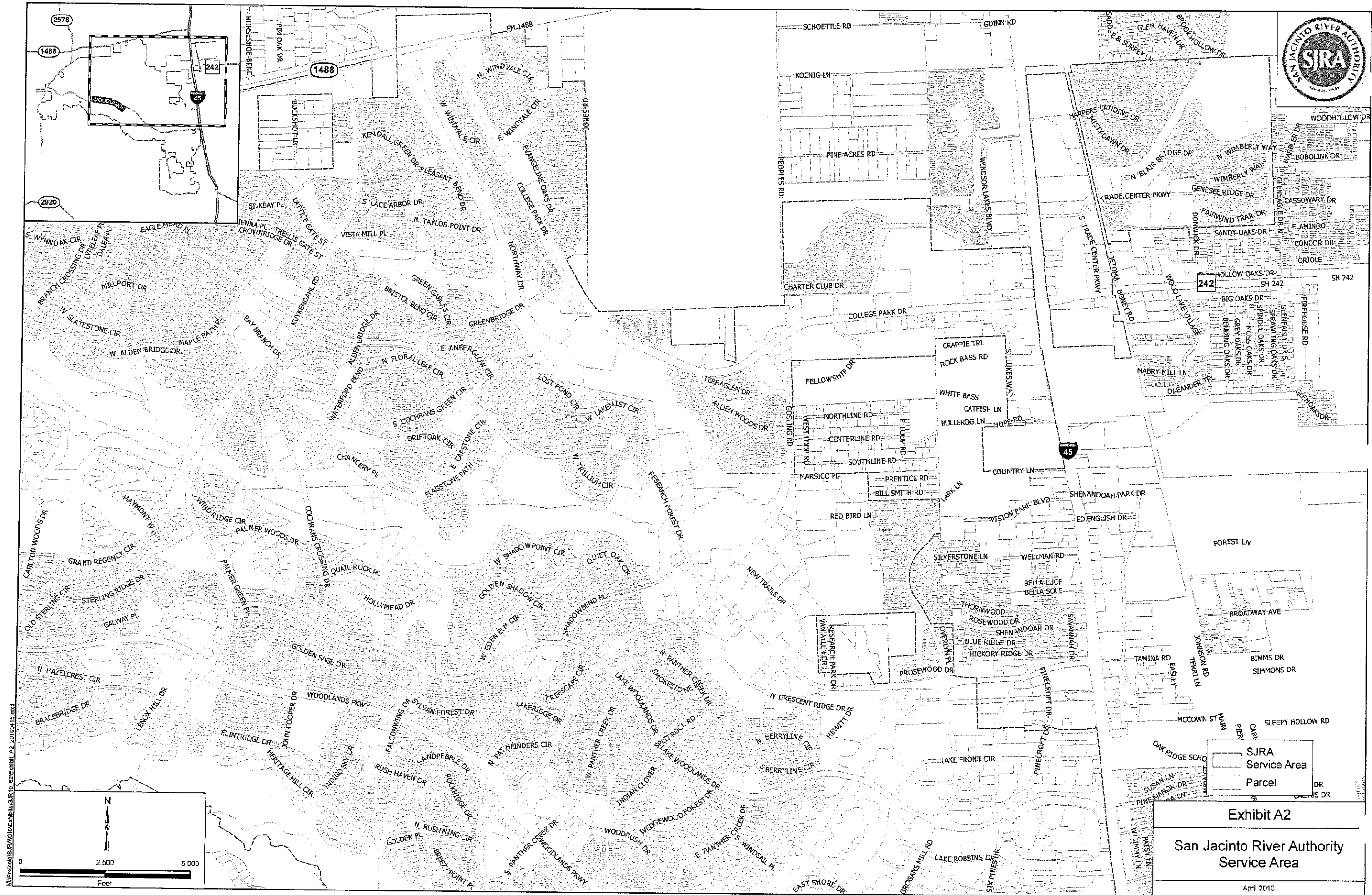


Exhibit A2

San Jacinto River Authority
Service Area

April 2010



SJRA
Service Area
Parcel

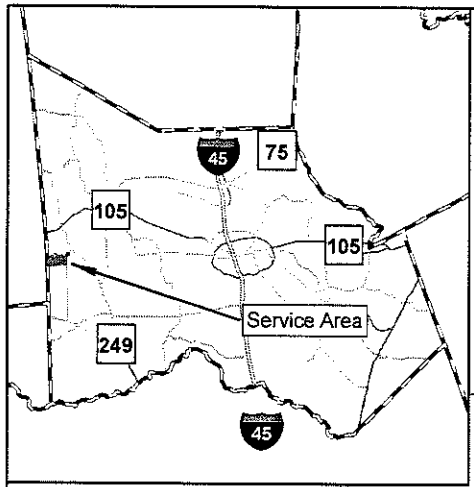
Exhibit A3

San Jacinto River Authority
Service Area

April 2010

Exhibit B

1404 Blaketree, LP Service Area



Montgomery County
Grimes County

MOON CAMP RD

1486

S FM 1486

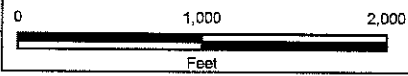
CROWN RANCH BLVD

- Service Area
- Parcel

Exhibit B

1404 Blaketrete, LP
Service Area

April 2010



M:\Projects\1404 Blaketrete\1404 Blaketrete.dwg

Exhibit C

1404 Blaketree, LP Well Permits

Lone Star Groundwater Conservation District

PO Box 2467

Conroe, Texas 77305

Phone: (936) 494-3436 Metro: (936) 441-3437 Fax: (936) 494-3438

Email: lsgcd@consolidated.net Web Site: www.lonestargcd.org

OPERATING PERMIT

PERMIT NO.: #OP-07120602A

RECEIVED
JAN 28 2009

I. PERMITTEE:

1404 Blaketree, LP
Attn: Leif J Erickson
2701 Dallas Parkway, suite 590
Dallas, TX 75093

BY:

II. NUMBER OF WELLS COVERED BY PERMIT:

2 existing wells through OP

III. LOCATION OF WELL(S):

4430 South FM 1486 (Lake Well), Montgomery

IV. WELL REGISTRATION NUMBER AND PERMIT HISTORY:

Well Registration #'s: 2007120603 & 2007120604

Permit History: OP-07120602 (2 wells and request for 41,000,000) superseded by this permit

V. PERMIT TERM:

Date of Issue: January 1, 2008
Expiration Date: December 31, 2009

VI. PURPOSE OF USE:

Irrigation

VII. AUTHORIZED WITHDRAWAL:

