

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Issuer (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2019 Pipeline Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2019 Pipeline Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2019 Pipeline Bonds. See “TAX MATTERS”.



CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

\$183,155,000



Water Furnishing Revenue Refunding Bonds, Series 2019 (San Diego County Water Authority Desalination Project Pipeline)

Dated: Date of Delivery

Due Date: As shown in inside front cover

The California Pollution Control Financing Authority (the “**Issuer**”) is issuing the above-captioned bonds (the “**Series 2019 Pipeline Bonds**”) pursuant to a Trust Indenture dated as of February 1, 2019 (the “**Pipeline Indenture**”), between the Issuer and MUFJ Union Bank, N.A., as trustee (the “**Pipeline Trustee**”), to (i) current refund and redeem the Issuer’s outstanding Water Furnishing Revenue Bonds, Series 2012 (San Diego County Water Authority Desalination Project Pipeline) (the “**Series 2012 Pipeline Bonds**”), (ii) fund a debt service reserve for the Series 2019 Pipeline Bonds and (iii) pay costs of issuance of the Series 2019 Pipeline Bonds.

The Series 2019 Pipeline Bonds are limited obligations of the Issuer and, except to the extent payable out of the proceeds of the Series 2019 Pipeline Bonds or any income from the investment thereof, will be payable solely from, and secured solely by, a pledge of payments derived by the Issuer under a Pipeline Loan Agreement dated as of December 24, 2012, as amended (the “**Pipeline Loan Agreement**”), between the Issuer and the San Diego County Water Authority Financing Agency (the “**Water Authority Financing Agency**”). Pursuant to a Pipeline Installment Sale and Assignment Agreement dated as of December 24, 2012, as amended (the “**Installment Sale and Assignment Agreement**”), between the Water Authority Financing Agency and the San Diego County Water Authority (the “**Water Authority**”), the Water Authority makes installment payments to the Water Authority Financing Agency, which are the sole source of payment of the Water Authority Financing Agency’s payments to the Issuer under the Pipeline Loan Agreement. The proceeds of the Series 2012 Pipeline Bonds were used to pay the cost of constructing a pipeline to connect the Claude “Bud” Lewis Carlsbad Desalination Plant in Carlsbad, California (the “**Plant**”) to the existing water distribution system of the Water Authority (as further described herein, the “**Pipeline**” and, together with the Plant, the “**Project**”). Poseidon Resources (Channelside) LP (the “**Company**”) owns the Plant. The Water Authority is the sole purchaser of the potable water produced by the Plant (“**Product Water**”) and owns the Pipeline, which was constructed by the Company and began commercial operation on December 23, 2015. The Company must pay performance damages to the Water Authority for its failure to deliver Product Water to the Water Authority in accordance with the terms of their water purchase agreement dated December 20, 2012, as amended (the “**Water Purchase Agreement**”). The Water Authority’s obligations to make installment payments are reduced by the amount of such performance damages, whether or not paid. The Water Authority Financing Agency’s obligation to make loan repayments is reduced in turn by the amount of such performance damages, whether or not paid. The Water Authority has assigned its right to receive performance damages to the Water Authority Financing Agency to secure its obligations under the Installment Sale and Assignment Agreement, and the Water Authority Financing Agency has, in turn, assigned its rights to receive such performance damage payments to the Issuer, which has assigned such rights to the Pipeline Trustee pursuant to the Pipeline Indenture. Concurrently with the issuance of the Series 2012 Pipeline Bonds, the Authority issued its Water Furnishing Revenue Bonds, Series 2012 (Poseidon Resources (Channelside) LP Desalination Project) (AMT) (the “**Series 2012 Plant Bonds**”) and, together with the Series 2019 Pipeline Bonds, the “**Project Bonds**”), the proceeds of which were loaned by the Issuer to the Company, to pay a portion of the costs of constructing the Plant. The Company’s obligations under the loan agreement relating to the proceeds of the Series 2012 Plant Bonds and its obligations to make performance damage payments under the Water Purchase Agreement are secured on parity by the Collateral described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS”. The Water Authority’s obligations to make installment payments are unsecured and subordinate to its senior debt and certain other debt, but will have the benefit of certain covenants, including a rate covenant, made by the Water Authority in respect to obligations that are payable from its Net Water Revenues, as defined in the Water Authority’s General Resolution No. 89-21. See “PROJECT PARTICIPANTS – San Diego County Water Authority”.

The Series 2019 Pipeline Bonds will bear interest at the rates set forth on the inside front cover per annum from their date of delivery and be payable on January 1 and July 1 of each year commencing July 1, 2019, or the final stated maturity date. The Series 2019 Pipeline Bonds maturing on July 1, 2039 and November 21, 2045 are subject to optional redemption, and the Series 2019 Pipeline Bonds are subject to mandatory redemption, prior to maturity in the manner and at the times described in this Limited Offering Memorandum. The Series 2019 Pipeline Bonds will be issued as fully registered bonds in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York, which will act as the securities depository for the Series 2019 Pipeline Bonds pursuant to a book-entry system described herein. Beneficial ownership of the Series 2019 Pipeline Bonds may be acquired in denominations of \$250,000 and multiples of \$5,000 in excess of \$250,000. **The Series 2019 Pipeline Bonds are being offered and sold only to Qualified Institutional Buyers, as defined in Rule 144A under the Securities Act of 1933, and are subject to certain resale restrictions. See “TRANSFER RESTRICTIONS” herein.**

THE SERIES 2019 PIPELINE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OR ANY LOCAL AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2019 PIPELINE BONDS. THE ISSUER HAS NO TAXING POWER.

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS as shown on inside cover

The Series 2019 Pipeline Bonds are offered when, as and if issued by the Issuer and accepted by the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Issuer, and certain other conditions. Certain legal matters will be passed upon for the Water Authority and the Water Authority Financing Agency by Mark J. Hattam, General Counsel; for the Issuer by the Honorable Xavier Becerra, Attorney General of the State of California; for the Company by Crowell & Moring LLP, Special Counsel to the Company; and for the Underwriters by Drinker Biddle & Reath LLP and eco(n) law LLC. Polsinelli LLP serves as Disclosure Counsel and Special Counsel to the Water Authority. Montague DeRose and Associates, LLC and Acacia Financial Group, Inc. are serving as Co-Municipal Advisors to the Water Authority. The Series 2019 Pipeline Bonds are expected to be delivered to DTC on or about February 20, 2019.

Honorable Fiona Ma
Treasurer of the State of California
As Agent for Sale

J.P. Morgan
Goldman Sachs & Co. LLC

RBC Capital Markets
Loop Capital Markets

MATURITIES, AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIPS[†]

\$183,155,000

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
WATER FURNISHING REVENUE REFUNDING BONDS, SERIES 2019
(SAN DIEGO COUNTY WATER AUTHORITY DESALINATION PROJECT PIPELINE)**

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP [†] No.
2020	\$ 575,000	5.00%	2.18%	103.766	13054WAH0
2021	845,000	5.00%	2.25%	106.293	13054WAJ6
2022	1,135,000	5.00%	2.33%	108.587	13054WAK3
2023	1,445,000	5.00%	2.40%	110.708	13054WAL1
2024	1,780,000	5.00%	2.49%	112.527	13054WAM9

\$14,780,000 – 5.00% Series 2019 Term Bonds due July 1, 2029 –Yield 2.97%, Price 117.991, CUSIP[†] No. 13054WAN7

\$71,490,000 – 5.00% Series 2019 Term Bonds due July 1, 2039 –Yield 3.69%, Price 110.744^c, CUSIP[†] No. 13054WAP2

\$91,105,000 – 5.00% Series 2019 Term Bonds due November 21, 2045 –Yield 3.83%, Price 109.531^c, CUSIP[†] No. 13054WAQ0

c Priced to January 1, 2029 call date

[†] Copyright 2019, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data in this Limited Offering Memorandum is provided by CUSIP Global Services (CGS), operated on behalf of the American Bankers Association by S&P Global Market Intelligence. This information is not intended to create a database and does not serve in any way as a substitute for the GCS database. CUSIP numbers have been assigned by an independent company not affiliated with the Issuer or the Underwriters and are included solely for the convenience of the registered owners of the applicable bonds. None of the Issuer, the Water Authority, the Water Authority Financing Agency, the Underwriters or the Co-Municipal Advisors is responsible for the selection or use of these CUSIP numbers and no representation is made as to their correctness on the applicable bonds or as included in this Limited Offering Memorandum. The CUSIP number for a specific maturity is subject to being changed after the issuance of the bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the bonds.

NOTICE TO INVESTORS

No dealer, broker, salesperson or other person has been authorized by the Issuer, the Company, the Water Authority or the Underwriters of the Series 2019 Pipeline Bonds on the offering date, to give any information or to make any representations with respect to the Series 2019 Pipeline Bonds, other than those contained in this Limited Offering Memorandum in connection with the offer made hereby, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Limited Offering Memorandum nor any sale hereunder will under any circumstances create any implication that there has been no change in the matters described herein since the date hereof. This Limited Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, and no person is authorized by the Issuer to sell any of the Series 2019 Pipeline Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein under the captions “THE ISSUER” and “LITIGATION – The Issuer” has been furnished by the Issuer. Neither the approval nor the authorization by the Issuer of the distribution of this Limited Offering Memorandum shall be construed as a representation that the Issuer or any of its board members, officers, agents, employees or representatives has reviewed, investigated or approved the accuracy or completeness of any statements, representations or information in this Limited Offering Memorandum other than the information under the captions “THE ISSUER” and “LITIGATION – The Issuer”. The Issuer’s board members, officers, agents, employees or representatives executing the Series 2019 Pipeline Bonds are not subject to personal liability by reason of the offering of the Series 2019 Pipeline Bonds.

The information set forth in Appendix D - Book-Entry System hereto has been furnished by DTC. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Issuer. All other information set forth herein has been obtained from officers, employees and records of the Company or the Water Authority and other sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Issuer, the Water Authority, the Water Authority Financing Agency or the Company.

The Series 2019 Pipeline Bonds have not been registered with, recommended by or approved by, the Securities and Exchange Commission (“SEC”) or any other federal or state securities commission or regulatory authority, nor has the SEC or any such state securities commission or regulatory authority passed upon the accuracy or adequacy of this Limited Offering Memorandum. Any representation to the contrary is a criminal offense.

The Series 2019 Pipeline Bonds are being offered and sold only to Qualified Institutional Buyers, as defined in Rule 144A under the Securities Act of 1933 (“QIBs”). Prospective purchasers are hereby notified that the Series 2019 Pipeline Bonds are subject to restrictions on transfer. Such restrictions include that no offer, sale, pledge, transfer or exchange may be made of Series 2019 Pipeline Bonds (a) except to investors that are QIBs and (b) in a denomination of less than the authorized denomination. Any offer, sale, pledge, transfer or exchange made of Series 2019 Pipeline Bonds to any person other than a QIB will be void and the purported transferor will remain the owner of record of such Project Bonds. See “TRANSFER RESTRICTIONS”.

Prospective purchasers should consult with their own advisors as to legal, tax, business, financial and related aspects of a purchase of the Series 2019 Pipeline Bonds. None of the Issuer, the Company, the Water Authority, the Water Authority Financing Agency or the Underwriters is making any representation regarding the legality of an investment in the Series 2019 Pipeline Bonds.

The Issuer reserves the right to withdraw this offering of the Series 2019 Pipeline Bonds at any time. The Underwriters also reserve the right to reject any offer to purchase the Series 2019 Pipeline Bonds in whole or in part for any reason and to allot to any prospective investor less than the full amount of Series 2019 Pipeline Bonds sought by such investor.

Certain statements contained in this Limited Offering Memorandum reflect not historical facts but forecasts and “forward-looking” statements. In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements, are not to be construed as representations of fact and are qualified in their entirety by the cautionary statements set forth in this Limited Offering Memorandum. The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement.

The Underwriters have provided the following sentence for inclusion in this Limited Offering Memorandum: The Underwriters have reviewed the information in this Limited Offering Memorandum in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Limited Offering Memorandum nor any sale of the Series 2019 Pipeline Bonds made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of Issuer, the Water Authority, the Water Authority Financing Agency or the Company since the date hereof. This Limited Offering Memorandum is submitted in connection with the sale of the Series 2019 Pipeline Bonds and may not be reproduced or used, in whole or in part, for any other purpose. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Brief descriptions of the Series 2019 Pipeline Bonds, the Pipeline Indenture, the Water Purchase Agreement, the Collateral Trust Agreement and certain other documents are included in this Limited Offering Memorandum and the appendices to this Limited Offering Memorandum. Such descriptions do not purport to be comprehensive or definitive. All references in this Limited Offering Memorandum to such documents and any other documents, statutes, laws, reports or other instruments described in this Limited Offering Memorandum are qualified in their entirety by reference to each such document, statute, law, report or other instrument

The Water Authority, the Company and the Issuer maintain certain websites and social media accounts, the information on which is not part of this Limited Offering Memorandum, is not incorporated by reference in this Limited Offering Memorandum and should not be relied upon in deciding whether to invest in the Series 2019 Pipeline Bonds.

IN CONNECTION WITH THIS OFFERING OF THE SERIES 2019 PIPELINE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2019 PIPELINE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SUCH OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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SUMMARY STATEMENT

The following summary is qualified in its entirety by reference to the detailed information appearing elsewhere in this Limited Offering Memorandum, including the Appendices hereto, and to each of the documents referred to herein. Prospective investors should read the entire Limited Offering Memorandum, including the Appendices hereto, prior to making an investment decision. Unless otherwise indicated, capitalized terms used in this Limited Offering Memorandum are defined herein or in Appendix A – Certain Definitions. Capitalized terms that are used only in specific Appendices to this Limited Offering Memorandum are defined in the applicable Appendices.

Introduction.....The California Pollution Control Financing Authority Water Furnishing Revenue Refunding Bonds, Series 2019 (San Diego County Water Authority Desalination Project Pipeline) (the “**Series 2019 Pipeline Bonds**”) are being issued to refund, in full, the Issuer’s outstanding Water Furnishing Revenue Bonds, Series 2012 (San Diego County Water Authority Desalination Project Pipeline) (the “**Series 2012 Pipeline Bonds**”). The Series 2012 Pipeline Bonds were issued concurrently with the Issuer’s Water Furnishing Revenue Bonds, Series 2012 (Poseidon Resources (Channelside) LP Desalination Project) (the “**Series 2012 Plant Bonds**” and, together with the Series 2019 Pipeline Bonds, the “**Project Bonds**”). The Series 2012 Plant Bonds funded the majority of the costs of acquiring, constructing and installing the Claude “Bud” Lewis Carlsbad Desalination Plant located in Carlsbad, California (the “**Plant**”) to supply desalinated potable water (“**Product Water**”) to the San Diego County Water Authority (the “**Water Authority**”). The Series 2012 Plant Bonds were issued pursuant to a Trust Indenture dated as of December 24, 2012 between the Issuer and MUFG Union Bank, N.A., as trustee for the Holders of the Series 2012 Plant Bonds (in such capacity, the “**Plant Trustee**”). The proceeds of the Series 2012 Plant Bonds were loaned by the Issuer to the Company pursuant to a Loan Agreement dated as of December 24, 2012 (the “**Original Plant Loan Agreement**”). The Plant consists of a 54 million gallon per day (“**MGD**”) reverse osmosis desalination plant. The Series 2012 Pipeline Bonds funded an approximately 10-mile pipeline that connects the Plant to the Water Authority’s existing distribution system and an interconnection pipeline and related improvements (the “**Pipeline**” and together with the Plant, the “**Project**”). The Project was developed as a public-private partnership between the Water Authority and Poseidon Resources (Channelside) LP (the “**Company**”) to augment and diversify the Water Authority’s water resources.

The Company owns the Plant and the Water Authority owns, operates and maintains the Pipeline. The Plant began commercial operations on December 23, 2015 (the “**Commercial Operation Date**”). The Water Authority purchases all of the Plant’s Product Water pursuant to a Water Purchase Agreement dated December 20, 2012, as amended (the “**Water Purchase Agreement**”). The Water Authority makes scheduled installment payments to San Diego County Water Authority Financing Agency (the “**Water Authority Financing Agency**”) under the Installment Sale and Assignment Agreement. The Water Authority Financing Agency in turn has assigned such payments to the Issuer,

which in turn has assigned such payments to MUFG Union Bank, N.A. (in such capacity, the “**Pipeline Trustee**”) for the benefit of the holders of the Series 2019 Pipeline Bonds, to pay the debt service on the Series 2019 Pipeline Bonds except in circumstances described below. The obligations of the Water Authority Financing Agency under the Pipeline Loan Agreement are limited obligations of the Water Authority Financing Agency payable solely from payments made by the Water Authority under the Installment Sale and Assignment Agreement and the other assets pledged therefor under the Pipeline Indenture, including Contracted Shortfall Payments as and when made by the Company (as such terms are hereinafter defined).

The Issuer loaned the proceeds of its Series 2012 Pipeline Bonds to the Water Authority Financing Agency pursuant to a Pipeline Loan Agreement, dated as of December 24, 2012 (the “**Original Pipeline Loan Agreement**”), by and between the Issuer and the Water Authority Financing Agency. The Water Authority Financing Agency made such proceeds available to the Water Authority pursuant to a Pipeline Installment Sale and Assignment Agreement, dated as of December 24, 2012 (the “**Original Installment Sale and Assignment Agreement**”) to finance the costs of developing, designing, acquiring and constructing the Pipeline.

When and if the Company fails to deliver required amounts and/or quality of Product Water, the Water Authority’s water purchase payments are reduced, and the Company is required to pay to the Water Authority performance damages (“**Contracted Shortfall Payments**”) that have been assigned by the Water Authority ultimately to the Pipeline Trustee for the benefit of the holders of the Series 2019 Pipeline Bonds to pay a portion of the debt service payments on the Series 2019 Pipeline Bonds. The Water Authority Financing Agency’s and the Water Authority’s obligations to make payments pursuant to the Pipeline Loan Agreement and the Installment Sale and Assignment Agreement, respectively, are correspondingly reduced whether or not the Company makes the Contracted Shortfall Payments. The Company’s obligation to make Contracted Shortfall Payments is secured on a parity basis with its obligation to pay debt service on the Series 2012 Plant Bonds. The Company has obtained performance and financial guarantees from the Plant operator and is required to maintain certain operating reserves.

The Company has paid Contracted Shortfall Payments aggregating \$3,624,665 since the Commercial Operation Date. See “PROJECT OPERATION – Operation and Maintenance of the Plant”, “THE PROJECT – Construction of the Project and – Intake System Modifications” and Appendix G – Summary of the Water Purchase Agreement.

MUFG Union Bank, N.A.

MUFG Union Bank, N.A. serves in three capacities relating to the Project Bonds: as Pipeline Trustee; as Plant Trustee; and as collateral agent (in such capacity, the “**Collateral Agent**”) under the Collateral Trust Agreement, dated as of December 24, 2012 among the Company,

the Plant Trustee, the Pipeline Trustee, any holders of Additional Plant Senior Debt and the Collateral Agent (the “**Original Collateral Trust Agreement**”).

Plan of RefundingIn order to refinance the costs of developing, designing, acquiring and constructing the Pipeline, the Issuer will issue the Series 2019 Pipeline Bonds pursuant to the Pipeline Indenture and will apply the proceeds of the Series 2019 Pipeline Bonds, together with other legally available funds, to refund and redeem the outstanding Series 2012 Pipeline Bonds. On December 18, 2017, the Issuer redeemed \$2,610,000 of the Series 2012 Pipeline Bonds from excess proceeds after completion of construction of the Pipeline. Additionally, to reference the Pipeline Bonds and to update references to the Series 2019 Pipeline Bonds in light of the refunding of the Series 2012 Pipeline Bonds, the Issuer, the Water Authority, the Water Authority Financing Agency, the Company, the Plant Trustee and the Pipeline Trustee will enter into an Omnibus Refunding Amendment Agreement, dated as of February 1, 2019 (the “**Omnibus Amendment**”), amending, supplementing and restating certain terms of (i) the Original Pipeline Loan Agreement (as so amended, supplemented and restated, the “**Pipeline Loan Agreement**”); (ii) the Original Installment Sale and Assignment Agreement (as so amended, supplemented and restated, the “**Installment Sale and Assignment Agreement**”); and (iii) the Original Plant Loan Agreement (as so amended, supplemented and restated, the “**Plant Loan Agreement**”). For the same reasons, the Company, the 2012 Pipeline Trustee, the Plant Trustee and the Collateral Agent will enter into a Collateral Documents Master Refunding Amendment dated as of February 1, 2019 (the “**Collateral Documents Master Refunding Amendment**”) supplementing and amending certain terms of (x) the Original Collateral Trust Agreement (as supplemented and amended, the “**Collateral Trust Agreement**”), (y) the Pledge and Security Agreement among Poseidon Resources Channelside GP, Inc. (“**Poseidon GP**”), as Pledgor, the Company and the Collateral Agent and (z) the Pledge and Security Agreement among Poseidon Resources Channelside Holdings LLC (the “**Limited Partner**”), the Company and the Collateral Agent. In accordance with the Water Purchase Agreement, the Water Authority and the Company have entered into Contract Administration Memoranda (“**CAMs**”) Nos. 009 and 010, and Amendment Nos. 004 and 005 of, the Water Purchase Agreement (“**WPA Amendment No. 004**” and “**WPA Amendment No. 005**”, respectively) relating to completion of construction of the Plant and sizing the Contracted Shortfall Payments to the payments on the Series 2019 Pipeline Bonds, respectively.

Collateral Trust Agreement.....The Company’s obligations under the Plant Loan Agreement, its obligation to make Contracted Shortfall Payments and its obligations with respect to any Additional Plant Senior Debt (collectively, “**Plant Senior Debt**”) are secured on a parity basis under the Collateral Trust Agreement. The Issuer has pledged its rights under the Plant Loan Agreement (including the right to receive Plant Loan Repayments but excluding certain Plant Retained Rights) to the Plant Trustee as part of

the Plant Trust Estate pledged under the Plant Indenture. See Appendix I --- Summaries of Certain Provisions of the Plant Loan Agreement and the Plant Indenture. The Plant Trustee, in turn, has pledged those rights to the Collateral Agent. Any Additional Plant Senior Lender will pledge its rights under the Plant Financing Documents for the related Additional Plant Senior Debt (excluding any rights identified therein as reserved to such Additional Plant Senior Lender) to the Collateral Agent.

The Collateral Agent holds in trust for the Secured Parties all of the Collateral Agent's right, title and interest in, to and under the Collateral. The Collateral includes, among other things, the Plant Trust Estate, including the right to receive Plant Loan Repayments; the right to receive Plant Revenues; and the funds and accounts held under the Collateral Trust Agreement and the monies and instruments held therein.

The net proceeds of the Series 2012 Plant Bonds were, and the net proceeds of any Additional Plant Senior Debt and all Plant Revenues are and will be, deposited into funds and accounts held and disbursed by the Collateral Agent, including various reserve funds. The Collateral Agent receives all revenues under the Water Purchase Agreement, and any damages payments from IDE Americas, in its capacity as operator of the Plant. The Company expects to incur Additional Plant Senior Debt in connection with the Intake System Modifications (as defined herein).

If the Debt Service Coverage Ratio for the Project falls below 1.25, all of the Company's net revenues from the sale of Product Water are required to be retained by the Collateral Agent in trust for the benefit of the holders of the Project Bonds (and any additional senior debt incurred by the Company) until such debt service coverage requirement is achieved. The price the Water Authority pays to the Company for Product Water is calculated to cover debt service on the Series 2012 Plant Bonds, pay the operating costs of the Plant and provide an equity return to the Company's investors, so long as the Company meets its obligation to deliver Product Water.

See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS", "THE PROJECT – Intake System Modifications" and Appendix E – Summary of the Collateral Trust Agreement and Certain Other Collateral Documents.

Collateral Agent's Remedies AgreementThe Water Authority has entered into a Collateral Agent's Remedies Agreement in which, among other things, it provides the Collateral Agent with an opportunity to cure defaults by the Company under the Water Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Other Collateral Documents".

Pipeline Loan AgreementThe Water Authority Financing Agency's obligation to make Pipeline Loan Repayments pursuant to the Pipeline Loan Agreement is payable solely from the Installment Sale Payments made by the Water Authority

as described below and from Contracted Shortfall payments as and when made. The Water Authority Financing Agency’s obligation to make Pipeline Loan Repayments will be reduced by the amount of Contracted Shortfall Payments payable by the Company, whether or not paid. See Appendix G – Summary of the Water Purchase Agreement.

Installment Sale and

Assignment Agreement.....The Water Authority Financing Agency made the proceeds of the Series 2012 Pipeline Bonds available to the Water Authority under the Original Installment Sale and Assignment Agreement. A portion of the proceeds of the Series 2019 Pipeline Bonds, together with other legally available funds, will be applied to refinance the costs of construction of the Pipeline by refunding the Series 2012 Pipeline Bonds. The Water Authority Financing Agency is refinancing the sale of the Pipeline to the Water Authority and the Water Authority is paying for the Pipeline by making Installment Sale Payments to the Water Authority Financing Agency pursuant to the Installment Sale and Assignment Agreement (“**Installment Sale Payments**”), which are used to make Pipeline Loan Repayments which will be applied to the payment of debt service on the Series 2019 Pipeline Bonds.

The Water Authority’s obligation to make Installment Sale Payments will be reduced by the amount of Contracted Shortfall Payments payable by the Company, whether or not paid. See Appendix G – Summary of the Water Purchase Agreement.

The Water Authority’s obligation to make Installment Sale Payments is unsecured and payable after payments on its secured debt and other payment obligations. However, the Water Authority has covenanted in the Installment Sale and Assignment Agreement to comply with the covenants it has made in its General Resolution (as defined below) for the benefit of the holders of the Water Authority’s secured debt, including its rate covenant.

Debt Service

Reserve Fund.....A Pipeline Debt Service Reserve Fund will be funded initially from a portion of the proceeds of the Series 2019 Pipeline Bonds, and subsequently from moneys transferred by the Pipeline Trustee from the Pipeline Revenue Fund pursuant to the Pipeline Indenture and/or moneys transferred by the Collateral Agent pursuant to the Collateral Trust Agreement as Contracted Shortfall Payments. The Pipeline Indenture requires that the amount on deposit in the Pipeline Debt Service Reserve Fund be equal to the Debt Service Reserve Requirement (as defined herein). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Debt Service Reserve Requirement”.

The Water AuthorityThe Water Authority is a county water authority organized and existing under the County Water Authority Act, California Statutes 1943, Chapter 545, as amended. The Water Authority was organized on June 9, 1944 for the primary purpose of supplying water to San Diego County for

wholesale distribution to the Water Authority’s 24 member agencies which deliver water to approximately 97% of San Diego County’s approximately 3.3 million residents. These member agencies include six cities, five water districts, three irrigation districts, eight municipal water districts, one public utility district and one federal agency. The Water Authority’s water facilities include approximately 310 miles of water conveyance pipelines, storage capacity in several regional reservoirs and 136 MGD (152,340 acre-feet per year (“**AFY**”)) of water treatment capacity through a Water Authority-owned water treatment plant and capacity in a plant owned by a member agency.

The CompanyThe Company was formed for the purpose of financing, constructing, owning, permitting and operating the Plant and constructing the Pipeline. The Company is managed pursuant to a management agreement with, and partially owned indirectly by, Poseidon Water LLC, a Delaware limited liability company (“**Poseidon Water**”), the predecessor of which was founded in 1995, which specializes in developing and financing water infrastructure projects, primarily seawater desalination and water treatment plants. Poseidon Water is headquartered in Boston, Massachusetts, with offices in Carlsbad and Huntington Beach, California and, together with its affiliates, has implemented a desalination facility in Tampa, Florida, a wastewater treatment plant in Cranston, Rhode Island and five wastewater treatment facilities in Mexico. Poseidon Water is currently developing the Huntington Beach, California seawater desalination facility and is actively exploring other projects across North America. The management of Poseidon Water has collectively structured, arranged and closed over \$10 billion of project and corporate financings in the private infrastructure market, including the electric power, water treatment and natural gas supply and transportation industries. See “PROJECT PARTICIPANTS — Poseidon Resources (Channelside) LP”.

Project Construction.....The Plant was developed, designed, constructed and tested pursuant to the Water Purchase Agreement and a Desalination Facility Engineering, Procurement and Construction Agreement (the “**Plant EPC Contract**”) between the Company and Kiewit Shea Desalination, a joint venture of Kiewit Infrastructure West Co. and J.F. Shea Construction Company, in a joint and several capacity (the “**EPC Contractor**”). The Pipeline was designed, constructed and tested pursuant to a Pipeline Design-Build Agreement for Product Water Pipeline Improvements Relating to the Carlsbad Seawater Desalination Project between the Company and the Water Authority dated as of December 24, 2012 (the “**Pipeline DBA**”) and a Product Water Delivery System Engineering, Procurement and Construction Contract for the design, engineering, procurement, construction, start-up, commissioning and testing of the Pipeline between the Company and the EPC Contractor (the “**Pipeline EPC Contract**”). The Project achieved Commercial Operation on December 23, 2015. The Pipeline achieved final completion on August 17, 2017, and certain requirements for final completion of the Plant are in progress. The remaining obligations of the EPC Contractor under the Plant EPC

Contract and the Pipeline EPC Contract are guaranteed by Kiewit Infrastructure Co. See “THE PROJECT – Construction of the Project”.

The EPC Contractor’s liability under the Plant EPC Contract may not exceed \$200 million, less damages incurred and paid by the EPC Contractor under the Pipeline EPC Contract in excess of \$29,382,000. Excluding certain warranty claims, no claims for damages have been asserted under the Plant EPC Contract or the Pipeline EPC Contract. The EPC Contractor has provided certain guarantees and performance and payment bonds described herein to assure that its obligations are met, and the Collateral Agent is the assignee or beneficiary of those third-party assurances. However, the obligations of the EPC Contractor are subject to overall limitations and are excused in certain circumstances where the Company is not entitled to relief under the Water Purchase Agreement or the Pipeline DBA.

Water Purchase Agreement.....

The Company sells Product Water to the Water Authority pursuant to the Water Purchase Agreement. The Water Authority is the sole purchaser of Product Water. The initial term of the Water Purchase Agreement expires 30 years after the Commercial Operation Date, on December 22, 2045, unless earlier terminated including by reason of the Water Authority’s exercise of its option to purchase the Plant as described herein. Since execution of the Water Purchase Agreement, the Water Authority and the Company have entered into five amendments to the Water Purchase Agreement. Additionally, under the Water Purchase Agreement, the Water Authority and the Company established a mechanism for documentation of routine matters of interpretation and application which do not constitute formal amendments to the Water Purchase Agreement, referred to as Contract Administration Memoranda, or “CAMs” and as of the date of this Limited Offering Memorandum, have entered into ten CAMs. See Appendix G – Summary of the Water Purchase Agreement.

Under the Water Purchase Agreement the Water Authority is obligated to purchase or pay for 48,000 AFY of Product Water that meets the requirements of the Water Purchase Agreement and may request up to 56,000 AFY. The Water Authority pays a per-acre-foot charge for delivered or deliverable water calculated to be sufficient to pay debt service on the Series 2012 Plant Bonds, an equity return and variable and fixed operating costs. The Company is obligated to make Operating Period Shortfall Payments (“**Operating Period Shortfall Payments**” and, together with Termination Operating Period Shortfall Payments, as defined below, “**Contracted Shortfall Payments**”) to the Water Authority for the failure to deliver Product Water as required under the Water Purchase Agreement. In the Installment Sale and Assignment Agreement, the Water Authority has assigned its rights to receive Operating Period Shortfall Payments to the Water Authority Financing Agency, which has further assigned them to the Issuer, which, in turn, has assigned them to the Pipeline Trustee. If the Company defaults on its obligations to make Operating Period Shortfall Payments, the Water

Authority may terminate the Water Purchase Agreement, and the Water Authority would have no obligation to make any Installment Sale Payments pursuant to the Installment Sale and Assignment Agreement, and the Company would be obligated to pay the entire debt service on the Series 2012 Plant Bonds, the Series 2019 Pipeline Bonds and any Additional Plant Senior Debt or Additional Pipeline Bonds. The Company's obligation to make Contracted Shortfall Payments is secured on parity with the Company's obligations to make payment on the Series 2012 Plant Bonds by all revenues and assets pledged to the Collateral Agent for that purpose.

The Water Authority has an option to purchase the Plant at any time following the 10th anniversary of the Commercial Operation Date for a price sufficient to redeem or defease the Series 2012 Plant Bonds and any Additional Plant Senior Debt incurred for the construction and modification of the Plant and which constitutes Permitted Debt under the Water Purchase Agreement, plus a return to equity. The Water Authority will also have an option to purchase the Plant for the same price if financing is unavailable to pay for modifying or reinstating the Plant under the circumstances described under "PROJECT OPERATION — The Water Purchase Agreement — Compensation Adjustment Event Capital Costs". In addition, the Water Authority may purchase the Plant for the aggregate outstanding principal and accrued interest on the Series 2012 Plant Bonds and any Additional Plant Senior Debt incurred for the construction and modification of the Plant and which constitutes Approved Permitted Debt under the Water Purchase Agreement upon a termination for the Company's default.

THE WATER AUTHORITY IS UNDER NO OBLIGATION TO PURCHASE THE PLANT UPON A TERMINATION OF THE WATER PURCHASE AGREEMENT OR AS A RESULT OF A TERMINATION BY THE COMPANY FOR A DEFAULT BY THE WATER AUTHORITY. CALIFORNIA LAW PROVIDES CERTAIN RIGHTS WITH RESPECT TO THE PRIVATE USE OF WATER CONVEYANCE FACILITIES OWNED BY PUBLIC AUTHORITIES, SUCH AS THE WATER AUTHORITY, BUT THERE CAN BE NO ASSURANCES THAT THE COMPANY OR A SUCCESSOR COULD MAKE USE OF THE PIPELINE OR THE REST OF THE WATER AUTHORITY'S DISTRIBUTION SYSTEM FOLLOWING A TERMINATION OF THE WATER PURCHASE AGREEMENT. SEE "INVESTMENT RISKS".

O&M AgreementThe Company has entered into an Operation, Maintenance, Repair and Replacement Agreement, dated December 24, 2012, with IDE Americas, Inc. ("**IDE Americas**"), a subsidiary of IDE Technologies, Ltd. ("**IDE**"), for the operation, maintenance, repair and replacement of the Plant (the "**O&M Agreement**"). The term of the O&M Agreement is 30 years from the Commercial Operation Date, and the O&M Agreement will expire on December 22, 2045, unless earlier terminated.

IDE Americas is entitled to receive monthly payments under the O&M Agreement consisting of a fixed fee and variable fees per thousand gallons of Product Water delivered. The O&M Agreement contains an energy adjustment whereby IDE Americas is responsible for the cost of energy consumption above a guaranteed amount and IDE Americas and the Company will share in cost savings if energy consumption is below the guaranteed amount. IDE Americas is liable for liquidated damages for shortfalls in Product Water production and failure to meet the O&M Agreement’s quality standards. The Company and IDE Americas disagree as to responsibility for certain Product Water delivery shortfalls occurring primarily during the second and third quarters of 2017 principally as a result of an algal bloom. The amount in controversy is approximately \$7 million, which could be subject to increase depending upon the outcome. See “PROJECT OPERATION — Operation and Maintenance of the Plant – O&M Agreement with IDE Americas”, Appendix B – Company Audited Financial Statements for Year Ended December 31, 2017 and Appendix H – Summaries of Certain Project Contracts.

IDE Americas has provided certain guarantees and performance and payment bonds described herein, to assure that its obligations are met, and the Collateral Agent is the assignee or beneficiary of those third-party assurances. However, the payment obligations of IDE Americas are subject to overall limitations and are excused in certain circumstances where the Company is not entitled to relief under the Water Purchase Agreement.

Ground Lease Under the Second Amended and Restated Ground Lease and Easement Agreement, dated April 7, 2010, as amended (the “**Ground Lease**”), Cabrillo Power I, LLC (“**Cabrillo**”) has granted the Company a leasehold in property on the premises of Cabrillo’s Power Station, and appurtenant easements over Cabrillo’s property, to construct and operate the Plant. The initial term of the Ground Lease expires 35 years after the Commercial Operation Date, with two 10-year renewal options at market price.

The Ground Lease grants the Company access to the Power Station’s existing intake and discharge facilities. Cabrillo must use reasonable efforts to operate its once-through cooling system (the “**Pumps**”) at the flow needed for the Plant. Cabrillo gave the Company 36 months’ notice of a Permanent Pump Shutdown in accordance with the Ground Lease, and shut down the generating facility effective on December 12, 2018. The Company is preparing to undertake intake modifications to support Stand-Alone Operations (as defined below) of the Plant, as contemplated in the Water Purchase Agreement. The Company and Cabrillo entered into an amendment of the Ground Lease on February 16, 2018 to facilitate construction of certain modifications to the Plant intake system (“**Intake System Modifications**”). Additionally, the Company and Cabrillo are negotiating a memorandum of understanding addressing the commercial terms associated with Cabrillo’s continued operation and maintenance of its existing intake facilities (including cooling water

pumps, screens and bar racks) pending completion of the Interim Intake Improvements (as defined below). See “THE PROJECT – Intake System Modifications”, “PROJECT SITE –Ground Lease” and Appendix H – Summaries of Certain Project Contracts”.

Certain Investment RisksAn investment in the Series 2019 Pipeline Bonds involves the assumption of certain risks. See “INVESTMENT RISKS”.

Restrictions on Transfer**The Series 2019 Pipeline Bonds are being offered and sold only to Qualified Institutional Buyers, as defined in Rule 144A under the Securities Act of 1933 (“QIBs”). Prospective purchasers are hereby notified that the Series 2019 Pipeline Bonds are subject to restrictions on transfer. Such restrictions include that no offer, sale, pledge, transfer or exchange may be made of Series 2019 Pipeline Bonds (a) except to investors that are QIBs and (b) in a denomination of less than the authorized denomination. Any offer, sale, pledge, transfer or exchange made of Series 2019 Pipeline Bonds to any person other than a QIB will be void and the purported transferor will remain the owner of record of such Series 2019 Pipeline Bonds. See “TRANSFER RESTRICTIONS” herein.**

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LIMITED OFFERING MEMORANDUM

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

\$183,155,000

Water Furnishing Revenue Refunding Bonds, Series 2019 (San Diego County Water Authority Desalination Project Pipeline)

INTRODUCTION

This Limited Offering Memorandum is provided to furnish information relating to \$183,155,000 aggregate principal amount of California Pollution Control Financing Authority Water Furnishing Revenue Refunding Bonds, Series 2019 (San Diego County Water Authority Desalination Project Pipeline) (the “Series 2019 Pipeline Bonds”).

The Series 2019 Pipeline Bonds are being issued to (i) current refund and redeem all of the outstanding Water Furnishing Revenue Bonds, Series 2012 (San Diego County Water Authority Desalination Project Pipeline) (the “**Series 2012 Pipeline Bonds**”) issued by the California Pollution Control Financing Authority (the “**Issuer**”), (ii) fund a debt service reserve for the Series 2019 Pipeline Bonds and (iii) pay costs of issuance of the Series 2019 Pipeline Bonds. The Series 2012 Pipeline Bonds were issued concurrently with the Issuer’s Water Furnishing Revenue Bonds, Series 2012 (Poseidon Resources (Channelside) LP Desalination Project) (AMT) (the “**Series 2012 Plant Bonds**”) and, together with the Series 2019 Pipeline Bonds, the “**Project Bonds**”). The Series 2012 Plant Bonds funded the majority of the costs of acquiring, constructing and installing the Claude “Bud” Lewis Carlsbad Desalination Plant located in Carlsbad, California (the “**Plant**”) to supply potable water (“**Product Water**”) to the San Diego County Water Authority (the “**Water Authority**”). The Plant consists of a 54 million gallon per day (“**MGD**”) reverse osmosis desalination plant. The Series 2012 Pipeline Bonds funded an approximately 10-mile pipeline that connects the Plant to the Water Authority’s existing distribution system and an interconnection pipeline and related improvements (the “**Pipeline**” and together with the Plant, the “**Project**”). The Project was developed as a public-private partnership between the Water Authority and Poseidon Resources (Channelside) LP (the “**Company**”) to augment and diversify the Water Authority’s water resources.

The Water Authority is the public wholesale water provider in the populous Western portions of San Diego County (the “**County**”). The County is a semi-arid region where historically the natural occurrence of water from rainfall and groundwater provides a firm water supply for only a small portion of the water needs of the current population. The Plant was designed to assist the Water Authority in meeting its water supply needs by augmenting the Water Authority’s rainfall, groundwater, recycled and purchased water supplies as well as its conservation efforts. The Water Authority purchases the majority of its supplies from the Metropolitan Water District of Southern California and the Imperial Irrigation District. Those supplies ultimately come from the Colorado River and from the California State Water Project, the latter of which distributes water from the San Joaquin Delta in the north-central area of the State. These supplies have been severely impacted by environmental restrictions in the San Joaquin Delta, a long-term decline in rainfall throughout the Southwestern United States, and increased demands for usage of Colorado River water. In response, the Water Authority is implementing long-term strategies to diversify the region’s water supply and reduce reliance on a single water supplier. A key component of the Water Authority’s supply diversification strategy is increasing seawater desalination which includes the Project. See Appendix C – Water Authority Information.

The Series 2019 Pipeline Bonds are being issued pursuant to the provisions of the California Pollution Control Financing Authority Act (Chapter 1 (commencing at Section 44500) of Division 27 of

the Health and Safety Code of the State of California), as amended or supplemented (the “**Act**”), and pursuant to a Trust Indenture, dated as of February 1, 2019 (the “**Pipeline Indenture**”), between the Issuer and MUFG Union Bank, N.A. (in such capacity, the “**Pipeline Trustee**”). In order to refinance the costs of developing, designing, acquiring and constructing the Pipeline, the Issuer will apply the proceeds of the Series 2019 Pipeline Bonds, together with other legally available funds, to refund the outstanding Series 2012 Pipeline Bonds. In connection therewith, the Issuer, the Water Authority, the Water Authority Financing Agency, the Company, the Plant Trustee, the Pipeline Trustee, the Collateral Agent and other affected parties will enter into amendments to existing documents executed in connection with the issuance of the Project Bonds, to reflect references to the Series 2019 Pipeline Bonds and the Pipeline Indenture.

Pursuant to the Installment Sale and Assignment Agreement, the Water Authority is paying the purchase price of the Pipeline in installments (“**Installment Sale Payments**”) in such amounts and at such times as required to satisfy the Water Authority Financing Agency’s obligations under the Pipeline Loan Agreement which will, in turn, satisfy the Issuer’s obligations to pay debt service on the Series 2019 Pipeline Bonds except as described in the following paragraph and in Appendix F – Summaries of Certain Provisions of the Pipeline Installment Sale and Assignment Agreement, Pipeline Trust Indenture and Pipeline Loan Agreement.

The Company and the Water Authority have entered into a Water Purchase Agreement, as amended (the “**Water Purchase Agreement**”) pursuant to which the Company sells water produced by the Plant (“**Product Water**”) to the Water Authority. The Company and the Water Authority also entered into the Pipeline DBA, under which the Company constructed the Pipeline. Under the Water Purchase Agreement, the Company generally is responsible for making payments to compensate the Water Authority for failure to deliver required amounts and/or quality of Product Water (“**Operating Period Shortfall Payments**”) and must pay the Water Authority an amount equal to the principal amount of the Outstanding Series 2019 Pipeline Bonds, plus accrued and unpaid interest thereon and any related fees and expenses of the Collateral Agent, the Pipeline Trustee, the Issuer and the Rating Agencies then rating the Series 2019 Pipeline Bonds if the Water Authority terminates the Water Purchase Agreement upon the occurrence of a Project Company Event of Default (“**Termination Operating Period Shortfall Payments**”), and, collectively with the Operating Period Shortfall Payments, “**Contracted Shortfall Payments**”). Subsequent to the Commercial Operation Date, the Company has made Operating Period Shortfall Payments in the aggregate amount of \$3,624,665 as a result of certain unexcused shortfalls in Product Water deliveries. All of such payments constitute Operating Period Shortfall Payments because the Water Purchase Agreement is in effect and has not been terminated. See “PROJECT OPERATION – Water Purchase Agreement – Product Water Quantity and Quality Shortfalls and – Operation and Maintenance of the Plant”.

The Plant is located on an approximately six-acre parcel (the “**Plant Site**”) adjacent to the existing Encina Power Station (the “**Power Station**”), immediately south of the Agua Hedionda Lagoon on the Pacific Ocean (the “**Lagoon**”), in the City of Carlsbad, in northern San Diego County. The Company leases the Plant Site from Cabrillo Power I LLC (“**Cabrillo**”), which is the owner and operator of the Power Station and an indirect wholly owned subsidiary of NRG Energy Inc., pursuant to a Second Amended and Restated Lease and Easement Agreement, as amended (the “**Ground Lease**”). The Power Station drew seawater from the Lagoon for its cooling water system. The Plant processes a portion of seawater from the Power Station’s cooling water discharge tunnel and returns the resulting concentrated seawater to the discharge tunnel, where it is commingled with other discharged cooling water and discharged into the Pacific Ocean. Effective December 12, 2018, Cabrillo discontinued operation of the Power Station, but is continuing to operate the Pumps at the Company’s expense on a temporary basis pursuant to the terms of the Ground Lease. See “THE PROJECT – Intake System Modifications”.

The Plant was designed, constructed and tested pursuant to the Water Purchase Agreement and a Desalination Facility Engineering, Procurement and Construction Agreement (the “**Plant EPC Contract**”) between the Company and Kiewit Shea Desalination, a joint venture of Kiewit Infrastructure West Co. and J.F. Shea Construction Company, in a joint and several capacity (the “**EPC Contractor**”). The Pipeline was developed, designed and constructed pursuant to the Pipeline DBA, and a Product Water Delivery System Engineering, Procurement and Construction Contract for the design, engineering, procurement, construction, start-up, commissioning and testing of the Pipeline between the Company and the EPC Contractor (the “**Pipeline EPC Contract**” and, together with the Plant EPC Contract, the “**EPC Contracts**”). The Pipeline and the Plant attained Commercial Operation on December 23, 2015, and Final Completion of the Pipeline under the Pipeline EPC Contract was achieved on August 17, 2017. Certain actions described herein remain to be completed for the Plant in order to attain Project Completion as defined in the Water Purchase Agreement and the Plant Loan Agreement, and the Completion Date as defined in the Collateral Trust Agreement. Kiewit Infrastructure West Co. and J.F. Shea Construction Company are jointly and severally liable for their remaining obligations under the Plant EPC Contract and their obligations thereunder are guaranteed by Kiewit Infrastructure Co. The obligations of the EPC Contractor are secured by certain performance bonds and guarantees. IDE Americas, Inc. (“**IDE Americas**”), a subsidiary of IDE Technologies, Ltd (“**IDE**”), provided the Plant’s main water processing equipment under a subcontract with the EPC Contractor (the “**IDE Americas Subcontract**”). Other than with respect to possible changes to the Plant’s backwash treatment system discussed below, IDE Americas has completed work under the IDE Americas Subcontract. See ‘THE PROJECT – Construction of the Plant’.

The Ground Lease permits Cabrillo to close its generating facility and permanently shut down the Pumps (a “**Permanent Pump Shutdown**”). Cabrillo gave the Company 36 months’ notice of a Permanent Pump Shutdown in accordance with the Ground Lease, and shut down the generating facility effective on December 12, 2018. At that time, the Plant initiated interim operations using the existing intake structure, screens and the Pumps. Beyond the intake and discharge system modifications that are required due to the Permanent Pump Shutdown and in order to transition to permanent stand-alone operation of the Plant (“**Stand-Alone Operations**”), additional intake and discharge system improvements will be required. These additional improvements are required in order to comply with an amendment to the Water Quality Control Plan for the Ocean Waters of California to address effects associated with the construction and operation of seawater desalination facilities (“**Ocean Plan Amendment**”) adopted by the State Water Resources Control Board (“**SWRCB**”) in May 2015. The modifications required by the closure of the Cabrillo generating facility and those required by the adoption of the Ocean Plan Amendment are referred to herein collectively as the “**Intake System Modifications**”. The Company anticipates that it will install new dilution water intake pumps by April 30, 2020, a new water intake by September 1, 2023 and be fully compliant with the Ocean Plan Amendment by December 11, 2023, based on the compliance schedule set forth in the Tentative Order (as defined below). See “THE PROJECT – Intake System Modifications – Permitting the Intake System Modifications”.

The Company and IDE Americas have entered into a Facility Operation, Maintenance, Repair and Replacement Agreement (the “**O&M Agreement**”) pursuant to which IDE Americas operates and maintains the Plant, including periodic replacement of reverse osmosis membranes and certain other major equipment. IDE Americas is obligated to meet the Product Water delivery requirements of the Water Purchase Agreement both as to quantity and quality, and to perform its duties for a price consisting of certain fixed and variable fee components. In the event of shortfalls in meeting IDE Americas’ Product Water delivery obligations, the fixed fee will be reduced proportionately and IDE Americas will be obligated to pay liquidated damages to the Company. IDE Americas’ obligations under the O&M Agreement are secured by an approximately \$11.1 million performance bond and a parent guaranty from IDE. See “PROJECT OPERATION — Operation and Maintenance of the Plant”, Appendix B –

Company Audited Financial Statements for Year Ended December 31, 2017 and Appendix H – Summaries of Certain Project Contracts.

Since the Commercial Operation Date, the Water Authority has (a) operated and maintained the Pipeline as a part of its system, (b) paid Installment Sale Payments under the Installment Sale and Assignment Agreement, and (c) purchased Product Water in accordance with the Water Purchase Agreement. Under the Water Purchase Agreement the Water Authority agrees to purchase a minimum of 48,000 acre-feet per year (“AFY”) of Product Water that meets the Water Authority’s quality standards. At the request of the Water Authority the Company must deliver up to 56,000 AFY of Product Water that meets the Water Authority’s quality standards. If the Company delivers the full amount of Product Water requested by the Water Authority annually, it is entitled to receive water purchase payments calculated to pay the fixed and variable Plant operating costs, debt service on the Series 2012 Plant Bonds and a negotiated return on equity to the Company’s investors. The Company has not met its full delivery obligations since commencement of operations, due in part to events that excused its performance and in part to events that the Company believes have been the responsibility of IDE Americas. See “PROJECT OPERATION – Operation and Maintenance of the Plant”.

The Water Authority has assigned its rights to receive Contracted Shortfall Payments to the Water Authority Financing Agency in the Installment Sale and Assignment Agreement; the Water Authority Financing Agency has further assigned such rights to the Issuer in the Pipeline Loan Agreement; and the Issuer in turn has assigned such rights to the Pipeline Trustee in the Pipeline Indenture. If the Series 2019 Pipeline Bonds go into default as a result of Poseidon’s failure to make Contracted Shortfall Payments when due, the Water Authority will not be in default under the Installment Sale and Assignment Agreement and the Water Authority Financing Agency will not be in default under the Pipeline Loan Agreement. If, as a result of any such failure, the Series 2019 Pipeline Bonds are accelerated, the obligations of the Water Authority under the Installment Sale and Assignment Agreement to make Installment Sale Payments will cease, and the Holders of the Series 2019 Pipeline Bonds will look solely to the property interests conveyed to the Pipeline Trustee pursuant to the Pipeline Indenture and the Collateral held by the Collateral Agent. The Company will have no payment obligations if the Series 2019 Pipeline Bonds are accelerated as a result of a failure by the Water Authority to make any payment required to be made by it under the Installment Sale and Assignment Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS” and Appendix F – Summaries of Certain Provisions of the Pipeline Installment Sale and Assignment Agreement, Pipeline Trust Indenture and Pipeline Loan Agreement.

The Water Authority’s obligation to make Installment Sale Payments is unsecured and subordinate to its senior debt and other debt secured under the General Resolution; however in the Installment Sale and Assignment Agreement, the Water Authority agrees to comply with the covenants made by the Water Authority in the General Resolution for the benefit of the holders of the Authority Senior Lien Obligations and the Authority Subordinate Lien Obligations, including its rate covenant. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS”.

The Issuer may, in the future, issue additional series of bonds under the Plant Indenture (“**Additional Plant Bonds**” and, together with the Series 2012 Plant Bonds, the “**Plant Bonds**”) secured on a parity with the Series 2012 Plant Bonds and the Contracted Shortfall Payments and lend the proceeds thereof to the Company pursuant to the Plant Loan Agreement. The Company may also incur additional debt other than pursuant to the Plant Loan Agreement that would be secured under the Collateral Trust Agreement on a parity basis with the Plant Bonds and the Contracted Shortfall Payments (such additional debt together with Additional Plant Bonds, “**Additional Plant Senior Debt**”). The Company expects to incur Additional Plant Senior Debt in connection with the Intake System Modifications to finance a portion of the currently estimated \$77.2 million of Intake System Modifications project costs. See ‘THE

PROJECT – Intake System Modifications”. The issuance of Additional Plant Senior Debt is subject to the satisfaction of certain conditions as described under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Additional Plant Senior Debt”.

The Company’s obligations under the Plant Loan Agreement and its obligation to make Contracted Shortfall Payments are equally and ratably secured under the Collateral Trust Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS — The Collateral Trust Agreement”.

THE SERIES 2019 PIPELINE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM PIPELINE LOAN REPAYMENTS AND CONTRACTED SHORTFALL PAYMENTS AND OTHER SECURITY PLEDGED BY THE ISSUER UNDER THE PIPELINE INDENTURE, AND, IN THE CASE OF A CONTRACTED SHORTFALL PAYMENT DEFAULT, FROM THE COLLATERAL. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF OR ANY LOCAL AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2019 PIPELINE BONDS. THE ISSUER HAS NO TAXING POWER.

THE WATER AUTHORITY FINANCING AGENCY’S OBLIGATIONS TO MAKE PIPELINE LOAN REPAYMENTS ARE LIMITED OBLIGATIONS OF THE WATER AUTHORITY FINANCING AGENCY PAYABLE SOLELY FROM PAYMENTS MADE BY THE WATER AUTHORITY UNDER THE INSTALLMENT SALE AND ASSIGNMENT AGREEMENT.

The Series 2019 Pipeline Bonds are being offered and sold only to QIBs. Prospective purchasers are hereby notified that the Series 2019 Pipeline Bonds are subject to restrictions on transfer. Such restrictions include that no offer, sale, pledge, transfer or exchange may be made of Series 2019 Pipeline Bonds (a) except to investors that are QIBs and (b) in a denomination of less than the authorized denomination. Any offer, sale, pledge, transfer or exchange made of Series 2019 Pipeline Bonds to any person other than a QIB will be void and the purported transferor will remain the owner of record of such Series 2019 Pipeline Bonds. See “TRANSFER RESTRICTIONS”.

This Limited Offering Memorandum contains brief descriptions of (a) the Issuer, the Company, the Water Authority, the Water Authority Financing Agency and certain other Project participants, (b) the Series 2019 Pipeline Bonds, the Pipeline Indenture, the Pipeline Loan Agreement and the Installment Sale and Assignment Agreement, and (c) the Series 2012 Plant Bonds, the Plant Loan Agreement, the Plant Indenture, the Collateral Trust Agreement, certain other Plant Financing Documents and certain Project Contracts. Such information and descriptions do not purport to be comprehensive or definitive and no part of such information is to be construed as a representation or guarantee of completeness by the Issuer, the Company, the Water Authority or the Water Authority Financing Agency.

PLAN OF REFUNDING

The issuance of the Series 2019 Pipeline Bonds represents part of the continuing development of the combined plan of finance between the Water Authority and the Company that reflects their respective roles and responsibilities for the Project. The Water Authority owns, operates and maintains the Pipeline; while the Company constructed, owns and operates the Plant and constructed the Pipeline. In addition, the Water Authority funded the costs of acquiring the right of way for the Pipeline and certain improvements to its aqueduct system and the Twin Oaks Valley Water Treatment Plant, from its own revenues.

The Series 2019 Pipeline Bonds are being issued to (i) current refund and redeem all of the outstanding Series 2012 Pipeline Bonds, (ii) fund a debt service reserve for the Series 2019 Pipeline Bonds and (iii) pay costs of issuance of the Series 2019 Pipeline Bonds. The Series 2012 Pipeline Bonds debt service reserve fund contained \$10,539,303.92 at December 31, 2018. See “ESTIMATED SOURCES AND USES OF FUNDS”.

In connection with the issuance of the Series 2019 Pipeline Bonds, the Issuer, the Water Authority, the Water Authority Financing Agency, the Company, the 2012 Pipeline Trustee and the Plant Trustee will enter into an Omnibus Refunding Amendment Agreement, dated as of February 1, 2019 (the “**Omnibus Amendment**”), amending, supplementing and restating certain terms of (i) the Pipeline Loan Agreement with respect to the Series 2012 Pipeline Bonds (the “**Original Pipeline Loan Agreement**” and as so amended, the “**Pipeline Loan Agreement**”); (ii) the Installment Sale and Assignment Agreement with respect to the Series 2012 Pipeline Bonds (the “**Original Installment Sale and Assignment Agreement**” and as so amended, supplemented and restated, the “**Installment Sale and Assignment Agreement**”); and (iii) the Plant Loan Agreement with respect to the Series 2012 Plant Bonds (the “**Original Plant Loan Agreement**” and as so amended, supplemented and restated, the “**Plant Loan Agreement**”), relating to the payment of, and security for, the Series 2019 Pipeline Bonds as described herein. Additionally, the Company, the Pipeline Trustee, the Plant Trustee, the Collateral Agent, Poseidon Resources Channelside GP, Inc. (“**Poseidon GP**”) and Poseidon Resources Channelside Holdings LLC (the “**Limited Partner**”) will enter into a Collateral Documents Master Refunding Amendment dated as of February 1, 2019 (the “**Collateral Documents Master Refunding Amendment**”) amending and restating certain terms of (x) the Collateral Trust Agreement, dated as of December 24, 2012 among the Company, the Plant Trustee, the Pipeline Trustee and the Collateral Agent (the “**Original Collateral Trust Agreement**” and as so amended, the “**Collateral Trust Agreement**”), (y) the Pledge and Security Agreement among Poseidon GP, as Pledgor, the Company and the Collateral Agent and (z) the Pledge and Security Agreement among the Limited Partner, the Company and the Collateral Agent. The Pipeline Trustee will acknowledge and accept its responsibilities under the various amended documents, and the Collateral Agent will enter into amendments to various consents to assignments previously delivered by parties to Project documents assigned as collateral. The documents referred to in this paragraph generally address updating references to Series 2019 Pipeline Bonds, the Pipeline Indenture and the Pipeline Trustee in light of the refunding of the Series 2012 Pipeline Bonds, and affirmation of continuing obligations. In addition, the Water Authority and the Company have entered into CAMs Nos. 009 and 010, WPA Amendment No. 004 and WPA Amendment No. 005, which relate to completion of construction of the Plant as well as updates relating to the issuance of the Series 2019 Pipeline Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

On the date of issuance of the Series 2019 Pipeline Bonds, the proceeds received from the issuance and sale of the Series 2019 Pipeline Bonds shall be deposited into the Gross Proceeds Fund established under the Pipeline Indenture, which the Pipeline Trustee shall establish and maintain until making the deposits shown in the following table, whereupon the Gross Proceeds Fund shall be closed. The following table sets forth the estimated sources and uses of the funds with respect to the Series 2019 Pipeline Bonds:

SOURCES:	
Principal Amount	\$183,155,000.00
Original Issue Premium	19,573,176.95
Pipeline Bond Fund for Series 2012 Pipeline Bonds	2,852,935.08
Debt Service Reserve Fund for Series 2012 Pipeline Bonds ⁽¹⁾	10,579,555.74
TOTAL:	<u>\$216,160,667.77</u>
USES:	
Deposit to Pipeline Bond Fund for Series 2012 Pipeline Bonds	\$201,970,233.47
Deposit to Pipeline Debt Service Reserve Fund	9,732,750.00
Deposit to Bond Fund	1,110,801.16
Costs of Issuance ⁽²⁾	3,346,883.14
TOTAL:	<u>\$216,160,667.77</u>

⁽¹⁾ Amount on deposit as of January 28, 2019.

⁽²⁾ Includes legal fees, underwriters' discount, trustee fees, municipal advisory fees, consultant fees, rating agencies' fees, printing costs and other costs of issuance.

THE SERIES 2019 PIPELINE BONDS

General

The Series 2019 Pipeline Bonds will be issued in the aggregate principal amount of \$183,155,000 and will mature, subject to prior redemption as described herein, as set forth on the inside cover page hereof. The Series 2019 Pipeline Bonds will bear interest at the rate or rates of interest per annum as set forth on in front inside cover of this Limited Offering Memorandum from the date of original issuance until maturity and be payable on January 1 and July 1 of each year commencing on July 1, 2019, and the final stated maturity date. Interest on the Series 2019 Pipeline Bonds will be computed on the basis of a 360-day year, consisting of twelve 30-day months.

The Series 2019 Pipeline Bonds will be issued as fully registered bonds without coupons in the denominations of \$250,000 and \$5,000 and integral multiples of \$5,000 in excess of \$250,000. The Series 2019 Pipeline Bonds will be issued originally solely in book-entry form to DTC or its nominee, Cede & Co., to be held in DTC's book-entry-only system. Purchases of Series 2019 Pipeline Bonds may be made only in book-entry form in Authorized Denominations. Except as described under "Book-Entry System" below, Beneficial Owners of the Series 2019 Pipeline Bonds will not receive or have the right to receive physical delivery of Series 2019 Pipeline Bonds and will not be or be considered to be registered owners of Series 2019 Pipeline Bonds. So long as DTC or its nominee is the registered owner of the Series 2019 Pipeline Bonds, references in this Limited Offering Memorandum to Bondholders, Registered Owners or Holders of the Series 2019 Pipeline Bonds will refer to DTC or its nominee and not to the Beneficial Owners of the Series 2019 Pipeline Bonds, and payment of principal of, premium, if any, and interest on and the purchase price for Series 2019 Pipeline Bonds will be paid through the facilities of DTC. See Appendix D – Book-Entry System.

Redemption of Series 2019 Pipeline Bonds

Optional Redemption

The Series 2019 Pipeline Bonds maturing on July 1, 2039 and November 21, 2045 are subject to optional redemption by the Issuer prior to maturity beginning on January 1, 2029 at the written direction of the Water Authority, in whole or in part, from time to time on any date, at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

Mandatory Redemption

The Series 2019 Pipeline Bonds are subject to mandatory redemption, in whole, at any time, at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date, not more than twelve months after the occurrence of the following event: as a result of any changes in the Constitution of the State or in the Constitution of the United States of America or of legislative or administrative action (whether state or federal), or by final, nonappealable decree, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by the Water Authority in good faith, the Pipeline Loan Agreement or the Installment Sale and Assignment Agreement becomes impossible to perform in accordance with the intent and purposes of the parties as expressed in the Pipeline Loan Agreement or the Installment Sale and Assignment Agreement, as applicable.

Mandatory Sinking Fund Redemption

The Series 2019 Pipeline Bonds maturing on the dates listed below will be redeemed in part on the dates in each of the years listed below from amounts deposited in the Pipeline Bond Fund (“**Pipeline Bond Fund**”), at a redemption price equal to 100% of the principal amount redeemed plus accrued interest thereon to the redemption date, in the principal amounts set forth below next to such dates:

Series 2019 Pipeline Bonds Due July 1, 2029

<u>Date</u>	<u>Amount</u>
July 1, 2025	\$ 2,140,000
July 1, 2026	2,520,000
July 1, 2027	2,930,000
July 1, 2028	3,360,000
July 1, 2029†	3,830,000

† Final maturity

Series 2019 Pipeline Bonds Due July 1, 2039

<u>Date</u>	<u>Amount</u>
July 1, 2030	\$ 4,320,000
July 1, 2031	4,850,000
July 1, 2032	5,415,000
July 1, 2033	6,010,000
July 1, 2034	6,645,000
July 1, 2035	7,325,000
July 1, 2036	8,040,000
July 1, 2037	8,805,000
July 1, 2038	9,605,000
July 1, 2039†	10,475,000

† Final maturity

Series 2019 Pipeline Bonds Due November 21, 2045

<u>Date</u>	<u>Amount</u>
July 1, 2040	\$ 11,390,000
July 1, 2041	12,350,000
July 1, 2042	13,380,000
July 1, 2043	14,470,000
July 1, 2044	15,620,000
July 1, 2045	16,840,000
Nov. 21, 2045†	7,055,000

† Final maturity

Credit for Non-Mandatory Redemption

The requirements under “– Mandatory Sinking Fund Redemption” are subject, however, to the provision that any partial redemption under “– Optional Redemption” or “– Mandatory Redemption” of the Series 2019 Pipeline Bonds maturing on any one date shall reduce the mandatory sinking fund redemption requirements scheduled for the Series 2019 Pipeline Bonds maturing on such date under “– Mandatory Sinking Fund Redemption” as provided in this paragraph. In the event of a partial redemption under “– Optional Redemption” or “– Mandatory Redemption” of the Series 2019 Pipeline Bonds maturing on any one date, the Pipeline Trustee shall allocate the redeemed principal amount of the Series 2019 Pipeline Bonds maturing on such date against the next Series 2019 Pipeline Bonds maturing on such date to be redeemed under “– Mandatory Sinking Fund Redemption” above.

Purchase in Lieu of Redemption

In lieu of redemption of Series 2019 Pipeline Bonds, at the written direction of the Water Authority, the Issuer will purchase Series 2019 Pipeline Bonds on the date set for redemption with moneys provided by the Water Authority at a price (including accrued interest, but excluding any brokerage or other charges) equal to the applicable redemption price of such Series 2019 Pipeline Bonds. Such Series 2019 Pipeline Bonds so purchased will be delivered to the Pipeline Trustee for transfer to the designee of the Water Authority, and thereafter delivered to the designee of the Water Authority, all as the Pipeline Trustee is instructed in writing by an Authorized Representative of the Water Authority.

Notice of Redemption

Notice of the call for any redemption of Series 2019 Pipeline Bonds or any portion thereof (which shall be in Authorized Denominations) pursuant to “– Optional Redemption,” “– Mandatory Redemption” or “–Mandatory Sinking Fund Redemption” identifying the Series 2019 Pipeline Bonds or portions thereof to be redeemed, specifying the redemption date, the redemption price, the place and manner of payment, any conditions to such redemption and that from the redemption date interest will cease to accrue, will be given by the Pipeline Trustee by mailing a copy of the redemption notice by first class mail to the Holder of each Series 2019 Pipeline Bond to be redeemed in whole or in part at the address shown on the registration books. Such notice will be given at least 30 days prior to the date fixed for redemption to the Holders of Series 2019 Pipeline Bonds to be redeemed; provided, however, that failure to duly give such notice, or any defect therein, will not affect the validity of any proceedings for the redemption of Series 2019 Pipeline Bonds with respect to which no such failure or defect occurred.

With respect to any notice of redemption of Series 2019 Pipeline Bonds at the option of the Issuer, unless upon the giving of such notice such Series 2019 Pipeline Bonds will be deemed to have been paid within the meaning of the Pipeline Indenture, such notice may state (if so directed by the Water Authority in writing) that such redemption will be conditional upon the receipt by the Pipeline Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, and premium, if any, and interest on such Series 2019 Pipeline Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no further force and effect and the Issuer will not be required to redeem such Series 2019 Pipeline Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made and the Pipeline Trustee will within five days thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Any notice mailed as provided under “– Notice of Redemption” will be conclusively presumed to have been duly given, whether or not the Holder receives the notice.

Selection of Bonds for Redemption

If less than all of the Series 2019 Pipeline Bonds are called for redemption, the particular Series 2019 Pipeline Bonds or portions thereof to be redeemed will be selected on a pro rata basis in Authorized Denominations or such other method as the Pipeline Trustee in its discretion deems appropriate, and in accordance with the applicable Securities Depository procedures. The Pipeline Trustee will promptly notify the Water Authority in writing of the Series 2019 Pipeline Bonds or portions thereof selected for redemption, provided that, in connection with any redemption of Series 2019 Pipeline Bonds, the Issuer, at the written direction of the Water Authority, or the Pipeline Trustee, as the case may be, shall first select for redemption any Series 2019 Pipeline Bonds held by the Pipeline Trustee for the account of the Water Authority or held of record by the Water Authority and that if, as indicated in a certificate of an Authorized Representative of the Water Authority delivered to the Pipeline Trustee, the Water Authority

has offered to purchase all such Series 2019 Pipeline Bonds then Outstanding and less than all such Series 2019 Pipeline Bonds have been tendered to the Water Authority for such purchase, the Issuer, at the written direction of the Water Authority, or the Pipeline Trustee, will select for redemption all such Series 2019 Pipeline Bonds that have not been so tendered. If the Holder of any such Series 2019 Pipeline Bond fails to present such Series 2019 Pipeline Bond to the Pipeline Trustee for payment and exchange as so described, such Series 2019 Pipeline Bond will, nevertheless, become due and payable, and interest will cease to accrue, on the date fixed for redemption to the extent of the principal amount called for redemption (and to that extent only).

Limited Obligations

THE SERIES 2019 PIPELINE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM PIPELINE LOAN REPAYMENTS AND CONTRACTED SHORTFALL PAYMENTS AND OTHER SECURITY PLEDGED BY THE ISSUER UNDER THE PIPELINE INDENTURE, AND, IN THE EVENT OF A CONTRACTED SHORTFALL PAYMENT DEFAULT, THE COLLATERAL. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OR ANY LOCAL AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2019 PIPELINE BONDS. THE ISSUER HAS NO TAXING POWER.

THE WATER AUTHORITY FINANCING AGENCY'S OBLIGATIONS TO MAKE PIPELINE LOAN REPAYMENTS ARE LIMITED OBLIGATIONS OF THE WATER AUTHORITY FINANCING AGENCY, PAYABLE SOLELY FROM PAYMENTS MADE BY THE WATER AUTHORITY UNDER THE INSTALLMENT SALE AND ASSIGNMENT AGREEMENT.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS

General

Under the Pipeline Indenture, the Issuer will pledge to the Pipeline Trustee all of the Issuer's right, title and interest (except for the Pipeline Retained Rights) in the Pipeline Loan Agreement, including, the right to receive Pipeline Loan Repayments and Contracted Shortfall Payments from the Water Authority under the Installment Sale and Assignment Agreement, and all moneys on deposit under the Pipeline Indenture (other than the Rebate Fund and the Cost of Issuance Fund, each established under the Pipeline Indenture) and all earnings thereon (collectively, the "**Pipeline Trust Estate**").

Pipeline Loan Agreement

The Issuer loaned the proceeds of its Series 2012 Pipeline Bonds to the Water Authority Financing Agency pursuant to the Original Pipeline Loan Agreement. The Water Authority Financing Agency made such proceeds available to the Water Authority pursuant to the Original Installment Sale and Assignment Agreement to finance the costs of developing, designing, acquiring and constructing the Pipeline. In order to refinance the costs of developing, designing, acquiring and constructing the Pipeline, the Issuer will apply the proceeds of the Series 2019 Pipeline Bonds, together with other legally available funds, to refund the Outstanding Series 2012 Pipeline Bonds. In connection therewith, pursuant to the Omnibus Amendment, the Issuer and the Water Authority Financing Agency will supplement, amend and restate certain terms of the Original Pipeline Loan Agreement to properly reference the Series 2019 Pipeline Bonds and make other conforming changes.

In the Pipeline Loan Agreement, the Water Authority Financing Agency agrees to repay the loan of the proceeds of the Series 2019 Pipeline Bonds by depositing, on or before any date upon which any

amounts payable with respect to the Series 2019 Pipeline Bonds shall become due, whether upon redemption (including without limitation sinking fund redemption), acceleration, maturity, or otherwise (each a “**Pipeline Bond Payment Date**”) with the Pipeline Trustee a sum equal to the amount payable on the next Pipeline Bond Payment Date as principal of and premium, if any, and interest on the Series 2019 Pipeline Bonds as provided in the Pipeline Indenture, together with any such amount as shall be necessary to increase the amount on deposit in the Pipeline Debt Service Reserve Fund to the Pipeline Debt Service Reserve Requirement, and certain amounts relating to Pipeline Trustee Fees and Expenses (as defined in the Pipeline Indenture) (collectively, the “**Pipeline Loan Repayments**”); provided that the amount of any Pipeline Loan Repayment coming due and payable will be reduced by the amount of any Contracted Shortfall Payment that the Company becomes obligated to pay on such date (whether or not such Contracted Shortfall Payment is made on such date); and provided further that the obligations of the Water Authority Financing Agency under the Pipeline Loan Agreement are limited obligations of the Water Authority Financing Agency payable solely from payments made by the Water Authority under the Installment Sale and Assignment Agreement. See Appendix F – Summaries of Certain Provisions of the Pipeline Installment Sale and Assignment Agreement, Pipeline Trust Indenture and Pipeline Loan Agreement.

Installment Sale and Assignment Agreement

The Water Authority Financing Agency made the proceeds of the 2012 Pipeline Bonds available to the Water Authority under the Original Installment Sale and Assignment Agreement, and proceeds of the Series 2019 Pipeline Bonds, together with other legally available funds, will refinance the costs of construction of the Pipeline through their application to refund the Outstanding Series 2012 Pipeline Bonds. In connection therewith, pursuant to the Omnibus Amendment, the Water Authority and the Water Authority Financing Agency will supplement, amend and restate certain terms of the Original Installment Sale and Assignment Agreement to properly reference the Series 2019 Pipeline Bonds and make other conforming changes.

The Installment Sale Payments are in amounts equal to the sum of the principal installment of the Installment Sale Payment due on such date, if any, the interest installment of the Installment Sale Payment due on such date, and the amount necessary to increase the amount on deposit in the Pipeline Debt Service Reserve Fund to the Pipeline Debt Service Reserve Requirement, and will be payable on or before the Business Day immediately preceding each date on which Series 2019 Pipeline Bond debt service payments are payable, provided that the Water Authority’s obligation to make Installment Sale Payments will be reduced by the amount of Contracted Shortfall Payments payable by the Company, whether or not paid. See Appendix F – Summaries of Certain Provisions of the Pipeline Installment Sale and Assignment Agreement, the Pipeline Trust Indenture and the Pipeline Loan Agreement.

General Resolution and Rate Covenant

Installment Sale Payments are payable only from the General Reserve Fund maintained by the Water Authority pursuant to the General Resolution. Monies are deposited into the General Reserve Fund only after payments of Maintenance and Operation Costs and payments in respect of Authority Senior Lien Obligations and Authority Subordinate Lien Obligations have been made. The Water Authority covenants in the Installment Sale and Assignment Agreement to comply with the covenants made by the Water Authority in the General Resolution, including its covenant to at all times fix, prescribe and collect or cause to be collected rates, fees and charges for water service which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield, during its next succeeding fiscal year, Net Water Revenues sufficient for the payment of all amounts payable from Net Water Revenues and at least equal to 120 percent of the Water Authority’s payments with respect to Authority Senior Lien Obligations for such fiscal year. The Water Authority may make adjustments from time to time in such rates, fees and

charges and may make such classification thereof as it deems necessary, but will not reduce the rates, fees and charges then in effect unless the Net Water Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of such covenant. See Appendix C – Water Authority Information, and Appendix F – Summaries of Certain Provisions of the Pipeline Installment Sale and Assignment Agreement, Pipeline Trust Indenture and Pipeline Loan Agreement.

Pipeline Revenue Fund

Unless all the Series 2019 Pipeline Bonds have been accelerated and such acceleration has not been rescinded, the Pipeline Trustee will deposit all Pipeline Loan Repayments made by the Water Authority Financing Agency and Contracted Shortfall Payments made by the Company received by it into the Pipeline Revenue Fund. On each Monthly Disbursement Date, all moneys in the Pipeline Revenue Fund will be paid or transferred from the Pipeline Revenue Fund established under the Pipeline Indenture by the Pipeline Trustee in the following order of priority:

- (i) to the Pipeline Trustee, an amount equal to all Pipeline Trustee Fees and Expenses due and payable before the next Monthly Disbursement Date;
- (ii) to the Issuer, an amount equal to all Fees and Expenses of the Issuer due and payable before the next Monthly Disbursement Date;
- (iii) to the Pipeline Bond Fund, an amount equal to one-sixth of the interest payment due and owing on the Series 2019 Pipeline Bonds on the next succeeding Interest Payment Date;
- (iv) to the Pipeline Bond Fund, an amount equal to one-twelfth of the principal payment due and owing on the Series 2019 Pipeline Bonds on the next succeeding Interest Payment Date on which a principal payment is due; and
- (v) to the Pipeline Debt Service Reserve Fund, the amount necessary, if any, to increase the balance therein to an amount equal to the Pipeline Debt Service Reserve Requirement (as defined herein).

Any remaining funds in the Pipeline Revenue Fund will be transferred to the Pipeline Bond Fund.

Debt Service Reserve Fund

The Pipeline Indenture established the Pipeline Debt Service Reserve Fund, which is required to be funded at all times in an amount equal to the Pipeline Debt Service Reserve Requirement. “**Pipeline Debt Service Reserve Requirement**” means, on any Monthly Disbursement Date, (a) for the Series 2019 Pipeline Bonds, an amount equal to the principal and interest due with respect to the Series 2019 Pipeline Bonds during the 12-month period succeeding such Monthly Disbursement Date, provided that such amount shall not exceed the lesser of the following, calculated as of the Closing Date, (i) 10% of the stated principal amount of the Series 2019 Pipeline Bonds, if the original issue discount does not exceed 2% times the stated redemption price of the Series 2019 Pipeline Bonds, or 10% of the issue price, if the original issue discount does exceed 2% times the stated redemption price of the Series 2019 Pipeline Bonds, (ii) the maximum annual principal and interest requirements on the Series 2019 Pipeline Bonds, based on a 12-month period ending July 1, or (iii) 125% of the average annual principal and interest requirements on the Series 2019 Pipeline Bonds, which amount is \$16,861,045.10, and (b) for any Additional Pipeline Bonds, the amount set forth in the related supplemental indenture.

On the Closing Date, the Pipeline Debt Service Reserve Fund will be funded in the amount of the Pipeline Debt Service Reserve Requirement. If the amount in the Pipeline Debt Service Reserve Fund does not equal the Pipeline Debt Service Reserve Requirement, the Pipeline Debt Service Reserve Fund will subsequently be funded by moneys transferred on each Monthly Disbursement Date by the Pipeline Trustee from the Pipeline Revenue Fund pursuant to the Pipeline Indenture and/or moneys transferred by the Collateral Agent pursuant to the Collateral Trust Agreement. The Pipeline Trustee shall calculate the Pipeline Debt Service Reserve Requirement on each Monthly Disbursement Date.

If, on the last Monthly Disbursement Date before any Interest Payment Date, moneys in the Pipeline Bond Fund are insufficient to make the interest payment and principal payment due and owing on such Interest Payment Date, the Pipeline Trustee will transfer the amount of the deficiency from the Pipeline Debt Service Reserve Fund to the Pipeline Bond Fund. On each Monthly Disbursement Date commencing after August 1, 2019, the Pipeline Trustee will transfer to the Pipeline Revenue Fund any moneys in the Pipeline Debt Service Reserve Fund in excess of the Pipeline Debt Service Reserve Requirement. On November 21, 2045, the Pipeline Trustee shall apply moneys in the Debt Service Reserve Fund to pay the principal of and interest on the Series 2019 Pipeline Bonds due on and owing on such date. See Appendix F – Summaries of Certain Provisions of the Pipeline Installment Sale and Assignment Agreement, Pipeline Trust Indenture and Pipeline Loan Agreement.

Collateral Trust Agreement

To secure the Company's obligations to make payments under the Plant Loan Agreement with respect to the Plant Bonds and to make Contracted Shortfall Payments, the Company, the Plant Trustee and the Pipeline Trustee have entered into the Collateral Trust Agreement with the Collateral Agent. The Collateral Trust Agreement also secures, on a parity basis with the Series 2012 Plant Bonds and the Contracted Shortfall Payments, any Additional Plant Senior Debt, if and when issued. The Collateral Trust Agreement also secures the Company's obligations to make certain payments to the Issuer with respect to the Issuer's Plant Retained Rights and to make timely payments to the EPC Contractor under the Plant EPC Contract. As used in the Collateral Trust Agreement, "**Secured Parties**" means the Plant Trustee, the Pipeline Trustee, any holder of Additional Plant Senior Debt (other than Additional Plant Bonds) or any trustee or similar agent thereof (an "**Additional Plant Lender**") and any bond insurer for such Additional Plant Senior Debt and, for the limited purposes described in the previous sentence, the Issuer and the Plant EPC Contractor.

The Collateral Agent holds in trust for the Secured Parties all of the Company's and the Collateral Agent's right, title and interest in, to and under the following, among other things (collectively, the "**Collateral**"):

- the Plant Trust Estate, consisting primarily of the right to receive Plant Loan Repayments and the funds and accounts held under the Plant Indenture and the monies and instruments held therein;
- the Company's interests in the Project Contracts, including the right to receive Plant Revenues, which are pledged by the Company to the Collateral Agent in the Security Agreement;
- the funds and accounts held under the Collateral Trust Agreement and the monies and instruments held therein;
- Capital Proceeds, which include insurance proceeds and performance damages payable pursuant to the Plant EPC; and

- Performance shortfall payments payable by IDE Americas pursuant to the O&M Agreement.

As used in the Collateral Trust Agreement, “**Project Contracts**” means the O&M Agreement, the Water Purchase Agreement, the Pipeline DBA, the Ground Lease, the Management Services Agreement, the Process Services Agreement, the IDE Guarantees, the EPC Guarantee, the State Lands Commission Lease, the San Diego Gas & Electric Company (“**SDG&E**”) Contracts, the Development Agreement, any permitted Additional Project Contracts and any other contracts or agreements relating to the development or construction of the Pipeline or the development, construction, operation or use of the Plant to which the Company is a party, excluding the Financing Documents. For additional information regarding the Water Purchase Agreement, see Appendix G – Summary of the Water Purchase Agreement. For additional information regarding the O&M Agreement and the Ground Lease, see Appendix H – Summaries of Certain Project Contracts.

The Collateral secures the Company’s obligations to the Secured Parties on a pari passu basis except as follows:

- the Plant Debt Service Reserve Fund and all cash, investments and securities and any proceeds thereof at any time on deposit therein secure the Series 2012 Plant Bonds only; and
- until transferred to another Account, or the earlier delivery of the Contractor Security Termination Certificate (as defined in the Collateral Trust Agreement), the Plant Contractor Security Account and all cash, investments and securities and any proceeds thereof at any time on deposit therein secure the Company’s obligation to pay Past Due EPC Payments only.

Collateral Trust Agreement Funds and Accounts

The following funds and accounts have been established and maintained under the Collateral Trust Agreement, and the dollar balances (cost basis) of such accounts as of December 31, 2018 are shown below:

Account Name	Balance	Target Balance	(under)/over
Contractor Security Account	5,463,217.51	5,362,565.64	100,651.87
Plant Revenue Fund	551.69	-	551.69
Operating Fund	2,402,562.21	-	2,402,562.21
Plant Debt Service Reserve Fund (1)	26,552,074.69	26,517,250.00	34,824.69
Plant Bond Fund	13,317,880.15	13,258,625.00	59,255.15
Working Capital Reserve Fund- Permanent Account	6,478,107.24	6,421,037.00	57,070.24
Working Capital Reserve Fund- Project Reserve Account	12,107,958.28	12,013,975.00	93,983.28
Wetlands Mitigation Reserve Fund	18,554,998.90	18,554,998.90	-
Permanent Pump Shutdown Reserve Fund (2)	35,695,113.37	35,694,537.00	576.37
Plant Restoration Fund - Train 5 Repair Account	2,156.25	-	2,156.25
Distribution and Stabilization Fund	8,500,462.69	-	8,500,462.69

(1) \$22,500,000 of the Plant Debt Service Reserve Fund is supported by a letter of credit.

(2) \$35,694,537 of the Permanent Pump Shutdown Reserve Fund is supported by a letter of credit.

Source: Poseidon Resources (Channelside) LP.

The Company is in compliance with the funding requirements of the Collateral Trust Agreement with respect to each of these accounts and funds, and such accounts are utilized and if applicable replenished from time to time in accordance with the Collateral Trust Agreement. Below is additional information with respect to the Working Capital Reserve Fund, Wetlands Mitigation Reserve Fund and the Distribution and Stabilization Fund, and the Special Maintenance Reserve Fund that may be established in the future pursuant to the Collateral Trust Agreement. In addition, see “THE PROJECT – Environmental Regulation Matters – Wetlands Mitigation” for additional information with respect to the Wetlands Mitigation Reserve Fund, and “INVESTMENT RISKS – Permanent Pump Shutdown” for additional information with respect to the Permanent Pump Shutdown Reserve Account.

Working Capital Reserve Fund

The Working Capital Reserve Fund contains two Accounts: the Permanent Account and the Project Reserve Account. The Permanent Account is funded with Plant Revenues in amounts sufficient to cause the balance therein to equal one month’s budgeted O&M Costs. Funds on deposit in the Permanent Account will be transferred to the Plant Revenue Fund in the event of certain deficiencies therein. As of December 31, 2018, funds available in the Permanent Account were approximately \$6,478,107. The Project Reserve Account was funded on the Commercial Operation Date as required pursuant to the Collateral Trust Agreement, and the balance of such account as of December 31, 2018 was \$12,107,958. Funds on deposit in the Project Reserve Account may be used to fund Capital Projects and will be transferred to the Plant Revenue Fund in the event of certain deficiencies therein. With these two accounts, the Company has combined reserves of approximately \$18,586,065, all of which are available to fund payments to IDE Americas as “O&M Costs” under the Collateral Trust Agreement. If, at any time, the Debt Service Coverage Ratio for the preceding 12 months was at least 1.35 and the projected Debt Service Coverage Ratio for the following 12 months is at least 1.35, upon receipt of a certificate concurred in by the Independent Engineer, the Collateral Agent will transfer to the Plant Revenue Fund all amounts then on deposit in the Project Reserve Account in excess of the greater of (a) \$11.5 million and (b) the aggregate Fixed O&M Costs for the immediately following six-month period as set forth in the then-current Operating Budget (the “**Required Project Reserve Account Balance**”). Thereafter, the Project Reserve Account will be funded from Plant Revenues to the level of the Required Project Reserve Account Balance.

Special Maintenance Reserve Fund

The Collateral Agent will establish a Special Maintenance Reserve Fund if, on the first January Monthly Disbursement Date occurring on or after December 23, 2025, which will be the 10th anniversary of the Commercial Operation Date (a “**Fiscal Year Calculation Date**”), (a) the Debt Service Coverage Ratio for each of the two immediately preceding Fiscal Year Calculation Dates was less than 1.35 and (b) the Debt Service Coverage Ratio for four or more out of the six immediately preceding Fiscal Year Calculation Dates (including the Fiscal Year Calculation Dates described in clause (a)) was less than 1.35 (a “**10-Year Coverage Shortfall**”). The Special Maintenance Reserve Fund will be funded from Plant Revenues to a level of \$10 million (Escalated at the rate of 2.5% per year commencing December 23, 2016), provided that Plant Revenues deposited in any Fiscal Year will not exceed \$5 million. Funds on deposit in the Special Maintenance Reserve Fund will be transferred to the Plant Revenue Fund in the event of certain deficiencies therein. On the first Fiscal Year Calculation Date following the occurrence of a 10-Year Coverage Shortfall with respect to which (a) the Debt Service Coverage Ratio for the two immediately preceding Fiscal Years was at least 1.35 and (b) the projected Debt Service Coverage Ratio for the remaining term of the then Outstanding Senior Debt (as defined in the Collateral Trust Agreement) is at least 1.35 (the “**Special Maintenance Reserve Release Date**”), the Collateral Agent will transfer the balance in the Special Maintenance Reserve Fund to the Plant Revenue Fund. Prior to the Special

Maintenance Reserve Release Date, amounts disbursed from the Special Maintenance Reserve Fund will be replenished from Plant Revenues.

Wetlands Mitigation Reserve Fund

Pursuant to the Collateral Trust Agreement, on the Commercial Operation Date, a Wetlands Mitigation Reserve Fund was established and funded in an amount equal to \$20.2 million, which was the Company's then current estimate of the cost to complete the wetlands restoration work. As security to assure completion of the Company's wetlands mitigation obligations, under the State Lands Commission Lease, the Company has provided performance bonds in the amount of \$4.7 million. The Company withdraws funds from this Fund periodically to pay for its wetlands mitigation activities. The current balance of the Wetlands Mitigation Reserve Fund is approximately \$18.6 million, and the Company believes that such account balance will be sufficient to fund implementation of the Marine Life Mitigation Plan that was established by the Company in connection with obtaining permits for the construction of the Plant. On October 19, 2018, the Regional Director of the Pacific Southwest Region of the United States Department of Fish and Wildlife signed a Record of Decision ("**ROD**") for the Otay River Estuary Restoration Project Final Environmental Impact Statement, which identifies Alternative B (Intertidal Alternative) for implementation. A Notice of Availability ("**NOA**") informing the public of the availability of the ROD was published in the Federal Register on October 31, 2018. The California Coastal Commission ("**Coastal Commission**") issued a determination that the Coastal Development Permit application for the wetlands restoration project is complete. Coastal Commission, Port of San Diego, United States Army Corps of Engineers ("**USACE**") and San Diego Regional Water Quality Control Board ("**RWQCB**") permitting is expected to be completed in 2019, and construction of the project is expected to commence in 2020 and be completed in 2021.

Reserve Sureties

The Company may deliver to the Collateral Agent a Reserve Surety issued by an Acceptable Credit Provider in lieu of all or a portion of the amounts on deposit in the Permanent Account or the Project Reserve Account in the Working Capital Reserve Fund, the Plant Debt Service Reserve Fund, the Ground Lease Restoration Reserve Fund or the Permanent Pump Shutdown Reserve Account. All other reserve funds must be funded with cash. Currently, Reserve Sureties have been obtained by an affiliate of Stonepeak and are in place to fund \$22,500,000 of the Plant Debt Service Reserve Fund and \$35,694,537 of the Permanent Pump Shutdown Reserve Account.

Distribution and Stabilization Fund

Pursuant to the Collateral Trust Agreement, on each Monthly Disbursement Date, after all other payments and transfers from the Plant Revenue Fund have been made, the balance in the Plant Revenue Fund is transferred to the Distribution and Stabilization Fund. On each Monthly Disbursement Date, occurring in January and July that is six or more months after the Commercial Operation Date (each, a "**Calculation Date**"), the Collateral Agent will make the following disbursements from Funds Available for Distribution (as defined below), if any, on such date, from the Distribution and Stabilization Fund established in the Collateral Trust Agreement, in the following priority:

first, to the Water Authority an amount equal to sum of all accrued obligations to pay annual true-up charges to the Water Authority under the Water Purchase Agreement ("**Annual True Up Payments**"), together with interest thereon; and

second, to the Company from the Distribution and Stabilization Fund all Funds Available for Distribution on such date;

but, in each case, only if certain conditions are met, including the following:

1. no Plant Financing Default or Plant Financing Event of Default then exists;
2. the Debt Service Coverage Ratio for the preceding 12-month period was at least equal to 1.25;
3. the projected Debt Service Coverage Ratio for the following 12-month period is at least equal to 1.25; and
4. if Cabrillo has delivered a Shutdown Notice, the Permanent Pump Shutdown Reserve Account has been funded in an amount equal or greater than the Permanent Pump Shutdown Reserve Amount.