Only that which is required without being wasteful during the permit term, but not to exceed 55,000,000 gallons in 2008 and 55,000,000 gallons on an annualized basis thereafter.

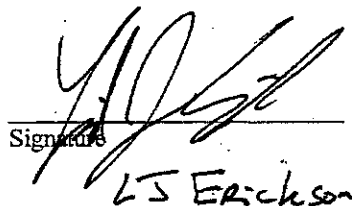
VIII. PROVISIONS:

1. This permit is issued in accordance with the provisions of the Rules of the District, and acceptance of this permit constitutes an acknowledgement and agreement that that the permittee will comply with the Rules of the District and the terms and conditions of this permit and that the permittee is bound by such Rules, terms and conditions; such acknowledgement and agreement by the permittee is a condition precedent to the granting and issuance of this permit.
2. This permit confers only the right to use the permit in accordance with the terms of the permit and the Rules of the District. The issuance of this permit does not grant to the permittee the right to use private property, or public property, for the production or conveyance of water. Neither does this permit authorize the invasion of any personal rights nor the violation of federal, state, or local laws, or any regulations.
3. All water withdrawn under this permit must be put to beneficial use at all times.
4. The site of any well covered by this permit must be accessible to District representatives for inspection, and the permittee agrees to cooperate fully in any reasonable inspection of any well or well site by District representatives.