The condition described in 4. above has been met. See “THE PROJECT – Intake System Modifications.”

“**Funds Available for Distribution**” means (A) on any Calculation Date occurring in the month of January, an amount equal to (1) the amount then on deposit in the Distribution and Stabilization Fund minus (2) Semi-Annual Supply Commitment True-Up Accrual for the Semi-Annual Accrual Period ending on the last day of the month prior to the month in which the Calculation Date occurs, minus (3) the Semi-Annual Shortfall True-Up Accrual for the Semi-Annual Accrual Period ending on the last day of the month prior to the month in which the Calculation Date occurs, and (B) on any Calculation Date occurring in the month of July, the amount then on deposit in the Distribution and Stabilization Fund.

See Appendix E - Summaries of Certain Collateral Documents for additional defined terms and descriptions of the Plant Revenue Fund and reserve funds thereunder. See Appendix G - Summary of the Water Purchase Agreement and defined terms therein.

Since the Commercial Operation Date, Funds Available for Distribution aggregating \$45,361,023 have been paid to the Company. See “SUMMARY FINANCIAL INFORMATION”.

Remedies; Senior Debt Majority

Under the Collateral Trust Agreement, the Pipeline Trustee (i) grants to a Senior Debt Majority the sole right to direct the exercise of remedies under the Pipeline Indenture if an event of default occurs under the Pipeline Indenture as a result of the Company’s failure to make a Contracted Shortfall Payment (a “**Contracted Shortfall Payment Default**”), (ii) grants to the Collateral Agent the sole right to enforce such remedies, including an acceleration of the Series 2019 Pipeline Bonds if a Contracted Shortfall Payment Default occurs and (iii) agrees that it will not pursue any remedy under the Pipeline Indenture with respect to a Contracted Shortfall Payment Default except as directed by a Senior Debt Majority. A Senior Debt Majority also has the right to give certain approvals under the Plant Financing Documents including the sole right to direct the exercise of remedies under Plant Financing Documents. Each of the Plant Trustee and the lender of any Additional Plant Senior Debt also agrees that it will not pursue any remedy under any Plant Financing Document to which it is a party with respect to a Plant Financing Event of Default, and grants to the Collateral Agent the sole right to enforce such remedies including an acceleration of the Plant Senior Debt. Any exercise of remedies by the Collateral Agent will be for the benefit of all holders of Plant Senior Debt and the Collateral Agent must accelerate all Plant Senior Debt if it accelerates any Plant Senior Debt. A “**Senior Debt Majority**” means at any time, a majority in interest of the Outstanding Senior Debt based on the outstanding principal amount of such Senior Debt, including for these purposes the outstanding principal amount of the Series 2019 Pipeline Bonds, acting

by written notice to the Collateral Agent. The outstanding principal amount of the Series 2019 Pipeline Bonds will not, however, constitute a majority of the Outstanding Senior Debt. See “INVESTMENT RISKS – Remedies on Default”.

Other Collateral Documents

The following agreements provide further security for Plant Senior Debt, which includes the Company’s obligations to make Contracted Shortfall Payments:

- the Deed of Trust pursuant to which the Company has granted and assigned its interest in the Ground Lease and all improvements, easements and rights-of-way, machinery, equipment and fixtures at the Plant Site to the Collateral Agent;
- a policy of leasehold title insurance issued by Fidelity in the amount of \$726,224,400 with respect to the Company’s interest under the Ground Lease and \$7,335,600 with respect to the State Lands Commission Lease;
- the Security Agreement in which the Company has granted to the Collateral Agent a security interest in, among other things, the Plant Revenues and the Company’s interests in the Project Contracts;
- a Pledge Agreement from each of Poseidon GP and the Limited Partner, pledging to the Collateral Agent a continuing security interest in and to their partnership interests in the Company and all of their rights to receive income, dividends and other distributions on account of such partnership interests; and
- the Collateral Agent’s Remedies Agreement with the Water Authority and the Consents from the counterparties to the other Principal Project Contracts in which, among other things, the Water Authority and such counterparties grant to the Collateral Agent certain rights to cure an event of default by the Company under their respective Principal Project Contracts.

See Appendix E – Summaries of Certain Collateral Documents and Appendix I – Summaries of Certain Provisions of the Plant Loan Agreement and the Plant Indenture.

Additional Plant Senior Debt

Pursuant to the terms of the Collateral Trust Agreement, the Company may not incur Additional Plant Senior Debt except as provided therein. Subject to the terms of the Collateral Trust Agreement described under “–Additional Debt Permitted in Special Circumstances” and “–Other Additional Debt” below, so long as no Plant Financing Event of Default occurred and is continuing, the Company may incur Additional Plant Senior Debt if the proceeds thereof are to be used to:

1. refund all or a portion of Plant Senior Debt, Pipeline Bonds that have been accelerated, or subordinated indebtedness of the Company (“**Refunding Debt**”);
2. finance the costs of the development, design engineering, permitting, construction, financing, start-up and testing of a Capital Project (A) consisting of a relocation of water connections and other equipment and facilities in connection with a Permanent Pump Shutdown (“**Water Connection Debt**”) or (B) required to comply with Applicable Law

or any Principal Project Contract, including the performance of any obligations of the Company under the Water Purchase Agreement (“**Compliance Debt**”);

3. finance the costs of the development, design engineering, permitting, construction, financing, start-up and testing of other Capital Projects undertaken by the Company in compliance with the provisions of the Collateral Trust Agreement;
4. finance the short-term cash flow requirements of the Company for payment of O&M Costs pursuant to any bank or other working capital credit facility; provided that the total amount of Debt permitted to be incurred under any such working capital credit facility, together with the total amount of reimbursement obligations of the Company under any letter of credit and reimbursement facility described in Item 6 below, may not exceed the sum of (A) \$15 million (Escalated) in the aggregate plus (B) if a Facility Letter of Credit Issuer agrees that its Facility Letter of Credit can be drawn on to pay the Company’s obligations under Project Contracts, the amount available to be drawn thereon.
5. finance letters of credit to secure the Company’s obligations under Project Contracts pursuant to any bank or other letter of credit and reimbursement facility; provided that the total amount of reimbursement obligations of the Company permitted to be incurred under any such letter of credit and reimbursement facility, together with the total amount of Debt under any working capital credit facility described in Item 5 above, may not exceed the sum of (A) \$15 million (Escalated) in the aggregate plus (B) if a Facility Letter of Credit Issuer agrees that its Facility Letter of Credit can be drawn on to pay the Company’s obligations under Project Contracts, the amount available to be drawn thereon; or
6. with a Favorable Opinion of Bond Counsel, finance facilities ancillary to the operation of the Plant.

“**Escalated**” means increased at the rate of 2.5% per year, commencing December 23, 2016.

Additional Debt Permitted in Special Circumstances. The Company may incur Debt under Interest Hedging Arrangements entered into in connection with any Additional Plant Senior Debt as required by the terms of the Plant Financing Documents for such Additional Plant Senior Debt. The Company may also incur (i) Completion Debt in the amount of \$50 million (subject to escalation – currently \$53,929,542), (ii) Water Connection Debt in an aggregate amount not to exceed \$25 million (subject to escalation – currently \$26,964,771, calculated as of January 16, 2019) and (iii) Compliance Debt in an aggregate amount not to exceed \$25 million (subject to escalation – currently \$26,964,771, calculated as of January 16, 2019), so long as, in each case, (A) the Company has delivered to the Collateral Agent updated Current Case Financial Projections that (1) give effect to the issuance of such Debt and (2) show a minimum projected Debt Service Coverage Ratio for each Fiscal Year of the remaining term of the then Outstanding Plant Senior Debt of not less than 1.00 and, (B) if the Plant Debt Service Reserve Requirement for any such Additional Plant Senior Debt is different than the Plant Debt Service Reserve Requirement for any then Outstanding Plant Senior Debt, the condition for rating confirmation set forth in Item 4 in the next paragraph is satisfied. A portion of the Additional Plant Senior Debt expected to be issued in connection with the Permanent Pump Shutdown and Ocean Plan Amendment will constitute Water Connection Debt and Compliance Debt. Any remaining portion of the debt financing for these improvements will be required to qualify as Other Additional Debt described below or be subordinated to the Series 2019 Pipeline Bonds. See “THE PROJECT – Intake System Modifications” and “PROJECT OPERATION – Water Purchase Agreement – Financing”.

Other Additional Debt. Except as described under “–Additional Debt Permitted in Special Circumstances” with respect to Permitted Debt under Interest Hedging Arrangements, Water Connection Debt and Compliance Debt, the Company may incur Additional Plant Senior Debt only if all of the following conditions have been satisfied:

1. the balance of each Plant Debt Service Reserve Account (other than, in the case of Refunding Debt, the Plant Debt Service Reserve Account in respect of the Plant Senior Debt that is to be refunded) is at least equal to the related Plant Debt Service Reserve Requirement and the balances of the Permanent Account and the Project Reserve Account of the Working Capital Reserve Fund are at least equal to the Working Capital Reserve Requirement and the Required Project Reserve Account Balance, respectively, after giving effect to the issuance of such debt;
2. the Debt Service Coverage Ratio for the last completed Budget Year or Fiscal Year preceding the issuance of Additional Plant Senior Debt was at least 1.35;
3. the Company delivers Current Case Financial Projections that (A) give effect to the proposed issuance of such Debt and (B) show projected Debt Service Coverage Ratio for each Fiscal Year of the remaining term of the then Outstanding Plant Senior Debt of not less than 1.35 after giving effect to issuance of such Additional Plant Senior Debt;
4. the Company delivers a confirmation from the two rating agencies that initially rated the Series 2012 Plant Bonds that the issuance of such Additional Plant Senior Debt will not result in the lowering of their then-current respective ratings, and in any event not lower than a rating of BBB- by Fitch Ratings or its equivalent, on the Series 2012 Plant Bonds and any previously issued Additional Plant Senior Debt;
5. if such Additional Plant Senior Debt is to be issued for the purpose of refunding any Plant Senior Debt then Outstanding, conditions described in Items 2, 3 and 4 will not apply so long as the Company delivers Current Case Financial Projections showing Debt Service for the current and each succeeding Budget Year that, after giving effect to the issuance of the Additional Plant Senior Debt, is not greater than the Debt Service for the remaining term of the refunded Plant Senior Debt; and
6. the terms of the Plant Financing Documents regarding Additional Plant Senior Debt, except for Refunding Debt that will refinance all Plant Senior Debt then Outstanding, are reasonably satisfactory to the Senior Debt Majority and contain no right of acceleration in conflict with the Collateral Trust Agreement and impose no other covenants or events of default which would conflict with any other provision of the Collateral Trust Agreement.

The Issuer has no obligation to issue Additional Plant Bonds. The Company currently expects to arrange for the issuance of Additional Plant Senior Debt in connection with upcoming modifications to the Plant. See “THE PROJECT – Intake System Modifications”.

THE ISSUER

The Issuer is a political subdivision and public instrumentality of the State of California created pursuant to the Act for the purpose of providing industry within the State with an alternative method of financing in providing, enlarging and establishing pollution control facilities to the mutual benefit of the people of the State and to protect their health and welfare. In furtherance of such purposes, the Issuer is authorized to issue revenue bonds and to make loans to lend financial assistance in the acquisition,

construction or installation of pollution control facilities. The Issuer's Board consists of three public officials who hold office ex officio: the State Treasurer, the State Controller and the State Director of Finance. Pursuant to the Act, the Issuer authorized the issuance of the Series 2019 Pipeline Bonds, for the purpose of refunding the Series 2012 Pipeline Bonds, the loan of the proceeds of the Series 2019 Pipeline Bonds to the Water Authority Financing Agency and the securing of the Series 2019 Pipeline Bonds by a pledge and assignment of the Pipeline Trust Estate (as defined below). The Issuer's principal offices are located at 801 Capitol Mall, 2nd Floor, Sacramento, California 95814.

THE FINANCING AGENCY

The Water Authority Financing Agency is a joint powers entity duly organized and existing under the California Joint Exercise of Powers Act (Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "**JPA Act**"), and in particular Articles 1, 2, and 4 thereof) and an Agreement entitled "Joint Exercise of Powers Agreement" by and between the San Diego County Water Authority and the California Municipal Finance Authority creating the San Diego County Water Authority Financing Agency, dated December 17, 2009, for the purpose of assisting the financing of capital projects of the Water Authority. The Water Authority Financing Agency has the express power to "to hold or dispose of property, whether real or personal, tangible or intangible, wherever located; to issue bonds or otherwise incur debts, liabilities or obligations to the extent authorized by the JPA Act or any other applicable provisions of law and to pledge any property or revenues or rights thereto as security for such bonds and other indebtedness". The Water Authority Financing Agency is authorized pursuant to the JPA Act to enter into and perform all obligations under the Pipeline Loan Agreement and the Installment Sale and Assignment Agreement. The Water Authority Financing Agency functions as an independent entity and its policies are determined by a governing board that consists of the Chair of the Board of Directors, Chair of the Administrative and Finance Committee, General Manager, General Counsel and Director of Finance of the Water Authority. The Water Authority Financing Agency has no employees and all staff work is conducted by the Water Authority staff.

PROJECT PARTICIPANTS

San Diego County Water Authority

The Water Authority is a county water authority organized and existing under the County Water Authority Act, California Statutes 1943, Chapter 545, as amended (the "**Water Authority Act**"). The Water Authority was organized on June 9, 1944 for the primary purpose of supplying water to San Diego County for wholesale distribution to the Water Authority's member agencies in order to meet their respective needs for beneficial uses and purposes. The Water Authority is authorized to acquire water and water rights within or outside the State of California; to develop, store and transport such water; to provide, sell and deliver water for beneficial uses and purposes and to provide, sell and deliver water of the Water Authority not needed or required for beneficial purposes of its member agencies to areas outside the boundaries of the Water Authority. The Water Authority has 24 member agencies, consisting of 6 cities, 17 special districts, and the Pendleton Military Reservation. See Appendix C – Water Authority Information.

General Resolution. On May 11, 1989, the Water Authority adopted its Resolution No. 89-21, entitled "A Resolution of the Board of Directors of the San Diego County Water Authority Providing for the Allocation of Water System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Revenues" (as thereafter amended and supplemented, the "**General Resolution**"). The General Resolution requires the Water Authority to pay Maintenance and Operation Costs (which include water purchase payments under the Water Purchase Agreement) prior to the

payment of any other expenses. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS”.

The Water Authority covenants in the General Resolution to at all times fix, prescribe and collect or cause to be collected rates, fees and charges for Water Service that will be at least sufficient to yield Net Water Revenues sufficient for the payment of all amounts payable from Net Water Revenues and at least equal to 120% of amounts payable in respect of all Authority Senior Lien Obligations. The Installment Sale Payments are payable from Net Water Revenues. The Water Authority’s obligations under the Installment Sale and Assignment Agreement are not secured by the General Resolution and do not constitute Authority Senior Lien Obligations or Authority Subordinate Lien Obligations; however, the Water Authority covenants in the Installment Sale and Assignment Agreement to comply with the covenants made by the Water Authority in the General Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS”.

A description of the General Resolution is included in Appendix C – Water Authority Information.

Financial Information. Below are the statements of net assets of the Water Authority for the fiscal years ended June 30, 2018 and June 30, 2017 as well as the statements of revenues, expenses and changes in net assets of the Water Authority for the fiscal years ended June 30, 2018 and June 30, 2017. See Appendix C – Water Authority Information for additional financial information and the full version of the Comprehensive Annual Financial Report of the Water Authority for the fiscal year ended June 30, 2018.

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San Diego County Water Authority
Statement of Net Position
June 30, 2018
(with comparative data as of June 30, 2017)

	2018	2017
ASSETS		
Current assets:		
Cash and investments (Note 2)	\$ 104,682,066	\$ 56,840,335
Restricted cash and investments (Note 2)	119,984,952	149,126,977
Water receivables	106,982,874	102,593,505
Interest receivable	1,112,444	918,016
Taxes receivable	1,026,196	1,153,812
Other receivables	19,833,613	13,731,984
Inventories (Note 3)	96,334,231	96,983,153
Prepaid expenses (Note 4)	4,649,883	4,640,248
Total current assets	454,606,259	425,988,030
Noncurrent assets:		
Cash and investments (Note 2)	107,746,039	135,072,833
Restricted cash and investments (Note 2)	22,665,917	23,411,934
Advances to other agencies	217,594	650,477
Retention receivable	1,245,470	823,942
Long-term loan receivables (Note 5)	19,174,304	20,000,000
Net OPEB asset (Note 13)	795,852	-
Capital assets (Note 6):		
Non-Depreciable	118,295,114	151,945,443
Depreciable, net	3,346,284,374	3,325,243,161
Total noncurrent assets	3,616,424,664	3,657,147,790
Total assets	4,071,030,923	4,083,135,820
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	61,113,716	72,294,728
Pension contributions subsequent to measurement date (Note 12)	4,240,681	16,163,814
OPEB contributions subsequent to measurement date (Note 13)	366,591	324,982
Deferred actuarial amounts related to pensions (Note 12)	12,733,072	8,560,959
Deferred actuarial amounts related to OPEB (Note 13)	84,422	275,965
Total deferred outflows of resources	78,538,482	97,620,448
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities	104,266,238	85,111,259
Interest payable	20,430,541	20,806,003
Construction deposits	362,845	429,144
Short-term liabilities (Note 10)	345,000,000	345,000,000
Current portion of long-term liabilities (Note 11)	54,165,278	57,293,370
Total current liabilities	524,224,902	508,639,776
Noncurrent liabilities:		
Long-term liabilities (Note 11)	1,975,170,555	2,041,933,667
Net pension liability (Note 12)	70,106,317	71,135,027
Net OPEB liability (Note 13)	-	170,141
Total noncurrent liabilities	2,045,276,872	2,113,238,835
Total liabilities	2,569,501,774	2,621,878,611
DEFERRED INFLOWS OF RESOURCES		
Deferred actuarial amounts related to pensions (Note 12)	2,528,360	2,561,555
Deferred actuarial amounts related to OPEB (Note 13)	581,562	-
Total deferred inflows of resources	3,109,922	2,561,555
NET POSITION		
Net investment in capital assets	1,154,718,703	1,123,928,892
Restricted for construction projects	119,984,952	147,352,064
Restricted for debt service	377,929	235,337
Unrestricted	301,876,125	284,799,809
Total net position	\$ 1,576,957,709	\$ 1,556,316,102

San Diego County Water Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018
(with comparative data for the Fiscal Year Ended June 30, 2017)

	2018	2017
OPERATING REVENUES:		
Water sales	\$ 591,809,280	\$ 579,057,028
Other revenues	4,053,221	3,727,332
Total operating revenues	595,862,501	582,784,360
OPERATING EXPENSES:		
Cost of sales	442,369,171	430,560,992
Operations and maintenance	24,219,304	19,097,518
Planning	9,179,960	9,040,200
General and administrative	16,914,642	14,487,899
Depreciation and amortization	62,842,596	67,086,517
Total operating expenses	555,525,673	540,273,126
Operating income	40,336,828	42,511,234
NONOPERATING REVENUES (EXPENSES):		
Property taxes and in-lieu charges	13,753,714	12,913,313
Infrastructure access charges	32,482,290	31,144,704
Investment income	4,342,461	2,237,947
Other income	19,253,393	11,408,632
Intergovernmental	10,665,858	11,452,308
Gain (Loss) on sale/retirement of capital assets	131,308	(727,294)
Interest expense	(99,915,662)	(95,533,730)
Debt issuance costs	(227,212)	(352,544)
Other expenses	(39,453,750)	(17,143,705)
Total nonoperating revenues (expenses)	(58,967,600)	(44,600,369)
Income before capital contributions	(18,630,772)	(2,089,135)
CAPITAL CONTRIBUTIONS:		
Capacity charges	28,153,768	21,080,540
Water standby availability charges	11,102,611	11,091,285
Contributions in aid of capital assets	16,000	219,325
Total capital contributions	39,272,379	32,391,150
Changes in net position	20,641,607	30,302,015
NET POSITION AT BEGINNING OF YEAR, AS RESTATED (Note 18)	1,556,316,102	1,526,014,087
NET POSITION AT END OF YEAR	\$ 1,576,957,709	\$ 1,556,316,102

See accompanying notes to the financial statements.

Poseidon Resources (Channelside) LP

The Company is a special purpose limited partnership entity that was created to finance, construct, own and operate the Plant and to construct the Pipeline. The Company's general partner is Poseidon GP. The Company's sole limited partner is the Limited Partner, Poseidon Resources Channelside Holdings LLC. The Limited Partner owns all the equity interests in Poseidon GP. Orion Water Partners, LLC ("**Orion**") owns all of the equity interests of the Limited Partner. Orion's members are Poseidon Carlsbad LLC ("**Poseidon Carlsbad**") and Orion Water Acquisitions LLC ("**Orion Water Acquisitions**"). Poseidon Carlsbad is a direct subsidiary of Poseidon Water LLC ("**Poseidon Water**") which, together with its affiliates, developed a desalination facility in Tampa, Florida, a wastewater treatment plant in Cranston, Rhode Island and five wastewater treatment facilities in Mexico. The management team at Poseidon Water has operated several large and successful projects in the private infrastructure market, including the electric power, water treatment and natural gas supply and transportation industries. The management of Poseidon Water has collectively structured, arranged and closed over \$10 billion of project and corporate financings.

The Company and Poseidon GP have entered into a Management Services Agreement with Poseidon Water for the performance of certain of such functions by Poseidon Water relating to operation of the Plant. The term of the Management Services Agreement is scheduled to expire in December 2019, unless earlier terminated. Poseidon Water has expressed interest in continuing to provide management services to the Company following the expiration of the current term although the parties have not finalized any such agreement as of the date of this Limited Offering Memorandum. See "PROJECT OPERATION – Management Services Agreement".

Poseidon Water is 75% owned by entities comprising Brookfield Infrastructure Fund III ("**BIF III**"), a private fund managed by an affiliate of, and indirectly controlled by, Brookfield Asset Management Inc. Brookfield Infrastructure Partners L.P. ("**BIP**"), a publicly traded limited partnership, is the largest limited partner in BIF III. Brookfield Infrastructure Group, including its private funds and publicly-traded affiliates, BIP and Brookfield Renewable Partners, has invested more than \$39 billion of equity capital in more than 100 infrastructure investments since 2000 (which includes equity invested and committed as of August 2018), and owns and operates utilities, transport, energy, renewable power and data infrastructure assets in North and South America, Asia Pacific and Europe. Poseidon Water has offices in Boston, Massachusetts and in Huntington Beach and Carlsbad, California. Orion Water Acquisitions is an affiliate of Stonepeak Partners LP ("**Stonepeak**"), an infrastructure-focused private equity firm with \$15.8 billion of assets under management and offices in New York, Houston and Austin. Stonepeak invests in long-lived, hard-asset businesses and projects that provide essential services to customers, and seeks to actively partner with high-quality management teams, facilitate operational improvements, and provide capital for growth initiatives. Stonepeak's assets under management calculation provided herein is determined by taking into account (i) unfunded capital commitments of Stonepeak Infrastructure Fund LP, Stonepeak Infrastructure Fund II LP, Stonepeak Infrastructure Fund III LP, Stonepeak Infrastructure Credit Fund I LP and any co-invest vehicles managed by Stonepeak as of June 30, 2018 (unaudited), (ii) the gross asset value of such funds and co-invest vehicles, plus any feeder fund level cash with respect to such funds and co-invest vehicles as of June 30, 2018 (unaudited) and (iii) additional unfunded capital commitments of Stonepeak Infrastructure Fund III LP and any co-invest vehicles which closed during the period of April 1, 2018 through and including July 13, 2018. Stonepeak Infrastructure Fund LP is considering a sale of the Company and has engaged an investment bank, however there can be no assurance that any transaction will occur or, if a transaction does occur, what form that transaction might take.

IDE Americas; IDE Technologies Ltd.

IDE Americas, headquartered in Carlsbad, California, is a wholly owned subsidiary of IDE. Established in 1965, IDE is engaged in the turnkey delivery of advanced water treatment solutions, including large seawater desalination projects. IDE specializes in research and development of saline water desalination processes, concentration and purification, and treatment and reuse of wastewater, for both industrial and municipal streams. In addition, IDE provides technical support for plants delivered to its customers as well operation and maintenance services. Its clients include government agencies, process industries, power utilities, refineries, hotel developers, municipal, and defense authorities. IDE has designed and constructed over 400 desalination facilities in nearly 40 countries worldwide. IDE has designed, built, financed and is currently operating, under long term public-private partnership agreements with the State of Israel, the three largest reverse osmosis seawater desalination facilities in the world: (a) the 165 MGD (approximately 184,822 AFY) Sorek, Israel reverse osmosis desalination facility, in operation since 2013, (b) the 139MGD (approximately 155,700 AFY) Hadera, Israel, reverse osmosis facility, in operation since 2009 and (c) the 105 MGD (approximately 117,615 AFY) Ashkelon, Israel reverse osmosis facility, in operation since 2005. In California IDE designed and currently operates the Carlsbad desalination plant, developed and owned by Poseidon Water, and also designed, built and currently operates the Santa Barbara Desalination plant. IDE is headquartered in Kadima, Israel.

Cabrillo Power I LLC

Cabrillo owns the Power Station and is the lessor under the Ground Lease. Cabrillo is an indirect wholly owned subsidiary of NRG Energy, Inc. (“**NRG**”), a New York Stock Exchange-listed integrated wholesale power generation and retail electricity company.

Kiewit Shea Desalination

Kiewit Shea Desalination, the Plant EPC Contractor, is a joint venture between Kiewit Infrastructure West Co. (“**Kiewit Infrastructure West**”) and J.F. Shea Construction, Inc. (“**J.F. Shea**”).

Kiewit Infrastructure West is a wholly owned, direct subsidiary of Kiewit Infrastructure Group Inc. (“**Kiewit Infrastructure Group**”). Kiewit Infrastructure West focuses on constructing complex infrastructure projects throughout the western United States. Kiewit Infrastructure Co. (the “**EPC Guarantor**”), a wholly owned, direct subsidiary of Kiewit Infrastructure Group, is guaranteeing the obligations of the EPC Contractor under the EPC Contracts. The EPC Guarantor performs construction services for a broad range of public and private customers throughout the United States.

J.F. Shea Construction, Inc. J.F. Shea is a wholly owned subsidiary of J.F. Shea Co., Inc., which is one of the oldest and largest privately held construction companies in the United States. J.F. Shea is now in its fourth generation of family leadership starting out as a plumbing company and expanding its scope into pipelines, sewers, tunnels and other major infrastructure projects.

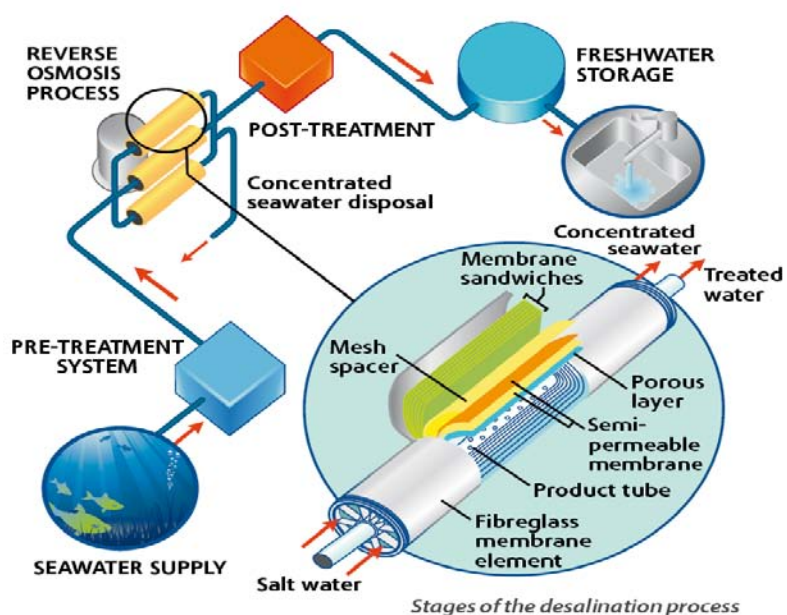
THE PROJECT

The Plant

Using seawater, the Plant produces potable water, through the use of reverse osmosis (“**RO**”) system provided by IDE. The Plant operates continuously, subject to necessary maintenance, as described below. Normally, the Plant operates continuously, 24 hours per day, seven days per week. The design capacity of the Plant is up to 163 acre-feet per day (“**AFD**”) of Product Water and 56,000 AFY. The

actual operating capacity may vary from time to time due to regulatory, maintenance, climactic and other factors. See “INVESTMENT RISKS”. The delivery requirements of the Water Purchase Agreement are based on an expectation of a maximum of 350 hours (or about 15 days) of maintenance and downtime per year. For a discussion of Plant operations since the Commercial Operation Date, see “PROJECT OPERATION – Operation and Maintenance of the Plant”.

The Plant consists of pretreatment facilities, the RO system, post-treatment facilities, connections to Cabrillo’s existing seawater intake and outfall facilities and the Product Water pumps, to deliver Product Water to the Pipeline. The diagram below provides a general high-level overview of the seawater desalination process and is not specific to the Plant.



Source: Poseidon Resources (Channelside) LP.

The Power Station, which ceased operation on December 12, 2018, had five gas-fired generators. The generators were cooled by a once-through seawater flow system. The Power Station continues to transfer seawater from the Lagoon to the discharge tunnel, solely to support the current operation of the Plant. The Company withdraws seawater for the Plant from the discharge tunnel of the Power Station. From this seawater intake of approximately 104 MGD, the Plant produces an average daily flow of 50 MGD of Product Water and 54 MGD of concentrated effluent. These amounts are approximate and may vary. The Plant returns the concentrated effluent to the Power Station’s discharge tunnel where it is commingled with additional seawater from the Plant intake pumps. To achieve the dilution of concentrated effluent required under its permit prior to discharge to the ocean, the Plant needs at least 200 MGD of additional seawater supply to the discharge tunnel. Certain obligations of Cabrillo and the Company relating to the Plant water flow are described under “Ground Lease” below and in Appendix H – Summaries of Certain Project Contracts.

The Plant’s pretreatment process consists of chemical addition, flocculation and granular media filtration to remove particles and colloidal matter from raw seawater to prevent fouling of the downstream RO membranes. After pretreatment chemical injection and mixing, flocculation is provided to form larger particles, or “flocs,” which are readily removed through granular media filters. Pretreatment filtration is a critical step in the desalination process so that the downstream RO membranes are not fouled or plugged by particulate matter. The Plant pretreatment system consists of 18 deep bed, high

capacity, low filtration rate dual media (anthracite over sand) filters, each with a filtration area of 1,223 square feet. These filters are capable of processing between 105.3 and 113.7 MGD of seawater. The granular media filters are cleaned periodically by reversing flow through the filters (backwashing) at an accelerated rate to remove particles accumulated in the filter media during the filtration cycle.

The RO system consists of the RO feed tank, filtrate booster pump, cartridge filters, high pressure feed pumps, RO membranes and energy recovery devices. Filtrate from the pretreatment filters enters the RO feed tank and is pumped through the cartridge filters to the RO first pass high-pressure pumps and energy recovery devices. Cartridge filters protect the RO membranes from particles that may be present due to occasional process upsets in the pretreatment system. There are 16 cartridge filters, each with a loading rate of 4.4 gallons-per-minute per 10-inch equivalent length and a pore size rating of 20 microns.

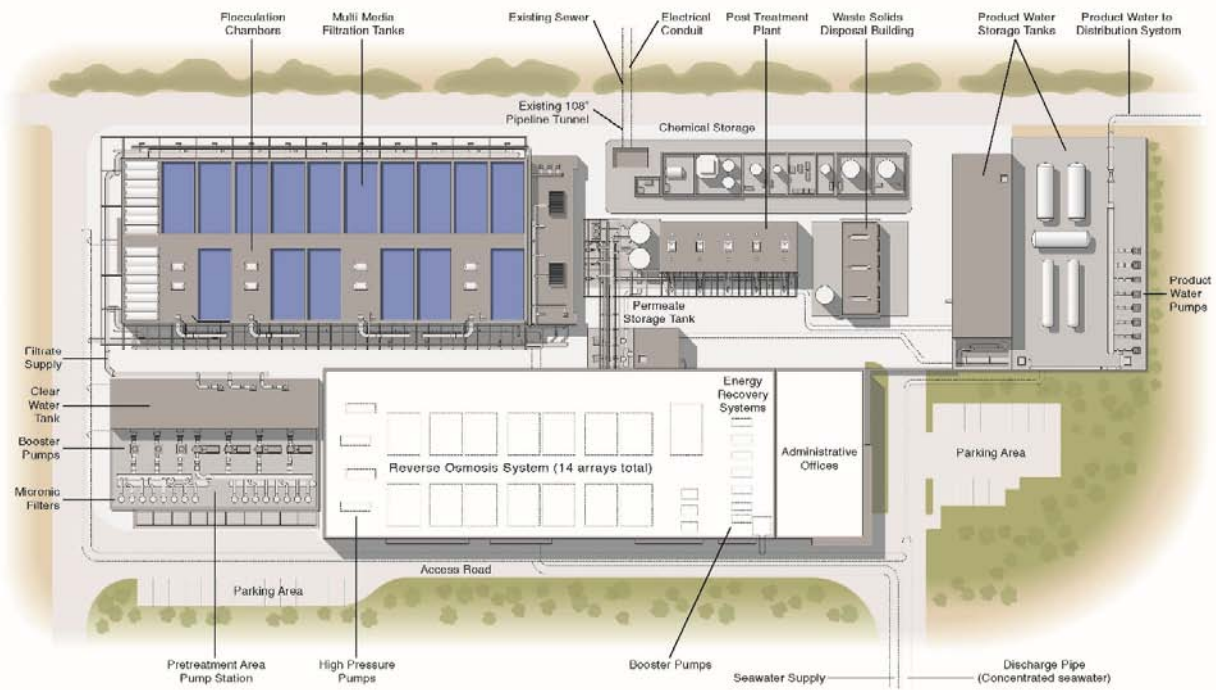
High pressure pumps (three duty, one standby) then pressurize feed water to approximately 900 pounds per square inch to overcome the osmotic pressure of the seawater and drive 50% of the water (or RO permeate) through the RO membranes while salt and the remaining half of the water is rejected and discharged as the RO concentrate stream. There are 14 RO trains, followed by a four-stage RO membrane arrangement providing for further reduction of total dissolved solids and boron. Improvements in the production of the individual membrane elements resulted in the Plant being able to achieve full production with 10% fewer membranes. As a result, 10% of the membrane pressure vessels installed in the Plant have not been loaded with membrane elements. The energy recovery devices recover residual pressure from the RO brine concentrate stream to offset a portion of the energy required by the Plant.

The RO concentrate stream typically contains twice the salt content of raw seawater. This waste stream is disposed of by blending it with the additional seawater from the Power Station's discharge tunnel. The RO concentrate stream is diluted by additional seawater to a salt level that is approximately 20 percent greater than that in the Pacific Ocean.

Desalinated seawater is corrosive, as it lacks alkalinity and hardness. Thus, post-treatment is required to stabilize the desalinated seawater so that it is no longer corrosive to pipelines conveying the water to end users or corrosive to in-home plumbing of the water consumers. Post-treatment consists of calcite filter vessels, chemical addition to adjust the pH and alkalinity of the finished water, chlorine addition and subsequent storage in an on-site Product Water storage tank sufficient to comply with the potable water disinfection regulations of the SWRCB Division of Drinking Water (the "CDDW"). The on-site storage tank system has a capacity of approximately 2.5 million gallons of Product Water. The Product Water storage and the Pipeline conveyance system have the capability to drain desalinated seawater back to the ocean in the case of emergency or if the water does not meet the quality requirements for Product Water.

The Product Water pump station is designed to deliver a flow of up to 54 MGD of Product Water at a total dynamic head of 1,173 feet of water column into the Pipeline. There are eight pumps (seven duty and one standby), one equipped with variable frequency drive (VFD). Each Product Water pump is capable of delivering a minimum total dynamic head of approximately 1,200 feet.

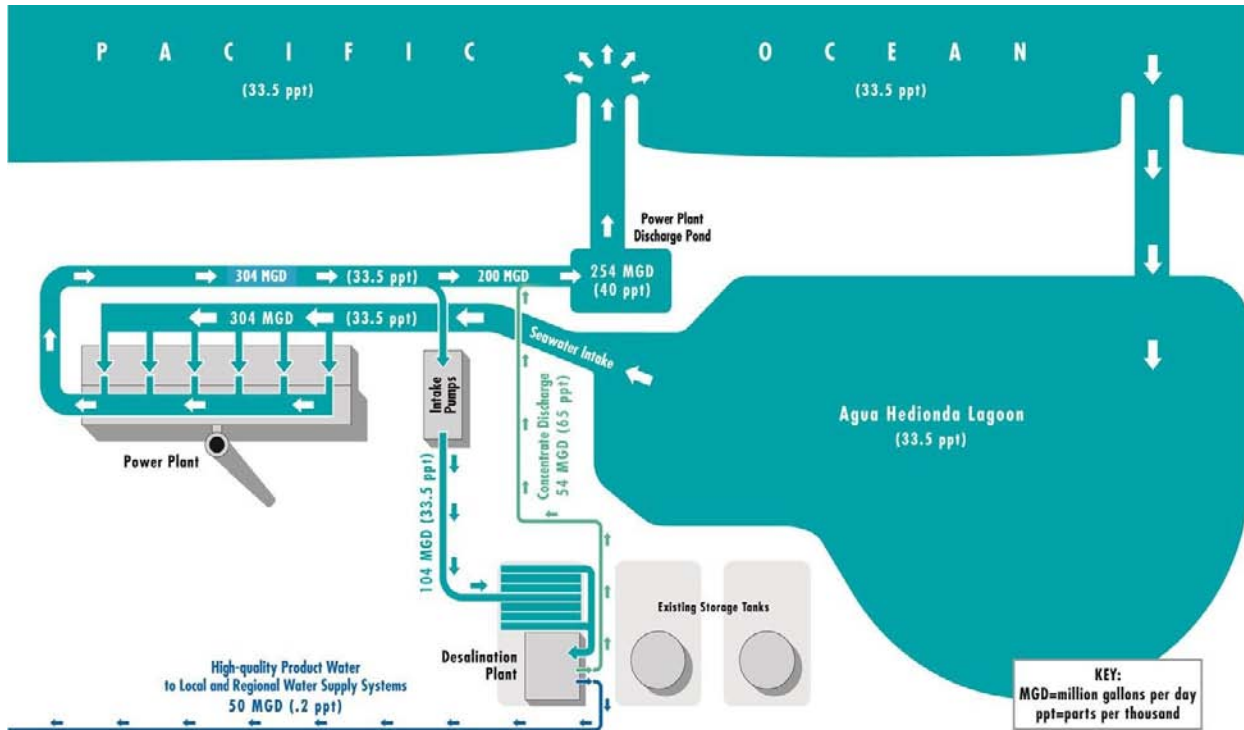
The graphic below provides an aerial view of the Plant schematic design.



Source: Poseidon Resources (Channelside) LP.

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The following diagram depicts the Plant's water flow as configured prior to Permanent Pump Shutdown and the Plant's current configuration following the Permanent Pump Shutdown. The parenthetical figures indicate the salt concentrations in parts per thousand at various locations on the diagram.



Source: Poseidon Resources (Channelside) LP.

The Pipeline

The Plant delivers Product Water via a 10-mile, 54-inch diameter welded steel Pipeline which is owned by the Water Authority and connects to Pipeline 3 and Pipeline 4 of the Water Authority's Second Aqueduct. The Pipeline has been sized to convey in excess of the peak Plant output of 54 MGD. The Pipeline lining system is comprised of materials meeting national drinking water standards and provides a protective anti-corrosion barrier, assuring the Pipeline operates in a continuous manner for the expected service life of the Project. The Pipeline passes through the cities of Carlsbad, Vista and San Marcos within the County. A diagram of the Pipeline route is shown below.



Source: San Diego County Water Authority.

Insurance

The Water Authority owns, operates, maintains and insures the Pipeline. Under the Water Purchase Agreement, the Company is required to insure the Plant against property damage, casualty losses and business interruption. The Collateral Agent has the right to purchase insurance on behalf of the Company at the Company's expense if the Company fails to do so. See Appendix E – Summaries of Certain Collateral Documents. The Company provides and maintains at its own expense, or causes IDE Americas to provide and maintain, certain insurance coverages, including but not limited to, earthquake and earth movement coverage, property coverage, boiler and machinery coverage, business interruption coverage, workers' compensation/employer's liability, commercial general liability, automobile liability, business interruption, pollution liability, and directors and officers coverage. If earthquake damage occurs, the Water Purchase Agreement also provides for the adjustment to the Unit Price as compensation for an Uninsurable Force Majeure Event for costs exceeding the policy coverage limits.

Environmental Regulation Matters

The Plant was designed and constructed, and is operated in accordance with applicable federal, state and local regulations, codes, standards, guidelines, policies and laws with respect to land use and environmental matters. The discretionary regulatory permits obtained by the Company for the Plant include several different land use and zoning permits, and in connection therewith the Company adopted an Energy Minimization and Greenhouse Gas Reduction Plan (the "**GHG Plan**"). The Coastal Commission approved the Company's GHG Plan on August 6, 2008, and adopted findings to reflect such approval on December 10, 2008. Additionally, pursuant to the Company's lease with the California State Lands Commission (the "**State Lands Commission Lease**"), the Company is required, at all times during the term of the Lease, to comply with the GHG Plan as adopted by the Coastal Commission.

Under the GHG Plan, the Company is required to offset all net indirect GHG emissions associated with the Project. To ensure that the Project's emission reductions will be certain, verifiable, and reduced to zero, the GHG Plan requires (a) application of Climate Action Registry/California Air Resources Board methodology to calculate total indirect GHG emissions each year; (b) the implementation of carbon offset projects or the purchase of offsets/renewable energy credits to fully reduce Plant's indirect net GHG emissions to zero; and (c) the submission of annual reports to the Coastal Commission and the California State Lands Commission to demonstrate compliance by describing and accounting for the Company's annual and cumulative balance of verified net GHG emissions. The GHG Plan also requires implementation of state-of-the-art on-site energy efficiency measures, which may include green building design and on-site solar power generation, as well as the use of renewable resources. As part of the Company's compliance with the GHG Plan, the Plant's building design followed green building principles, and the Company is considering entering into a power purchase agreement for a rooftop solar system. The Coastal Commission found that the GHG Plan will result in net carbon neutrality and fully mitigate any effects of the Plant's indirect GHG emissions on coastal resources. The California State Lands Commission expressly relied upon these findings. At all times since the Commercial Operation Date, the Company has been in compliance with the GHG Plan in all material respects.

Wetlands Mitigation

The Project's Marine Life Mitigation Plan ("**MLMP**") was separately approved by the Coastal Commission, the California State Lands Commission and the RWQCB. The MLMP requires the Company to create or restore up to 55.4 and no less than 37 acres of estuarine wetlands. Developed as part of an inter-agency review that included staff from the Coastal Commission, California State Lands

Commission, and the RWQCB, the MLMP is enforced by each of these agencies. The Company is in compliance with the MLMP in all material respects.

The MLMP requires the wetlands restoration sites to match a variety of habitat values of up to four existing and relatively undisturbed wetlands in the southern California region, with a 95% confidence level of success. The above-referenced agencies found that the MLMP will mitigate all marine life losses from entrainment and impingement attributable to the Plant's intake of 304 MGD of seawater for desalination purposes, by providing habitat that will produce replacement marine life.

Coordination of approval of the permitting requirements relating to the proposed wetlands restoration project among the various regulatory agencies has taken longer than initially anticipated by the Company. The Environmental Impact Statement for the wetlands restoration project has been certified by United States Department of Fish and Wildlife and on October 19, 2018, the Regional Director of the Pacific Southwest Region signed a ROD for the Otay River Estuary Restoration Project Final Environmental Impact Statement, which identifies Alternative B (Intertidal Alternative) for implementation. A NOA informing the public of the availability of the ROD was published in the Federal Register on October 31, 2018. The California Coastal Commission issued a determination that the Coastal Development Permit application for the wetlands restoration project is complete. The processing of permits from the Coastal Commission, Port of San Diego, USACE and RWQCB is underway. Based on the current schedule, construction of the project was expected to commence in 2020 and be completed in 2021. However, because permitting for the project is incomplete, and the project contractor has not yet been engaged, schedule delays may occur. The Company expects funds available in the Wetlands Mitigation Reserve Fund to be adequate to complete the wetlands restoration project. However, the project could result in cost overruns during either construction or maintenance of the wetlands that would need to be funded from Plant revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Wetlands Mitigation Reserve Fund".

In connection with the on-going permitting for the Intake System Modifications, it is likely that the MLMP will be amended and the size of the required wetlands restoration project increased from 66.4 acres to 68.3 acres. The Company believes that the currently planned restoration project will be sufficient to accommodate the additional mitigation acreage of 1.9 acres that it expects will be required in the amended MLMP, however, the increased mitigation requirements could result in additional costs to the Company. The Company expects that any additional costs would be recoverable by the Company under the Water Purchase Agreement, as they are required by a Change in Law (subject to the limits on Product Water Purchase Price (as defined below) increases in the Water Purchase Agreement).

Regulation of Plant Seawater Intake and Concentrated Seawater Discharge

The Plant currently draws raw seawater from and discharges concentrated seawater to the discharge tunnel of the former Power Station owned by Cabrillo. The Power Station continues to operate its Pumps for the benefit of the Plant. Revised regulations adopted in 2010 by the SWRCB to implement federal Clean Water Act Section 316(b) in California led to a decision by Cabrillo to shut down the Power Station. As a result, the Company is no longer utilizing "wastewater" as its source water for the Plant and is required to come into compliance with the Ocean Plan Amendment. See "-- Intake System Modifications".

Water Authority Improvements

In connection with the construction of the Plant and the Pipeline, the Water Authority made significant capital improvements to its aqueduct system and the Twin Oaks Valley Water Treatment Plant (the "**Water Authority Improvements**"). The Water Authority Improvements allow for delivery of

Product Water northward to the Water Authority's Twin Oaks Valley Water Treatment Plant, where 15 million gallons of storage is available to buffer daily demand fluctuations and allow for blending with other treated water sources. Delivery to the Twin Oaks Valley Water Treatment Plant also increases the service area that can be supplied with Product Water thereby increasing Plant utilization.

Plant Power Supply

The Company and SDG&E entered into a Special Conditions Contract for Substation Modification and Circuit Extension (the "**Special Conditions Contract**") in October 2009 under which SDG&E performed the work required to connect the Plant to SDG&E's distribution system and supply it with power for the Plant's normal and standby load from the nearby SDG&E Cannon Road Substation.

The cost of the work was \$20.3 million. Because the work was classified by the California Public Utilities Commission ("CPUC") as "non-standard," the Company paid for costs of the work during construction of the Plant. However, the Company is eligible for an annual refund for a portion of this cost over the first 10 years following the in-service date of the modified substation. For \$11.3 million which was associated with the modification work, the annual refund is calculated based on the Plant's actual average annual demand, and for the balance of \$7.5 million which was associated with the extension work, the refund is distributed according to annual distribution revenues generated from the sale of electricity to the Plant. For the portion of costs associated with the modification work, the refund will be reduced if actual annual average demand is less than the 31,000 kW benchmark established in the Special Conditions Contract. If actual annual average demand is equal to or greater than the benchmark, the refund will be equal to the maximum annual refund amount. The total amount refunded over the 10-year refund period cannot exceed the total installed cost payments made by the Company. Refunded amounts are deposited into the Plant Revenue Fund held under the Collateral Trust Agreement. During the first year of Plant operation, the Plant's annual demand was approximately 35,555 kw, resulting in a refund of \$1,005,593.54 calculated based on the revenue SDG&E earned and \$1,128,275.00 based on the total kw draw during the year, for a total refund of \$2,133,868.54 received under the Special Conditions Contract in January 2017. In addition, SDG&E paid the Company \$353,548.00 at the same time, as a refund for overpayments during the year based on the year-end adjustment of the calculation of taxes included in the electricity tariff. In March 2018, SDG&E paid the Company \$1,939,246.12.

As described in "OPERATION AND MAINTENANCE OF THE PLANT – Water Purchase Agreement – Product Water Purchase Price", changes in the SDG&E tariff rate are passed through to the Water Authority under the Water Purchase Agreement.

Construction of the Project

Overview and Status

The Company undertook to design and construct the Plant to meet the requirements of the Water Authority under the Water Purchase Agreement, and it designed and constructed the Pipeline for the Water Authority pursuant to the Pipeline DBA. Achieving Commercial Operation of the entire Project under both agreements was a condition to the obligations of the Water Authority (i) to purchase Product Water under the Water Purchase Agreement and (ii) to make installment payments under the Installment Sale and Assignment Agreement to pay debt service on the Pipeline Bonds. The Company engaged Kiewit Shea Desalination to construct the Plant under the Plant EPC Contract and to construct the Pipeline under the Pipeline EPC Contract. Construction of the Pipeline is complete, and initial construction of the Plant is substantially complete. The Water Authority accepted the Pipeline upon completion of the requirements for acceptance under the Pipeline DBA, which included testing of the Pipeline and testing of the combined operation of the Plant, Pipeline and Water Authority Improvements under the EPC Contracts. The Plant and Pipeline achieved Commercial Operation on December 23,

2015, at which time the Water Authority assumed operation of the Pipeline as a part of its water delivery system, and IDE Americas commenced regular operation of the Plant under the O&M Agreement. The Company has assigned all warranties provided by the EPC Contractor under the Pipeline EPC Contract, and provided by the EPC Contractor's subcontractors, vendors, suppliers and other persons from whom the Company procured structures, improvements, fixtures, machinery, equipment and materials that were incorporated into the Pipeline, to the Water Authority. Project Completion under the Pipeline EPC was achieved on August 17, 2017. For a period of ten years following the Commercial Operation Date, i.e., until December 22, 2025, under California law the Company will remain responsible for correction of any later discovered latent defects in construction of the Pipeline. As of December 31, 2018, the only pending repair work on the Pipeline that is the Company's responsibility relates to certain road repairs, the cost of which is not expected to exceed \$120,000 and a portion of which cost is expected to be covered by Company insurance.

Project Completion under the Plant EPC, and thus, Project Completion under the Water Purchase Agreement and the Completion Date under Collateral Trust Agreement, have not yet occurred principally because the backwash treatment system of the Plant pretreatment filter did not initially pass its acceptance tests. This system treats water used to periodically clean the pretreatment filter to allow the used water to be recycled as makeup water for desalination, and permits the Plant to operate at higher efficiency without exceeding discharge limitations. The Water Authority and the Company entered into CAM No. 006 dated January 5, 2017 regarding an extension of time to upgrade this system without triggering a default under the Water Purchase Agreement, and to complete performance testing procedures, with the goal of upgrading the backwash treatment system to permit the Plant to recycle backwash wastewater as additional source water without exceeding discharge limitations. As of the date of this Limited Offering Memorandum, the upgrade has not been completed and the Plant EPC Contractor continues to be responsible for upgrades to the backwash treatment system. However, the parties anticipate that the final permitting for the Intake System Modifications will include certain modifications to the flow and treatment requirements for Plant backwash such that the currently contemplated upgrade to the backwash treatment system may be changed or no longer necessary. Pursuant to CAM No. 009, the Company and the Water Authority have agreed to defer the deadline for Project Completion under the Water Purchase Agreement to December 31, 2019 and the Plant EPC Contractor has been informed of this schedule, although the Plant EPC Contract has not been amended to extend the Plant EPC contractor's deadline for completion of construction.. The Company instructed the Collateral Agent to retain \$4,500,000 of payments otherwise due to the Plant EPC Contractor from the Contractor Security Account established under the Collateral Trust Agreement, together with other funds that were retained in connection with construction punchlist issues. Funds in the Contractor Security Account are expected to be used to fund further modifications to the backwash treatment system, or to be released upon Project Completion. Additional items required for Plant Completion consist of receipt of final lien waivers of the Plant EPC Contractor and subcontractors, delivery of final record drawings, delivery of a final statement of no outstanding claims, a final report confirming that all Work including punchlist items has been completed and delivery of associated notices and certificates, which are expected to be delivered promptly after completion of backwash system upgrades or agreement of the interested parties that such upgrades are not necessary. See Appendix H – Summaries of Certain Project Contracts.

EPC Contractor Warranties

The EPC Contractor warranted that its work under the EPC Contracts would be performed in accordance with contract standards and generally accepted industry and professional engineering standards and practices. The duration of these warranties were, for the Plant, one year after Provisional Acceptance, extended with respect to corrected work for one year from the date of correction or until the second anniversary of Plant Mechanical Completion, and for the Pipeline, for two years after Provisional Acceptance. Corrected work generally is warranted for one year from the date of the correction or, if

earlier, until the third anniversary of Pipeline Mechanical Completion. The EPC Contractor obtained and assigned to the Water Authority any additional warranties from the EPC Contractor subcontractors, vendors and equipment suppliers under the Pipeline EPC Contract as are normally provided with respect thereto. The warranties under the Pipeline EPC Contract were assigned to the Water Authority effective as of the Commercial Operation Date. The EPC Contractor provided to the Company and the Collateral Agent, as co-obligees, payment and performance bonds issued by Travelers Casualty and Surety Company of America and covering all obligations under the Plant EPC Contract (subject to the same limitations of liability applicable to the EPC Contractor), including warranty work. Claims under these bonds must be made within one year after the achievement of Project Completion; provided that the Company or the Collateral Agent may commence a lawsuit to recover on the performance bond with respect to warranty work until six months after the expiration of the warranty periods specified in the Plant EPC described above.

The EPC Contractor has corrected and is engaged in correcting certain identified items, none of which, individually or in the aggregate, constitutes a violation of law or materially adversely impacts Plant or Pipeline operations. As of the date of this Limited Offering Memorandum, three EPC Contractor warranty items (separate from the backwash treatment system described above) are incomplete according to Company records. Warranty work undertaken or to be undertaken by the EPC Contractor to date on the Plant has included repairs to the surge tanks, coating repair in post-treatment tanks, various work on pumps and related seals, concrete repairs, corrosion repairs, limited pipe repairs and repair/replacement of baffle curtains and supports to the baffle curtains in the Product Water tank. Warranty work on baffle curtains in the finished Product Water tank and certain leaks at the micronic filters expansion joints are expected to be completed during a scheduled outage in January 2019. Warranty work to apply corrosion resistant coatings to the racks holding the pressure vessels is expected to be completed during a future scheduled outage. To date, warranty repairs have been completed with minimal impacts on Plant production. The EPC Contractor bears all of the costs of such work, including any portion thereof that is not subject to IDE Americas' warranty under the IDE Americas Subcontract. IDE Americas' obligations under such warranty are guaranteed by IDE. The EPC Contractor is not responsible for any lost or decreased Product Water production related to the completion of warranty work.

Intake System Modifications

Current Plant Operations

The former Power Station's once-through-cooling system pumps (the "**Pumps**") currently provide the Plant with raw intake seawater and required dilution of Plant effluent prior to discharge. Under the Ground Lease, Cabrillo agreed to use reasonable efforts to ensure that the Pumps are operated at a minimum threshold that will provide sufficient intake water and required dilution of Plant effluent prior to discharge (i.e., a minimum of 304 MGD). However, Cabrillo is excused to the extent that it is affected by a force majeure event. Cabrillo must use reasonable efforts to (a) give the Company advance notice of any reduced operation or shutdown of the Pumps and (b) operate the Pumps for the Company's benefit to maintain the minimum threshold, provided that:

- the Pumps are operable and accessible and may be operated in accordance with law;
- the Company is not in default;
- the Company pays the costs of such operation that are in excess of the costs that Cabrillo would have otherwise incurred;

- the Company obtains all necessary permits or entitlements (other than those already granted in the Ground Lease); and
- operating the Pumps will not have a material adverse effect on Cabrillo.

Permanent Pump Shutdown

As permitted under the Ground Lease, Cabrillo gave the Company notice of a Permanent Pump Shutdown (a “**Shutdown Notice**”) on May 4, 2014, for a Permanent Pump Shutdown as early as June 1, 2017. Permanent Pump Shutdown occurred on December 12, 2018. Cabrillo has agreed to continue to operate the Pumps for the Company’s benefit and at the Company’s cost through the end of 2019. Cabrillo has also agreed to operate the Pumps through as late as December 31, 2021 under certain conditions described under “Ground Lease” below. Cabrillo is also requiring the Company to relocate, at its own cost, the Plant’s connections to the Power Station’s cooling water discharge facilities to Stand-Alone Operations.

In addition to the intake and discharge system modifications that are required due to the Permanent Pump Shutdown and in order to transition to Stand-Alone Operations, additional Intake System Modifications will be required. Due to the shutdown of the Power Station, the existing co-located operation and temporary stand-alone operations of the Plant will be terminated. These events have resulted in a need to permit and construct the Intake System Modifications.

The Ground Lease allows the Company to construct and operate new intake pumps and screens within the existing easement areas subject to the Ground Lease. The Company and Cabrillo have entered into an amendment to the Ground Lease that will allow the Plant to continue to operate pending completion of intake and discharge system modifications that reroute the flow of seawater so that it no longer flows through the Power Station and installation of new, fish-friendly intake and discharge pumps (the “**Interim Intake Improvements**”). Cabrillo and the Company are negotiating an additional memorandum of understanding addressing the commercial terms associated with Cabrillo’s continued operation and maintenance of its existing intake facilities (including cooling water pumps, screens and bar racks) pending completion of the Interim Intake Improvements. See “PROJECT SITE – Ground Lease” and Appendix H – Summaries of Certain Project Contracts”.

In addition to the requirements under the Order (described below), Permanent Pump Shutdown triggers a requirement under the City of Carlsbad’s redevelopment permit (RP 05-12(A)) that the Company obtain CEQA compliance and permits to operate as required by then-applicable rules and regulations of the City and other relevant agencies. The Company believes that the 2016 Supplemental Environmental Impact Report prepared by the San Diego County Water Authority and the existing Order meet these requirements. No action is required upon Permanent Pump Shutdown under the Company’s Coastal Development Permit.

Permitting the Intake System Modifications

RWQCB Order No. R9-2006-0065 (the “**Order**”) establishes requirements for the discharge of reverse osmosis concentrate and pretreatment backwash flows from the Plant into the Pacific Ocean via the Power Station discharge tunnel.

In accordance with the requirements of the Order, Poseidon submitted a Report of Waste Discharge on March 29, 2011 in application for renewal of the Order. On March 15, 2011, the SWRCB announced its intent to develop and potentially adopt the Ocean Plan Amendment, to address effects associated with the construction and operation of seawater desalination facilities. The Ocean Plan

Amendment was adopted by the SWRCB on May 6, 2015. Following the adoption of the Ocean Plan Amendment, Poseidon submitted an Amended Report of Waste Discharge dated September 4, 2015, an Addendum to the Amended Report of Waste Discharge dated August 16, 2016, and 58 technical appendices (collectively, the “**ROWD**”). The Company may also be required to submit a technical report to the RWQCB executive officer within 45 days after the Company is notified by Cabrillo that all units at the Power Station will be non-operational for power generation, without seawater intake, and unavailable to the California Independent System Operator to be called upon to produce power for a period of 180 days or more. The technical report is intended to describe feasible design or technology alternatives to minimize the intake and mortality of all forms of marine life while the Power Station is in a period of prolonged temporary shutdown. After consultation with the RWQCB, it is not clear if this provision is intended to apply to Permanent Pump Shutdown, so, out of caution, the Company intends to deliver the technical report by January 25, 2019.

The ROWD describes proposed improvements to the Plant intake and discharge facilities to accommodate the transition of the Plant from co-located to permanent Stand-Alone Operations in accordance with the Ocean Plan Amendment.

Over the past three years, the Company, the Water Authority, the RWQCB and the SWRCB have evaluated 21 different intake and discharge alternatives for the Plant. Based on this extensive, multi-year collaborative evaluation, and guided by the Ocean Plan Amendment, RWQCB staff, the Company and the Water Authority have concluded that Alternative 21 is best suited to comply with the requirements of the Ocean Plan Amendment.

As proposed, Alternative 21 intake and discharge modifications include, among other changes: (1) new intake screens and laterals located in the Lagoon, (2) a fish-friendly flow augmentation pump station, and (3) improvements to the existing Power Station intake and discharge tunnels.

In compliance with the Ocean Plan Amendment, new wedge wire intake screens will be designed to eliminate impingement mortality and reduce entrainment mortality using 1-millimeter slot openings with a through-screen velocity of 0.5 feet per second or less. The existing intake pump station will continue to deliver a portion of the screened seawater to the Plant for processing. The pretreatment backwash water and the reverse osmosis concentrate from the Plant will be transferred to the existing Power Station discharge tunnel where it will mix with the remaining portion of the screened seawater that will be pumped from the existing Power Station intake to the discharge tunnel by the fish-friendly flow augmentation pumps.

The Company filed an application with the RWQCB for amendment and renewal of the Plant’s National Pollutant Discharge Elimination System (“**NPDES**”) permit on September 4, 2015. The application addresses transition to Stand-Alone Operations, compliance with the Ocean Plan Amendment and a potential increase in the permitted output of the Plant to 60 MGD. The increased output limit eliminates the need to recycle the backwash water from the Plant to achieve the levels of annual output of Product Water required by the Water Purchase Agreement. The planned intake configuration consists of intake screens located in the Lagoon. On December 21, 2018, RWQCB staff issued Tentative Order No. R9-2019-0003 (NPDES Permit No. CA0109223), *Waste Discharge Requirements for the Poseidon Resources (Channelside) LP Claude “Bud” Lewis Carlsbad Desalination Plant Discharge to the Pacific Ocean* (“**Tentative Order**”) relating to (a) its determination that the Plant’s new intake configuration complies with the Ocean Plan Amendment and (b) the revised NPDES permit for the Plant. The draft is open for public comments until January 28, 2019, and is set for public hearing on March 13, 2019. The proposed effective date is May 1, 2019 and the proposed expiration date is April 30, 2024. The Tentative Order contains a compliance schedule that includes delivery of a detailed work plan by September 30, 2019, installation of new dilution water intake pumps by April 30, 2020, installation of a new water

intake by September 1, 2023 and full compliance with the Ocean Plan Amendments and completion of the Intake System Modifications by December 11, 2023, with various additional reporting requirements. The approval schedule, compliance schedule and regulatory requirements of the Tentative Order are subject to change; however the Company believes that it can fulfill the requirements contained in the Tentative Order, if it is approved in the current form.

The transition to Stand-Alone Operation and the Tentative Order contemplate a 60-month transition to full compliance that is expected to be completed in three phases: (i) in phase one, which is expected to continue until the April 30, 2020, Poseidon will contract with Cabrillo to use the existing Power Station screens and Pumps to provide the source water for the Plant; (ii) in phase two, which is expected to run from May 1, 2020 until the December 11, 2023, after completion of the Interim Intake Improvements, the Company will operate the existing Power Station screens in conjunction with new fish-friendly dilution pumps to provide the source water for the Plant; and (iii) in phase three, after Ocean Plan Amendment compliance improvements are complete, the Company will conduct permanent Stand-Alone Operations, utilizing the fish-friendly dilution pumps in conjunction with the wedge wire screens installed underwater inside the Lagoon to provide the source water for the Plant. During phase two, the Company will undertake a pilot-scale intake screen demonstration study to refine the design and maintenance requirements for the new intake system which includes a technology that has not previously been used in a lagoon environment. Water Purchase Agreement Pricing will be adjusted according to agreed upon costs for each phase.

As described above, the Company is not required to obtain any new or additional permits to continue Plant operations during phase one. However, the Company is currently seeking approvals for phase two construction and operation of the Interim Intake Improvements, from the RWQCB, City of Carlsbad, Coastal Commission and CDDW. The intake screen demonstration study to be conducted during phase two will require additional approvals from the RWQCB and the USACE. Phase three, permanent Stand-Alone Operations, will require permitting from the RWQCB, City of Carlsbad, Coastal Commission, USACE, National Marine Fisheries Service, California State Lands Commission and CDDW. Conforming amendments to City of Carlsbad and Coastal Commission permits, O&M Agreement, and Water Purchase Agreement are expected to be completed in parallel with the initiation of each of phase two and phase three. All of the approvals and permits described in this paragraph, and the schedule for obtaining them, are subject to change and to the exercise of governmental discretion. Additional permits that the Company does not currently anticipate may be required to complete the Intake System Modifications. In addition, the schedule to obtain the permits may be delayed.

The SWRCB is undertaking its 2019 Triennial Review of the Water Quality Control Plan for Ocean Waters of California. The Ocean Plan Amendment is part of this review, and there is no assurance that the SWRCB will not further amend the Ocean Plan as part of the review process, which could affect Plant operations and/or the Intake System Modifications.

Financing the Intake System Modifications

Costs related to the Intake System Modifications are expected to be added to the Purchase Price under the Water Purchase Agreement, as both the Permanent Pump Shutdown and the Ocean Plan Amendment causing such modifications are treated as Compensation Adjustment Events under the Water Purchase Agreement. The Company's estimates described below are subject to change and to Water Authority approval to the extent the Company seeks compensation adjustments under the Water Purchase Agreement. See "THE PROJECT – Water Purchase Agreement".

The Company expects to finance and commence construction of the Intake System Modifications in two phases. In the first phase, an estimated \$32.9 million financing is expected to close in the summer

of 2019. Following the subsequent planned intake-screen demonstration study in the Lagoon, a second estimated \$44.3 million financing is expected to close in early 2023 to complete construction and finalize installation of the Intake System Modifications by December 11, 2023. The total estimated capital costs of \$77.2 million are made up of estimates of Cabrillo closure related costs of \$24.3 million, Change in Law related costs of \$36.7 million and transaction financing related costs of \$16.2 million. The estimate for financing related costs includes customary transaction fees and expenses, including without limitation bond underwriting fees, ratings agency fees, trustee fees and expenses, insurance consultant fees and legal expenses, as well as the funding of capitalized interest during construction and the funding of projected increased reserve account requirements. The Company assumes a debt/equity financing ratio of 82% debt and 18% equity to finance the Intake System Modifications, which is the same ratio used in financing the issuance of the Series 2012 Plant Bonds. The financing plan currently consists of \$63.3 million of private activity bonds (“PABs”) expected to be issued by the Issuer and \$13.9 million of equity invested by the Company’s owners. The PABs are expected to be issued as Additional Plant Bonds on parity with the Series 2012 Plant Bonds and the Company’s obligation to make Contracted Shortfall Payments and will include a combination of Water Connection Debt, Compliance Debt and Additional Plant Bonds under the Collateral Trust Agreement. The Issuer previously approved an Initial Resolution scheduled to expire on February 16, 2019 including \$50 million in PABs for the Intake System Modifications. On December 20, 2018, the Issuer approved the Company’s application for an extension of time and increase to that original Initial Resolution for up to \$95 million in PABs financing. This amended Initial Resolution has a three year term through December 20, 2021. Securing approval of the Initial Resolution represents a required step in the process to secure State tax-exempt PABs volume cap. Once permits are in place, the Company will continue to work with the Issuer to apply for and secure PABs volume cap allocation under its approved Initial Resolution. The Company expects to seek renewal of this Initial Resolution prior to December 20, 2021 for the second financing expected in 2023.

These additional PABs can include up to \$25 million (Escalated) of Water Connection Debt and up to \$25 million (Escalated) of Compliance Debt if, among other requirements, updated Current Case Financial Projections that give effect to the issuance of such bonds show a minimum projected Debt Service Coverage Ratio for each Fiscal Year of the remaining term of the then Outstanding Plant Senior Debt of not less than 1.00. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Additional Plant Senior Debt – Additional Debt Permitted in Certain Circumstances”.

On July 30, 2018 the Company submitted a Letter of Interest to the United States Environmental Protection Agency (“USEPA”) for debt financing under the Water Infrastructure Finance and Innovation Act (“WIFIA”) for up to 49% of the eligible costs of Intake System Modifications. On October 30, 2018, the USEPA notified the Company it was invited to apply for this financing for up to \$32 million of eligible costs. Based on recent discussions with USEPA, it is not clear yet what portion of the Intake System Modification financing will be provided by USEPA, but that financing remains available. If utilized, the WIFIA debt financing is expected to be issued as Additional Plant Bonds, pursuant to a supplemental indenture to the Plant Bond Indenture. The Company is in the process of working with the WIFIA office on a potential loan application and may finance a portion of the second phase under its plan of finance.

To the extent any Additional Plant Bonds do not constitute permitted Water Connection Debt or Compliance Debt, issuance of Additional Plant Bonds will require, among other things, the Company to demonstrate that (i) the Debt Service Coverage Ratio for the last completed Budget Year or Fiscal Year preceding the issuance of Additional Plant Senior Debt was at least 1.35, and (ii) Current Case Financial Projections that give effect to the proposed issuance of such Debt show projected Debt Service Coverage Ratio for each Fiscal Year of the remaining term of the then Outstanding Plant Senior Debt of not less than 1.35 after giving effect to issuance of such Additional Plant Senior Debt.

The plan of financing for the Intake System Modifications remains under development and there can be no assurance that Additional Plant Bonds, WIFIA debt or additional equity investment will be available in the amounts and at the times the Company currently projects. The Company has not completed the permitting of or design work for the Intake System Modifications. Similarly, the Company has not engaged a contractor or contractors to build the Intake System Modifications, nor has a project delivery method been finalized. Firmer cost estimates will be developed during the continued permitting, design and development of the Intake System Modifications, and the Company cannot assure bondholders that the actual cost of the Intake System Modifications or related increased operating costs will not exceed the Company's current cost estimates or entitlement to compensation relief under the Water Purchase Agreement.

See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Additional Plant Senior Debt".

Treatment of the Intake System Modifications under the Water Purchase Agreement

A Permanent Pump Shutdown constitutes a Change in Law Event under the Water Purchase Agreement that was anticipated at the time of execution of the Water Purchase Agreement. The adoption of the Ocean Plan Amendment is also considered a Change in Law Event. The Water Purchase Agreement outlines the procedures that the Company must follow to finance, design, construct, operate, and maintain the Intake System Modifications, along with the Water Authority's rights to review and comment on the Company's actions.

On August 25, 2016 the Water Authority certified a Supplemental Environmental Impact Report for the Stand-Alone Operations and approved a CAM which sets forth the understanding of the Water Authority and the Company regarding their respective rights and responsibilities, and process and procedures, to complete the transition to Stand-Alone Operations, including the procedures for financing of the Intake System Modifications.

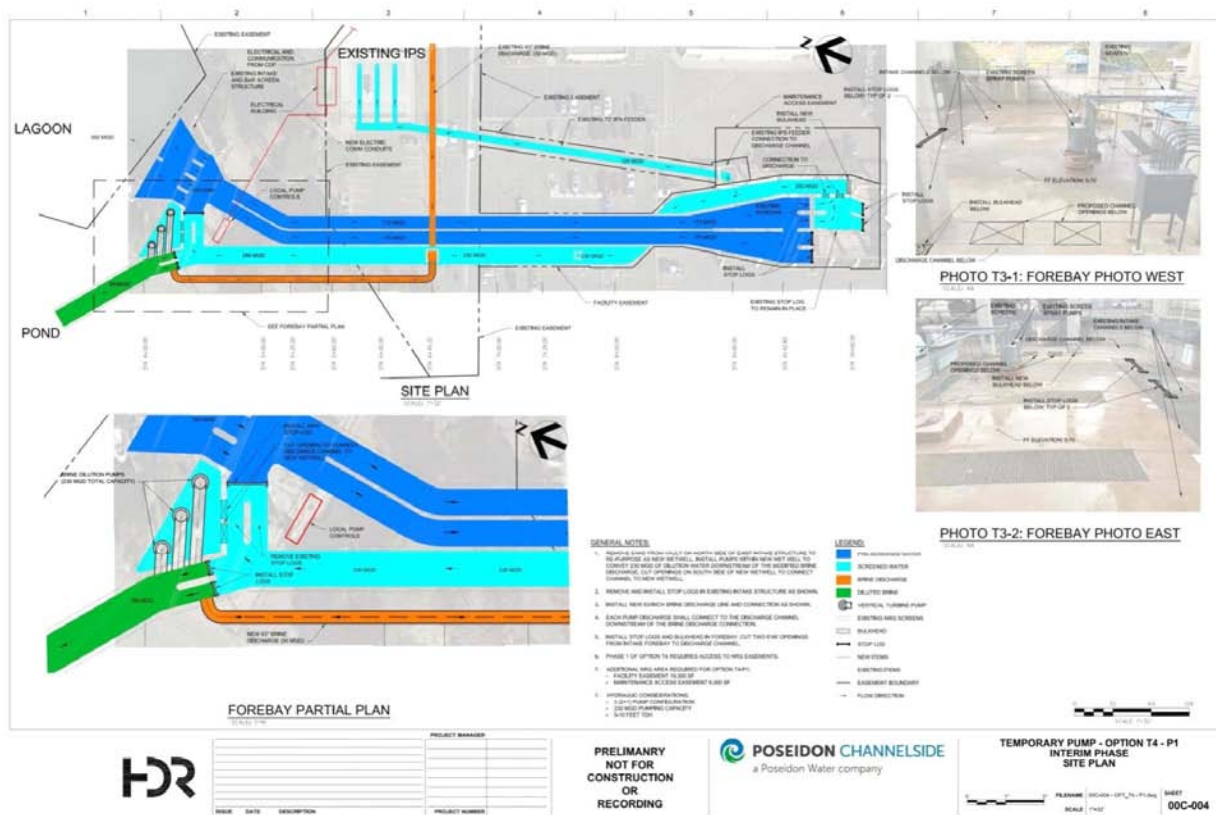
The Water Authority is preparing an addendum to the Project's Environmental Impact Report to address the environmental review of the Lagoon-based intake screens pursuant to the California Environmental Quality Act ("CEQA"). Completion of this addendum, like most activities under CEQA, can be subject to uncertainties and delays. The Water Authority and the Company are negotiating the terms of a new CAM and amendment to the Water Purchase Agreement which will address electricity and O&M Costs for temporary Stand-Alone Operations. Subsequent CAMs are expected to be entered into that will address operation with the Interim Intake Modifications and, at a later date, the operation of the new full Intake System Modifications. The Water Authority and the Company are engaged in continuing negotiations regarding these matters.

The Company will be entitled to compensation relief under the Water Purchase Agreement (in the form of an increase in the Purchase Price paid for Product Water) for the cost of constructing and operating Intake System Modifications; provided that (a) the portion of the permitting and construction capital costs attributed to the Permanent Pump Shutdown, for which the Company is compensated, may not exceed \$21,331,214 (Index-Linked to the Contract Year (as defined herein) in which the financing for such improvements closes, currently \$24,342,220) and (b) the annual operating costs for which the Company is compensated, attributed to the Permanent Pump Shutdown, may not exceed \$2,663,900 per year (Index-Linked, currently \$3,039,923). These limited capital costs and operating costs are referred to as the "Closure Costs". The Company currently estimates that annual operating costs will increase by approximately \$9,633,618 per year during the first phase of Stand-Alone Operations, of which \$3,129,304 is Closure Cost and \$6,504,314 relates to Change in Law. The Company will be obligated to

bear any excess costs above the permitted Closure Costs related to the Interim Intake Modifications without an adjustment to the price paid for Product Water.

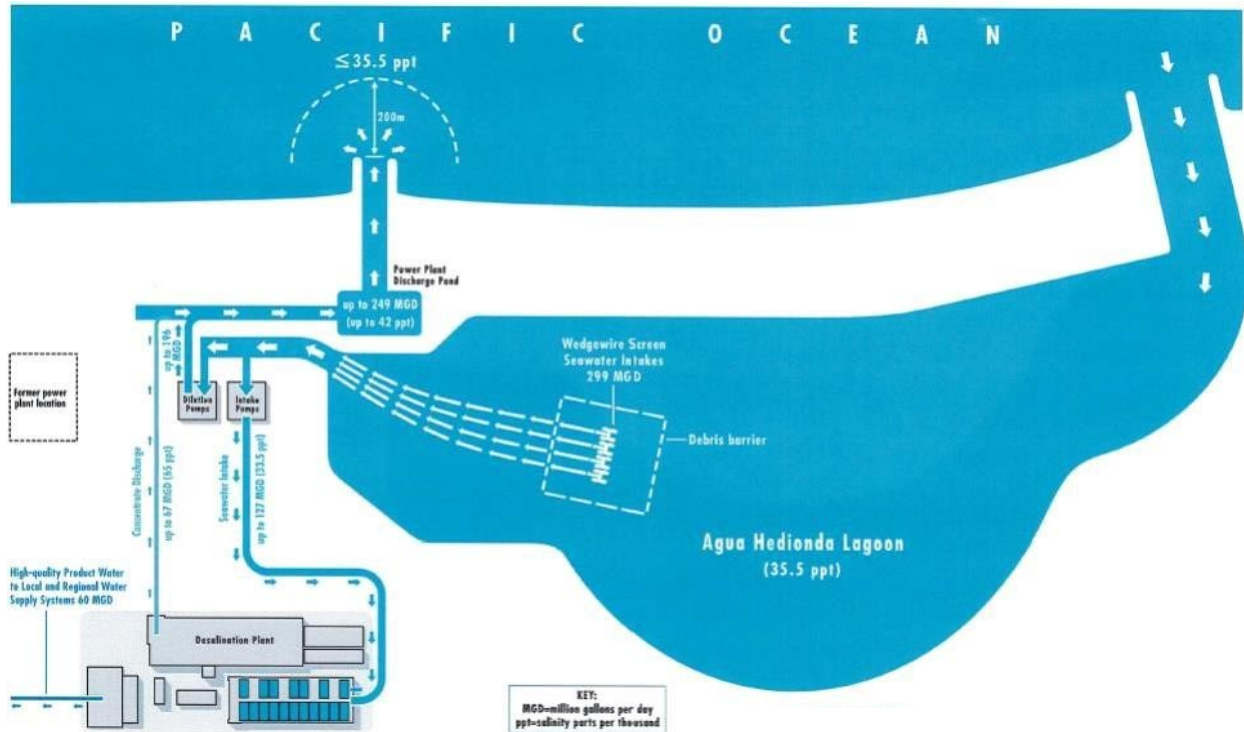
Although there is no similar cap on expenses for the portion of the Intake System Modifications related to compliance with the Ocean Plan Amendment, the Water Purchase Agreement limits the amount the Company can increase the unit price of water to 10% annually and no more than a cumulative total of 30% for the term of the Water Purchase Agreement. See “PROJECT OPERATION – Water Purchase Agreement – Limitations on Increases in the Purchase Price Due to Uncontrollable Circumstances” and the definition of Baseline Unit Price Cap therein, and “INVESTMENT RISKS – Limitations on Increases in Water Purchase Price”. The Company is entitled to schedule and performance relief, but not compensation, because permits required for the Intake System Modifications were not issued within 180 days of the Company submitting a complete application, which occurred in late 2015.

Set forth below is a diagram depicting the proposed configuration of the Project’s intake system during temporary stand-alone operations, which configuration has not yet received final approval from regulatory agencies.



Source: Poseidon Resources (Channelside) LP.

The chart below shows the proposed configuration of the Plant following completion of the Intake System Modifications, which is subject to change and final permitting requirements.



Source: Poseidon Resources (Channelside) LP.

PROJECT SITE

General

The Plant Site is adjacent to the Power Station, immediately south of the Lagoon. The Company leases the Plant Site from Cabrillo, the owner and former operator of the Power Station and an indirect wholly-owned subsidiary of NRG Energy Inc. pursuant to the Ground Lease. The Power Station drew seawater from the Lagoon for its cooling water system. Until December 12, 2018 when the Power Station ceased operation, the Plant processed seawater from the Power Station’s discharge tunnel and returned the resulting concentrated seawater to the discharge tunnel, where it was commingled with other discharged seawater and discharged into the Pacific Ocean. As described previously, this mode of operation relying on Cabrillo’s Pumps will continue until the Intake System Modifications are installed. See “THE PROJECT – Intake System Modifications” and Appendix H – Summaries of Certain Project Contracts.

Because the Plant was initially designed to make use of the existing intake and outfall of the Power Station, environmental permitting issues were reduced. Nevertheless, the Company was required to obtain, and obtained, numerous environmental permits from agencies that considered the environmental impact of the entire Project. At the time, the Company successfully litigated challenges to a number of those permits. The permits, as granted, require the Company to undertake substantial wetlands restoration and to purchase renewable energy certificates and carbon offsets to mitigate the environmental impacts of Plant operation. See “THE PROJECT – Environmental Regulatory Matters”.

The Water Authority has the statutory authority to use existing public rights of way for its distribution system. Under the Pipeline DBA, the Company acted as the Water Authority's agent for purposes of constructing the Pipeline within public rights of way. Construction of the Pipeline was completed under budget, and \$2,610,000 of Series 2012 Pipeline Bonds were redeemed from excess proceeds on December 18, 2017.

Ground Lease

The Company and Cabrillo entered into the Ground Lease for the lease of the Plant Site and the grant of easements necessary for construction and operation of the Plant and the Intake System Modifications.

In the Ground Lease, Cabrillo (a) grants to the Company a leasehold in the Plant Site and certain easements for water intake and discharge facilities, electrical and sewage facilities, access and parking and (b) agrees to use reasonable efforts to operate the Pumps, subject to certain conditions.

The initial term of the Ground Lease expires 35 years after the Plant begins commercial operations, which occurred on December 23, 2015. The Company and Cabrillo entered into an amendment of the Ground Lease on February 16, 2018 to facilitate construction of the Intake System Modifications. The Ground Lease modifications are necessary both due to the Permanent Pump Shutdown at the Power Station and to allow the Plant to comply with the Ocean Plan Amendment which addresses desalination facility intakes and brine discharges. The February 16, 2018 amendment to the Ground Lease clarifies Cabrillo's obligation to continue operating its Pumps for the Company's benefit after the Power Station ceases operation. Cabrillo's obligation to operate the Pumps on the Company's behalf expires on the earlier of (i) commercial operation of the Interim Intake Improvements and (ii) December 31, 2019. Cabrillo will operate the Pumps after December 31, 2019 (but in no event beyond December 31, 2021) only if the City of Carlsbad has consented to such operation and the Company has agreed to hold Cabrillo harmless from all damages, losses and liabilities arising out of such operation, including any amounts payable by Cabrillo to the City of Carlsbad in connection with the settlement agreement dated January 12, 2014 between Cabrillo, the City of Carlsbad and certain other parties. The Ground Lease modifications also clarify the use of certain easements following Project Completion. The modifications do not change the term of the Ground Lease, but they are expected to increase the base rent under the Ground Lease approximately in proportion to the increase in square footage occupied or used by the Plant and its appurtenances (including a portion of the Lagoon).

The Company and Cabrillo are negotiating an additional memorandum of understanding addressing the commercial terms associated with Cabrillo's continued operation and maintenance of its existing intake facilities (including cooling water pumps, screens and bar racks) pending completion of the Interim Intake Improvements. See the discussion of executed and anticipated amendments and memoranda of understanding pertaining to the Ground Lease in Appendix H – Summaries of Certain Project Contracts.

The Company initially paid a fixed rent of \$340,000 per year, subject to adjustment based on the change in the Consumer Price Index from August 2009. The fixed rent was increased to \$1,287,000 per year on June 30, 2017, and further increased to \$1,352,736 per year by the amendment to the Ground Lease dated February 16, 2018. On January 1, 2019 the fixed rent increased to \$1,816,677 per year.

The Company must also pay additional rent, which includes (a) any costs that Cabrillo may incur under Section 316(b) of the Clean Water Act (which governs its permit to withdraw and discharge seawater) as a result of the operation of the Plant; (b) any increase in Cabrillo's cost of maintaining or operating the Power Station resulting from the operation of the Plant; (c) a fee for usage of temporary

construction easements during construction of the Intake System Modifications; and (d) dredging costs for the outer portion of the Lagoon in the event of a Permanent Pump Shutdown (until the Company assumes this responsibility upon the shutdown of the Power Station). The Company does not anticipate that Cabrillo will incur any costs described in clause (a). The Company does not anticipate that any rent increase contained in the proposed Ground Lease amendment will have a material adverse effect on the Company's finances. The rent increases are all expected to be passed through to the Water Authority pursuant to the Water Purchase Agreement as an increase to the Product Water price.

See Appendix H – Summaries of Certain Project Contracts.

Power Station Priority

The operation, maintenance and use of the Power Station by Cabrillo, including the construction and operation of new power station located on the Eastern portion of the Power Station site by NRG, has priority over the construction, operation, maintenance, use and alteration of the Plant, and Cabrillo is not obligated to alter, de-energize or shut down the Power Station or any component thereof in connection with the operation or maintenance of the Plant. Clearway Energy, Inc., a former affiliate of NRG, has entered into an agreement to purchase the new power station from NRG, and the site of the new power plant will be leased to Clearway Energy by NRG. Clearway Energy, Inc., a former affiliate of NRG, has entered into an agreement to purchase the new power station from NRG, and the site of the new power plant is now leased to Clearway Energy by NRG. As of the date of this Limited Offering Memorandum, construction of the new power station is complete. Other than transmission lines, the new power station is entirely located on the east side of the railroad tracks running through the NRG property, separate from the Plant and its related easements. The Company believes it is unlikely that any priority use of the Power Station will occur.

PROJECT OPERATION

General

The Water Authority operates and maintains the Pipeline, makes scheduled loan payments to pay debt service on the Series 2019 Pipeline Bonds and purchases Product Water from the Company for the remaining term of the Water Purchase Agreement. At the request of the Water Authority, the Company must deliver up to 56,000 AFY of Product Water that meets the water quality standards under the Water Purchase Agreement. The Water Authority agrees to purchase a minimum of 48,000 AFY of Product Water that meets the Water Authority's water quality standards. If the Company delivers the full amount of Product Water requested by the Authority annually, it is entitled to receive water purchase payments calculated to pay the fixed and variable Plant operating costs, debt service on the Series 2012 Plant Bonds, and a return on equity to the Company's investors. If the Company fails to deliver the required amounts of Product Water, the Company is required to pay liquidated damages in the form of Operating Period Shortfall Payments and certain Annual Adjusted Supply Commitment True-Up Payments and Annual Operating Period Shortfall Payment True-Up Payments, as described below under "Water Purchase Agreement — Product Water Quantity and Quality Shortfalls". The Operating Period Shortfall Payments have been assigned to the Pipeline Trustee for the benefit of the holders of the Series 2019 Pipeline Bonds to be applied to debt service payable on the Series 2019 Pipeline Bonds. The Water Authority's obligation to make Installment Sale Payments (and, in turn, the Water Authority's obligation to make Pipeline Loan Repayments) are reduced by the amount of Contracted Shortfall Payments payable by the Company, whether or not paid.

The Company has entered into the O&M Agreement with IDE Americas. IDE Americas receives monthly payments consisting of certain fixed and variable components. IDE Americas is obligated to pay

liquidated damages under the circumstances described below under “PROJECT OPERATION— Operation and Maintenance of the Plant — O&M Agreement with IDE Americas” and “PROJECT OPERATION— Operation and Maintenance of the Plant — Damages”. If an event or circumstance beyond its control occurs, IDE Americas may be entitled to additional compensation while the same event or circumstance would not entitle the Company to an increase in the purchase price for Product Water under the Water Purchase Agreement. In addition, the Water Purchase Agreement limits increases in the water purchase price resulting from Uncontrollable Circumstances as described below under “Water Purchase Agreement — Limitation on Increases in the Purchase Price Due to Uncontrollable Circumstances”. There is no corresponding limit on IDE Americas’ right to increased compensation.

The foregoing is intended to provide a brief overview of the contractual provisions discussed. Prospective investors are urged to read the other material under this heading “PROJECT OPERATION” and Appendix G – Summary of the Water Purchase Agreement and Appendix H – Summaries of Certain Project Contracts, including the complete definitions of Uncontrollable Circumstances, Uninsurable Force Majeure Events and Insurable Force Majeure and their consequences in the summary of the Water Purchase Agreement, and the definitions of Force Majeure Event and Change in Law in the summary of the O&M Agreement contained in Appendix H – Summaries of Certain Project Contracts.

Water Purchase Agreement

The Company and the Water Authority have entered into the Water Purchase Agreement for construction and operation of the Plant and the sale and purchase of Product Water. The term of the Water Purchase Agreement ends on December 23, 2045, the 30th anniversary of the Commercial Operation Date. Since execution of the Water Purchase Agreement, the Water Authority and the Company have entered into five amendments to the Water Purchase Agreement. Additionally, under the Water Purchase Agreement, the Water Authority and the Company established a mechanism for documentation of routine matters of interpretation and application which do not constitute formal amendments to the Water Purchase Agreement, referred to as CAMs. Since execution of the Water Purchase Agreement, the Water Authority and the Company have entered into ten CAMs covering various matters. See Appendix G – Summary of the Water Purchase Agreement.

Delivery and Purchase Obligations

The Water Authority is obligated to purchase 48,000 acre-feet of Product Water per year (the “**Minimum Annual Demand Commitment**”), and the Company is obligated to supply up to 56,000 acre-feet of Product Water per Contract Year (the “**Maximum Annual Supply Commitment**”). Under the Water Purchase Agreement, “**Contract Year**” means the period from July 1 of each calendar year, through June 30th of the succeeding calendar year.

Within the band established by the Maximum Annual Supply Commitment and the Minimum Annual Demand Commitment, the Plant operates flexibly to meet the seasonal and daily requirements of the Water Authority. Each year, the parties establish a maximum supply commitment for each month of the Contract Year (the “**Maximum Monthly Supply Commitment**”) based on the Maximum Annual Supply Commitment and a minimum demand commitment for each month (the “**Minimum Monthly Demand Commitment**”) based on the Minimum Annual Demand Commitment. The Maximum Monthly Supply Commitment is expected to be similar each month, based on the maximum operating capacity of the Plant, except that the Company may establish ten days of downtime for scheduled maintenance, repair and component replacement, to the extent practicable, during the months of December, January, February and March. The Water Authority establishes the Minimum Monthly Demand Commitments not on a level operation basis, but reflecting substantially reduced demand in December through March, with the lowest demand typically in January and February. In any given

month, the Water Authority is entitled to request delivery of Product Water in amounts as low as the Minimum Monthly Demand Commitment and as high as the Maximum Monthly Supply Commitment. The Water Authority establishes an estimated schedule of daily deliveries in advance of each month, but establishes the final daily schedule of Firm Daily Demand Orders for each day on the previous day. In addition, the Water Authority may request changes in flow rate as often as two times per day, six times during any seven consecutive days, and twelve times during any thirty consecutive days, provided that no modification to the flow rate shall be required to take effect less than eight hours after the modification is requested. The sum of the final daily requirements for each month is used to establish the “**Adjusted Monthly Supply Commitment**” for the month. As described further below, the payment obligations of the Water Authority and the performance obligations of the Company are generally determined by reference to the Minimum Monthly Demand Commitment and the Adjusted Monthly Supply Commitment for each month.