5. The application pursuant to which this permit has been issued is incorporated in this permit, and this permit is issued on the basis of and contingent upon the accuracy of the information supplied in that application. A finding that false information has been supplied in the application is grounds for immediate revocation of this permit.
6. A substantial change to this permit may be made only after application to and approval by the District to so amend.
7. The permittee of this permit shall equip the well or wells covered by this permit with a meter or meters prior to producing from the well after December 31, 2002, and shall pay to the District fees in accordance with the fee schedule of the District and the requirements of the District's Rules.
8. The validity of this permit is contingent upon payment by the permittee of all applicable fees as set forth under the District's Rules.
9. No later than February 15 of each year, the permittee of this permit must submit a report to the District in accordance with District Rule 3.12(i).
10. This permit is issued subject to: (1) the proportional adjustment regulations of the District; (2) protection of Historic Use Permits issued by the District; (3) exempt uses; (4) the District's management plan; (5) the District's Rules as they exist now or as they may be amended in the future; and (6) the continuing right of the District to supervise and regulate groundwater production from the aquifers within the District's boundaries, as authorized by Chapter 36, Texas Water Code, as amended.
11. All other matters requested in the application, which are not specifically granted by this permit, are denied.
12. The District makes no representations and shall have no responsibility with respect to the availability or quality of water authorized to be produced under this permit.
13. The District reserves the right to amend the District's Rules to allocate within a management zone water that is available for production under Operating Permits, including reducing the amount of water that may be available for production under such a permit, including this permit.
14. No person shall drill, equip, complete, substantially alter, operate, or produce groundwater from a well in violation of District Rule 3.12. A violation of Rule 3.12 occurs on the first day the unauthorized activity occurs and continues each day thereafter until the permit or amendment is issued, if any.
15. Permits issued that authorize drilling, equipping, completing, or substantially altering the size or capacity of a well shall be valid for a term not to exceed one year from the date of issuance to complete those activities and begin producing in accordance with the terms of the permit, unless the applicant has applied for and been granted an extension. Such extensions shall only be granted once and shall not be valid for more than an additional one-year period. Thereafter, the applicant must file a new Operating Permit application. A driller's log and report must be filed with the District within 60 days of completion as required by Rule 3.3.

DATED, ISSUED, AND EXECUTED THIS 9th day of December 2008; TO BE EFFECTIVE ON
THE 1st day of January 2008.

PERMITTEE:


Signature

Printed Name

Manager
Title

DISTRICT:

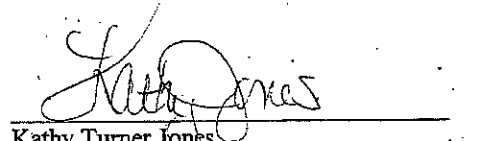

Kathy Turner Jones
General Manager
Lone Star Groundwater Conservation District

Exhibit D

1404 Blaketree, LP Historical Use

Exhibit D

1404 Blaketree, LP

Historical Use

| Year | Reported Pumpage ⁽¹⁾ | |
|------|---------------------------------|------|
| | Gallons / Year | MGD |
| 2002 | 0 | 0.00 |
| 2003 | 0 | 0.00 |
| 2004 | 0 | 0.00 |
| 2005 | 0 | 0.00 |
| 2006 | 0 | 0.00 |
| 2007 | 300,000 | 0.00 |
| 2008 | 50,937,000 | 0.14 |
| 2009 | 42,841,500 | 0.12 |

Notes

(1) Latest Available Pump Data as Furnished by Lone Star Groundwater Conservation District

Exhibit E

1404 Blaketree, LP Projected Future Demands

Exhibit E

1404 Blaketree, LP

Projected Future Demands

| Year | MGD ⁽¹⁾ |
|------|--------------------|
| 2015 | 0.14 |
| 2025 | 0.14 |
| 2035 | 0.14 |
| 2045 | 0.14 |