A “**Demand Shortfall**” occurs when the Water Authority fails to order the Minimum Monthly Demand Commitment in any month, and a demand exceedance occurs when the Water Authority orders more than the Minimum Monthly Demand Commitment in any month. The Adjusted Monthly Supply Commitment is the lesser of the Demand Orders and the Maximum Supply Commitment. A “Supply Shortfall” occurs when the Company delivers less than the Adjusted Monthly Supply Commitment, but the effect of any particular Supply Shortfall depends on whether the undelivered units are classified as Unscheduled Outage Units, Excused Supply Shortfall Units or Unexcused Supply Shortfall Units which in turn depends on the circumstances leading to the Supply Shortfall.

Unplanned outage events can be categorized as “Unscheduled Outage Units” up to an annual allowance of 1,630 acre-feet for each Contract Year. The Water Purchase Agreement allows for payment of fixed costs for the Unscheduled Outage Units, but no variable costs are incurred or paid for the Unscheduled Outage Units because this water is not delivered. The Excused Supply Shortfall Units can be delivered during any Contract Year at the discretion of the Water Authority and the ability to make up delivery of the Unexcused Supply Shortfall Units is at the discretion of the Water Authority and limited to the Contract Year in which the Unexcused Supply Shortfall Units occur.

Within 60 days after the end of each Contract Year, the Company must provide to the Water Authority an annual settlement statement setting forth the actual aggregate water purchase payments payable with respect to such Contract Year and a reconciliation of such amount with the amounts actually paid by the Water Authority with respect to such Contract Year. The Water Authority or the Company, as appropriate, must pay all known and undisputed amounts within 60 days after receipt or delivery of the statement.

Product Water Purchase Price

The price per acre-foot of Product Water (the “**Purchase Price**”) delivered or deemed to have been delivered to the delivery point varies based on how much Product Water is delivered. The Purchase Price for Product Water delivered up to the Minimum Annual Demand Commitment is equal to the sum of: (a) the following fixed charges: the *Debt Service Charge*, the *Equity Return Charge*, the *Fixed Operating Charge* and the *Fixed Electricity Charge* (collectively, the “**Fixed Unit Price**”); and (b) the following variable charges: a *Variable Operating Charge* and *Variable Electricity Charge* (collectively, the “**Variable Unit Price**”). The Fixed Unit Price multiplied by the Minimum Annual Demand Commitment yields the Company’s “**Fixed Annual Costs**”. (The foregoing italicized terms are defined in Appendix G – Summary of the Water Purchase Agreement.) The Fixed and Variable Electricity Charges are structured so variations in electricity costs resulting from (i) the amount of electricity consumed are borne by the Company and (ii) changes in electricity prices are borne by the Water Authority. The Company will receive the Variable Unit Price for Product Water deliveries between the

Minimum Annual Demand Commitment and the Maximum Annual Supply Commitment. Product Water deliveries in excess of the Maximum Annual Supply Commitment will receive the Variable Unit Price plus \$195 per acre-foot (Index-Linked). The Company will also receive the Fixed Unit Price for Product Water to the extent the Company is unable to deliver the Minimum Annual Demand Commitment due to (A) the Water Authority not taking Product Water subject to certain exceptions for Water Authority emergencies or (B) unscheduled outages of the Plant up to 1,630 acre-feet per Contract Year. The result, subject to other requirements described below, is that by meeting or exceeding the Minimum Annual Demand Commitment, the Company expects to pay the entire fixed costs of operating the Plant for the Contract Year, including debt service on the Series 2012 Plant Bonds, and expects to receive its variable costs for each acre-foot of Product Water delivered.

The appropriate component of the Fixed or Variable Unit Price, as applicable, will be adjusted (a “**Unit Price Adjustment**”) under certain circumstances, including those described herein under “THE PROJECT – Intake System Modifications,” “PROJECT OPERATION – WATER PURCHASE AGREEMENT – FINANCING – Compensation Adjustment Event Capital Costs” and “PROJECT OPERATION – WATER PURCHASE AGREEMENT – Uncontrollable Circumstances”. Other circumstances under which a Unit Price Adjustment will be made are described in Appendix G – Summary of the Water Purchase Agreement.

Product Water Quantity and Quality Shortfalls

If the Company fails to deliver the Minimum Monthly Demand Commitment for a month, and such failure results in an aggregate shortfall or increases the aggregate shortfall in meeting the aggregate Minimum Monthly Demand Commitments to such point in the Contract Year, the Company owes the Water Authority an Operating Period Shortfall Payment equal to a proportionate amount of the Pipeline Debt Service Related Payments for such month. If the Water Authority terminates the Water Purchase Agreement due to the Company’s default, the Company will owe the Water Authority payments equal to the full monthly debt service on the Series 2019 Pipeline Bonds and, if the Series 2019 Pipeline Bonds are accelerated, the Company will owe the Water Authority a payment equal to the principal and accrued interest on the Series 2019 Pipeline Bonds. The obligation of the Company to make these Operating Period Shortfall Payments is secured on a parity basis with the Company’s obligations to make payments on the Plant Senior Debt. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS”.

If the sum of (i) the monthly delivered water units, (ii) the monthly excused supply or demand shortfall units, (iii) the monthly unexcused demand shortfall units, and (iv) the monthly unscheduled outage shortfall units in any month during which the Water Authority has activated Stage 2 of its drought response plan is less than 90% of the Adjusted Monthly Supply Commitment, the Company must pay the Water Authority an amount equal to the Equity Return Charge for each unit of shortfall. The Company’s obligation to pay this amount, if incurred, will be senior to its obligations on the Plant Senior Debt, but does not constitute an Operating Period Shortfall Payment and does not reduce the Water Authority Financing Agency’s obligation to pay debt service on the Series 2019 Pipeline Bonds.

For each Contract Year in which the Company has failed to deliver the full amount of Product Water requested by the Water Authority up to the Maximum Annual Supply Commitment, the Company must also make two True Up payments to the Water Authority:

- a portion of the Pipeline Debt Service Related Payments proportionate to the excess of the shortfall against the sum of the Adjusted Monthly Supply Commitment over the shortfall against the Minimum Monthly Demand Commitments; and

- a payment to ensure that the Company only retains a portion of the Fixed Annual Costs proportionate to the amount of Product Water actually provided for such Contract Year.

These true-up payments are not Operating Period Shortfall Payments and are subordinated to Debt Service and failure to make such payments will not constitute an event of default under the Water Purchase Agreement.

The Company must deliver Product Water that complies with applicable law and the quality requirements set forth in the Water Purchase Agreement, and will be subject to deductions from the Purchase Price for Product Water that does not meet these requirements (or to non-payment if the water delivered is non-potable or poses a health or safety risk). If the CDDW issues a “boil water” notice with respect to the Product Water, the Company will be in breach of the Water Purchase Agreement (with 60 days to cure, to be extended up to 180 days if the Company is diligently pursuing a remedy), and the Water Authority may require the Company to replace IDE Americas as the Plant’s operator and may either direct the Company to take necessary remedial actions or step in to take action itself.

See “—Operation and Maintenance of the Plant – Plant Operations” for a discussion of actual Product Water deliveries, shortfalls and Operating Period Shortfall Payments since the Commercial Operation Date.

Pricing and Performance on a Monthly Basis

Table A. below illustrates the operation of the delivery requirements and pricing provisions of the Water Purchase Agreement. The blue horizontal line represents an example of a month in which the level of credited deliveries is below the Minimum Monthly Demand Commitment.

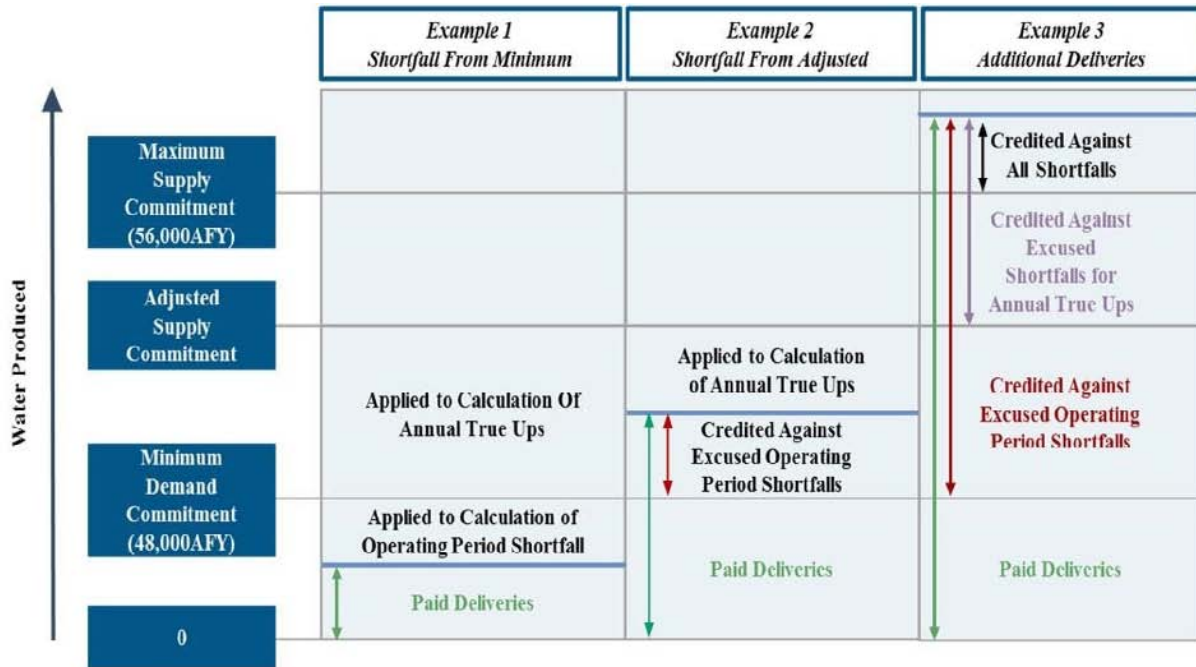
A. Water Pricing, Delivery Credits, and Delivery Shortfall Components

	Type of Delivery	Price	Delivery or Shortfall Components
Maximum Supply Commitment (56,000AFY)	Excess AF	Variable price + \$195	
Adjusted Supply Commitment	Additional AF	Variable Price	Excused demand Shortfall AF
Minimum Demand Commitment (48,000AFY)	Base AF	Fixed Price Plus Variable Price	Unexcused supply Shortfall AF Excused Supply Shortfall AF
0			Delivered AF Unexcused demand Shortfall AF Unscheduled Outage AF

Actual and Credited Deliveries Eligible for Payment (Example)

Table B. below presents several examples of the operation of the Company’s obligation to make Operating Period Shortfall Payments and True Up payments depending on its level of performance in the context of the delivery and pricing provisions described in the previous table. In each example, the blue horizontal line represents the Company’s actual level of deliveries (plus the Unexcused Demand Shortfall and acre-feet lost to Unexcused Outages, if any).

B. Examples of Water Delivery Shortfalls and Exceedances



In Table B, Example 1 represents a failure by the Company to deliver the Minimum Demand Commitment, with the result that it incurs a potential obligation to make Operating Period Shortfall Payments and an additional potential obligation to make Annual True Up Payments for amounts not delivered that are in excess of the Minimum Demand Commitment. Example 2 represents a failure by the Company to meet the Adjusted Monthly Supply Commitment while the Company’s deliveries exceed the Minimum Monthly Demand Commitment. The excess over the Minimum Monthly Demand Commitment results in a reduction in the obligation to pay Operating Period Shortfall Payments, while an additional obligation to make Annual True Up Payments accrues. In Example 3 the Company produces Product Water in excess of both the Adjusted Monthly Supply Commitment and the Maximum Monthly Supply Commitment. The entire excess over the Minimum Monthly Demand Commitment will reduce the obligation to pay Operating Period Shortfall Payments to the extent arising from Excused Monthly Supply Shortfalls or Excused Monthly Demand Shortfalls. Amounts above the Adjusted Monthly Supply Commitment will reduce Annual True Up Payments based on Excused Monthly Supply Shortfalls and Excused Monthly Demand Shortfalls. Amounts above the Maximum Monthly Supply Commitment serve to reduce Unexcused Monthly Supply Shortfalls, both with respect to Operating Period Shortfall Payments and Annual True Up Payments.

Financing

The Company is solely responsible for obtaining and repaying all financing necessary for the design, permitting and construction of the Plant at its own cost and risk and without recourse to the Water Authority. The Water Authority has no obligation to provide financing for the Plant or for any Capital

Modifications for any Uncontrollable Circumstances or for any other purpose, other than those undertaken at the direction of the Water Authority. However under certain circumstances the cost of Product Water is subject to a Unit Price Adjustment including those described herein under “THE PROJECT – Intake System Modifications,” “PROJECT OPERATION – WATER PURCHASE AGREEMENT – FINANCING – Compensation Adjustment Event Capital Costs” and “PROJECT OPERATION – WATER PURCHASE AGREEMENT – Uncontrollable Circumstances”. The Company may not issue any Additional Plant Senior Debt other than as described in “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Additional Plant Senior Debt,” or any subordinated debt secured by the Plant (together with the Series 2012 Plant Bonds and Additional Plant Senior Debt, “**Permitted Debt**”), other than as described herein. The Company intends to incur Additional Plant Senior Debt in connection with the Intake System Modifications. See “THE PROJECT – Intake System Modifications”.

Pursuant to the Collateral Trust Agreement, the Company may incur Debt (not including Additional Plant Senior Debt), secured by a subordinated pledge of all or any portion of the Collateral subject to Liens granted by the Company and the Partners, only if the following conditions are satisfied:

(a) the Company provides to the Senior Debt Majority Current Case Financial projections, reviewed by the Independent Engineer, that show Projected Debt Service Coverage Ratio of at least 1.35 for each Fiscal Year of the remaining life of then Outstanding Plant Senior Debt, treating for purposes of the calculation the proposed subordinated Debt and any outstanding subordinated Debt as Plant Senior Debt;

(b) the Company delivers a letter to the Collateral Agent and the Senior Debt Majority from at least two Rating Agencies then rating any Outstanding Plant Bonds confirming that each such Rating Agency will not lower, suspend or withdraw its then-current rating of such Plant Bonds if such proposed subordinated Debt is issued; and

(c) the terms of the subordination provisions contained in the documents pursuant to which such proposed Debt is to be issued substantially conform to the subordination provisions contained in the Collateral Trust Agreement, provided that any substantive differences from subordination provisions contained in the Collateral Trust Agreement are reasonably acceptable to the Senior Debt Majority.

The term of any Permitted Debt issued by the Company may not extend beyond the term of the Water Purchase Agreement. The Collateral Trust Agreement also restricts the Company’s ability to incur debt as described under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS — Collateral Trust Agreement”.

The Water Authority will not be obligated to make any payment measured or calculated by or with reference to Permitted Debt (other than Plant Bonds), except (a) Permitted Debt issued to finance Compensation Adjustment Event capital costs and (b)(i) Permitted Debt issued to finance Project Costs, Project Completion, the capital costs of Uncontrollable Circumstances, the capital costs of Water Authority-directed capital projects, and compliance with governmental approvals, and (ii) Permitted Debt with respect to which the Water Authority has agreed, in its discretion, to assume such an obligation (“**Approved Permitted Debt**”). Approved Permitted Debt will be factored into the purchase price to be paid by the Water Authority if it exercises its option to purchase the Plant. See “PROJECT OPERATION — Water Purchase Agreement — Purchase of the Plant”.

Compensation Adjustment Event Capital Costs. The Company must use reasonable efforts to finance the capital costs resulting from a Compensation Adjustment Event. A “**Compensation**

Adjustment Event” is the occurrence of an Uninsurable Force Majeure Event, a Change in Law Event or an Other Uncontrollable Circumstance as defined in the Appendix G – Summary of the Water Purchase Agreement. Additional costs (including operation, maintenance, repair and replacement costs) resulting from a Compensation Adjustment Event will be paid by the Water Authority as an adjustment to the Purchase Price or in a lump sum. The Water Authority may, in its discretion, finance the capital costs of a Compensation Adjustment Event itself and, in such case no adjustment will be made to the Unit Price.

If the Company is completely unable to obtain required financing for Compensation Adjustment Event capital costs for any reason (including the insufficiency of the adjusted Monthly Water Purchase Payments to support such a financing or adverse conditions in the financial markets), and as a consequence thereof (a) the Company is unable to pay such Compensation Adjustment Event capital costs and make the modifications, improvements or reinstatements that are required to be made due to the Compensation Adjustment Event, and (b) the Water Authority is likely to be denied the benefits of the Water Purchase Agreement for a period of at least 365 days following the occurrence of the Compensation Adjustment Event:

- the Water Authority will have no obligation to make any payment or provide any financing with respect to such Compensation Adjustment Event capital costs;
- the Water Authority, by notice to the Company, may terminate the Water Purchase Agreement, without the obligation to make any termination payment;
- the Water Authority will have the option, exercisable in its discretion, to purchase the Plant under the terms described below under “— Purchase of the Plant;”
- the Company will not be in breach of its obligations under the Water Purchase Agreement and will not be subject to any damages or liability arising out of any failure to make required modifications, improvements or rectifications related to the Compensation Adjustment Event.

Financing will be deemed available on similar terms and conditions and under a similar financing plan, for purposes of financing Compensation Adjustment Event capital costs if (a) the debt-to-equity ratio of such financing is similar to the debt-to-equity ratio of the Series 2012 Plant Bond financing and, (b) the debt portion of the financing has an investment grade credit rating or, if the debt is unrated, would have an investment grade credit rating if it had been sought.

Uncontrollable Circumstances

“Uncontrollable Circumstance” as defined in the Water Purchase Agreement means any act, event or condition that (1) is beyond the reasonable control of the Company in relying on it as a justification for not performing an obligation or complying with any condition required under the Water Purchase Agreement, and (2) materially expands the scope, interferes with, delays or increases the cost of performing the Company’s obligations under the Water Purchase Agreement, to the extent that such act, event or condition is not the result of the willful or negligent act, error or omission, failure to exercise reasonable diligence, or breach of the Water Purchase Agreement on the part of the Company in claiming the occurrence of an Uncontrollable Circumstance.

An Uncontrollable Circumstance includes (a) an event that would constitute a Force Majeure Event (as defined in the Water Purchase Agreement) if it affected the Project and that damages or destroys Cabrillo’s raw seawater intake system or any other property at the Cabrillo generating facility site that is necessary for the intake of raw seawater for the Plant or the discharge of process wastewater

produced at the Plant from the Plant; or (b) the failure of a Cabrillo Entity to perform its obligations under the Ground Lease to operate the water circulating pumps of the Cabrillo raw seawater intake system for any reason, including a bankruptcy or insolvency of a Cabrillo Entity, but excluding a default by the Company under the Ground Lease.

If an Uncontrollable Circumstance occurs, the Company may be entitled to performance, schedule and/or compensation relief or it may not be entitled to any relief. If an Uncontrollable Circumstance prevents the Company from delivering Product Water, the Company may subsequently produce the amount of Product Water not delivered due to the Uncontrollable Circumstance for delivery to the Water Authority on a schedule agreed by the parties, and the term of the Water Purchase Agreement will be extended for up to three years to permit such deliveries.

See Appendix G – Summary of the Water Purchase Agreement.

Limitations on Increases in the Purchase Price Due to Uncontrollable Circumstances

The sum of the increases in the Fixed Unit Price and the Variable Unit Price described above under “THE PROJECT – Intake System Modifications,” or for “Uninsurable Force Majeure Events,” “Change in Law Events” and “Discriminatory or Specified Changes in Tax Law” and “Other Uncontrollable Circumstances” (occurring in the aggregate up to the time of any particular calculation) will not exceed an amount equal to 30% of the then current Purchase Price at any time, nor will the sum of such increases effective in any one Contract Year exceed an amount equal to 10% of the Unit Price effective in the immediately preceding Contract Year (such limitations together constituting the “**Baseline Unit Price Cap**”). The Company will not be entitled to any compensation on account of such event or circumstance to the extent the sum of any such increases would at any time cause the Baseline Unit Price Cap to be exceeded. See “INVESTMENT RISKS – Limitations on Increases in Water Purchase Price”.

Company Events of Default

Each of the following events will be an event of default by the Company under the Water Purchase Agreement for which there is no cure period:

- the Company delivers less than 75% of the Product Water ordered by the Water Authority in any 24 out of 36 consecutive months;
- CDDW issues a second “boil water” notice with respect to the Product Water;
- an exceedance of a primary drinking water standard maximum contaminant limit in 3 consecutive months or 4 times in any 12-month period;
- termination of the Ground Lease for default;
- a bankruptcy-related event occurs; and
- the due date for the payment of the principal amount of all outstanding Pipeline Bonds is accelerated as a result of the Company’s failure to make Operating Period Shortfall Payments;

In addition, each of the following events will be an event of default for which the Company will have a 60-day cure period (or such a longer period not to exceed 180 days so long as the Company is diligently pursuing a remedy):

- failure to pay amounts due and owing within 10 business days after notice from the Water Authority;
- Failure to repair, replace or restore the Plant following the occurrence of an Insurable Force Majeure Event;
- failure to take appropriate action in response to a notification by the Water Authority that a public health or safety emergency exists or is threatened due to the Company's failure to comply with the Water Purchase Agreement; and
- a breach of the Water Purchase Agreement (other than a breach entitling the Water Authority to make deductions from the Monthly Water Purchase Payments) that has continued for 60 days or has occurred 4 or more times in the previous 12 months.

Other events of default, including customary defaults for prohibited assignments, abandonment of the project and failure to maintain required insurance, are described in Appendix G – Summary of the Water Purchase Agreement.

If a Company event of default occurs, the Water Authority may terminate the Water Purchase Agreement subject to rights of the Collateral Agent under the Collateral Agent's Remedies Agreement. The ability of the Company or a new owner of the Plant to profitably sell Product Water may be severely limited in the event of a termination of the Water Purchase Agreement. See "INVESTMENT RISKS—Remedies on Default" and – "Termination of the Water Purchase Agreement".

Water Authority Events of Default

Each of the following events will be an event of default by the Water Authority under the Water Purchase Agreement for which there is no cure period:

1. failure to pay any undisputed amount due and owing within 45 days of its due date;
2. breach or series of breaches of any obligation to the Company or any representation or warranty made to the Company having been incorrect when made and as a result of which (a) a material and adverse effect on the Company's performance under the Water Purchase Agreement or (b) any material provision of the Water Purchase Agreement being unenforceable against the Water Authority to the extent that the Company is reasonably likely to be deprived of the benefit of the Water Purchase Agreement;
3. the occurrence of a bankruptcy-related event, provided that the appointment of a financial control or oversight board for the Water Authority by the State of California will not be an event of default; and
4. the Water Authority assigns the Water Purchase Agreement in contravention of the terms thereof.

The Company may terminate the Water Purchase Agreement if (a) an event of default described in Item 1 is not cured within 10 days of notice from the Company, (b) an event of default described in Item 2 is not cured within a 60-day cure period or such longer period (not to exceed 180 days) so long as the Water Authority is diligently pursuing a remedy or (c) an event of default under Item 3 or Item 4 occurs.

The Water Authority is under no obligation to purchase the Plant or pay any compensation to the Company in the event of a termination of the Water Purchase Agreement for the Water Authority's default. See "INVESTMENT RISKS —Termination of the Water Purchase Agreement".

Other Rights of Termination

In addition to the parties' termination rights for an event of default, the Water Authority may terminate the Water Purchase Agreement prior to the expiration of its term:

1. in connection with the Company's inability to finance the costs resulting from an Uncontrollable Circumstance for which the Company is entitled to compensation relief under the Water Purchase Agreement;
2. if the Ground Lease is terminated on account of condemnation or taking by eminent domain; or
3. if the Water Authority exercises its option to purchase the Plant, as discussed below.

Purchase of the Plant

The Water Authority has the option to purchase the Plant at the end of the term of the Water Purchase Agreement for one dollar. The Water Authority will also have an option to purchase the Plant before the end of term as follows:

- at any time after the 10th anniversary of the Commercial Operation Date at a purchase price equal to (a) the net present value of the Equity Return Charge that would have been payable through the remaining term of the Water Purchase Agreement plus (b) the aggregate principal amount of the outstanding Plant Bonds and the Approved Permitted Debt plus (c) costs incurred due to terminating current employees and IDE Americas' breakage costs;
- if the Company is unable to obtain financing in connection with a Compensation Adjustment Event as described above under "Compensation Adjustment Event Capital Costs" at same price described in the preceding bullet point; and
- upon an event of default by the Company at a purchase price equal to (a) the aggregate principal amount of the outstanding Plant Bonds and Approved Permitted Debt minus (b) an amount equal to all amounts on deposit in the funds and accounts held under the Collateral Trust Agreement or the Plant Indenture (except amounts held in the Plant Contractor Security Account to the extent the EPC Contractor is entitled to receive such amounts under applicable law).

The Water Authority has no obligation to purchase the Plant under any circumstances. See Appendix G – Summary of the Water Purchase Agreement.

Assignment and Change in Control

The Company may not assign any interest in the Water Purchase Agreement except: (a) as security for the Plant Senior Debt; (b) in connection with the exercise of the rights of the Collateral Agent; or (c) with the prior written consent of the Water Authority (which may be given or withheld in the Water Authority's sole discretion for the first two years after the Commercial Operation Date, and

thereafter may not be unreasonably withheld or delayed) provided (with respect to clauses (b) and (c)) the assignee assumes all of the Company's obligations under the Water Purchase Agreement.

The Water Purchase Agreement prohibits changes in control of the Company except (a) in connection with the exercise of rights of the Collateral Agent; (b) arising from any bona fide open market transaction in any securities of the Company or of any affiliate or shareholder on a recognized public stock exchange; (c) an assignment, sale or transfer of any direct or indirect interest in any shares or equity of the Company (or of any person who directly or indirectly owns shares or equity in the Company) to Stonepeak Partners Infrastructure Fund LP or any of its affiliates and any subsequent assignment by Stonepeak Partners Infrastructure Fund LP or any of its affiliates or any subsequent assignee, of all or part of any such transferred interest; or (d) with the prior written consent of the Water Authority (which may be given or withheld in the Water Authority's sole discretion for the first two years after the Commercial Operation Date, and thereafter may not be unreasonably withheld or delayed). Stonepeak Infrastructure Fund LP is considering a sale of the Company and has engaged an investment bank, however there can be no assurance that any transaction will occur or, if a transaction does occur, what form that transaction might take.

The Water Authority must obtain the Company's prior written consent (which may be given or withheld in the Company's sole discretion) for an assignment of its interest in the Water Purchase Agreement other than to another governmental body assuming, and capable of discharging, all of the Water Authority's obligations under the Water Purchase Agreement.

Management Services Agreement

The Company and Poseidon GP do not independently maintain all of the personnel and other internal resources necessary to perform the management and administrative functions relating to the Plant. Accordingly, they have entered into a Management Services Agreement with Poseidon Water for the performance of certain of such functions by Poseidon Water relating to operation of the Plant. The term of the Management Services Agreement is scheduled to expire in December 2019, unless earlier terminated. Poseidon Water has expressed interest in continuing to provide management services to the Company following the expiration of the current term although the parties have not finalized any such agreement as of the date of this Limited Offering Memorandum and there can be no assurance that Poseidon Water will continue to provide management services to the Company. In the event of a sale of the Company, there is no assurance that the Management Services Agreement will be renewed.

Under the Agreement, the Company pays Poseidon Water the following fees:

- a fixed annual fee of \$600,000; and
- a performance-based management fee equal to the "Management Fees" paid by the Water Authority to the Company under the Water Purchase Agreement of up to \$10 per AF of Product Water delivered to and accepted by the Water Authority in accordance with the Water Purchase Agreement.

The fixed annual fee and the performance-based management fee are each subject to annual escalation based on changes in a consumer price index. Poseidon Water is entitled to be reimbursed by the Company for any out of pocket expenses incurred by it related to its provision of services under the Management Services Agreement but only to the extent such expenses are incurred pursuant to an approved budget or are otherwise approved by Poseidon GP. All such expenses are paid from funds held by the Collateral Agent that are available for such purpose.

Poseidon Water indemnifies the Company for any loss resulting from Poseidon Water's breach of the Management Services Agreement, or its gross negligence or willful misconduct, subject to a liability limitation equal to the aggregate amount of all fees paid to it pursuant to the Management Services Agreement. The Company will indemnify Poseidon Water for any loss incurred by Poseidon Water in providing services pursuant to the Management Services Agreement, other than any loss resulting from Poseidon Water's breach of the Management Services Agreement, its negligence or its willful misconduct.

Electricity

Electricity is the largest operating cost of the Plant, accounting for approximately 50% of the operating budget. The Company purchases electricity from SDG&E under a standard non-interruptible SDG&E General Service Time of Use tariff program for large industrial users. Under the current SDG&E tariff structure, the tariff program includes SDG&E Schedule AL-TOU (>12 MW, Primary Substation) plus SDG&E Schedule EECC (Electric Energy Commodity Cost) plus any applicable taxes and DWR Bond Charges.

The Fixed Electricity Charge and Variable Electricity Charge under the Water Purchase Agreement are structured to compensate the Company for a guaranteed quantity of electricity at actual prices, so that the risk and benefit of over- or under-consumption of electricity is borne by the Company and the price risk of electricity is borne by the Water Authority. The guaranteed quantity varies with the volume, temperature and salinity of the intake water. Actual electricity consumption through October 31, 2018 has been approximately 95% of guaranteed energy consumption.

If energy consumption for the fourth year of operation is less than 90% of the guaranteed amount, the Company will thereafter be required to meet a reduced guaranteed amount. The reduction will be a percentage amount by which the actual energy consumption in the fourth year is less than the original guarantee minus 10%. As an example, if the consumption in the fourth year of operation is 86% of the guaranteed amount, the guarantee will be reduced by 4% to 96% of the original guarantee.

The Water Authority has the right to direct the Company to change electricity suppliers and to negotiate and establish electric rates with the replacement provider so long as the arrangement does not materially and adversely affect the ability of the Company to perform its obligations under the Water Purchase Agreement or the costs thereof.

O&M Agreement with IDE Americas

In order to support operation and maintenance of the Plant, the Company entered into the O&M Agreement, pursuant to which IDE Americas operates and maintains the Plant and delivers Product Water to the Water Authority. The Company believes that IDE Americas' continuing performance of its obligations under the O&M Agreement will be sufficient to allow the Company to perform its operation, maintenance and Product Water delivery obligations under the Water Purchase Agreement. The initial term of the O&M Agreement will expire 30 years after the Commercial Operation Date, contemporaneously with the scheduled expiration of the Water Purchase Agreement. The performance by IDE Americas of its obligations under the O&M Agreement is guaranteed by IDE. The obligations of IDE Americas under the O&M Agreement are intended to assure that the Plant is fully, properly and regularly maintained, repaired and the components thereof replaced in order to preserve its long-term reliability, durability and efficiency.

IDE Americas is required to operate the Plant so as to produce up to 18,250 million gallons (“MG”) per year (approximately 56,000 AFY) (the “**Committed Annual Volume**”), subject to a daily maximum flow rate of 54 MG (163 acre-feet).

IDE Americas must operate, maintain and repair the Plant, including without limitation repair or replacement of components, but excluding any items of work for which the EPC Contractor is responsible under its warranty obligations under the Plant EPC Contract. If a dispute arises as to whether the EPC Contractor or IDE Americas is responsible for such repair or component replacement and the replacement is of an item provided by IDE Americas under the IDE Americas Subcontract, IDE Americas must, at the request of the Company, commence such repair or replacement pending resolution of the dispute. If the dispute is resolved in favor of IDE Americas, the Company will reimburse it for the costs of the repair or component replacement.

The Company and IDE Americas disagree as to responsibility for certain Product Water delivery shortfalls occurring primarily during the second and third quarters of 2017 principally as a result of an algal bloom described in “– Plant Operations”. IDE Americas has requested compensation for Product Water it believes should be deemed delivered under the O&M Agreement and the Company has reduced amounts of compensation otherwise payable to IDE Americas for certain fixed costs, energy adjustments and liquidated damages assessed to IDE Americas under the O&M Agreement related to what the Company views as unexcused delivery shortfalls. The Company and IDE Americas continue to discuss the issues, and no claim has been filed in court by either party. The Company believes its interpretation of the disputes under the O&M Agreement is correct and will defend itself vigorously in any formal dispute resolution proceeding that results from the disagreements with IDE Americas.

The Company has not paid any of the currently disputed amounts related to Product Water delivery shortfalls estimated at approximately \$7 million. IDE Americas has also suggested that if it is not successful in its property insurance claims related to the Train 5 damage and repairs described herein, it may seek additional compensation from the Company in excess of this \$7 million. These amounts are not included in reported O&M Costs to date or the Company’s 2017 audited financial statements, and the Company is not holding any special reserve amount or contingency in the event it is required to pay any of these disputed and potentially disputed amounts. The Company has existing reserves of approximately \$6,478,107 in the Permanent Account of the Working Capital Reserve Fund and \$12,107,958 in the Project Reserve Account of the Working Capital Reserve Fund, all of which are available to fund payments to IDE Americas as “O&M Costs” under the Collateral Trust Agreement. The Company believes these reserves are adequate to respond to any potential liability to IDE Americas. As described in “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Collateral Trust Agreement – Collateral Trust Agreement Funds and Accounts,” the Company has additional reserve amounts available to it for various purposes.

Compensation. The Company is obligated to make monthly payments to IDE Americas consisting of a fixed fee, a variable fee, a chemical fee, and any flow rate change payments and, if applicable, the Excess Rate. The monthly fixed fee is an amount equal to \$981,103.89, adjusted by increases in the consumer price index for the San Diego Metropolitan Statistical Area from July 2012, and is \$1,123,396.97 per month as of December 31, 2018. The fixed fee will be reduced proportionately for shortfalls in meeting IDE America’s Product Water delivery obligations. The fixed fee will also be reduced every two years to reflect 50% of any savings in labor costs from a base amount set forth in the O&M Agreement.

The variable fee consists of \$0.1425 per thousand gallons (“kgal”) of Product Water delivered, adjusted by increases in the consumer price index from July 1, 2012 (the adjusted fee was \$0.1632 as of December 31, 2018). The chemical fee consists of \$0.1758/kgal for Product Water delivered, adjusted by

increases in the Producer Price Index (industry: chemical mfg; product: chemical mfg; series ID: PCU325---325---) published by the Bureau of Labor Statistics from July 1, 2012. The adjusted fee was \$0.1970 as of December 31, 2018.

IDE Americas will receive an adjustment to its monthly fee to provide compensation for complying with the Water Authority's blended water requirements.

The O&M Agreement contains an energy adjustment, pursuant to which increases in energy costs resulting from energy consumption above a stipulated guaranteed amount are borne by IDE Americas. IDE Americas receives the benefit of savings resulting from energy consumption below the guaranteed amount as follows: (a) for the first 36 months of operation, IDE Americas receives 75% of the first 10% of any savings and 50% of any additional savings and (b) after 36 months of operation, IDE will receive 50% of all such savings. The Electricity Charges included in the Purchase Price under the Water Purchase Agreement are based on this guaranteed energy consumption amount.

For each flow rate change outside of the O&M Agreement's standard parameters, IDE Americas will receive a payment of \$450, \$900 or \$1,350 per event (each adjusted for increases in the consumer price index from the date on which the O&M Agreement is executed and set at \$487.01, \$974.02 and \$1,461.03 as of December 31, 2018), depending on the magnitude of the change in the Plant's operating mode. Flow rate changes occur only as a result of Water Authority demand orders.

If the Company expands or modifies the Plant or a change in law occurs, including the Intake System Modifications, the O&M Agreement will be amended to reflect the consequences thereof, which may include an equitable adjustment to the amounts payable to IDE Americas as a result of any increased capital or operational expenses.

Damages. In addition to the reduction in the fixed fee for Product Water shortfalls described above, IDE Americas is obligated to pay liquidated damages for shortfalls below 96% of the amount of Product Water it is required to deliver under the O&M Agreement. The level of such liquidated damages increases based on whether such shortfall occurs over a monthly, quarterly or semi-annual period. IDE Americas will also be subject to payment of liquidated damages (equal to 50% of the corresponding damages owed by the Company under the Water Purchase Agreement) for failure to deliver at least 90% of Product Water required during months in which the Water Authority has activated Stage 2 of its drought response plan ("**Drought Shortfall Payments**"). If IDE Americas delivers water that does not meet the Product Water quality standards in the O&M Agreement, the Company may elect either to deem such water not delivered or to deem the water delivered but impose liquidated damages equal to the Water Authority's then-current Melded M&I (Municipal and Industrial) Treatment Rate. Damages paid to date have pertained to quantity shortfalls, but not for failure to meet water quality standards or Drought Shortfall Payments.

Aggregate Liability of IDE Americas. IDE Americas' aggregate liability to the Company under the O&M Agreement is limited to:

- For Drought Shortfall Payments in any Contract Year: \$2 million (adjusted for changes in the consumer price index);
- for all other damages in any Contract Year: \$3.5 million (adjusted for changes in the consumer price index); and
- upon the Company's termination of the O&M Agreement for an event of default, \$10 million (adjusted for changes in the consumer price index).

This limitation of liability is exclusive of, and will not be reduced by, any sums recoverable under any insurance carried by or on behalf of Operator in accordance with the O&M Agreement.

Events of Default. Each of following failures will be an event of default and permit the Company to terminate the O&M Agreement:

- An exceedance of any one primary drinking water standard maximum contaminant level in 2 consecutive months, or 3 times in any 12-month period;
- Issuance by the CDDW of a “boil water” notice to water customers on the basis of the quality of Product Water delivered to the Company;
- In any two consecutive Contract Years, delivery of less than 85% of the required amount of Product Water; and
- In any Contract Year, delivery of less than 70% of the required amount of Product Water.

Other events of default and provisions of the O&M Agreement are described under “The O&M Agreement” in Appendix H – Summaries of Certain Project Contracts.

Force Majeure Events. IDE Americas is excused from performance due to events that affect its ability to perform its obligations under the O&M Agreement if such events are outside of the control of IDE Americas. IDE Americas is entitled to reimbursement for reasonable and documented increases in the cost of producing Product Water due to a force majeure event, and for the reasonable and documented costs of maintaining the Plant during a force majeure event that prevents the production of Product Water.

Performance Guaranty; O&M Performance Bond. The O&M Agreement requires IDE Americas to deliver to the Company, and maintain throughout the initial term, a minimum of \$10 million performance bond, adjusted for increases in the liability limitation of IDE Americas. If an event of default by IDE Americas occurs, and such event of default is not cured within three days after the Company delivers notice to IDE Americas, the Company may draw on such performance bond such amounts as may be necessary to cure the default by IDE Americas. IDE Americas will also provide and maintain a guaranty of its obligations from IDE.

See Appendix H – “Summary of Certain Project Contracts”.

Operation and Maintenance of the Plant

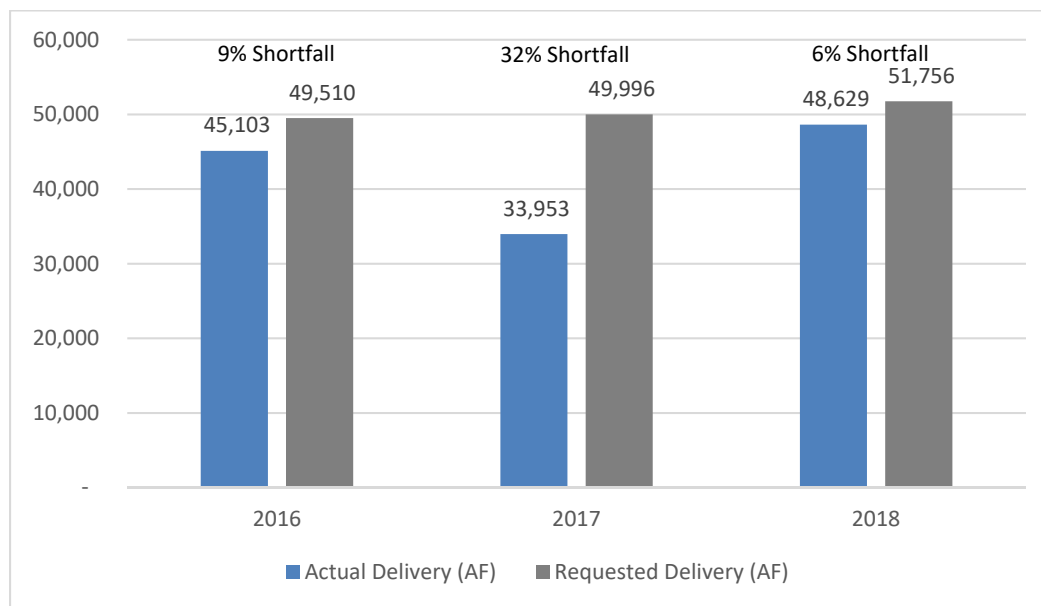
Plant Operations

The Company is obligated to operate and maintain the Plant and deliver Product Water to the Water Authority pursuant to the terms of the Water Purchase Agreement. Since the Commercial Operation Date the Plant has been operated on a continuous basis except for outages described herein. There can be no assurance that the Plant will not experience future outages.

The Company reports on Plant operations for certain purposes on a Contract Year basis from July 1 through June 30, while the Company’s fiscal year for audited financial statements is the calendar year. This section highlights Plant operational results through December 31, 2018. All amounts in the tables below are presented on a cash, not accrual, basis.

As shown in Table C below, Product Water deliveries for the first three calendar years of Plant operations met 91% of Water Authority requested deliveries for calendar year 2016; 68% of Water Authority requested deliveries for calendar year 2017, and 94% of Water Authority requested deliveries for calendar year 2018.

Table C
Calendar Years



Source: Poseidon Resources (Channelside) LP.

Warranty inspection and repairs and Plant improvements represented approximately 36% of the 2016 calendar year shortfall. This work is now complete (or is expected to be completed during the January 2019 scheduled shutdown).

In calendar year 2017, the largest shortfall was due to a mechanical coupling failure on the high-pressure line leading to Reverse Osmosis Train 5 in the Plant (one of 14 reverse osmosis trains in the Plant) that occurred on August 17, 2017. Train 5 has been isolated from the remainder of the Plant and has been under repair since the incident. The costs of the initial isolation of Train 5 (approximately \$2 million) were borne by IDE Americas and are the subject of a property insurance claim. Through December 31, 2018, the insurer has advanced approximately \$2.6 million toward this claim, and that amount was approved by the Independent Engineer and paid by the Company. As of December 31, 2018, permanent repair of Train 5 is expected to cost approximately an additional \$3.9 million. Procurement and repairs are expected to be completed by the first quarter of 2019. The permanent repairs of Train 5 remain the subject of a property insurance claim. This coupling failure and resulting Plant shutdown represented approximately 31% of the 2017 calendar year shortfall. Corrective action taken to prevent recurrence of this event included inspection, repair and replacement of all similar connections and adoption of a revised O&M protocol to capture the lessons learned.

Challenging source water conditions were responsible for approximately 23% of the calendar year 2017 shortfall. High storm runoff events and algae blooms in March and April 2017 resulted in the Plant being down for 22 days. The Plant was down for only three days due to challenging source water

conditions in 2018, notwithstanding high storm runoff events and algae blooms in that year as well. The improvement in Plant performance over the prior year is attributable to the Company and IDE Americas having taken proactive steps to improve treatment and monitoring capabilities to address future source water challenges.

Regulatory permit limitations imposed periodically through Spring 2018 and that represented approximately 13% of the 2018 calendar year shortfall, curtailed Plant operations even though the Plant was otherwise able to operate. The drinking water permit for the Plant was issued before the Plant commenced operation (as is required by applicable law). In the absence of actual operating data, the CDDW included conservative assumptions in establishing a reverse osmosis membrane integrity alarm that did not take into consideration seasonal changes in seawater temperature. As a result, elevated seawater temperatures in the summer months frequently triggered false alarms and Product Water meeting all water quality requirements had to be dumped to the ocean. With the availability of actual operating data, the CDDW recently approved a revised membrane integrity alarm protocol that eliminated this operating constraint.

SDG&E power outages were responsible for approximately 6% of the 2018 calendar year shortfall. The Company has been working with SDG&E to eliminate such events, and failing that, to provide as much notice to IDE Americas as possible to minimize the disruption to Plant operations.

A variety of other events arose during the first three years of operations of the Plant that led to shortfalls, none of which individually was material. Subsequent to the Commercial Operation Date, the Company has made Operating Period Shortfall Payments in the aggregate amount of \$3,624,665. These payments arose from Unscheduled Outages involving certain repairs and replacements at the Plant and service outages and tunnel cleanings at the Power Station, and the associated days needed to test the efficacy of the repairs and replacements, that resulted in reduced water deliveries.

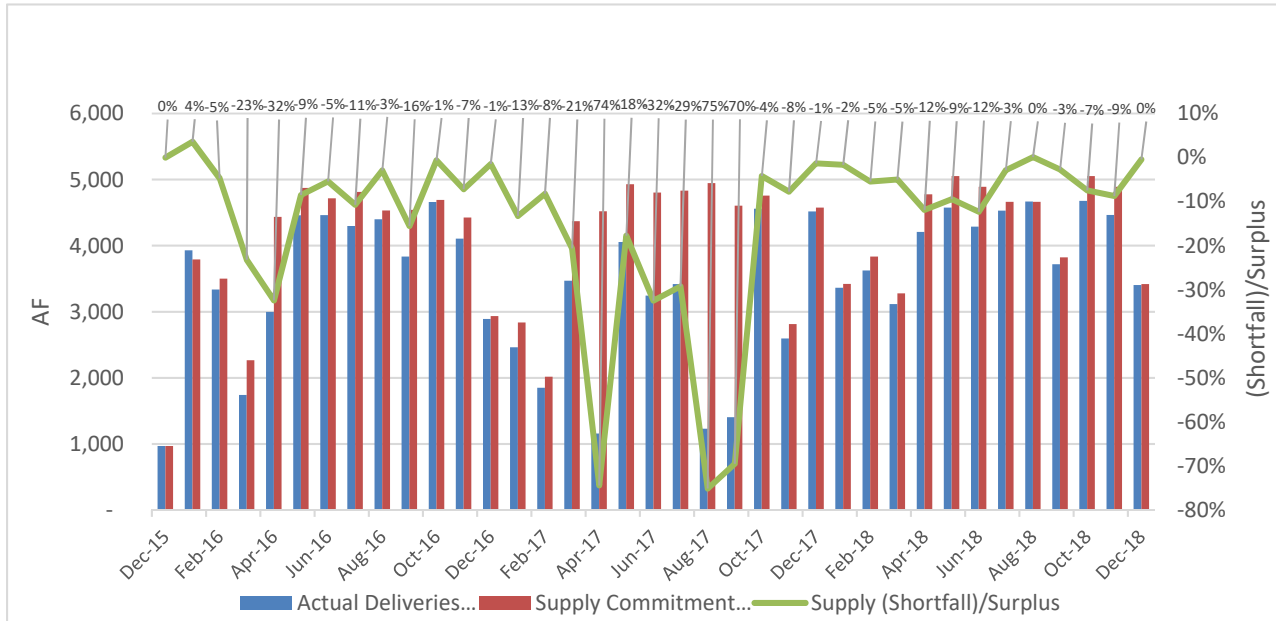
Shortfalls such as those the Company experienced in the early operations of the Plant are not unusual for large, complex water treatment facilities in the first few years of operation. The Company believes that it has taken appropriate steps to address these challenges and improve the resilience of Plant operations. As a result of these corrective actions, the Plant met 94% of the Water Authority demand in calendar 2018, even though 7% of the reverse osmosis capacity of the Plant is offline until the final repairs associated with the mechanical coupling failure on Train 5 are completed (which is expected to occur during the first quarter of 2019).

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Tables D and E below depict actual Product Water deliveries since the Commercial Operation Date, through December 31, 2018, in acre-feet and percentage of Adjusted Monthly Supply Commitment, respectively.

Table D

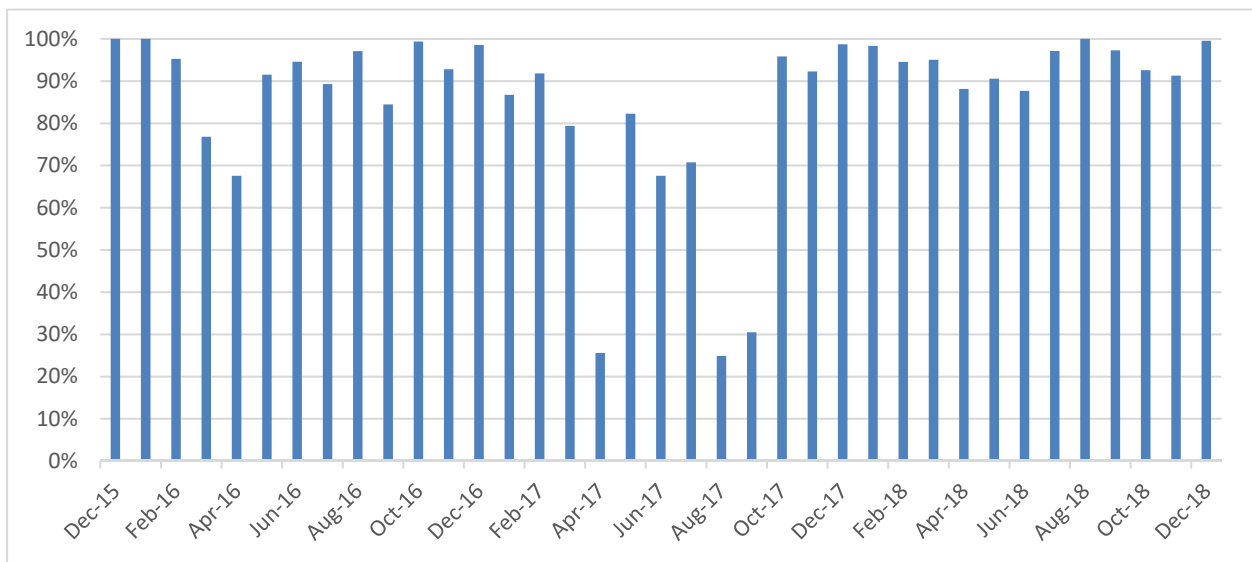
ACTUAL DELIVERIES VS. ADJUSTED MONTHLY SUPPLY COMMITMENT – ACRE-FEET



Source: Poseidon Resources (Channelside) LP.

Table E

ACTUAL DELIVERIES VS. ADJUSTED MONTHLY SUPPLY COMMITMENT – PERCENTAGE



Source: Poseidon Resources (Channelside) LP.

The following Selected Operating Information table depicts quarterly results on a calendar year basis starting January 1, 2016. It does not show results from the Commercial Operation Date (December 23, 2015) through December 31, 2015.

Selected Operating Information

	<u>Supply Commitment⁽¹⁾</u>	<u>Product Water Deliveries</u>	<u>Unscheduled Outages</u>	<u>Excused Shortfalls</u>	<u>Unexcused Shortfalls</u>	<u>Contracted Shortfall Payments⁽²⁾</u>	<u>Excused Supply Shortfall Unit Tracking Account⁽³⁾</u>
	<u>AF</u>	<u>AF</u>	<u>AF</u>	<u>AF</u>	<u>AF</u>	<u>\$</u>	<u>AF</u>
Q1 2016	9,557.9	9,002.5	198.7	278.0	214.4	0	0.0
Q2 2016	14,022.7	11,915.0	649.7	941.1	516.9	104,715	411.4
Q3 2016	13,881.6	12,527.9	804.2	549.5	0.0	113,114	411.4
Q4 2016	12,048.1	11,657.3	42.4	348.4	0.0	73,053	411.4
Q1 2017	9,222.1	7,779.5	409.4	1,033.2	0.0	173,209	411.4
Q2 2017	14,251.1	8,454.0	374.0	106.7	5,316.4	1,137,116	2,449.2
Q3 2017	14,378.5	6,050.9	1,630.0	5,824.0	873.6	1,404,451	2,449.2
Q4 2017	12,144.7	11,668.3	0.0	387.4	89.0	99,832	2,449.2
Q1 2018	10,530.1	10,100.6	0.0	429.5	0.0	88,902	2,449.2
Q2 2018	14,718.0	13,071.9	0.0	452.8	1,193.3	340,726	7,927.5
Q3 2018	13,147.5	12,914.4	0.0	188.9	49.6	50,419	7,927.5
Q4 2018	13,360.1	12,542.0	261.4	556.7	0.0	39,128	7,927.5

⁽¹⁾ Adjusted Monthly Supply Commitment

⁽²⁾ Reflects Operating Period Shortfall Payments and annual settlement adjustments (a year-end invoice reconciliation process conducted between the Company and the Water Authority) through the 2016-17 Contract Year. Operating Period Shortfall Payments are current through the end of the 2017-2018 Contract Year; although annual settlement adjustments for that Contract Year are still pending. Annual settlement adjustments do not include Annual True Up Payments.

⁽³⁾ This account is updated annually at the end of the Contract Year under the Water Purchase Agreement and does not change at other times during the year.

Source: Poseidon Resources (Channelside) LP.

As of December 31, 2018, the Plant has produced over 41 billion gallons of Product Water since it commenced operations. The Plant remains an important component of the Water Authority's supply diversification strategy. It is expected to continue to help meet long-term local water needs. The Company and the Water Authority believe that the Plant and their public-private partnership on the overall Project are successfully meeting their objectives.

All Operating Period Shortfall Payments and Annual True Up Payments must be paid by the Company before the Company can make distributions from the Distribution and Stabilization Fund. As discussed above, Contracted Shortfall Payments were made in connection with incidents that have been resolved (other than the Train 5 repair which is in progress) and are not expected to recur (other than algae blooms). In the case of potential future algae challenges, a robust system of early detection and treatment protocols has been installed at the Plant which is expected to mitigate the impact of algae conditions. In the spring of 2018, these systems proved effective in addressing increased algae in the source water. However, events may occur in the future that limit or reduce the Company's ability to produce Product Water at the Plant, and may result in the Company being required to pay Contracted Shortfall Payments in future Contract Years.

Operation and Maintenance of the Pipeline

The Water Authority operates and maintains the Pipeline as an integral part of its water system, at its own cost and, under its General Resolution, the cost thereof is payable prior to the payment of any other expenses, including debt service payments, of the Water Authority.

SUMMARY FINANCIAL INFORMATION

The following Company operating statement table has been provided by the Company. The Company has experienced net losses during the periods referenced below. The information for the fiscal years ended December 31, 2016 and December 31, 2017 is derived from the Company's audited financial statements. The information for the twelve months ended December 31, 2018 is derived from unaudited Company-prepared financial statements and, in the opinion of the Company, is prepared in accordance with Generally Accepted Accounting Principles ("GAAP") on a basis consistent with the Company's audited financial statements, subject to annual year-end adjustments and accruals. Since December 31, 2018, the Company has not incurred any material liability, direct or contingent, nor has there been any material adverse change in the financial position, results of operations or condition, financial or otherwise, of the Company. See Appendix B – Company Audited Financial Statements for Year Ended December 31, 2017, including the notes thereto which are an integral part thereof.

COMPANY OPERATING STATEMENT

Fiscal year ended December 31,

	2016	2017	2018*
Operating revenue	103,681,664	81,687,293	119,607,135
Operating expenses:			
Operation expenses	60,329,609	57,001,700	75,169,602
General and administrative expenses	139,722	194,760	175,657
Depreciation expense	20,981,352	20,931,581	20,912,714
Total operating expenses	81,450,683	78,128,041	96,257,973
Net operating income	22,230,981	3,559,252	23,349,162
Other income			
Investment income, net of capitalized	212,092	706,973	1,000,823
Income before interest expenses	22,443,073	4,266,225	24,349,985
Interest expense, net of capitalized:			
Interest on long-term debt and other	26,012,625	26,012,370	25,977,522
Interest on land restoration costs	147,750	158,667	170,843
Amortization of deferred financing costs	601,388	634,347	669,113
Total interest expense	26,761,763	26,805,384	26,817,478
Net loss	(4,318,690)	(22,539,159)	(2,467,493)

* Derived from unaudited Company-prepared financial statements.

Source: Poseidon Resources (Channelside) LP.

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Historical Debt Service Coverage Ratio

The following Historical Debt Service Coverage Ratio tables have been provided by the Company. The information included in the calculation of the Historical Debt Service Coverage Ratio tables set forth below is not prepared in accordance with GAAP, but is calculated in accordance with the terms of the Collateral Trust Agreement. In particular, the calculation of Net Cash Flow under the Collateral Trust Agreement is presented on a cash basis rather than an accrual basis. This means that such information does not include certain non-cash revenues and non-cash expenses normally reflected in financial statements prepared in accordance with GAAP and does not reconcile with the Company's audited and unaudited financial information included elsewhere in this Limited Offering Memorandum. Nonetheless, while such information may not be, and should not be relied upon as, a useful indicator of the general financial performance of the Company, the Company believes that this information is useful to investors in evaluating the operating performance of the Plant and the Company's compliance with the terms of the Collateral Trust Agreement as described herein.

	As of December 31, 2016	As of December 31, 2017	As of December 31, 2018
Net Cash Flow, plus Pipeline Installment Payments	\$46,332,885 10,160,750	\$48,589,775 7,237,998	\$54,897,776 9,456,977
(a) Total	<u>56,493,635</u>	<u>55,827,773</u>	<u>64,354,753</u>
Pipeline Bonds Debt Service	10,160,750	10,160,750	10,030,250
Plant Bonds Debt Service	26,517,250	26,517,250	26,517,250
(b) Total Debt Service	\$36,678,000	\$36,678,000	\$36,547,500
Debt Service Coverage Ratio (a)/(b)	1.54	1.52	1.76

Source: Poseidon Resources (Channelside) LP.

Historical semi-annual Debt Service Coverage Ratio calculations are :

Debt Service Coverage Ratio		
Date	12-month Historical	12-Month Forward
6/8/16	N/A	1.51x
12/30/16	1.54x	1.42x
6/9/17	1.28x	1.40x
12/29/17	1.52x	1.33x
6/29/18	1.86x	1.27x
12/31/18	1.76x	1.70x

Source: Poseidon Resources (Channelside) LP.

Funds Available for Distribution have been paid to the Company in the aggregate amount set forth in the following table.

DISTRIBUTIONS TO THE COMPANY

Date*	Amount
January 2017	\$12,872,327
January 2018	17,337,806
July 2018	8,540,148
<u>January 2019</u>	<u>\$6,610,742</u>
Total Distributions :	<u>\$45,361,023</u>

*at month end prior to distribution date.

Source: Poseidon Resources (Channelside) LP.

Company Projected Current Case Cash Flow Coverage

The Company’s projected revenues, operating and maintenance expenses and debt service, Actual and Scheduled Projected Pipeline Purchase Payments from the Water Authority Financing Agency, and projected debt service coverage under the Collateral Trust Agreement, based on the Commercial Operation Date and assuming annual Product Water demand and production of the minimum 48,000 AFY, are summarized below. Plant Revenues are derived from the Company’s Current Case Financial Model (“**Current Case**”), and are based on projected Water Purchase Payments and Annual Management Fee Payments and projected SDG&E refund payments under the Special Conditions Contract. Such information has not been prepared in accordance with GAAP. Actual future cash flow coverage will vary and the variances may be material.

The operating and maintenance expenses are based on the operating expenses assumed to be required to produce the minimum 48,000 AFY. Projected Actual Pipeline Installment Payments from the Water Authority Financing Agency are expected to equal the projected Scheduled Pipeline Installment Payments. Also see “PROJECT PARTICIPANTS – Poseidon Resources (Channelside) LP” and Appendix B – Company Audited Financial Statements for Year Ended December 31, 2017.

Cash flow coverage in the Current Case projections set forth below demonstrates debt service coverage consistently in excess of 1.35x in every year except in 2019 when the Company plans to fund certain Intake System Modification related expenditures using Plant Revenues prior to the expected financing of the Interim Intake Improvements in mid-2019. The assumptions for the Current Case projections vary from the financial projections set forth in the Limited Offering Memorandum for the Series 2012 Plant Bonds and the Series 2012 Pipeline Bonds dated December 21, 2012 (the “**Base Case Financial Projections**”) as a result of several subsequent developments, including: (1) the impact of increased electricity prices in 2018 and projected on a long-term basis (In 2018, for example, SDG&E tariffs are 23% higher than Base Case Financial Projections. Since the cost of electricity is passed through to the Water Authority, the negative impact on operating expenses is offset entirely by an increase in operating revenues); (2) the updated expected receipt schedule for the SDG&E Special Conditions Contract has included more deferred payments than initially projected; (3) reduced interest income on funds held in reserve accounts as a result of a lower interest rate environment than was projected at the time of issuance of the Series 2012 Pipeline Bonds; (4) higher than originally forecast administrative and trustee/rating agency amounts based on current fees and experience to date; and (5) real estate and business personal property taxes related to construction that were not included in the original projections and which have not been passed through to the Water Authority under the Water Purchase Agreement. Remaining unpaid taxes are assumed to be paid in the Current Case using the rates set by the State Board

of Equalization. The Company is actively appealing these taxes by challenging property tax valuations and expects this to be a multi-year effort. In addition, the Base Case Financial Projections did not contemplate the impact on operations of (i) an algae bloom in the spring of 2017 (resulting in a dispute with IDE Americas regarding financial responsibility for certain resulting production shortfalls), (ii) a coupling failure in August 2017 on Train 5 (described above) resulting in a temporary plant shutdown and continued isolation of that train (both of which are subject to reimbursement from business interruption insurance) and (iii) other production shortfalls described above. These unrelated events triggered Contracted Shortfall Payment obligations and Annual True Up Payments which were not assumed in the Base Case Financial Projections.

The Current Case projections set forth in the following table, as of December 2018, estimate issuing \$32.9 million of debt in July 2019 and an additional \$44.3 million in January 2023, assuming an 82%/18% debt/equity capital structure consistent with the financing structure at the time of issuance of the Series 2012 Plant Bonds, to finance the Intake System Modifications described under “THE PROJECT – Intake System Modifications” following closure of the Power Station. The Base Case Financial Projections assumed \$33 million of debt largely due to the Permanent Pump Shutdown. Also see “PROJECT PARTICIPANTS – Poseidon Resources (Channelside) LP” and Appendix B – Company Audited Financial Statements for Year Ended December 31, 2017. This is the Company’s current reasonable estimate used to generate the projections, however the final financing of the Intake System Modifications may require a materially higher amount of debt and operating costs. The Company believes that its assumptions upon which such projections are based are reasonable.

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December 2018 Projected Cash Flow Coverage Company Based Case

Company Base Case - 48,000 Acre Feet per contracted Year demanded / 48,000 Acre Feet per contracted Year produced

(dollars in thousands)

Year (June 30)	Actual Water Produced (Acre Feet)	Revenues (A)	Project O&M (B)	Net Cash Flow (A-B=C)	Pipeline Installation Payments (D)	Sum of C & D (C+D=E)	Plant Bonds Projected Debt Service (F)	Expected Intake System Debt Service (G)	Scheduled Pipeline Installment Payments for Debt Service (H)	Sum of F, G and H (F+G+H=I)	Debt Service Coverage Ratio (E / I)
2019	48,149	116,222	77,971	38,251	9,717	47,968	26,517	-	10,030	36,548	1.31
2020	48,000	135,682	77,760	57,922	10,475	68,398	28,172	2,391	10,475	41,039	1.67
2021	48,000	125,647	74,858	50,789	10,943	61,732	28,875	2,339	10,943	42,156	1.46
2022	48,000	128,215	71,854	56,361	11,221	67,582	29,598	2,287	11,221	43,105	1.57
2023	48,000	135,710	72,574	63,136	11,503	74,639	30,338	4,137	11,503	45,978	1.62
2024	48,000	137,976	80,930	57,047	11,793	68,840	31,094	5,920	11,793	48,806	1.41
2025	48,000	146,297	76,905	69,392	12,094	81,486	31,871	5,778	12,094	49,743	1.64
2026	48,000	148,373	78,636	69,737	12,396	82,133	32,667	5,636	12,396	50,698	1.62
2027	48,000	149,779	87,222	62,557	12,711	75,268	33,487	5,494	12,711	51,692	1.46
2028	48,000	153,050	82,149	70,902	12,193	83,095	34,323	5,352	12,193	51,868	1.60
2029	48,000	156,462	83,865	72,597	13,404	86,000	35,181	5,211	13,404	53,795	1.60
2030	48,000	159,958	92,898	67,060	13,736	80,796	36,062	5,069	13,736	54,866	1.47
2031	48,000	163,527	87,336	76,192	14,081	90,273	36,961	4,927	14,081	55,969	1.61
2032	48,000	167,207	89,073	78,134	14,437	92,571	37,888	4,785	14,437	57,111	1.62
2033	48,000	170,970	98,815	72,155	14,802	86,957	38,835	4,643	14,802	58,280	1.49
2034	48,000	174,835	92,955	81,880	15,174	97,053	39,804	4,502	15,174	59,479	1.63
2035	48,000	178,817	94,969	83,848	15,555	99,402	40,797	4,360	15,555	60,712	1.64
2036	48,000	182,915	105,452	77,463	15,944	93,406	41,817	4,218	15,944	61,979	1.51
2037	48,000	187,097	99,157	87,940	16,348	104,288	42,863	4,076	16,348	63,287	1.65
2038	48,000	191,394	101,358	90,036	15,169	105,205	43,939	3,935	15,169	63,042	1.67
2039	48,000	195,798	112,665	83,133	17,255	100,388	45,037	3,793	17,255	66,084	1.52
2040	48,000	200,319	105,901	94,418	17,689	112,107	46,160	3,651	17,689	67,500	1.66
2041	48,000	204,967	108,255	96,713	18,127	114,840	47,317	3,509	18,127	68,953	1.67
2042	48,000	209,751	120,433	89,318	18,582	107,900	48,498	3,367	18,582	70,447	1.53
2043	48,000	214,644	113,166	101,478	19,050	120,528	49,711	3,226	19,050	71,986	1.67
2044	48,000	219,650	115,750	103,900	19,522	123,422	50,951	3,084	19,522	73,557	1.68
2045	48,000	224,840	128,664	96,176	20,011	116,187	52,224	2,942	20,011	75,177	1.55
2046	25,400	167,902	69,663	98,239	8,021	106,260	20,817	0	8,021	28,838	3.68

Updates:

Below is a description of material updated information included in the Current Case Financial Projections since the Financial Projections most recently delivered under Section 5.4(a) of the Collateral Trust Agreement.

- 1 Includes actual Revenue collected through December 2018
- 2 Includes actual O&M Costs paid through December 2018 (which includes first payment of \$584k related to new pumps that are part of the Pump Relocation Project Project)
- 3 Updated November 2018 performance.
- 4 Updated Other O&M Costs.
- 5 Revised 2019 expenses related to Stand-alone:
Inclusion of \$2.8M related to development expenses.

Phasing of new pump payments and its impact on new intake expense reimbursement at financing close.

Source: Poseidon Resources (Channelside) LP.

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INVESTMENT RISKS

An investment in the Series 2019 Pipeline Bonds involves risks, and prospective purchasers of the Series 2019 Pipeline Bonds should read this Limited Offering Memorandum, including the Appendices, carefully. Before purchasing the Series 2019 Pipeline Bonds, a prospective investor should consider, among other things, the following factors, which factors are not a complete enumeration of all risks associated with an investment in the Series 2019 Pipeline Bonds.

Inaccuracy of Financial Forecasts; Forward-Looking Statements

The Company expects that Plant Revenues will continue to be sufficient to support its obligations to make Contracted Shortfall Payments when due and to pay the other amounts to be paid or distributed under the Collateral Trust Agreement or otherwise necessary to operate the Plant until the final maturity of the Series 2019 Pipeline Bonds. This expectation is based upon financial forecasts and projections that are based on many factors, including estimates of the cost of the Intake System Modifications; operating expenses, including electricity costs; state and federal laws, any or all of which may change from time to time; assumptions regarding the rate of return on moneys to be invested in various accounts under the Collateral Trust Agreement; the occurrence of future events, conditions and Plant production performance. Furthermore, future events, over many of which the Company has no control, may adversely affect Plant Revenues. Actual results will differ from such forecasts and projections because circumstances and events will not occur as projected and some of those differences may be material. If Plant Revenues or O&M Costs (including without limitation disputed costs with IDE Americas) vary substantially from those projected, the Company may be unable to make Contracted Shortfall Payments when due.

The financial forecasts and projections included in Appendix B – Company Audited Financial Statements for Year Ended December 31, 2017, or elsewhere in this Limited Offering Memorandum contain statements relating to future results that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. When used in this Limited Offering Memorandum, the words “anticipate,” “estimate,” “intend,” “expect,” “assume” and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Inevitably, some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and actual results and those differences could be material.

Limited Obligations of the Issuer

The Series 2019 Pipeline Bonds are limited obligations of the Issuer, payable solely from the Pipeline Trust Estate, including the Pipeline Loan Repayments, Contracted Shortfall Payments and, in certain circumstances, the Collateral. The Series 2019 Pipeline Bonds do not constitute general obligation indebtedness of the Issuer, the Water Authority Financing Agency, the Water Authority or any other entity. Neither the general credit nor the taxing power of the State of California or any political subdivision thereof or any local agency or other entity is pledged to the payment of the Series 2019 Pipeline Bonds, redemption premium, if any, and the interest thereon. The obligation to pay the principal, redemption premium, if any, and interest on the Series 2019 Pipeline Bonds does not constitute a pledge, charge, lien or encumbrance upon any of the Issuer’s, Water Authority Financing Agency’s or Water Authority’s property or the income, receipts or revenues on such property, except for amounts constituting the Pipeline Trust Estate. The Issuer has no taxing power.

Payments may not be received by the Issuer in amounts sufficient to pay principal of, redemption premium, if any, and interest on the Series 2019 Pipeline Bonds. Among other matters, water supply and demand, general and Southern California economic conditions and changes in law and government regulations could adversely affect the payments that the Issuer receives. Further, the amount of future payments that the Issuer receives is subject to, among other things, the ability of the Water Authority to provide water to its member agencies and to establish, maintain and collect rates and charges to pay for operation and maintenance of the Project and debt service, and the ability of the Company to make Contracted Shortfall Payments.

As with many infrastructure projects of the size and complexity of the Plant and the Pipeline, operations could be affected by many factors, including breakdown or failure of equipment or processes, performance below expected levels of production or availability, failure to operate to design specifications and in accordance with then-applicable permit requirements, labor disputes, changes in law, inability to obtain governmental approvals to adjust to the circumstances described in this paragraph, safety and security issues, source water quality issues, other force majeure events and other events described under “INVESTMENT RISKS” and in this Limited Offering Memorandum, generally. Some, but not all of these events can and may be covered by general liability, business interruption and other insurance covering Plant and Pipeline operations, from time to time. Moreover, as described in “INVESTMENT RISKS” and in this Limited Offering Memorandum, mitigation of some of the above-describe operating risks are addressed in the transaction documents and agreements described herein; however, not all operating risks may be known or adequately accounted for. As such, in some cases, the interruption of Plant or Pipeline operations may adversely impact the amount or timing of Pipeline Loan Repayments, Contracted Shortfall Payments and, in certain circumstances, undermine the value of the Collateral. If any such events occur, such event could cause the Company to have insufficient resources to meet its financial obligations, including the payments of Contracted Shortfall Payments, while the Water Authority may be excused from its obligations to pay debt service related to the Series 2019 Pipeline Bonds, which may, in turn adversely affect the Issuer’s ability to make timely payments of the principal of, or interest or premium, if any, on the Series 2019 Pipeline Bonds.

Ability of the Company to Deliver Product Water and Make Contracted Shortfall Payments

The obligation of the Water Authority Financing Agency to make Pipeline Loan Repayments and the obligation of the Water Authority to make Installment Sale Payments will be reduced by the amount of Contracted Shortfall Payments payable by the Company, in each case, whether or not paid. The Company is a single-purpose entity with no significant assets other than its interest in the Plant and the Water Purchase Agreement. Accordingly, the Company’s ability to make Contracted Shortfall Payments will depend solely on its ability to produce and sell a sufficient quantity and quality of Product Water to meet its obligations under the Water Purchase Agreement and to control O&M Costs. No present or future members of the Company, or the officers or directors of such members, has any personal liability for the operation of the Plant, the construction of the Intake System Modifications or the payment of the Contracted Shortfall Payments, and the Bondholders must look solely to the property of the Company, including the property subject to the Collateral Documents, in satisfaction of the Company’s obligation to make Contracted Shortfall Payments, and may not seek or obtain any deficiency or personal judgment against the present or future members of the Company, or the officers and directors of such members, except such judgment or decree as may be necessary to foreclose or bar their interests in the property of Company available to satisfy the obligation of the Company to pay Contracted Shortfall Payments.

The Company believes that it has adequately estimated and budgeted for necessary reserves, including the costs of compliance with the requirements of the GHG Plan and the MLMP and to undertake and complete the Intake System Modifications. The Company is required to set aside funds in various reserve accounts for the estimated costs to comply with certain of these requirements. However,

there can be no assurance that the Company's activities to comply with such requirements or the costs of such compliance will not exceed the Company's expectations or the amounts budgeted for such activities, or that any such increased efforts or costs will not affect the operations of the Plant or otherwise materially and adversely affect the Company and its ability to deliver Product Water in accordance with the Water Purchase Agreement and/or to pay Contracted Shortfall Payments.

Obligation of the Water Authority to Make Installment Sale Payments is Unsecured and Subordinated

The Water Authority's obligation to make Installment Sale Payments is unsecured and subordinated to payment of its other obligations under the General Resolution; however, in the Installment Sale and Assignment Agreement, the Water Authority agrees to comply with the covenants made by the Water Authority in the General Resolution for the benefit of the holders of the Authority Senior Lien Obligations and the Authority Subordinate Lien Obligations, including its rate covenant. The Installment Sale Payments are payable after payments in respect of the Water Authority's secured debt obligations and its other payment obligations.

Inadequate Funds for Payment of Debt Service

Debt service on the Series 2019 Pipeline Bonds will be paid from Pipeline Loan Repayments made by the Water Authority Financing Agency under the Pipeline Loan Agreement and Contracted Shortfall Payments made by the Company, when required, received by the Pipeline Trustee and deposited into the Pipeline Revenue Fund. The obligations of the Water Authority Financing Agency to make payments under the Pipeline Loan Agreement are limited obligations payable solely from payments made by the Water Authority under the Installment Sale and Assignment Agreement. If the Water Authority does not make the required payments under the Installment Sale and Assignment Agreement, the Water Authority Financing Agency would not have the funds sufficient to make the required payments under the Pipeline Loan Agreement. There is no guarantee that sufficient amounts will be available to pay debt service on the Series 2019 Pipeline Bonds. However, the Water Authority has covenanted in the Installment Sale and Assignment Agreement to comply with the covenants it has made in its General Resolution for the benefit of the holders of the Water Authority's secured debt, including its rate covenant.

Third-Party Contract Risk Generally

The viability of the Plant, the Water Authority's ability to make payments in respect of the Series 2019 Pipeline Bonds and the Company's ability to make Contracted Shortfall Payments depend highly on the performance by third parties (principally, IDE Americas under the O&M Agreement and Cabrillo with respect to its obligations under the Ground Lease) of their obligations under the Project Contracts. If the parties to the Project Contracts do not perform their obligations or are excused from performing their obligations because of nonperformance by the Company or due to force majeure events, it may not be possible to acquire alternate goods or services to cover such nonperformance on substantially equivalent terms and conditions (if at all) and the Company's ability to make Contracted Shortfall Payments may be adversely affected.

This Limited Offering Memorandum includes limited or no financial or operational information about the counterparties to the Project Contracts, other than the information included herein with respect to the Water Authority. See Appendix C – Water Authority Information and “PROJECT PARTICIPANTS—San Diego County Water Authority”. As a result, in making an investment decision with respect to the Series 2019 Pipeline Bonds, a purchaser can have no assurance, based on the information contained herein, that any third party or its guarantor, if any, will have the capability to meet

its financial obligations (including the payment of any liquidated or other damages) under the Project Contracts to which it is a party. Moreover, there can be no assurance that any such damages will be sufficient to compensate the Company for any shortfall in Plant Revenues or increase in costs attributable to the default in respect to which such damages or other payments are being paid.

Adequacy of Insurance

There can be no assurance that the amounts for which the Project is insured or which the Company or the Water Authority receive under their respective insurance coverage or the timeliness of receipt of such proceeds, will cover all unanticipated losses and, in particular, Contracted Shortfall Payments and/or debt service on the Series 2019 Pipeline Bonds, or repairs to the Plant or the Pipeline in the event of a casualty loss or discovery of a latent defect that is not under warranty. In addition, there can be no assurance that all required or desirable insurance will continue to be available on commercially reasonable terms.

Remedies on Default

The Plant is not practically suited to alternative uses. As a result, the remedies available to the Collateral Agent upon the occurrence of a Plant Financing Event of Default may be limited and the realization of proceeds from the sale or leasing of the Plant may be adversely affected by limitations on its use. The value of the proceeds upon a foreclosure of the Plant cannot be predicted but can be assumed to be limited. To the extent that the proceeds of such foreclosure were insufficient to make all payments in respect of the Plant Senior Debt, the Bondholders would be unsecured creditors of the Company, which will have no business other than the operation of the Plant.

The Collateral Agent is a party to, or has received an assignment of, the Project Contracts. In the event of a default by the Company, the Collateral Agent may attempt to enforce the contractual obligations of third parties under the Project Contracts to the Company. If the Company were to declare bankruptcy, such third parties might attempt to cancel their agreements with the Company; in that event, the Collateral Agent may attempt to cause such third parties to enter into similar contracts directly with the Collateral Agent. There can be no assurance that the Collateral Agent would be successful or that such proceedings would not result in substantial additional costs related to the continued operation of the Plant and/or delays to the completion of the Intake System Modifications. The various legal opinions to be delivered concurrently with the delivery of the Series 2019 Pipeline Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, and by general principles of equity.

Additionally, the outstanding principal amount of the Series 2019 Pipeline Bonds will not constitute a majority of the Outstanding Senior Debt. Therefore, under the Collateral Trust Agreement, the Pipeline Trustee as a practical matter may be unable to exercise all rights that otherwise would be available to the Pipeline Trustee upon an event of default under the Pipeline Indenture.

See also “—Termination of the Water Purchase Agreement”.

Dependence on Water Authority

The Water Authority is the Company’s only customer and payments under the Water Purchase Agreement will constitute all of the Company’s operating Plant Revenues. If the Water Purchase Agreement is terminated as a result of a Company default or for any other reason, and the Company is unable to sell Product Water to another water purchaser, it would be unlikely that the Plant would be able

to generate Plant Revenues sufficient to make Contracted Shortfall Payments. See Appendix G – Summary of the Water Purchase Agreement.

Limitation on Increases in Water Purchase Price

The Company is entitled to increases in the Purchase Price as compensation for increased costs due to Uninsurable Force Majeure Events, Change in Law Events and Other Uncontrollable Circumstances as those terms are defined in the Water Purchase Agreement. The amount of such increases is limited to 30% of the Purchase Price over the term of the Water Purchase Agreement, and 10% of the Purchase Price in any Contract Year. See “PROJECT OPERATION — Water Purchase Agreement — Limitations on Increases in the Purchase Price Due to Uncontrollable Circumstances”. If the Company is not fully compensated for such increased costs due to such limits, this could negatively impact the Company’s cash flow and adversely affect the Company’s ability to perform its obligations under the Water Purchase Agreement.

Termination of the Water Purchase Agreement

The Water Authority may terminate the Water Purchase Agreement prior to the end of its term under certain circumstances, including (a) the occurrence of an event of default of the Company, (b) in the event the Company is unable to finance the costs resulting from Uncontrollable Circumstances and (c) if the Ground Lease is terminated on the account of a taking of the Plant Site by condemnation or eminent domain. Upon a termination for Company default or as a result of an inability to finance the costs described above, the Water Authority has the right to purchase the Plant for a price that includes the outstanding principal of and accrued interest on the 2012 Plant Bonds. See “PROJECT OPERATION — Water Purchase Agreement — Purchase of the Plant”. In addition, upon a default by the Water Authority under the Water Purchase Agreement, the Company may terminate the Water Purchase Agreement. The Water Authority has no obligation to purchase the Plant or make any payment in respect of the Plant Senior Debt on the occurrence of any of these termination events.

Upon a termination of the Water Purchase Agreement, a new owner, or a new operator appointed by the Collateral Agent could seek to sell Product Water to parties other than the Water Authority. In addition to the issues related to continued operation discussed above under “ -- Remedies on Default,” sale of Product Water to third parties could not be accomplished without the use of the Pipeline and, in most cases, the use of the Water Authority distribution system.

Sections 1810-1814 of the California Water Code preclude public agency owners of water conveyance facilities, such as the Water Authority, from denying use of unused capacity in such facilities for transfer of water upon terms and conditions specified by those sections and payment of fair compensation for such use. The statute establishes priority for any person or public agency with a long-term water service contract the right to receive water from the water conveyance facility owner in the use of available capacity. Unused capacity means space that is available within the operational limits of the conveyance system that the system owner is not using during the period of the proposed transfer and that is sufficient to convey the quantity of transfer water, up to 70% of the unused capacity. The Water Authority is obliged by its governing statute to provide adequate supplies of water to meet the increasing and expanding needs of its member public agencies, and uses its supply arrangements, including the Water Purchase Agreement and its conveyance facilities, to meet those needs.

As a result, the ability of a successor owner or operator to operate the Plant at a profit requires either an agreement with the Water Authority for purchase of the water or for the use of the Water Authority’s conveyance system. There can be no assurances that the Company after a Water Authority

default, or a subsequent owner or operator after an Authority termination, will be able to profitably operate the Plant and gain access to sufficient capacity within the Water Authority's conveyance system.

Force Majeure; Change in Law

Under the O&M Agreement, IDE Americas will receive any additional costs of producing Product Water during a force majeure event or, if unable to produce Product Water, will continue to receive its fixed fee during the pendency of the event.

The Company will be entitled to an increase in price under the Water Purchase Agreement to reflect the costs incurred by the Company to comply with a Change in Law Event, an Uninsurable Force Majeure Event occurring within the United States, delay by a contractor or subcontractor to furnish services (if the delay would be deemed an Uncontrollable Circumstance entitling the Company to compensation relief if it affected the Company directly); an extraordinary Flow Rate change or curtailment demanded by the Water Authority, or a raw seawater contamination event described in the Water Purchase Agreement.

In addition, the Water Authority will not be obligated to pay for Product Water that it was unable to accept as a result of an emergency condition within the Water Authority Distribution System Force Majeure Event consisting of a planned or unplanned shutdown of the pipelines designated as "Pipeline 3" and "Pipeline 4" of the Water Authority's Second Aqueduct. The occurrence of such emergency conditions has been rare with only a few occurrences within the past ten years.

Permanent Pump Shutdown

As described in "THE PROJECT – Intake System Modifications," the Power Station used a cooling system which pumped seawater from the Lagoon, however Permanent Pump Shutdown has occurred, and the Company is engaged in the process of planning for Stand-Alone Operations of the Plant's intake system. Additional intake and discharge system improvements will be required. These improvements are required in order to comply with the Ocean Plan Amendment, to address effects associated with the construction and operation of seawater desalination facilities. There can be no assurance that any permits and permit amendments that are necessary in order to complete the Intake System Modifications will be granted or, if granted, will not contain conditions materially more burdensome than the conditions of the existing permits. Further, there can be no assurance that the contemplated debt and equity financing arrangements therefor will be effectuated, or that the Intake System Modifications will be undertaken or completed, or that even if undertaken and completed, will comply with the requirements set forth in the Ocean Plan Amendment. Accordingly, it is possible that the Plant will not be able to achieve Stand-Alone Operations and, accordingly, that it will not be able to generate the Product Water required to be delivered pursuant to the Water Purchase Agreement.

A reserve fund for the costs of relocating the Plant's connections has been established under the Collateral Trust Agreement and funded with a Reserve Surety in the amount of \$35.6 million as required pursuant to the Collateral Trust Agreement upon receipt of a Shutdown Notice of Permanent Pump Shutdown from Cabrillo. The amount of the Reserve Surety reflects the Company's current estimate of the costs for the improvements required as a result of the Permanent Pump Shutdown. While drawing down the Reserve Surety would permit construction of the Interim Intake Modifications, the Company intends to finance these costs separately as discussed above. The Company also expects to incur additional costs for compliance with the Ocean Plan Amendment. See "THE PROJECT – Intake System Modifications" for additional information regarding the Company's financing plans for the costs of the Interim Intake Improvements and Ocean Plan Amendment compliance. There can be no assurances that such financing will be obtained, or that the amounts obtained will be sufficient to pay such costs in excess

of the Reserve Surety. There also can be no assurance that the capital and operating costs related to the Permanent Pump Shutdown will be less than the caps on such costs that are allowable under the Water Purchase Agreement as increases to the price of Product Water.

Climate Change Issues

General Concerns. Many of the potential risks to the operation of the Plant that are described herein are exacerbated by global warming. The Intergovernmental Panel on Climate Change currently estimates that worldwide surface temperatures have increased by one degree Celsius since the preindustrial period and is highly confident that the current levels of emissions of carbon dioxide and other greenhouse gasses, if they remain unchecked, will result in warming in excess of two degrees Celsius. The effects of continued warming are expected with scientific confidence to include (i) continued ocean warming at a higher rate than general surface warming, (ii) increasing intensity and frequency of drought such that dry land regions are at high risk, (iii) increase in intense storms and heavy rains and (iv) rising sea levels.

The U.S. Global Change Research Act of 1990 mandates that the U.S. Global Change Research Program (“USGCRP”) submit a National Climate Assessment to Congress and the President every four years on the effects of global change on the environment, water resources, human health and welfare and numerous interrelated topics. USGCRP consists of twelve federal agencies, the Smithsonian Institution and others and is administered by the Department of Commerce/National Oceanic and Atmospheric Administration. The most recent such report, the Fourth National Climate Assessment¹, states that widespread U.S. wildfires in 2018 are driving up costs associated with worsening air quality, loss of homes and infrastructure, impairing outdoor quality of life and tourist economies, and so on, with overlapping and complex consequences. Its key messages pertaining to water describe risks associated with water quality and quantity, deteriorating water infrastructure and gaps between research and implementation in water management strategies. It is not possible to predict the timing, scope and/or impact on the ability of the Plant to continue operating throughout the term of the Water Purchase Agreement, the ability of the parties thereto to perform their obligations thereunder or the demand for and availability of water, due to the impacts of climate change and/or compound extreme factors.

The social and economic changes required to avoid these effects are substantially greater than are currently being undertaken worldwide. The current expectation is that conditions with the potential to impair the operation of the Plant, including warmer intake temperatures, algal blooms, periodic flooding and regional wildfires, will continue to increase.

Risks of Sea Level Rise and Potential Flooding. Climate change may pose a risk to the operations of the Plant. Numerous scientific studies conclude that sea levels have risen, and will continue to rise, due to the increasing temperature of the oceans causing thermal expansion and growing ocean volume due to the melting of glaciers and ice caps into the ocean. If sea levels rise, the Plant may face the risk of flooding as a result of its close proximity to the Pacific Ocean. The extent of such risk, however, is difficult to quantify. The scientific studies that forecast the amount and timing of sea level rise and its adverse impacts, including the increased risk of flooding in coastal regions such as the location of the Plant, are based upon assumptions made in such studies (as to which the Water Authority can make no representation), and actual impacts may vary materially. Accordingly, the Water Authority is unable to

¹ Full report available online at nca2018.globalchange.gov. USGCRP, 2018: *Impacts, Risks and Adaptation in the United States: Fourth National Climate Assessment, Volume II: Report-in-Brief* [Reidmiller, et al., (eds.)]. U.S. Global Change Research Program, Washington, D.C., USA, 186 pp. The cited materials are not incorporated herein by this reference.

predict whether sea level rise, or other potential adverse consequences of climate change (e.g., the occurrence of extreme weather events, such as coastal storm surges, drought, wildfires, floods and heatwaves; and the reduction in the Sierra Nevada snowmelt, a major source of water in California), will occur while the Series 2019 Pipeline Bonds are outstanding. In particular, the Water Authority cannot predict the timing or precise magnitude of adverse effects, including, without limitation, material adverse impacts on the operation of the Plant, or the business operations or financial condition of the Water Authority. The effects, however, could be material.

Regulatory Risks. Beyond the direct adverse material impacts of global climate change, existing, proposed, and possible laws and regulations aimed at addressing the effects of climate change could have a material adverse effect on the Plant and the Water Authority. A number of such laws and regulations have been adopted by states, including California, and have been proposed on the federal level. The USEPA has taken steps toward the regulation of GHG emissions under existing federal law. On December 14, 2009, the USEPA made an “endangerment and cause or contribute finding” under the Clean Air Act, and determined that six identified GHGs – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – are pollutants that cause global warming, and that global warming endangers public health and welfare. On a state level, California passed Assembly Bill 32, the “California Global Warming Solutions Act of 2006” which requires the statewide level of GHG to be reduced to 1990 levels by 2020. In 2015, the Governor issued Executive Order B-30-15, which calls for a statewide reduction of GHGs to 40 percent below 1990 levels by 2030. The Water Authority is unable to predict what additional laws and regulations with respect to GHG emissions or other environmental issues (including, without limitation, air, water, hazardous substances and waste regulations) will be adopted on the state or federal level, or what effects such laws and regulations may have on the Plant or the Water Authority, however such effects could be material.

See “– Prolonged Drought Conditions”, “– Water Supply Shortages”, “– Water Quality Issues”, and “– Factors Affecting Demand for Water” and Appendix C – Water Authority Information.

Prolonged Drought Conditions

The State in recent years has been facing water shortfalls and reduced snowpack. In light of increased precipitation levels during the 2016-17 winter season, on April 7, 2017 the Governor issued an executive order which rescinded several prior executive orders pertaining to water use in California and terminated the drought state of emergency in all California counties except Fresno, Kings, Tulare and Tuolumne. The order directed the SWRCB to continue development of permanent prohibitions on wasteful water use and requirements for reporting water use by urban water agencies. The order further directed SWRCB to rescind those portions of its existing emergency regulations that require a water supply stress test or mandatory conservation standard for urban water agencies, however numerous components of the Governor’s May 2016 executive order were retained. That executive order established a new water use efficiency framework for California and remains in effect except as specified in the April 7, 2017 executive order. The May 2016 order relating to then existing drought conditions bolstered the State’s drought resilience and preparedness by establishing longer-term water conservation measures that include permanent monthly water use reporting, new urban water use targets, reduction of system leaks and elimination of clearly wasteful practices, strengthening urban drought contingency plans and improving agricultural water management and drought plans.