Notes

(1) Provided by Blaketree, LP June 2010

Exhibit F

Conceptual Project Layout

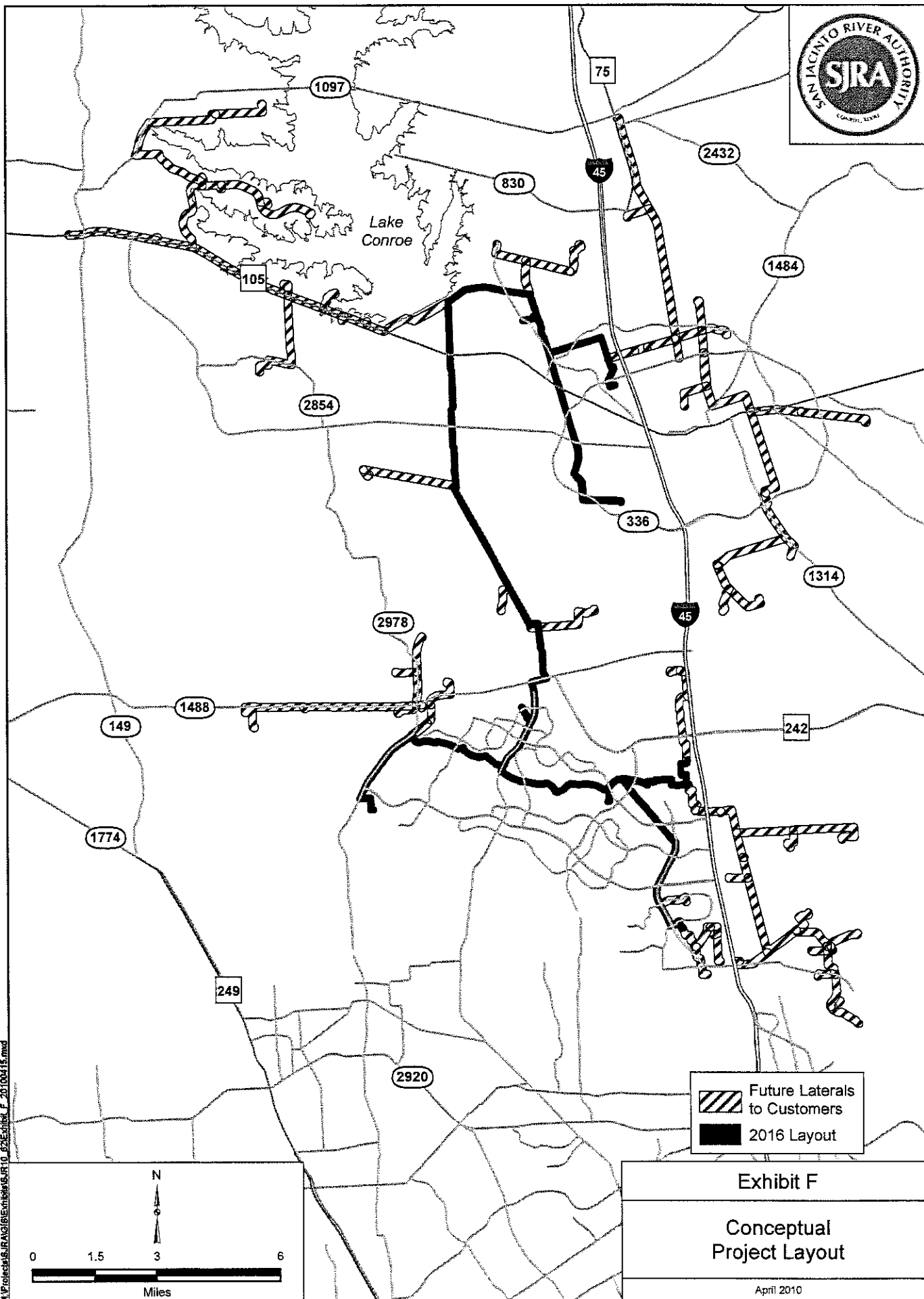


Exhibit F

Conceptual
Project Layout

April 2010

Exhibit G

Form of Easement

WATER LINE [, METER] AND ACCESS EASEMENT

()¹

THE STATE OF TEXAS §
 § KNOW ALL PERSONS BY THESE PRESENTS:
COUNTY OF MONTGOMERY §

THAT _____, a _____
("Grantor"), whose address is _____, for and
in consideration of the sum of Ten & No/100 Dollars (\$10.00) and other good and valuable
consideration to Grantor in hand paid by the SAN JACINTO RIVER AUTHORITY ("Grantee"),
a body politic and corporate and a governmental agency of the State of Texas organized under
the provisions of Article XVI, Section 59, Texas Constitution, whose address is 1577 Dam Site
Road, Conroe, Texas, 77304, the receipt and sufficiency of which are hereby acknowledged and
confessed, has GRANTED, SOLD, and CONVEYED, and by these presents does GRANT,
SELL, and CONVEY, unto Grantee a perpetual right-of-way and easement (the "Easement") to
lay, construct, alter, maintain, inspect, operate, service, repair, replace, relocate, change the size
of, protect, patrol, and remove one or more pipelines for the transportation of water, together
with appurtenances thereto and equipment ancillary to the operation thereof, including, but not
limited to, laterals, taps, fittings, valves, regulators, meters, electrical equipment and control
panel facilities, vaults, cathodic protection equipment and above-ground cathodic protection test
stations, markers, air valve assemblies, service manholes, air vent pipes (not to exceed seventy-
two inches (72") in height, measured from final grade after construction), and protective bollards
(such pipeline(s), appurtenances, and ancillary equipment being referred to herein collectively as
the "Facilities"), subject to the terms and provisions hereinafter set forth, in, over, under, across,
and through that certain tract or parcel of land being more particularly described by metes and
bounds on Exhibit 1 (the "Easement Tract"), attached hereto and incorporated herein by this
reference for all purposes, out of that certain _____ acre tract of land described in that certain
_____ recorded in the Official Public Records of Real Property of
Montgomery County, Texas, under Clerk's File No. _____ (the "Site").

Grantee shall have access across, along, under, over and upon the Easement Tract to
engage in all activities as may be necessary, requisite, convenient, or appropriate to effectuate
the purpose for which this Easement is granted. Grantee's rights shall include, without