The Water Authority cannot predict when or how long drought conditions will recur and persist, what effect drought conditions may have on property values, to what extent water reduction requirements may affect property owners or to what extent a drought could cause disruptions to economic activity within the Water Authority’s service area. See Appendix C – Water Authority Information.

Water Supply Shortages

The Water Authority's principal sources of supply are purchased. While the Water Authority has taken steps to diversify its portfolio of supplies so that it is not dependent on any single source for the majority of its water, and plans and manages its supplies to account for normal occurrences of drought conditions, recent drought conditions have placed additional limitations on the Water Authority's ability to obtain and deliver water supplies to its member agencies. The Water Authority may obtain supplies to meet demands during water supply shortages by, among other things, drawing on its stored water supplies and pursuing additional water transfers. No assurances can be given that water supply will continue at historic levels.

Factors Affecting Demand for Water

The Water Authority's primary purpose is to provide a safe and reliable supply of water to its member agencies serving the San Diego region. The demand for such water is dependent on water use at the retail consumer level, the amount of locally supplied water, and the amount of rainfall. High rainfall during late 2016 and early 2017 reduced the level of water sales. Consumer demand and locally supplied water vary from year to year, resulting in variability in water sales. See also "– Climate Change Issues".

Retail level water use is affected by economic conditions. Economic recession and its associated impacts such as job losses, income losses, and housing foreclosures or vacancies affect aggregate levels of water use and the Water Authority's water sales.

A significant portion of the Water Authority's revenues have historically come from "capacity charges" imposed on new customers joining the system. If development of San Diego County slows, this source of revenue will be reduced. If development continues unabated, the pressure on already scarce water supplies will be increased. A sustainable balance of growth in the region could result in reduced revenues to the Water Authority and a requirement that the Water Authority raise rates. See Appendix C – Water Authority Information – Water Authority Financial Position.

The Water Authority provides a supplemental supply of water to its member agencies, some of which have access to alternative sources of water, including potable reuse. For example, the City of San Diego has announced its "Pure Water San Diego" multi-year phased program that is intended to provide one-third of the City of San Diego's water supply locally by 2035, using water purification technology to clean recycled water to produce drinking water. Climatic conditions in the Water Authority's service area and availability of local supplies affect demands for water purchased from the Water Authority. The Water Authority uses its financial reserves and budgetary tools to manage reductions in revenues due to reduced sales. No assurances can be given that water demand will continue at historic levels.

Water Quality Issues

The Plant is designed for the raw seawater conditions typically experienced in Southern California's recent history. However, algal blooms, among other things, can materially adversely impact the operations of desalination facilities such as the Plant, depending on the intensity, frequency and duration of such blooms. During the peak periods of severe algal blooms, algae and certain related by-products can reduce the efficiency of the Plant's pre-treatment filters and adversely affect the production capacity of the Plant's backwash water treatment and solids handling systems, which will in turn reduce the Plant's production capacity. Under such circumstances, the Plant may experience periods in which it will not be able to produce an average of 52 MGD of potable water or where it will be required to shut down for some period of time. The Water Purchase Agreement provides that, during extremely severe algal bloom conditions in which the raw seawater intake quality exceeds certain parameters, the Company

is excused from its obligation to deliver water to the Water Authority. While the Company will not be entitled to compensation for any such excused deliveries, the Company may make up any such excused volumes of product water over the remaining term of the Water Purchase Agreement and for an up to three-year extended term. An algal bloom occurred at the Plant in the second quarter of 2017, which impacted Plant operations for a period of 22 days. There can be no assurances that such severe algal conditions will not recur in the future, or that any such occurrences would not result in material reductions in the Plant's production capacity.

Environmental Considerations

Current and proposed environmental laws, regulations and judicial decisions, including court-ordered restrictions and Federal and State administrative determinations relating to species on the "endangered" or "threatened" lists under the Federal or California Endangered Species Acts, have materially affected the operations of the State Water Project and the water deliveries therefrom. The Water Authority cannot predict when and how additional laws, regulations, judicial decisions and other determinations (including listings of additional species under the Federal or California Endangered Species Acts) may affect water deliveries and the Authority's operations in the future by requiring, among other things, additional export reductions, releases of additional water from storage or other operational changes impacting water supply operations. Any of these laws, regulations and judicial decisions and other official determinations relating to the Water Authority's water supply could have a materially adverse impact on the operation of the Project and the Water Authority's available water supplies.

Earthquakes, Wildfires and Other Disasters

Southern California is subject to geotechnical and extreme weather conditions which represent potential safety hazards, including expansive soils, wildfires and areas of potential liquefaction and landslide. Some of these conditions may be worsened by the impacts of climate change. Earthquakes, wildfires or other natural disasters could interrupt Water Authority operations and thereby interrupt the ability of the Water Authority to generate funds sufficient to make payments under the Installment Sale and Assignment Agreement. The Water Authority serves a seismically active region of the State. Earthquake loads have been taken into consideration in the design of Water Authority structures such as pumping plants and hydroelectric plants. All known faults are crossed by pipelines at very shallow depths to facilitate repair in case of damage from movement along a fault. Although most Water Authority infrastructure is below ground and thus not at risk from wildfires, wildfires and other natural disasters can adversely impact delivery of electricity. To date, no Water Authority facilities have suffered any material earthquake damage. Although the Water Authority has undertaken many emergency preparedness and security improvements, a terrorist attack, cyber breach or significant natural disaster could materially impair system operations, water deliveries and revenues.

Actions to Manage Risks Relating to Water Sales

Drought, weather conditions, regional economy and environmental considerations referred to above in recent years have contributed to lower water deliveries at a higher cost to the Water Authority. A reduction in water deliveries to the Water Authority's member agencies might adversely affect its ability to make payments under the Installment Sale and Assignment Agreement and the Water Authority may be required to further increase its rates and charges. To address supply shortages due to prolonged drought conditions and environmental restrictions, the Water Authority may pursue additional water transfers and investments in capital projects. However, these actions and expenditures may not result in reliable alternate supplies of water at costs that, together with other available supplies and storage, will generate amounts sufficient to make the payments under the Installment Sale Agreement and may require the Water Authority to increase its rates and charges.

Constitutional Limitations

Article XIII A

The taxing powers of California public agencies are limited by Article XIII A of the California Constitution, added by an initiative amendment approved by the voters on June 6, 1978, and commonly known as Proposition 13.

Article XIII A limits the maximum ad valorem tax on real property to one percent of “full cash value,” which is defined as “the County Assessor’s valuation of real property as shown on the fiscal year 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment”. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2 percent per year, or reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction, or other factors.

The tax rate limitation referred to above does not apply to ad valorem taxes to pay the debt service on any indebtedness approved by the voters before July 1, 1978, or on any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition.

Under the terms of Article XIII A and pursuant to an allocation system created by implementing legislation, each county is required to levy the maximum ad valorem tax permitted by Article XIII A and to distribute the proceeds to local agencies, including special districts such as the Water Authority. The allocation of property tax revenues among special districts, while subject to certain statutory procedures and criteria, is largely discretionary with each county.

Assessed valuation growth allowed under Article XIII A (new construction, change of ownership and 2 percent annual value growth) is allocated on the basis of sites among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools share the growth of base revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year. The availability of revenues from tax bases to such entities were affected by the establishment of redevelopment agencies that, under certain circumstances, may be entitled to such revenues resulting from the upgrading of certain property values.

Under California law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged may be considered a “special tax,” which under Article XIII A must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the Water Authority’s water user rates or capacity charges were determined by a court to exceed the reasonable cost of providing service, the Water Authority would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. If the Water Authority were unable to obtain such a two-thirds majority vote, such failure could adversely affect the Water Authority’s ability to make Installment Sale Payments. However, the reasonable cost of providing water services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined that fees such as capacity charges will not be special taxes if they approximate the reasonable cost of constructing the water system improvements contemplated by the local agency imposing the fee.

The United States Supreme Court has upheld Article XIII A against a challenge alleging violation of equal protection under the Fourteenth Amendment to the United States Constitution.

Articles XIII C and XIII D

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters on November 5, 1996. The initiative added Articles XIII C and XIII D to the California Constitution, creating additional requirements for the imposition by most local governments of “general taxes,” “special taxes,” “assessments,” “fees,” and “charges”. The Water Authority and its members are local governments within the meaning of Articles XIII C and XIII D. Articles XIII C and XIII D became effective, pursuant to their terms, as of November 6, 1996, although compliance with some of the provisions was deferred until July 1, 1997.

Article XIII D imposes substantive and procedural requirements on the imposition, extension or increase of any “fee” or “charge” subject to its provisions. A “fee” or “charge” subject to Article XIII D includes any levy, other than an ad valorem tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIII D prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days following the public hearing on any such proposed new or increased fee or charge. In the view of the Water Authority, rates for water usage charged by the Water Authority to its member agencies are not fees or charges under Article XIII D, although no assurance may be given by the Water Authority that a court would not determine otherwise.

The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal. 4th 409 (2004) (“*Richmond*”), and *Bighorn-Desert View Water Authority vs. Verjil*, 39 Cal. 4th 2005 (2006) (“*Bighorn*”) have clarified some of the uncertainty surrounding the applicability of Section 6 of Article XIII D to service fees and charges. In *Richmond*, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIII D because a water connection fee is not a property-related fee or charge because it results from the property owner’s voluntary decision to apply for the connection. Under this reasoning the Water Authority’s capacity charge may not be subject to Article XIII D. In both *Richmond* and *Bighorn*, however, the Court stated that a fee for ongoing water service through an existing connection is imposed “as an incident of property ownership” within the meaning of Article XIII D, rejecting, in *Bighorn*, the argument that consumption-based water charges are not imposed “as an incident of property ownership” but as a result of the voluntary decisions of customers as to how much water to use.

Article XIII D also provides that “standby charges” are considered “assessments” and must follow the procedures required for “assessments” under Article XIII D and imposes several procedural requirements for the imposition of any assessment, which may include (1) various notice requirements, including the requirement to mail a ballot to owners of the affected property; (2) the substitution of a property owner ballot procedure for the traditional written protest procedure, and providing that “majority protest” exists when ballots (weighted according to proportional financial obligation) submitted in opposition exceed ballots in favor of the assessments; and (3) the requirement that the levying entity “separate the general benefits from the special benefits conferred on a parcel” of land. The Water Authority has not increased its Water Standby Availability Charge since the enactment of Article XIII D. Any increase to the Water Authority’s current standby charge could require notice to property owners and approval by a majority of such owners returning mail-in ballots approving or rejecting any imposition or increase of such standby charge. Article XIII D also precludes standby charges for services that are not

immediately available to the parcel being charged. This could adversely impact the ability of the Water Authority and its member agencies to collect standby charges on undeveloped land.

Article XIID provides that all existing, new or increased assessments are to comply with its provisions beginning July 1, 1997. Existing assessments imposed on or before November 5, 1996, and “imposed exclusively to finance the capital costs or maintenance and operations expenses for water” are exempted from some of the provisions of Article XIID applicable to assessments. The Water Authority has authorized and imposed water standby charges since 1989.

Article XIIC extends the people’s initiative power to reduce or repeal previously authorized local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIC to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In *Bighorn*, the Court concluded that under Article XIIC local voters by initiative may reduce a public agency water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate’s initiative power is subject to the public agency statutory obligation to set water service charges at a level that will “pay the operating expenses of the agency, ... provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due”.

No assurance can be given that Articles XIIC and XIID will not have a material adverse impact on the Water Authority’s revenues.

Proposition 26

On November 2, 2010, the California voters approved Proposition 26, an initiative measure amending Article XIIC of the California Constitution. Proposition 26 adds a new definition of “tax” applicable to local government agencies to include any levy, charge, or exaction imposed by a local government, but which expressly excepts from that definition charges imposed for benefits or privileges or for services or products granted or provided to the payor (and not to those not charged) that do not exceed their reasonable cost; regulatory fees that do not exceed the cost of regulation; fees for the use of local governmental property; fines and penalties imposed for violations of law; fees imposed as a condition of property development; and assessments and property-related fees imposed under Article XIID of the California Constitution. California local taxes are subject to voter approval.

No assurance can be given that Proposition 26 will not have a material adverse impact on the Water Authority’s revenues.

Other Initiative Measures

Article XIII A, Articles XIIC and XIID and Proposition 26 were adopted pursuant to California’s constitutional initiative process. From time to time other initiative measures could be adopted by California voters, placing additional limitations on the ability of the Water Authority to increase revenues.

Enforcement of Judgments Against the Water Authority.

While the Water Authority believes that its water rates and capacity charges comply with the standards described above, there can be no assurance that voters, property owners, taxpayers or payers of

assessments, fees and charges will not, in the future, (a) file litigation to challenge the Water Authority's assessments, fees or charges or (b) approve initiatives that repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the Water Authority's water service fees and charges, which will be the sole sources of Plant Revenues.

In the event the Water Authority fails to comply with its covenants or make required payments under the Water Purchase Agreement, the Company may seek a judgment against the Water Authority. Under the California Government Code (the "**Government Code**"), local public entities, such as the Water Authority, may sue and be sued and are required to pay any judgment against them in the manner set forth in the Government Code. A local public entity may pay a judgment by using funds that are (a) unappropriated and may be used for any purpose, unless the use of such funds is restricted, or (b) appropriated for the payment of judgments for the current fiscal year. However, a local public entity is always entitled to defer payments of judgments until funds become available in the next fiscal year.

The ability of the Water Authority and the Company to comply with their respective covenants and agreements may be adversely affected by actions and events outside of the control of the Water Authority and the Company. Furthermore, any remedies available to the owners of the Series 2019 Pipeline Bonds are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Limited Nature of Ratings

The ratings to be assigned by each Rating Agency to the Series 2019 Pipeline Bonds will be based on that Rating Agency's analyses and will reflect only the views of that Rating Agency. Future events could have an adverse impact on the ratings of the Series 2019 Pipeline Bonds, and there is no assurance that any such rating will continue for any period of time or that it will not be qualified, downgraded or withdrawn entirely by the assigning Rating Agency if, in its judgment, circumstances so warrant. There is no obligation of the Water Authority to maintain any particular rating, and a qualification, downgrade or withdrawal of a rating on the Series 2019 Pipeline Bonds may have an adverse effect on the liquidity and market price thereof. A rating is not a recommendation to buy, sell or hold securities.

LITIGATION

The Issuer

There is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body known to the Issuer to be pending (as to which the Issuer has received service of process) against the Issuer or, without any investigation having been undertaken, known to the Issuer to be threatened against the Issuer wherein an unfavorable decision, ruling or finding would adversely affect (a) the existence or organization of the Issuer or the title to office of any member or officer of the Issuer or any power of the Issuer material to the transaction described herein or (b) the validity of the proceedings taken by the Issuer for the adoption, authorization, execution, delivery and performance by the Issuer of, or the validity or enforceability of, the Bond Purchase Agreement relating to the Series 2019 Pipeline Bonds, the Series 2019 Pipeline Bonds, the Pipeline Indenture or the Installment Sale and Assignment Agreement.

The Water Authority Financing Agency

There is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body known to the Issuer to be pending (as to which the Water Authority Financing Agency has received service of process) against the Water Authority Financing Agency or, without any investigation having been undertaken, known to the Water Authority Financing Agency to be threatened against the Water Authority Financing Agency wherein an unfavorable decision, ruling or finding would adversely affect (a) the existence or organization of the Water Authority Financing Agency or the title to office of any member or officer of the Water Authority Financing Agency or any power of the Water Authority Financing Agency material to the transaction described herein or (b) the validity of the proceedings taken by the Issuer for the adoption, authorization, execution, delivery and performance by the Issuer of, or the validity or enforceability of, the Pipeline Loan Agreement or the Installment Sale and Assignment Agreement.

The Company

There is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body known to the Company to be pending or threatened against the Company, as to which there is a reasonable likelihood of an adverse determination and which, if adversely determined, individually or in the aggregate, with all such other actions, suits, proceedings, claims, arbitrations or investigations, would have a material adverse effect on the Company, the issuance of the Series 2019 Pipeline Bonds, the Project or the Plant. Nevertheless, there can be no assurance that future litigation will not materially interfere with the Intake System Modifications or Project operations.

The Water Authority

There is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body known to the Water Authority to be pending (as to which the Water Authority has received service of process) against the Water Authority or, without any investigation having been undertaken, known to the Water Authority to be threatened against the Water Authority wherein an unfavorable decision, ruling or finding would adversely affect (a) the existence or organization of the Water Authority or the title to office of any member or officer of the Water Authority or any power of the Water Authority material to the transactions described herein or (b) the validity of the proceedings taken by the Water Authority for the authorization, execution, delivery and performance by the Issuer of, or the validity or enforceability of, the Bond Purchase Agreement relating to the Series 2019 Pipeline Bonds, the Installment Sale Payment Agreement or the Water Purchase Agreement. Nevertheless, there can be no assurance that future litigation will not materially interfere with the Intake System Modifications or Project operations. See Appendix C – Water Authority Information.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Issuer (“**Bond Counsel**”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2019 Pipeline Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “**Code**”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2019 Pipeline Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix J - Form of Opinion of Bond Counsel hereto.

To the extent the issue price of any maturity of the Series 2019 Pipeline Bonds is less than the amount to be paid at maturity of such Series 2019 Pipeline Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2019 Pipeline Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2019 Pipeline Bonds which is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2019 Pipeline Bonds is the first price at which a substantial amount of such maturity of the Series 2019 Pipeline Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2019 Pipeline Bonds accrues daily over the term to maturity of such Series 2019 Pipeline Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2019 Pipeline Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2019 Pipeline Bonds. Beneficial Owners of the Series 2019 Pipeline Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2019 Pipeline Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2019 Pipeline Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2019 Pipeline Bonds is sold to the public.

Series 2019 Pipeline Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“**Premium Series 2019 Pipeline Bonds**”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Series 2019 Pipeline Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Series 2019 Pipeline Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Series 2019 Pipeline Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2019 Pipeline Bonds. The Issuer, the Water Authority Financing Agency and the Water Authority have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2019 Pipeline Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2019 Pipeline Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2019 Pipeline Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Series 2019 Pipeline Bonds may adversely affect the value of, or the tax status of interest on, the Series 2019 Pipeline Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2019 Pipeline Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 2019 Pipeline Bonds may otherwise affect a Beneficial Owner’s federal, state or

local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2019 Pipeline Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2019 Pipeline Bonds. Prospective purchasers of the Series 2019 Pipeline Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2019 Pipeline Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Issuer, the Water Authority Financing Agency or the Water Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Issuer, the Water Authority Financing Agency and the Water Authority have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2019 Pipeline Bonds ends with the issuance of the Series 2019 Pipeline Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer, the Water Authority Financing Agency, the Water Authority or the Beneficial Owners regarding the tax-exempt status of the Series 2019 Pipeline Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Issuer, the Water Authority Financing Agency, the Water Authority and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Issuer, the Water Authority Financing Agency and the Water Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2019 Pipeline Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2019 Pipeline Bonds, and may cause the Issuer, the Water Authority Financing Agency, the Water Authority or the Beneficial Owners to incur significant expense.

RATINGS

Moody's and Fitch Ratings have given the Series 2019 Pipeline Bonds ratings of "Baa3" and "BBB-", respectively. These ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained only from the rating agencies furnishing the ratings. Explanations of the ratings may be obtained from Moody's at www.moodys.com and from Fitch Ratings at www.fitchratings.com. There is no assurance that such ratings will be continued for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal may have an adverse effect on the market price of the Series 2019 Pipeline Bonds. The Issuer has no responsibility either to bring to the attention of the Registered Holders or the Beneficial Owners of the

Series 2019 Pipeline Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal.

UNDERWRITING

The Series 2019 Pipeline Bonds are being sold at an aggregate purchase price of \$201,590,581.49 (which amount represents the \$183,155,000.00 aggregate principal amount of the Series 2019 Pipeline Bonds, plus an original issue premium of \$19,573,176.95, less an underwriting discount of \$1,137,595.46), pursuant to a Bond Purchase Agreement, dated January 29, 2019, entered into among the Treasurer of the State of California, the Issuer, the Water Authority Financing Agency, the Water Authority, the Company and J.P. Morgan Securities LLC, as representative of itself, RBC Capital Markets, LLC, Goldman Sachs & Co. LLC and Loop Capital Markets LLC (collectively, the “**Underwriters**”). The expenses associated with the issuance of the Series 2019 Pipeline Bonds are being paid by the Water Authority from proceeds of the Series 2019 Pipeline Bonds. The right of the Underwriters to receive compensation in connection with the Series 2019 Pipeline Bonds is contingent upon the issuance and delivery by the Issuer, and the purchase by the Underwriters, of the Series 2019 Pipeline Bonds. The Underwriters are obligated to purchase all of the Series 2019 Pipeline Bonds if any are purchased.

The Underwriters initially will offer the Series 2019 Pipeline Bonds for sale at the prices or yields set forth on the inside cover page of this Limited Offering Memorandum. The Series 2019 Pipeline Bonds may be offered and sold to certain dealers at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters. The Underwriters reserve the right to join with dealers and other investment banking firms in offering the Series 2019 Pipeline Bonds for sale.

The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, provided, and may in the future provide, various investment banking or other services for the Company and its affiliates and the Water Authority, for which they received or will receive customary fees and expenses. Each of the Underwriters also serves as a dealer of commercial paper notes for the Water Authority.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and security activities may involve securities and instruments of the Company and its affiliates.

TRANSFER RESTRICTIONS

Each purchaser, by purchasing the Series 2019 Pipeline Bonds (or beneficial interests therein), agrees that the Series 2019 Pipeline Bonds (or beneficial interests therein) may be reoffered, resold, pledged or otherwise transferred only as described below. Each purchaser also will be deemed to have made certain representations and agreements as described hereunder. The Series 2019 Pipeline Bonds will be offered and sold only to “Qualified Institutional Buyers,” as such term is defined in Rule 144A under the Securities Act of 1933.

Each prospective purchaser (and if such prospective purchaser is an insurance company general account, insurance company separate account, bank collective investment fund or investment fund managed by a qualified professional asset manager or an “in-house asset manager,” each fiduciary with respect to the assets used to acquire the Series 2019 Pipeline Bonds (or beneficial interests therein)) and each subsequent transferee of Project Bonds will be deemed to have acknowledged, represented and agreed as follows:

1. The Series 2019 Pipeline Bonds are being offered for resale to “Qualified Institutional Buyers” as defined in Rule 144A under the Securities Act of 1933. Any offer, sale, pledge, transfer or exchange made of the Series 2019 Pipeline Bonds to a person other than a Qualified Institutional Buyer will be void and the purported transferor of the Series 2019 Pipeline Bonds will remain the owner of record for such Project Bonds.

2. The Series 2019 Pipeline Bonds will bear a legend to the following effect:

THIS SERIES 2019 PIPELINE BOND IS SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER AS DEFINED UNDER RULE 144A UNDER THE SECURITIES ACT OF 1933. THE PURCHASER HEREOF AGREES TO PROVIDE NOTICE TO ANY PROPOSED TRANSFEREE OF A BENEFICIAL OWNERSHIP INTEREST IN THE PURCHASED SERIES 2019 PIPELINE BOND OF THE RESTRICTION ON TRANSFERS.

EACH TRANSFEREE OF THIS SERIES 2019 PIPELINE BOND, BY ITS PURCHASE HEREOF, IS DEEMED TO HAVE REPRESENTED THAT SUCH TRANSFEREE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT AND WILL ONLY TRANSFER, RESELL, REOFFER, PLEDGE OR OTHERWISE TRANSFER THIS BOND TO A SUBSEQUENT TRANSFEREE WHO IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT OF 1933.

A TRANSFER OF THIS SERIES 2019 PIPELINE BOND TO ANY PERSON OTHER THAN A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT OF 1933 WILL BE VOID AND THE PURPORTED TRANSFEROR WILL REMAIN THE OWNER OF RECORD.

CONTINUING DISCLOSURE

The Series 2019 Pipeline Bonds are subject to the continuing disclosure requirements imposed on the Underwriters pursuant to Section (b)(5) of Rule 15c2-12 (the “**Rule**”) adopted by the SEC under the Securities Exchange Act of 1934.

The Company

The Company has entered into a Continuing Disclosure Agreement with respect to the Series 2019 Pipeline Bonds (the “**Company Undertaking**”) for the benefit of the Beneficial Owners of the Series 2019 Pipeline Bonds to send certain information annually and to provide notice of certain events to the Municipal Securities Rulemaking Board pursuant to the requirements of Section (b)(5) of the Rule. The information to be provided on an annual basis, the events that will be noticed on an occurrence basis and the other terms of the Company Undertaking, including termination, amendment and remedies, are

set forth in the form of Company Undertaking attached as Appendix K - Form of Company Continuing Disclosure Agreement.

A failure by the Company to comply with the Company Undertaking will not constitute an event of default with respect to the Series 2019 Pipeline Bonds and Beneficial Owners of the Series 2019 Pipeline Bonds are limited to the remedies described in the Company Undertaking. A failure by the Company to comply with the Company Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2019 Pipeline Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2019 Pipeline Bonds and their market price.

Except as set forth in this paragraph, during the five years preceding the date of this Limited Offering Memorandum, the Company has not failed to comply in all material respects with its prior continuing disclosure obligations entered into in connection with the Rule. On June 5, 2016, to partially fund its next interest payment of \$13,258,625 on the Series 2012 Plant Bonds, Poseidon made a draw on the Plant Debt Service Reserve Fund for the Series 2012 Plant Bonds in the amount of \$1,715,947. The Plant Debt Service Reserve Fund for the Series 2012 Plant Bonds was replenished to the amount of the Plant Debt Service Reserve Requirement for the Series 2012 Plant Bonds by November 7, 2016. This draw on the Plant Debt Service Reserve Fund was not viewed at the time by the Company as reflecting financial difficulties of the Company, however, out of an abundance of caution, on June 7, 2017 the Company filed an event notice regarding this reserve fund draw. If this reserve fund draw would be determined to be a reportable event, the filing was made more than ten business days following the occurrence of the event and thus would not be in compliance with the Company's Continuing Disclosure Agreement entered into in connection with the Series 2012 Plant Bonds. Additionally, a detailed review of annual, quarterly and monthly reports posted by the Company during the last five years, showed a few monthly reports (which are no longer required) and quarterly reports were posted one to three days past the required filing dates. The Company has engaged municipal disclosure counsel and has adopted updated continuing disclosure policies and procedures that are designed to enhance timely compliance with the Company's continuing disclosure reporting requirements.

The Water Authority

The Water Authority has entered into a Continuing Disclosure Agreement with respect to the Series 2019 Pipeline Bonds (the "**Water Authority Undertaking**") for the benefit of the Beneficial Owners of the Series 2019 Pipeline Bonds to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of the Rule. The information to be provided on an annual basis, the events that will be noticed on an occurrence basis and the other terms of the Water Authority Undertaking, including termination, amendment and remedies, are set forth in the form of Water Authority Undertaking attached as Appendix L - Form of Water Authority Continuing Disclosure Agreement.

A failure by the Water Authority to comply with the Water Authority Undertaking will not constitute an event of default with respect to the Series 2019 Pipeline Bonds and Beneficial Owners of the Series 2019 Pipeline Bonds are limited to the remedies described in the Water Authority Undertaking. A failure by the Water Authority to comply with the Water Authority Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2019 Pipeline Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2019 Pipeline Bonds and their market price.

Except as set forth in this paragraph, during the five years preceding the date of this Limited Offering Memorandum, the Water Authority has not failed to comply in all material respects with its prior continuing disclosure obligations entered into in connection with the Rule. On June 5, 2017 the Water Authority became aware of a reportable event under its Continuing Disclosure Agreement entered into in connection with the Series 2012 Pipeline Bonds. On June 7, 2017 the Water Authority filed an event notices more than ten business days following the occurrence of the event which is described in “—The Company” above. The Water Authority has not filed material event notices upon the occurrence of bond insurer downgrades not resulting in rating changes of insured bonds or certificates of participation. The Water Authority has adopted updated continuing disclosure policies and procedures that are designed to enhance timely compliance with continuing disclosure reporting requirements.

LEGAL MATTERS

The validity of the Series 2019 Pipeline Bonds and certain other legal matters are subject to the approving opinions of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Issuer. A complete copy of the proposed form of Bond Counsel opinion with respect to the Series 2019 Pipeline Bonds is contained in Appendix J - Form of Opinion of Bond Counsel. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Limited Offering Memorandum. Certain legal matters will be passed upon for the Water Authority and the Water Authority Financing Agency by Mark J. Hattam, General Counsel to the Water Authority and the Water Authority Financing Agency; for the Issuer by the Honorable Xavier Becerra, Attorney General of the State of California; for the Company by Crowell & Moring LLP, Special Counsel to the Company; and for the Underwriters by Drinker Biddle & Reath LLP and eco(n)law LLC. Polsinelli LLP serves as Disclosure Counsel and Special Counsel to the Water Authority.

The various legal opinions to be delivered concurrently with the delivery of the Series 2019 Pipeline Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. The rendering of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction.

MUNICIPAL ADVISORS

The Water Authority has retained Montague DeRose and Associates, LLC, and Acacia Financial Group, Inc. (the “**Municipal Advisors**”), as municipal advisors with respect to the issuance and delivery of the Series 2019 Pipeline Bonds. The Municipal Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Limited Offering Memorandum.

MISCELLANEOUS

The execution and delivery of this Limited Offering Memorandum have been approved by the Issuer. The Issuer has not provided any of the information in this Limited Offering Memorandum except for the information under the caption “THE ISSUER” and the information under the Caption “LITIGATION—The Issuer” solely as it pertains to the Issuer, and the Issuer makes no representation or warranty, express or implied, as to the accuracy or completeness of any other information in this Limited Offering Memorandum. This Limited Offering Memorandum is not to be construed as a contract or agreement between the Issuer, the Water Authority Financing Agency, the Water Authority or the Company and the Registered or Beneficial Owners of any Series 2019 Pipeline Bonds.

**CALIFORNIA POLLUTION CONTROL
FINANCING AUTHORITY**

By: /s/ Reneé Webster-Hawkins
Reneé Webster-Hawkins
Executive Director

APPROVED:

SAN DIEGO COUNTY WATER AUTHORITY

By: Maureen A. Stapleton, General Manager

By: /s/ Sandra L. Kerl
Sandra L. Kerl
Deputy General Manager

**SAN DIEGO COUNTY WATER AUTHORITY
FINANCING AGENCY**

By: /s/ Lisa Marie Harris
Lisa Marie Harris
Director of Finance/Treasurer

POSEIDON RESOURCES (CHANNELSIDE) LP

By: Poseidon Resources Channelside GP, Inc.,
its general partner

By: /s/ Barbara G. Littlefield
Barbara G. Littlefield
Treasurer

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APPENDIX A
CERTAIN DEFINITIONS

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CERTAIN DEFINITIONS

Acceptable Credit Provider means a bank or trust company authorized to engage in the banking business having a combined capital and surplus of at least \$500,000,000 or the equivalent thereof whose long-term unsecured debt is rated “A” or higher by S&P and Fitch Ratings and “A2” or higher by Moody’s or a surety provider or other financial institution whose long-term unsecured debt is rated “A-” or higher by S&P and Fitch Ratings and “A3” or higher by Moody’s; provided if any of such rating agencies are no longer in business or are no longer rating unsecured debt of banks, trust companies, surety providers or similar financial institutions, such bank or trust company, surety provider, or similar financial institution shall have a comparable rating of another nationally recognized rating service.

Account Collateral means, collectively, (a) each Account, except the Contractor Security Account, and (b) all cash, instruments, investment property, securities, “security entitlements” (as defined in Section 8-102(a)(17) of the UCC) and other Financial Assets at any time on deposit in any such Account, including all income, earnings and distributions thereon and all proceeds, products and accessions of and to any and all of the foregoing, including whatever is received or receivable upon any collection, exchange, sale or other disposition of any of the foregoing and any property into which any of the foregoing is converted, whether cash or non-cash proceeds, and any and all other amounts paid or payable under or in connection with any of the foregoing; provided that (i) any amounts disbursed from the Distribution and Stabilization Fund in accordance with the Collateral Trust Agreement do not constitute Account Collateral, and (ii) the Lien on all of the Company’s right, title and interest in, to and under a Debt Service Reserve Fund established for Additional Plant Senior Debt issued by an Additional Plant Lender is solely for the benefit of such Additional Plant Lender.

Account Letter of Credit means an irrevocable, unconditional, direct pay letter of credit: (a) in a form reasonably acceptable to the Collateral Agent; (b) issued by an Acceptable Credit Provider and in respect of which the Company is not the account party; (c) the Collateral Agent is the beneficiary and holder thereof; (d) which clearly identifies which Account such letter of credit shall be credited to; and (e) which has been issued for the sole purposes of either (i) satisfying the Company’s obligations under the Collateral Trust Agreement to fund a Debt Service Reserve Fund, the Working Capital Reserve Fund or any other Account established under the Collateral Trust Agreement which is designated as a reserve fund or account or (ii) securing the Limited Partner’s obligations under the Equity Contribution Agreement.

Act means the California Pollution Control Financing Authority Act (Chapter 1 (commencing with Section 44500) of Division 27 of the Health and Safety Code), as now in effect and as it may from time to time hereafter be amended.

Actual Monthly Pipeline Purchase Payment means for any calendar month (a) the Scheduled Monthly Pipeline Purchase Payments for such months, minus, for any completed calendar month, (b)(i) the Contracted Shortfall Payments payable by the Company with respect to its failure to deliver Product Water during such month times (ii) the sum of the Pipeline Interest Payment Factor and the Pipeline Principal Payment Factor for such month.

Actual Pipeline Purchase Payment means: (a) for any calendar month, the Actual Monthly Pipeline Purchase Payment for such month; (b) for any Fiscal Year or Budget Year, the sum of the Actual Monthly Pipeline Purchase Payments for the months included in such year; and (c) for any period less than a calendar year but greater than a month, the sum of the Actual Monthly Pipeline Purchase Payments for each full calendar month included in such period.

Additional Pipeline Bonds means any bonds issued under the Pipeline Indenture other than the Series 2019 Pipeline Bonds.

Additional Plant Bonds means any bonds issued under the Plant Indenture other than the Series 2012 Plant Bonds.

Additional Plant Debt Service Reserve Fund means any Account that may be established in the Debt Service Reserve Fund for Additional Plant Senior Debt.

Additional Plant Financing Agreement means any agreement entered into in connection with the issuance of Plant Senior Debt.

Additional Plant Lender means a holder of Additional Plant Senior Debt (other than Additional Plant Bonds) or any trustee or similar agent thereof.

Additional Plant Senior Debt means Additional Plant Bonds and any Additional Non-Bond Plant Senior Debt issued after the Series 2012 Closing Date.

Additional Payments is defined in the respective Appendices attached to this Limited Offering Memorandum, as the context requires.

Additional Project Contract means any material contract or agreement related to the construction of the Pipeline or the construction, operation or use of the Plant entered into by the Company and any other Person, or assigned to the Company, subsequent to the Series 2012 Closing Date, excluding any such contract or agreement (i) providing for the payment by the Company of less than \$1,000,000 (Escalated) per annum individually, (ii) providing for the delivery by the Company of less than \$1,000,000 (Escalated) per annum individually in value of goods or services, (iii) having a term no greater than one year, (iv) having a term of greater than one year, if the Company has the right to terminate such contract or agreement upon no more than 90 days' notice, or (v) entered into in respect of Eligible Investments or Additional Plant Senior Debt.

Adjusted Monthly Supply Commitment is defined in the forepart of this Limited Offering Memorandum under "PROJECT OPERATION – Water Purchase Agreement – Delivery and Purchase Obligations."

AFD is defined in the forepart of this Limited Offering Memorandum under "THE PROJECT – The Plant."

Affiliate of any Person means any other Person who, directly or indirectly, Controls or is Controlled by or is under common Control with such other Person.

AFY is defined in the forepart of this Limited Offering Memorandum under "INTRODUCTION."

Annual True Up Payments is defined in the forepart of this Limited Offering Memorandum under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS — Collateral Trust Agreement — Distribution and Stabilization Fund."

Applicable Law means any law, regulation, requirement or order of any federal, state or local government agency, court or other governmental body, including any building code or the terms and conditions of any Permit, license or governmental approval, applicable from time to time to the Project or, with respect to any Person, the performance by such Person of any obligation under a Plant Financing Document or a Project Contract.

Approved Permitted Debt is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Water Purchase Agreement – Financing.”

Authority Net Water Revenues means, for any fiscal year of the Water Authority or other period, the Water Revenues during such fiscal year or period less the Maintenance and Operation Costs during such fiscal year or period, pursuant to the General Resolution.

Authority Senior Lien Obligations means revenue bonds of the Water Authority, installment sale agreements and other contracts of indebtedness under which payments are payable from Net Revenues on a parity with all other Authority Senior Lien Obligations.

Authority Subordinated Lien Obligations means obligations of the Water Authority payable from Authority Net Water Revenues subject and subordinate to Authority Senior Lien Obligations.

Authorized Denominations means \$250,000 and any integral multiple of \$5,000 in excess of \$250,000.

Base Case Financial Projections means the cash flow projections set forth in the Limited Offering Memorandum for the Series 2012 Plant Bonds and the Series 2012 Pipeline Bonds dated December 21, 2012.

Baseline Unit Price Cap is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Water Purchase Agreement – Limitations on Increases in the Purchase Price Due to Uncontrollable Circumstances.”

Beneficial Owner or **Beneficial Owners** means the owners of a beneficial interest in the Plant Bonds or the Series 2019 Pipeline Bonds, as applicable.

BIF III is defined in the forepart of this Limited Offering Memorandum under “PROJECT PARTICIPANTS – Poseidon Resources (Channelside) LP.”

BIP is defined in the forepart of this Limited Offering Memorandum under “PROJECT PARTICIPANTS – Poseidon Resources (Channelside) LP.”

Bond Counsel means Orrick, Herrington & Sutcliffe LLP or such other firm of attorneys of nationally recognized standing in the field of law relating to municipal bond law and the excludability of interest on state or local bonds from gross income of the owners of the Plant Bonds for purposes of federal income taxation, selected by the Issuer and acceptable to the Plant Trustee and the Company.

Bond Fund means the fund of that name created under the Pipeline Indenture.

Bond Insurance Policy means, for any Additional Plant Bonds, a financial guarantee insurance policy guaranteeing the scheduled payment of all principal of and interest on such Additional Plant Bonds when due or an irrevocable letter of credit issued for the purpose of guaranteeing the Company’s obligation to pay scheduled principal, or sinking fund redemption price of and interest on such Additional Plant Bonds in each case.

Bond Insurer means any issuer of a Bond Insurance Policy.

Bond Insurer Payments means payments required to be made to an insurer under a Bond Insurance Policy.

Budget Year means a 12-month period ending on June 30.

Business Day is defined in the respective Appendices attached to this Limited Offering Memorandum, as the context requires.

Cabrillo means Cabrillo Power I LLC, an indirect wholly owned subsidiary of NRG Energy Inc.

Cabrillo Entity means Cabrillo, its affiliates, any of their respective successors or assigns, and any subsequent owner of the Cabrillo generating facility or Cabrillo generating facility site, and their respective successors and assigns.

Calculation Date is defined in the forepart of this Limited Offering Memorandum under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS — Collateral Trust Agreement — Distribution and Stabilization Fund.”

Calculation Period means as the context requires (a) a calendar month, (b) a twelve month year, including a Fiscal Year or a Budget Year, or (c) for any period greater than a calendar month and less than a full twelve-month year, the aggregate of the full calendar months contained in such period; provided that for any Calculation Period beginning on the Commercial Operation Date, the first two full calendar months following the Commercial Operation Date will be omitted.

CAMs is defined in the forepart of this Limited Offering Memorandum under “SUMMARY STATEMENT.”

Capital Lease Obligations of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

Capital Modification, as used in the Water Purchase Agreement, means a material change to the physical assets constituting the Plant (including the alteration, addition, demolition, removal, extension or expansion of the physical assets constituting the Plant, or the installation of new structures, equipment, systems or technology) made after the Commercial Operation Date for any reason that, individually or in the aggregate with any related changes, exceeds \$10,000,000 (escalated in accordance with the Water Purchase Agreement) in capital cost or that materially impairs the quality, integrity, durability or reliability of the Plant or materially alters the original design of the Plant as set forth in the design requirements under the Water Purchase Agreement.

Capital Proceeds means (i) proceeds of property and casualty insurance or other insurance protecting against loss or damage to the Plant or any portion thereof (excluding the proceeds of delay in start-up insurance or business interruption insurance); (ii) proceeds of any title insurance respecting a defect of title or Lien on the Company’s interest in the Plant or the Company Real Property or portion thereof; (iii) any condemnation awards or proceeds of an eminent domain proceeding relating to a taking of any portion of the Plant or the Company Real Property; (iv) any Performance Guarantee Payments pursuant to the Plant EPC Contract; (v) any cash settlement of a warranty claim by the Company arising under any construction contract, including the Plant EPC Contract (including warranties by any subcontractor or supplier) and the Pretreatment Warranty but excluding the Pipeline EPC Contract; (vi) any damage awards or indemnity payments received by the Company or the Collateral Agent on its behalf with respect to loss or damage to the Plant or the Company Real Property or any portion thereof; (vii) any contributions in aid of construction for any Capital Project received by the Company from the Water Authority or other third parties; (viii) any payments by the Plant EPC Contract Guarantor in respect of items (iv), (v) or (vi) above; (ix) any equity contribution received by or on behalf of the Company for any

Capital Project; (x) the proceeds of Additional Plant Senior Debt issued to fund a Capital Project as permitted under the Collateral Trust Agreement (except capitalized interest, Costs of Issuance and Debt Service Reserve Fund deposits); and (xi) the net proceeds received by the Company or the Collateral Agent from any sale of assets constituting all or a portion of the Plant other than any sale of assets permitted under the Loan Agreement. “Capital Proceeds” do not include proceeds of insurance compensating third parties for injuries or personal property claims.

Capital Project means (i) replacement or renewal of all or a portion of the Plant following an Event of Loss or Event of Eminent Domain, or (ii) a modification or expansion of the Plant after the Commercial Operation Date that is permitted under the Collateral Trust Agreement; for which, in each of the foregoing cases, the costs of which are required in accordance with GAAP to be capitalized on the Company’s balance sheet.

Capitalized Interest Account is defined in the respective Appendices attached to this Limited Offering Memorandum, as the context requires.

Carlsbad means the City of Carlsbad, California.

CDDW is defined in the forepart of this Limited Offering Memorandum under “THE PROJECT –The Plant.”

CERCLA means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. § 9601 et seq.).

CEQA is defined in the forepart of this Limited Offering Memorandum under “THE PROJECT – Intake System Modifications – Treatment of the Intake System Modifications under the Water Purchase Agreement.”

Change Order Amendment means any change order under the Plant EPC Contract, the Pipeline DBA or the Pipeline EPC Contract and any related amendments, modifications or supplements to such contracts, the Plant O&M Agreement or any other Project Contract necessary solely to implement such change order.

Change in Project Scope means:

- (a) a Change Order Amendment; or
- (b) any other change in the scope or cost of work required to achieve Completion, including the incurrence of any Poseidon Pipeline Costs, as compared to the initial Project Construction Budget.

Claims means any and all actions, suits, penalties, claims and demands and reasonable out-of-pocket liabilities, losses, costs and expenses (including reasonable and documented attorney’s fees and expenses) of any nature whatsoever.

Coastal Commission is defined in the forepart of this Limited Offering Memorandum under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS — Collateral Trust Agreement — Wetlands Mitigation Reserve Fund.”

Code means the Internal Revenue Code of 1986, as amended, from time to time. A reference to any specific section of the Code shall be deemed also to be a reference to the comparable provisions of any enactment that supersedes or replaces the Code.

Collateral is defined in the forepart of this Limited Offering Memorandum under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Collateral Trust Agreement.”

Collateral Agent means MUFG Union Bank, N.A., as collateral agent under the Collateral Trust Agreement, and any successor collateral agent or co-agent thereunder.

Collateral Agent’s Remedies Agreement means the Collateral Agent’s Remedies Agreement between the Water Authority and the Collateral Agent.

Collateral Documents means the Deed of Trust, the Pledge Agreements, the Equity Contribution Agreement, the Equity Security Instruments, the Security Agreement, the Collateral Trust Agreement, the Control Agreement, each Consent, any fixture filings, financing statements, or other similar documents filed, recorded or delivered in connection with the foregoing, and any other agreement, document or instrument pursuant to which a Lien is granted securing any Secured Obligations or under which rights or remedies with respect to any such Lien are governed.

Collateral Documents Master Refunding Amendment is defined in the forepart of this Limited Offering Memorandum under “PLAN OF REFUNDING.”

Collateral Trust Agreement is defined in the forepart of this Limited Offering Memorandum under “PLAN OF REFUNDING.”

Commercial Operation means that Provisional Acceptance is achieved under and as defined in the Plant EPC Contract.

Commercial Operation Date means December 23, 2015.

Committed Annual Volume is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Management Services Agreement – O&M Agreement with IDE Americas.”

Commodity Hedging Arrangements means any interest rate, other financial or commodity swap, cap or collar agreement or similar arrangement between the Company (or its agent or nominee) and one or more banks or other financial institutions providing for the transfer or mitigation of commodity risks either generally or under specific contingencies (including confirmations thereunder) that (i) contain terms, and are otherwise in form and substance, customary for similar transactions; and (ii) cover Transactions (as defined therein) having a notional principal amount in the aggregate less than or equal to the aggregate principal amount of hedged loans or other obligations (if necessary, as the same may be reasonably estimated by the Company for such date).