limitation, the right to clear and remove trees, growth, shrubbery, and other improvements from
within the Easement Tract, the right to bring and operate such equipment thereupon as may be
necessary or appropriate to effectuate the purpose for which the Easement is granted, and the
right of ingress, egress, and regress onto and across the Site for any purposes for which this
Easement is granted, all at Grantee's sole expense. Grantee's access to the Site shall occur by use

¹ Please contact the GRP Administrator and inquire if there is particular easement, water line, project or other
project identification information to be included here.

of a dual-lock system under which Grantor's representatives access the Site through use of one of said locks and Grantee's representatives access the Site through use of the other of said locks; provided, however, that if in connection with any of Grantee's activities, Grantee removes any of Grantor's permanent fencing around the Site, then Grantee shall erect and maintain, at Grantee's sole expense, temporary fencing until Grantee reinstalls such permanent fencing.

In connection with Grantee's control panel and other components of the Facilities, Grantee may install, own and maintain sensor equipment at, on, or about Grantor's ground storage tank (or other water plant facilities) located on the Site and electrical and control connections by conduit pipe (or other means) connecting such sensor equipment to any other portion of the Facilities (collectively, the "Sensor Line and Equipment"). Grantee shall, at Grantee's sole expense, restore the surface of the Easement Tract and any other portion of the surface of the Site, if disturbed by Grantee, as nearly as possible to the prior condition.

Grantee, and not Grantor, shall be responsible to own, operate and maintain the Sensor Line and Equipment and the other Facilities installed by Grantee (collectively, "Grantee's Facilities"). Grantor, and not Grantee, shall be responsible to own, operate and maintain all other equipment, facilities, tank(s), building(s), materials, well(s) and/or structures on the Site (collectively, "Grantor's Facilities"). In the event Grantee damages Grantor's Facilities, Grantee will be responsible for the reasonable costs to repair or replace same. In the event Grantor damages Grantee's Facilities, Grantor will be responsible for the reasonable costs to repair or replace same. In the event of any such damage, the party who committed the damage shall immediately notify the other party of such damage.

This Easement is non-exclusive. It is expressly provided that Grantor reserves unto itself, its successors, substitutes and assigns, all other rights in and to the Easement Tract which do not unreasonably interfere with or prevent the use of the Easement herein granted and conveyed to Grantee, except for the construction of fences (other than perimeter fencing around the Site which may encroach upon the Easement Tract), houses, buildings and above-ground structures or improvements, which Grantor shall not be entitled to construct on or across the Easement Tract without Grantee's prior written consent, which consent shall not be unreasonably withheld provided that the installation of same will not interfere with or prevent the use of the Easement herein granted and conveyed to Grantee for the purposes intended. Further, Grantor shall not cause the installation of underground lines, utilities or like facilities within the Easement Tract without the prior written consent of Grantee, which consent shall not be unreasonably withheld, provided that in no event shall the installation of such facilities unreasonably interfere with or prevent the use of the Easement herein granted and conveyed to Grantee for the purposes intended. Grantor shall submit plans and specifications for the installation of underground lines, utilities or like facilities within the Easement Tract to Grantee at the above address for review and approval. After receipt of said plans and specifications by Grantee, Grantee shall have forty five (45) days following submittal, or ten (10) days following any re-submittal, to review and approve or reject same in writing. If Grantee rejects the plans and specifications so submitted, Grantee shall identify the reasons for such rejection in writing to Grantor. Grantor shall not cause, and Grantee, at Grantor's expense, shall have the right to prevent or remove any obstruction of the Easement Tract that interferes with or prevents the use of the Easement herein granted and conveyed to Grantee. Notwithstanding any other provision of this Easement

document, Grantor shall not be required to remove, and Grantor is authorized to maintain, operate, replace and repair any waterline(s) and facilities that Grantor currently has located within the Easement Tract; provided, however, Grantor shall not hereafter install any additional waterline(s) or facilities within the Easement Tract without first obtaining written consent from Grantee in the manner prescribed in this paragraph. With respect to the foregoing, any action to be taken by Grantee may be taken by any duly authorized representative of Grantee, including but not limited to Grantee's general manager, deputy general manager(s), engineers or attorneys.

The terms and provisions of the preceding paragraph shall be deemed to be restrictive covenants encumbering and running with the land covered by the Easement Tract and shall be binding upon Grantor and all persons or entities claiming title (or any interest in title) by, through, or under Grantor, and their respective successors and assigns. In particular, and without limiting the generality of the foregoing, each successive purchaser of, or successive right holder (including, without limitation, easement right holder) within, the land covered by the Easement Tract, upon purchase thereof or acquisition of right therein, is bound by the requirements of the preceding paragraph.

This conveyance is further made subject to any and all restrictions, covenants, easements, rights-of-way, encumbrances and mineral or royalty reservations or interests affecting the property and appearing of record in the Official Public Records of Real Property of Montgomery County, Texas, to the extent that said items and matters are in effect and validly enforceable against the Easement granted herein.

TO HAVE AND TO HOLD the above described Easement, together with all and singular the rights and appurtenances thereto in anywise belonging, including all necessary rights of ingress, egress, and regress, unto Grantee, its successors and assigns, forever; and Grantor does hereby bind Grantor and Grantor's successors, substitutes and assigns to WARRANT AND FOREVER DEFEND, all and singular, the Easement unto Grantee, and its successors, substitutes and assigns, against every person whomsoever lawfully claiming or to claim the same or any part thereof by, through or under Grantor, but not otherwise, subject to all of the terms, conditions, provisions and limitations hereinabove set forth and provided.

Grantee, acting herein by and through the undersigned, pursuant to the authority granted at a meeting duly and lawfully called and convened, joins in the execution hereof for purposes of evidencing its acceptance of this Easement and its agreement on behalf of itself, its successors and assigns, with all of the terms, conditions, and covenants herein set out.

[SIGNATURES COMMENCE ON FOLLOWING PAGE]

EXECUTED this ____ day of _____, 20__.

By: _____

Name: _____

Title: _____

THE STATE OF _____ §

COUNTY OF _____ §

This instrument was acknowledged before me on this ____ day of _____,
20__, by _____, the _____ of
_____.

Notary Public in and for the
State of _____

(SEAL)

ACCEPTED this ____ day of _____, 20__.

SAN JACINTO RIVER AUTHORITY

By: _____

Name: _____

Title: _____

THE STATE OF TEXAS §

 §

COUNTY OF MONTGOMERY §

 This instrument was acknowledged before me on this ____ day of _____,
20__, by _____, as _____ of the San Jacinto
River Authority, on behalf of the San Jacinto River Authority.

Notary Public in and for
the State of T E X A S

(SEAL)

Exhibit 1

[Description of the Easement Tract]