Company means Poseidon Resources (Channelside) LP, a Delaware limited partnership.

Company Plant Bonds means any Plant Bonds held by the Plant Trustee for and on behalf of the Company or any nominee for (or any Person who owns Plant Bonds for the sole benefit of) the Company.

Company Interest Hedging Payment means a regularly scheduled payment (after any payment netting against any Counterparty Interest Hedging Payment on a given payment date) under an Interest Hedging Arrangement (excluding (i) any termination payment (whether as a result of optional, elective, early or mandatory termination) relating to the Interest Hedging Arrangement and (ii) any payment in respect of fees, costs, indemnities or expenses with respect to such Interest Hedging Arrangement) required to be made by or on behalf of the Company to an Interest Hedging Counterparty pursuant to an Interest Hedging Arrangement.

Company Real Property means (a) the Plant Site and the easements, rights and interests in real property granted to the Company pursuant to the Ground Lease and any other agreements granting the Company the right to use real property to construct the Plant and (b) rights to access the Pipeline route granted to the Company in the Pipeline DBA.

Company Undertaking is defined in the forepart of this Limited Offering Memorandum under “CONTINUING DISCLOSURE – The Company.”

Compensation Adjustment Event is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Water Purchase Agreement – Financing.”

Compliance Debt means Additional Plant Senior Debt the proceeds of which are to be used to comply with Applicable Law or any Principal Project Contract, including the performance of any obligations of the Company under the Water Purchase Agreement.

Completion means Project Completion under the Plant EPC Agreement has occurred and the Company has delivered certain certifications required under the Plant Loan Agreement.

Completion Date means the date on which Completion has occurred.

Consents means the Collateral Agent’s Remedies Agreement and the individual agreements among the Collateral Agent and one of the following Persons in which such Person agrees, among other things, to the assignment to the Collateral Agent by the Company of the Principal Project Contract to which it is a party: the Ground Lessor, the EPC Contractor (with respect to both EPC Contracts), the EPC Guarantor, Poseidon Resources IP LLC, the Operator, Carlsbad, SDG&E, the California State Lands Commission, Poseidon Water LLC and each counterparty to an Additional Project Contract.

Construction Contingency Amount is defined in the respective Appendices attached to this Limited Offering Memorandum, as the context requires.

Construction Disbursement Date means the 20th Business Day of each month beginning in the month following the Series 2012 Closing Date and ending in the month in which Completion occurs.

Construction Withdrawal Certificate means a certificate in the form prescribed by the Collateral Trust Agreement or the Pipeline Indenture, as applicable.

Contracted Shortfall Payment Default means an event of default under the Pipeline Indenture resulting from the Company’s failure to make any Contracted Shortfall Payment when due.

Contracted Shortfall Payment Notice means the notice that Contracted Shortfall Payments are due, delivered to the Collateral Agent pursuant to the Collateral Trust Agreement.

Contracted Shortfall Payments means Operating Period Shortfall Payments and Termination Operating Period Shortfall Payments.

Contractor Security Account means the account of such name established pursuant to the Collateral Trust Agreement.

Contract Year means each of the period from the Contract Date to the next June 30th; each subsequent period of twelve months commencing on July 1st; and the period from July 1st in the year in which the Water Purchase Agreement expires or is terminated (for whatever reason) to and including the Termination Date.

Control means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and the terms “Controlling” and “Controlled” and “under common control with” shall have meanings correlative thereto.

Control Agreement means the Collateral Account Control Agreement, dated as of December 20, 2012 among the Company, the Collateral Agent and MUFG Union Bank, N.A., in its capacity as securities intermediary.

Counsel means an attorney at law or a firm of attorneys (who may be an employee of or counsel to the Issuer, the Plant Trustee, the Collateral Agent, the Bond Insurer, the Liquidity Facility Provider or the Company) duly admitted to the practice of law before the highest court of any state of the United States of America or of the District of Columbia knowledgeable about the relevant law and reasonably acceptable to the Plant Trustee, the Collateral Agent and the Company.

Counterparty Interest Hedging Payment means any payment (after giving effect to any netting on a given payment date) to be made to, or for the benefit of, the Company, under any Interest Hedging Arrangement.

County is defined in the forepart of this Limited Offering Memorandum under “INTRODUCTION.”

CPUC is defined in the forepart of this Limited Offering Memorandum under “THE PROJECT – Plant Power Supply.”

Current Case is defined in the forepart of this Limited Offering Memorandum under “SUMMARY FINANCIAL INFORMATION – Company Projected Current Case Cash Flow Coverage.”

Current Case Financial Projections means, at any time, the Financial Projections most recently updated pursuant to the Collateral Trust Agreement.

Debt of any Person at any date means, without duplication:

(a) indebtedness created, issued or incurred by such Person for borrowed money (whether by loan or the issuance and sale of debt securities or the sale of Property of such Person to another Person subject to an understanding or agreement, contingent or otherwise, to repurchase such Property of such Person from such Person);

(b) notes payable and drafts accepted by such Person representing extensions of credit whether or not representing obligations for borrowed money;

(c) any obligation owed by such Person for all or any part of the deferred purchase price of property or services (excluding any such obligations incurred under ERISA), which purchase price is due more than six months from the date of incurrence of the obligation in respect thereof;

(d) the face amount of any letter of credit or similar instrument issued for the account of such Person or as to which such Person is otherwise liable for reimbursement of drawings;

(e) the direct or indirect Guarantee, endorsement (otherwise than for collection or deposit in the ordinary course of business), co-making, discounting with recourse or sale with recourse by such Person of the obligation of another (provided that such obligation of such Person shall be "Debt" under the Collateral Trust Agreement only if and to the extent that the assurance such Person is providing to such obligee is in respect of an obligation that otherwise constitutes "Debt" under the Collateral Trust Agreement);

(f) any obligation of such Person the primary purpose or intent of which is to provide assurance to an obligee that the obligation of the obligor thereof will be paid or discharged or the holders thereof will be protected (in whole or in part) against loss in respect thereof (provided that such obligation of such Person shall be "Debt" under the Collateral Trust Agreement only if and to the extent that the assurance such Person is providing to such obligee is in respect of an obligation that otherwise constitutes "Debt" under the Collateral Trust Agreement);

(g) any liability of such Person for an obligation of another through any agreement (contingent or otherwise) (i) to purchase, repurchase or otherwise acquire such obligation or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise) or (ii) to maintain the solvency or any balance sheet item, level of income or financial condition of another if, in the case of any agreement described under subclauses (i) or (ii) of this clause (g), the primary purpose or intent thereof is as described in clause (f) above (provided that such liability of such Person shall be "Debt" under the Collateral Trust Agreement only if and to the extent that the related obligation otherwise constitutes "Debt" under the Collateral Trust Agreement);

(h) all ordinary course trade payables which are more than 90 days overdue;

(i) all obligations of such person in respect of any exchange traded or over the counter derivative transaction or any interest rate protection or commodity hedging transaction, including any transaction under any Interest Hedging Arrangement or Commodity Hedging Arrangement; and

(j) Capital Lease Obligations.

Debt Service means, for any period under review, (a) for any Plant Senior Debt, the sum of (i) interest payable on such Plant Senior Debt during such period (except interest to be paid from amounts on

deposit in the related Capitalized Interest Account) and (ii) the total amount of principal of, on premium on, such Plant Senior Debt payable, or for which provision for payment must be made, during such period whether at stated maturity or upon sinking fund redemption thereof and (b) Company Interest Hedging Payments required to be made during such period; provided that, with respect to any Company Interest Hedging Payments or Senior Debt bearing interest at a variable rate, the determination of Plant Debt Service will be made as provided in the related Additional Financing Documents.

Debt Service Coverage Ratio means, as calculated in accordance with the Collateral Trust Agreement, for any Calculation Period following the Commercial Operation Date:

(a) the total of (i) Net Cash Flow for such Calculation Period plus (ii) the Actual Pipeline Purchase Payments for such Calculation Period; divided by

(b) the total of (i) Debt Service paid or payable for such Calculation Period, net of any Counterparty Interest Hedging Payments paid or payable for such Calculation Period, plus (ii) the Scheduled Pipeline Purchase Payments for such Calculation Period.

Debt Service Related Payments means, for any period, with respect to either the Plant Senior Debt or the Series 2019 Pipeline Bonds, (a) the sum of principal and interest payments, (b) required deposits to the related debt service reserve fund resulting from an increase in the related debt service fund requirement and trustee and issuer fees and (c) with respect to the Plant Debt, the fees of the Collateral Agent, for such period.

Debt Service Reserve Fund means the fund of that name established pursuant to the Collateral Trust Agreement.

Debt Service Reserve Requirement or Pipeline Debt Service Reserve Requirement means, on any Monthly Disbursement Date, (a) for the Series 2019 Pipeline Bonds, an amount equal to the principal and interest due with respect to the Series 2019 Pipeline Bonds during the 12-month period succeeding such Monthly Disbursement Date, provided that such amount shall not exceed the lesser of the following, calculated as of the Closing Date, (i) 10% of the stated principal amount of the Series 2019 Pipeline Bonds, if the original issue discount does not exceed 2% times the stated redemption price of the Series 2019 Pipeline Bonds, or 10% of the issue price, if the original issue discount does exceed 2% times the stated redemption price of the Series 2019 Pipeline Bonds, (ii) the maximum annual principal and interest requirements on the Series 2019 Pipeline Bonds, based on a 12-month period ending July 1, or (iii) 125% of the average annual principal and interest requirements on the Series 2019 Pipeline Bonds, which amount is \$16,861,045.10, and (b) for any Additional Pipeline Bonds, the amount set forth in the related supplemental indenture.

Deed of Trust means that certain Leasehold Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing executed by the Company, as trustor, in favor of the deed of trust trustee for the benefit of the Collateral Agent, as beneficiaries.

Defeasance Obligations means the obligations described in clauses (a) and (b) of the definition of “Eligible Investments” and any other direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by the United States of America, including the interest portion of obligations of the Resolution Funding Corporation to the extent so guaranteed.

Deficiency means the failure to achieve any of the Guaranteed Performance Levels during the relevant Performance Test under the Plant EPC Contract.

Demand Shortfall is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Water Purchase Agreement – Delivery and Purchase Obligations.”

Development Agreement means the Amended and Restated Development Agreement between Carlsbad and the Company.

Disbursement Request means a request substantially in the form prescribed by the Collateral Trust Agreement.

Discharge Date means the date on which payment in full in cash of all Secured Obligations has been made or provision has been made for the payment and discharge in full of such other Secured Obligations in accordance with the terms and conditions of (a) the Plant Financing Documents (with respect to obligations of the Company thereunder), (b) the Pipeline DBA and the Water Purchase Agreement (with respect to the Contracted Shortfall Payments) and (c) the Plant EPC Contract (with respect to amounts owed to the Plant EPC Contractor).

Distribution and Stabilization Fund means the fund of such name established pursuant to the Collateral Trust Agreement.

Drought Shortfall Payments is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Management Services Agreement – O&M Agreement with IDE Americas.”

DTC means The Depository Trust Company acting as the securities depository as set forth in Section 214 of the Plant Indenture or any successor securities depository under the Plant Indenture.

Eligible Investments means any investment set forth below that matures (or is redeemable at the option of the owner thereof or is marketable prior to maturity) at such time or times as to enable disbursements to be made from the Fund or Account in which such investment is held in accordance with the terms of the Collateral Trust Agreement or the Plant Indenture:

- (i) Governmental Obligations;
- (ii) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies or such other like governmental or government-sponsored agencies which may be hereinafter created: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Federal Home Loan Bank System; Export Import Bank of the United States; Farmers Home Administration; Small Business Administration; Inter-American Development Bank; International Bank for Reconstruction and Development; Federal Land Banks; the Federal National Mortgage Association; the Government National Mortgage Association; or the Tennessee Valley Authority;
- (iii) Debt obligations of any state of the United States or any political subdivision of any state, or of any agency or instrumentality of any state or of any political subdivision thereof, if at the time of their purchase such obligations are rated at the time of investment in any of the three highest Rating Categories by any Rating Agency;
- (iv) Negotiable or non-negotiable certificates of deposit, time deposits, demand deposits, including interest bearing money market accounts, trust funds, trust accounts, bankers acceptances or other similar banking arrangements, issued by any bank or trust company (including the Collateral Agent, the Plant Trustee and their respective affiliates) the deposits of which to the extent uninsured, by the Federal Deposit Insurance Corporation, are to be secured as to principal by the securities listed in subsections (i), (ii), or (iii) above;

(v) Repurchase agreements or similar arrangements: (x) with any banking institutions or other financial services company, including the Collateral Agent, the Plant Trustee and their respective Affiliates if applicable, having or the parent company of which shall be rated at the time of investment in any of the three highest Rating Categories by any Rating Agency, pursuant to which has been delivered to the Collateral Agent, or its designee, investments of the types set forth in subsections (i) and/or (ii) above having at all times a fair market value of at least 100% of the value of such agreement; or (y) with any banking institutions or other financial services company, including the Collateral Agent, the Plant Trustee and their respective Affiliates if applicable, not meeting the rating requirements of (x) above pursuant to which there shall have been delivered to the Collateral Agent or its designee, investments of the types set forth in subsections (i) and/or (ii) above and at all times having a fair market value of at least 102% of the value of such agreement;

(vi) Shares of an open-end, diversified investment company that is qualified under Rule 2a-7 promulgated under the Investment Company Act of 1940, the shares of which are registered under the Securities Act of 1933, and having aggregate net assets of not less than \$50,000,000 on the date of purchase (including any such mutual fund for which the Collateral Agent, the Plant Trustee or an affiliate of either of them, serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (A) the Collateral Agent, the Plant Trustee or an affiliate of either of them, receives fees from such funds for services rendered, (B) the Collateral Agent and the Plant Trustee charge and collect fees for services rendered pursuant to the Collateral Trust Agreement and the Plant Indenture, respectively, which fees are separate from the fees received from such funds, and (C) services performed for such funds and pursuant to the Collateral Trust Agreement or the Plant Indenture may at times duplicate those provided to such funds by the Collateral Agent, the Plant Trustee of an affiliate of either of them;

(vii) Redeemable securities of a “unit investment trust” as defined in the Investment Company Act of 1940, each of which represents an undivided interest in a unit of specified Qualified Investments of the types set forth in subsections (i), (ii) or (iii) above;

(viii) Commercial paper rated at the time of investment in the highest Rating Category by any Rating Agency, and having a maturity at the time of purchase not to exceed six months; and

(ix) Guaranteed investment contracts with any bank or investment banking firm or other financial services company the long-term debt of which is rated at the time of investment in any of the three highest Rating Categories by any Rating Agency.

Environmental Laws means all Applicable Laws relating to the environment or to any Hazardous Substance, including CERCLA, the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., as now or hereafter amended, the Clean Water Act, 33 U.S.C. Section 1251 et seq., as now or hereafter amended, the Clean Air Act, 42 U.S.C. Section 7401 et seq., as now or hereafter amended, the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., as now or hereafter amended, the Safe Drinking Water Act, 42 U.S.C. Section 300f et seq., as now or hereafter amended, the Hazardous Waste Control Law, Ca. Health & Safety Code Section 25100, et seq., as now or hereafter amended, the Porter-Cologne Water Quality, Ca. Water Code Section 13000 et seq., as now or hereafter amended, and the Safe Drinking Water and Toxic Enforcement Act of 1986, Ca. Health and Safety Code Section 24249.5 et seq., as now or hereafter amended.

EPC Contracts means the Plant EPC Contract and the Pipeline EPC Contract, together.

EPC Contractor means Kiewit Shea Desalination, a joint venture.

EPC Guarantee means the Guarantee dated December 20, 2012 from the EPC Guarantor in favor of the Company with respect to the EPC Contractor's obligations under the EPC Contract.

EPC Guarantor means Kiewit Infrastructure Co.

ERISA means the Employee Retirement Income Security Act of 1974 from time to time.

ERISA Affiliate means any trade or business (whether or not incorporated) that together with the Company, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

ERISA Event means (a) a Reportable Event with respect to a Pension Plan of which the Company has notice; (b) a withdrawal by the Company or withdrawal by any ERISA Affiliate of which the Company has notice from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA of which the Company has notice; (c) notification to the Company of a complete or partial withdrawal by the Company or any ERISA Affiliate from a Multiemployer Plan or notification to the Company that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate by the Company, notice to the Company of the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or notice to the Company of the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) notice to the Company from the PBGC of an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) notice to the Company of the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon either the Company or any ERISA Affiliate.

Escalated means, with respect to any amount, such amount escalated at the rate of 2.5% beginning on the first anniversary of the Commercial Operation Date and on each anniversary of the Commercial Operation Date thereafter.

Event of Eminent Domain means any compulsory transfer or taking by condemnation, eminent domain or exercise of a similar power, or transfer under threat of such compulsory transfer or taking, of any part of the Collateral, by any Governmental Authority having jurisdiction.

Event of Loss means an event which causes any material part of the Collateral or a material part of the Plant to be damaged, destroyed or rendered unfit for normal use for any reason whatsoever, other than an Event of Eminent Domain.

Favorable Opinion of Bond Counsel means, with respect to any action relating to any Tax Exempt Series of Plant Bonds, the occurrence of which requires such an opinion, a written legal opinion of Bond Counsel to the effect that such action, in and of itself, is permitted under the Plant Indenture and will not have an adverse effect on the exclusion of interest on such Tax Exempt Series of Plant Bonds from gross income for purposes of federal income taxation.

Fees and Expenses means with respect to any Fiduciary, the Issuer or any Additional Plant Lender, the scheduled periodic fees and expenses of such Person as set forth in the Plant Indenture or any supplement thereto or any other Plant Financing Documents and all out-of-pocket expenses of such Person incurred under any Plant Financing Document.

Fiduciary means the Plant Trustee, the Collateral Agent, the Paying Agent or a Depository Bank or any or all of them, as may be appropriate, and any other fiduciary with respect to Additional Plant Senior Debt as specified in the related Plant Financing Documents, which may include a remarketing agent, tender agent auction agent or broker-dealer for Plant Bonds bearing interest at variable or auction rates.

Financial Model means the financial formulas that were audited by the Independent Engineer prior to the Series 2012 Closing Date, which financial formulas were used to prepare the Base Case Financial Projections, but which do not include the data and information used by or incorporated into the Base Case Financial Projections or any Current Case Financial Projections, as such financial formulas may be revised from time to time in accordance with the Collateral Trust Agreement.

Financial Projections means the projections for the financial performance of the Plant from the date as of which they were prepared to the latest maturity date of the then Outstanding Senior Debt.

Fiscal Year means the period beginning on January 1 of each year and ending on the next succeeding December 31, or any other twelve-month period hereafter designated by the Company as the fiscal year of the Company.

Fiscal Year Calculation Date is defined in the forepart of this Limited Offering Memorandum under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Collateral Trust Agreement – Special Maintenance Reserve Fund.”

Fixed Annual Costs is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Water Purchase Agreement – Product Water Purchase Price.”

Fixed O&M Costs for any period, fixed payments to IDE Americas pursuant to the O&M Agreement, administrative costs charged to the Company, property taxes; rent under the Ground Lease and insurance payments not included in the fixed payments to IDE Americas that, in each case, would be expected to be incurred for such period as reflected in the then-current Operating Budget.

Fixed Unit Price is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Water Purchase Agreement – Product Water Purchase Price.”

Funds Available for Distribution is defined in the forepart of this Limited Offering Memorandum under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS — Collateral Trust Agreement — Distribution and Stabilization Fund.”

GAAP is defined in the forepart of this Limited Offering Memorandum under “SUMMARY FINANCIAL INFORMATION.”

General Resolution means the Water Authority’s resolution originally adopted on May 11, 1989, Resolution No. 89-21, entitled “A Resolution of the Board of Directors of the San Diego County Water Authority Providing for the Allocation of Water System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Revenues,” which was supplemented by Resolution No. 97-52 adopted on December 11, 1997 and by Resolution No. 09-23 adopted on December 17, 2009.

GHG Plan means the Energy Minimization and Greenhouse Gas Reduction Plan adopted by the Company in connection with the land use and zoning permits obtained by the Company for the Plant.

Governmental Authority means the government of the United States of America or any other nation, any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

Governmental Obligations means a bond, note or other evidence of indebtedness issued by the State or any agency or political subdivision of the State or any local agency, which is described by Sections 103 and 141-150 of the Code.

Government Code is defined in the forepart of this Limited Offering Memorandum under “INVESTMENT RISKS – Enforcement of Judgments Against the Water Authority.”

Ground Lease means the Second Amended and Restated Ground Lease and Easement Agreement, dated as of April 7, 2011, between Cabrillo Power I LLC and the Company, as amended pursuant to the First Amendment, dated as of October 5, 2010; the Second Amendment, dated as of December 14, 2011; the Third Amendment, dated as of February 10, 2012; the Fourth Amendment, dated as of March 23, 2012; the Fifth Amendment, dated as of April 24, 2012; the Sixth Amendment, dated as of May 15, 2012; the Seventh Amendment, dated as of June 19, 2012; the Eighth Amendment, dated as of July 31, 2012; the Ninth Amendment, dated as of August 9, 2012; the Tenth Amendment, dated as of December 11, 2012 and the Eleventh Amendment dated as of February 16, 2018.

Ground Lease Restoration Reserve Amount means an amount to be agreed on by the Ground Lessor and the Company as the anticipated cost to be incurred by Poseidon in satisfying its obligation under the Ground Lease to restore the Plant Site at the end of the term thereof.

Ground Lease Restoration Reserve Fund means the fund of that name established pursuant to the Collateral Trust Agreement.

Ground Lessor means Cabrillo.

Guarantee of or by any Person (the “guarantor”) means any obligation, contingent or otherwise, of (a) the guarantor or (b) another Person (including any bank under a letter of credit) to induce the creation of which the guarantor has issued a reimbursement, counterindemnity or similar obligation, in either case guaranteeing or having the economic effect of guaranteeing any Debt or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation, contingent or otherwise, of the guarantor, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Debt or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt or other obligation of the payment of such Debt or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt or other obligation, (iv) as an account party in respect of any letter of credit or letter of guaranty issued to support such Debt or obligation or (v) to otherwise assure or hold harmless the owner of such Debt or other obligation against loss in respect thereof; provided, however, that the term “Guarantee” will not include endorsements for collection or deposit in the ordinary course of business.

Guaranteed Completion Date means the date that is 1,065 days after the date specified by the Company for the commencement of construction, as it may be extended in accordance with the terms of the Plant EPC Contract.

Hazardous Substances means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Pipeline or to persons on or about facilities relating to the Pipeline or (ii) cause the Pipeline to be in violation of any Environmental Regulation; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of “waste,” “hazardous substances,” “hazardous wastes,” “hazardous materials,” “extremely hazardous waste,” “restricted hazardous waste,” or “toxic substances” or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act (“RCRA”), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Hazardous Waste Control Law (“HWCL”), Cal. Health & Safety Code §§ 25100 et seq.; the Hazardous Substance Account Act (“HSAA”), Cal. Health & Safety Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety Code §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the “Porter-Cologne Act”), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of users and consumers of water delivered by the Pipeline or the owners and/or occupants of property adjacent to or surrounding the Pipeline, or any other person coming into contact with the Pipeline or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

IDE means IDE Technologies, Ltd.

IDE Americas means IDE Americas, Inc.

IDE Americas Subcontract is defined in the forepart of this Limited Offering Memorandum under “INTRODUCTION.”

IDE Subcontract means the Process Services Agreement, dated December 20, 2012 between the EPC Contractor and IDE Americas.

Independent Engineer means Black & Veatch and any successor consulting engineering firm engaged by the Company, and reasonably acceptable to a Senior Debt Majority, to perform the duties of the Independent Engineer under the Plant Financing Documents; provided that any successor Independent Engineer must be a nationally recognized consulting engineering firm in the field of reverse osmosis and independent of and not under the direct or indirect control of the Company or any Secured Party.

Index-Linked, with respect to an amount at any time, means that the amount is increased as of July 1 of each Contract Year by adding to it (1) an amount equal to such amount, multiplied by (2) the sum of the following percentages:

(1) The percentage representing the increase in the Inflation Index from (a) the Inflation Index for the last six months of the Contract Year ending on June 30, 2012, to (b) the Inflation Index for the last six months of the Contract Year immediately preceding the Contract Year for which a determination is to be made; and

(2) One-half of a percentage determined by dividing (a) the percentage determined under item (1) of this definition, by (b) the number of Contract Years occurring between the Contract Year ending on June 30, 2012 and the Contract Year ending on June 30 preceding the Contract Year with respect to which a determination is to be made.

Inflation Index means, with respect to items related to the Operating Work, the Consumer Price Index, All Urban Consumers (CPI-U) (1982-84 = 100) for the San Diego MSA published by the Bureau of Labor Statistics of the United States Department of Labor; provided, however, that if such Consumer Price Index shall cease to exist or is changed, then the term “Inflation Index” shall mean such other or similar index or formula as the parties reasonably select.

Insolvency or Liquidation Proceeding means:

(a) any voluntary or involuntary case or proceeding under any Bankruptcy Law with respect to the Company;

(b) any other voluntary or involuntary insolvency, reorganization or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding with respect to the Company or with respect to a material portion of its assets;

(c) any liquidation, dissolution, reorganization or winding up of the Company, whether voluntary or involuntary, and whether or not involving insolvency or bankruptcy; or

(d) any assignment for the benefit of creditors or any other marshaling of assets and liabilities of the Company.

Installment Sale Payments is defined in the forepart of this Limited Offering Memorandum under “INTRODUCTION.”

Installment Sale and Assignment Agreement means Pipeline Installment Sale and Assignment Agreement dated as of December 24, 2012, as amended, between the Water Authority Financing Agency and the Water Authority.

Insured Plant Bonds means any Plant Bonds that are insured by a Bond Insurance Policy.

Intake System Modifications is defined in the forepart of this Limited Offering Memorandum under “INTRODUCTION.”

Interest Hedging Arrangement means any interest rate swap similar arrangement between the Company (or its agent or nominee) and one or more banks or other financial institutions providing for the transfer or mitigation of interest risks either generally or under specific contingencies (including confirmations thereunder) that (i) require Counterparty Interest Hedging Payments to be made directly to the Collateral Agent, (ii) contain terms, and are otherwise in form and substance, customary for similar transactions; and (iii) cover transactions (as identified therein) having a notional principal amount in the aggregate less than or equal to the aggregate principal amount of hedged Plant Senior Debt (if necessary, as the same may be reasonably estimated by the Company and confirmed by a Senior Debt Majority).

Interest Hedging Counterparty means a Person that is a counterparty to any Interest Hedging Arrangement.

Interest Payment Date means each January 1 and July 1.

Interim Intake Improvements is defined in the forepart of this Limited Offering Memorandum under “THE PROJECT – Intake System Modifications – Permanent Pump Shutdown.”

IP Sublicense means the Patent License Agreement, dated as of January 30, 2006, among Poseidon Resources IP LLC, as licensor, and Poseidon Resources, LLC, Poseidon Resources (Channelside) LP and Poseidon Resources (Surfside) LLC, as licensees.

Issuer means California Pollution Control Financing Authority created pursuant to, and as defined in, the Act.

J.F. Shea is defined in the forepart of this Limited Offering Memorandum under “PROJECT PARTICIPANTS – Kiewit Shea Desalination.”

JPA Act is defined in the forepart of this Limited Offering Memorandum under “THE FINANCING AGENCY.”

kgal is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Management Services Agreement – O&M Agreement with IDE Americas.”

Kiewit Infrastructure Group is defined in the forepart of this Limited Offering Memorandum under “PROJECT PARTICIPANTS – Kiewit Shea Desalination.”

Kiewit Infrastructure West is defined in the forepart of this Limited Offering Memorandum under “PROJECT PARTICIPANTS – Kiewit Shea Desalination.”

Lagoon is defined in the forepart of this Limited Offering Memorandum under “INTRODUCTION.”

Lien as defined in the Collateral Trust Agreement means, with respect to any Property, (a) any mortgage, deed of trust, lien (statutory or otherwise), pledge, hypothecation, encumbrance, collateral assignment, charge or security interest in, on or of such Property, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such Property and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

Limited Partner means Poseidon Resources Channelside Holding LLC, a Delaware limited liability company and any subsequent or additional limited partners of the Company.

Loan Agreement means the Loan Agreement between the Issuer and the Company, as from time to time amended and supplemented including for the purpose of evidencing a loan of the proceeds of Additional Plant Bonds.

Loan Default Event is defined in the summary of the Loan Agreement in Appendix F to this Limited Offering Memorandum under the heading “Loan Default Event”.

Loan Repayments means the payments so designated and required to be made by the Company pursuant to the Loan Agreement.

Maintenance and Operation Costs means all costs paid or incurred by the Water Authority for maintaining and operating the Water System, determined in accordance with Generally Accepted

Accounting Principles, including all costs of water purchased by the Water Authority for resale, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the Water Authority, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the Water Authority or charges required to be paid by it to comply with the terms of the General Resolution or of any resolution authorizing the execution of any Contract or of such Contract or of any resolution authorizing the issuance of any Bonds or of such Bonds, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Contracts or Bonds and fees and expenses of independent certified public accountants, but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, (2) interest expense and (3) amounts paid from other than Water Revenues (including, but not limited to, amounts paid from the proceeds of *ad valorem* property taxes).

Management Services Agreement means the Management Services Agreement, dated as of December 24, 2012, among the Company, the Poseidon GP and Poseidon Water LLC.

Material Adverse Effect means any event or occurrence of whatever nature which has resulted or would reasonably be expected to result in a material adverse change in (a) the business, operations or financial condition of the Company, (b) the ownership, use or operation of the Plant (c) the ability of the Company to perform its obligations under the Plant Financing Documents or the Principal Project Contracts or (d) the validity or enforceability of the Plant Financing Documents, Principal Project Contracts or the IP Sublicense or the remedies of the holders of Plant Senior Debt or the Collateral Agent under the Plant Financing Documents. For purposes of this definition, an act, event or condition is deemed to have a material adverse effect if it delays the Commercial Operation Date by delaying critical tasks on the critical path schedule. For purposes of giving notice to the Collateral Agent pursuant to the Loan Agreement, “Material Adverse Effect” will not include any adverse change, event, development, or effect arising from or relating to (i) general business or economic conditions, (ii) national or international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack upon the United States, or any of its territories, possessions, or diplomatic or consular offices or upon any military installation, equipment or personnel of the United States, (iii) financial, banking or securities markets (including any disruption thereof and any decline in the price of any security or any market index), or (iv) changes in GAAP, except, in each case, to the extent that any such event or occurrence has had or would reasonably be expected to have a materially disproportionate impact on the business, financial condition or results of operations of the Company relative to other industry participants.

Material Decrease in Coverage means with respect to the taking of any action:

- (a) if the action is a Change Order Amendment, then:
 - (i) such action will not decrease the projected average annual Debt Service Coverage Ratio for the remaining term of the Outstanding Senior Debt from that set forth in the Base Case; or
 - (ii) if such action is required to respond to the effects of one or more Uncontrollable Circumstances:
 - (A) such action will not decrease the projected average annual Debt Service Coverage Ratio for the remaining term of the Outstanding Senior Debt from the projected average annual Debt Service Coverage Ratio if no such action were taken; and

(B) the projected Debt Service Coverage Ratio following the taking of such action is not less than 1.00 in any succeeding Fiscal Year.

(b) if the action occurs after the Commercial Operation Date, and is not a Change Order Amendment, then, either:

(i)

(A) if the Debt Service Coverage Ratio for the most recently completed Fiscal Year was 1.20 or greater, (1) the projected average annual Debt Service Coverage Ratio for the remaining term of the then Outstanding Senior Debt is not reduced by more than 10% and (2) the projected Debt Service Coverage Ratio is not reduced below 1.20 for any succeeding Fiscal Year; or

(B) if the Debt Service Coverage Ratio for the most recently completed Fiscal Year was less than 1.20, the projected Debt Service Coverage Ratio is not less than the level achieved in such prior Fiscal Year for any succeeding Fiscal Year;

or:

(ii) if the proposed action or event is required to respond to the effects of one or more Uncontrollable Circumstances,

(A) such action will not decrease the projected average annual Debt Service Coverage Ratio for the remaining term of the Outstanding Senior Debt from the projected average annual Debt Service Coverage Ratio if no such action were taken; and

(B) the projected Debt Service Coverage Ratio following the taking of such action is not less than 1.00 in any succeeding Fiscal Year.

Maximum Annual Supply Commitment is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Water Purchase Agreement – Delivery and Purchase Obligations.”

Maximum Lawful Rate means the maximum rate of interest on the relevant obligation permitted by applicable law.

Maximum Monthly Supply Commitment is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Water Purchase Agreement – Delivery and Purchase Obligations.”

Maximum Rate means the lesser of (a) the rate of 12% per annum calculated in the same manner as interest is calculated for the particular interest rate on the Plant Bonds and (b) the Maximum Lawful Rate.

MG is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Management Services Agreement – O&M Agreement with IDE Americas.”

MGD is defined in the forepart of this Limited Offering Memorandum under “INTRODUCTION.”

Minimum Annual Demand Commitment is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Water Purchase Agreement – Delivery and Purchase Obligations.”

Minimum Monthly Demand Commitment is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Water Purchase Agreement – Delivery and Purchase Obligations.”

MLMP means the Marine Life Mitigation Plan that was established by the Company in connection with obtaining permits for the construction of the Plant, as amended from time to time.

Monthly Disbursement Date means the fifth Business Date of any month commencing after the Commercial Operation Date or, if not a Business Day, the next Business Day thereafter.

Monthly Ground Lease Restoration Amount means one-thirty-sixth (1/36th) of the Ground Lease Restoration Reserve Amount.

Monthly Permanent Pump Shutdown Amount means one-thirty-sixth (1/36th) of the Permanent Pump Shutdown Reserve Amount.

Moody’s means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, Moody’s will be deemed to refer to any other nationally recognized securities rating agency designated by the Company, with notice to the Collateral Agent and the Secured Parties.

Municipal Advisors is defined in the forepart of this Limited Offering Memorandum under “MUNICIPAL ADVISORS.”

Multiemployer Plan means a “multiemployer plan” as defined in Section 3(37) or 4001(a)(3) of ERISA to which the Company or one of its ERISA Affiliates has an obligation to contribute.

Net Capital Proceeds means, with respect to any item of Capital Proceeds, such Capital Proceeds (a) net of any Collection Expenses related to such Capital Proceeds, or (b) if such Capital Proceeds are proceeds of Additional Plant Senior Debt issued to fund a Capital Project, the proceeds of Additional Plant Senior Debt issued to fund a Capital Project, net of costs incurred by the Company in the issuance thereof. As used in this definition, “Collection Expenses” means all reasonable and documented out-of-pocket costs and expenses (if any) and, if applicable, reasonable transaction costs (including legal and accounting fees and expenses, and taxes paid or payable as a result thereof), incurred by the Company in connection with the collection, enforcement, negotiation, consummation, settlement, proceedings, administration or other activity related to the receipt or collection of any Capital Proceeds.

Net Cash Flow means for any Calculation Period, computed without duplication, (a) Plant Revenues received by the Company for Calculation Period, minus (b) O&M Costs payable for such Calculation Period (except to the extent paid from an account in the Working Capital Reserve Fund or the Special Maintenance Reserve Fund or the Distribution and Stabilization Fund) and the amount of Fiduciary Fees payable for such Calculation Period.

NPDES is defined in the forepart of this Limited Offering Memorandum under “THE PROJECT –Intake System Modifications – Permitting the Intake System Modifications.”

NRG is defined in the forepart of this Limited Offering Memorandum under “PROJECT PARTICIPANTS – Cabrillo Power I LLC.”

NOA is defined in the forepart of this Limited Offering Memorandum under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS — Collateral Trust Agreement — Wetlands Mitigation Reserve Fund.”

O&M Agreement is defined in the forepart of this Limited Offering Memorandum under “INTRODUCTION.”

O&M Costs means, without duplication, all actual cash maintenance and operation costs for the Plant paid or reimbursed by the Company in any calendar or fiscal year or period to which said term is applicable, and all payments made by the Company:

- (a) under any Permit or Project Contract, excluding Contracted Shortfall Payments and Annual Adjusted Supply Commitment True Up Payments;
- (b) for energy, additives or chemicals and transportation costs related thereto;
- (c) for the costs of obtaining any other materials, supplies, utilities, or services for the Plant;
- (d) for employee salaries, wages, and other employee-related costs;
- (e) for fees, expenses and other amounts paid by the Company for accounting, business, tax and financial management, and administrative services;
- (f) for capital maintenance expenditures (other than in connection with Capital Projects to the extent funded from the Plant Restoration Fund);
- (g) for Taxes (other than those based upon the Company’s income), and any payments in lieu of taxes;
- (h) for insurance, consumables, spare parts, equipment, material, repair and maintenance services;
- (i) in the form of lease, easement, license and similar payments;
- (j) for fees, expenses, indemnity payments and other amounts (including reimbursement amounts) payable to the provider of any surety bond, letter of credit (except a Plant Letter of Credit) or similar instrument provided to a counterparty to a Project Contract or issuer of a Permit as security for the performance of the Company’s obligations thereunder, and any cash collateral required to be provided in connection therewith and security deposits made to applicable counterparties to the Project Contracts (to the extent not paid out of any Account designated as a reserve for such payments under the Collateral Trust Agreement);
- (k) under any parts or services agreement;
- (l) for legal fees and consulting fees and expenses paid by the Company in connection with the financing, management, maintenance or operation of the Plant;

(m) for fees and other costs paid in connection with obtaining, transferring, maintaining or amending any Permits (including the costs of any required wetlands mitigation or acquisition of RECs and VERs, unless paid out of the REC/VER Reserve Fund) but excluding any Permits required to be obtained in connection with a Permanent Pump Shutdown;

(n) for amounts paid to the IDE Americans;

(o) for reasonable general and administrative expenses, including all expenses incurred to prevent the occurrence of any default under any Plant Financing Document or Project Contract and/or to keep the Collateral free and clear of all Liens (other than Permitted Encumbrances) and for all other fees and expenses necessary for the continued operation and maintenance of the Plant and the conduct of business of the Plant;

(p) for fees and expenses of the Issuer; and

(q) for other amounts to the extent specified in the then effective Operating Budget for the Plant.

O&M Costs do not include (i) Restricted Payments, (ii) non-cash charges, including depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, (iii) Project Costs, (iv) payments for Capital Projects from the Plant Restoration Fund, (v) payments in respect of Debt of the Company (other than Debt of the type referred to in clause (j) above, clause (h) of the definition of Debt or clauses (iii), (iv) and (vi) of the definition of Permitted Plant Debt, or (vi) any income taxes of the Company.

Ocean Plan Amendment is defined in the forepart of this Limited Offering Memorandum under “INTRODUCTION.”

Omnibus Amendment is defined in the forepart of this Limited Offering Memorandum under “PLAN OF REFUNDING.”

Operating Budget means an operating budget for the Plant prepared in accordance with the requirements of the Loan Agreement.

Operating Fund means the fund of such name established pursuant to the Collateral Trust Agreement.

Operating Period means the period between the Commercial Operation Date and the Termination Date.

Operating Period Shortfall Payment is defined in the forepart of this Limited Offering Memorandum under “INTRODUCTION”.

Operating Work means everything required to be furnished and done relating to the operation, maintenance and management of the Project by the Company pursuant to the Water Purchase Agreement during the Operating Period.

Order is defined in the forepart of this Limited Offering Memorandum under “THE PROJECT – Intake System Modifications – Permitting the Intake System Modifications.”

Original Collateral Trust Agreement is defined in the forepart of this Limited Offering Memorandum under “PLAN OF REFUNDING.”

Original Installment Sale and Assignment Agreement is defined in the forepart of this Limited Offering Memorandum under “PLAN OF REFUNDING.”

Original Plant Loan Agreement is defined in the forepart of this Limited Offering Memorandum under “PLAN OF REFUNDING.”

Original Pipeline Loan Agreement is defined in the forepart of this Limited Offering Memorandum under “PLAN OF REFUNDING.”

Orion is defined in the forepart of this Limited Offering Memorandum under “PROJECT PARTICIPANTS – Poseidon Resources (Channelside) LP.”

Orion Water Acquisitions is defined in the forepart of this Limited Offering Memorandum under “PROJECT PARTICIPANTS – Poseidon Resources (Channelside) LP.”

Outstanding in connection with the Plant Bonds means, as of the time in question, all Plant Bonds authenticated and delivered under the Plant Indenture, except:

- (a) Plant Bonds theretofore canceled or required to be canceled pursuant to the Plant Indenture following payment of the principal thereof, or not presented for payment when the principal thereof became due and for which funds sufficient to pay such Plant Bonds have been segregated and are being held in trust by the Plant Trustee;
- (b) Plant Bonds which are deemed to have been paid in accordance with the defeasance provisions of the Plant Indenture;
- (c) Plant Bonds (including Plant Bonds which are deemed to have been purchased pursuant to the Plant Indenture) in substitution for which other Plant Bonds have been authenticated and delivered pursuant to the Plant Indenture; and
- (d) Mutilated, destroyed, lost or stolen Plant Bonds that have matured prior to the issuance of a replacement bond and paid by the Plant Trustee.

In determining whether the Owners of a requisite aggregate principal amount of Outstanding Plant Bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of the Plant Indenture, Plant Bonds that are owned of record by the Company or any Affiliate thereof or held by the Plant Trustee for the account of the Company will be disregarded and deemed not to be Outstanding under the Plant Indenture for the purpose of any such determination (except that, in determining whether the Plant Trustee will be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Plant Bonds which the Plant Trustee knows to be so owned or held will be disregarded) unless all Plant Bonds are owned by the Company or any Affiliate thereof and/or held by the Plant Trustee for the account of the Company, in which case such Plant Bonds will be considered Outstanding for the purpose of such determination.

Outstanding in connection with the Pipeline Bonds means, as of the time in question, all Pipeline Bonds authenticated and delivered under the Pipeline Indenture, except:

- (A) Pipeline Bonds theretofore canceled or required to be canceled under Section 210 of the Pipeline Indenture or described in Section 607 of the Pipeline Indenture;

(B) Pipeline Bonds which are deemed to have been paid in accordance with Article VIII of the Pipeline Indenture;

(C) Pipeline Bonds in substitution for which other Pipeline Bonds have been authenticated and delivered pursuant to Article II of the Pipeline Indenture; and

(D) Pipeline Bonds paid pursuant to Section 207 of the Pipeline Indenture.

In determining whether the Owners of a requisite aggregate principal amount of Outstanding Pipeline Bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of the Pipeline Indenture, Pipeline Bonds that are owned of record by the Water Authority or any Affiliate thereof or held by the Pipeline Trustee for the account of the Water Authority shall be disregarded and deemed not to be Outstanding under the Pipeline Indenture for the purpose of any such determination (except that, in determining whether the Pipeline Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Pipeline Bonds which the Pipeline Trustee knows to be so owned or held shall be disregarded) unless all Pipeline Bonds are owned by the Water Authority or any Affiliate thereof and/or held by the Pipeline Trustee for the account of the Water Authority, in which case such Pipeline Bonds shall be considered Outstanding for the purpose of such determination.

Outstanding in connection with Additional Plant Senior Debt other than Additional Plant Bonds means, as of the time in question, any such Additional Plant Senior Debt that has not been paid in full.

Outstanding Plant Debt means the aggregate principal amount of the Outstanding Plant Bonds and Outstanding Additional Plant Senior Debt that is not Plant Bonds.

Outstanding Senior Debt means the total of the Outstanding Plant Debt plus the Outstanding Pipeline Bonds.

Owner means a Registered Owner.

PABs is defined in the forepart of this Limited Offering Memorandum under “THE PROJECT – Intake System Modifications – Financing the Intake System Modifications.”

Participant means a member of, or a participant in, the Securities Depository.

Partners means the Poseidon GP and the Limited Partner.

Paying Agent means the Plant Trustee.

Payment Office means the corporate trust office of the Plant Trustee where payment of principal, premium, if any, and interest on the Plant Bonds is made, as designated by the Plant Trustee from time to time. The initial Payment Office will be the office of the Plant Trustee in Los Angeles, California.

PBGC means the Pension Benefit Guaranty Corporation.

Pension Plan means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by Company, or any ERISA Affiliate or to which Company or any ERISA Affiliate

contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

Performance Guarantee Payments means the payments, if any, payable by the Plant EPC Contractor for the failure to achieve the performance levels during performance testing as described under “Plant EPC Contract” in Appendix H.

Permanent Pump Shutdown is defined in the forepart of this Limited Offering Memorandum under “INTRODUCTION.”

Permanent Pump Shutdown Account means the Account of that name established pursuant to the Collateral Trust Agreement.

Permanent Pump Shutdown Reserve Amount means the aggregate costs reasonably expected to be incurred by the Company in connection with the design, acquisition, construction, permitting and startup of replacement water circulating pumps and supporting infrastructure and any Permit requirements for the Plant after a Permanent Pump Shutdown, as set forth in a certificate signed by an Authorized Representative of the Company, and confirmed by the Independent Engineer, delivered to the Collateral Agent on or before the first Monthly Disbursement Date on which the Collateral Agent is required to transfer funds from the Revenue Account to the Permanent Pump Shutdown Reserve Account in accordance with the Collateral Trust Agreement; provided that the Permanent Pump Shutdown Reserve Amount will be adjusted to reflect (i) any Net Capital Proceeds of the type described in clauses (ix) and (x) of the definition of “Capital Proceeds” that are received by the Company in respect of the Capital Project for replacement water circulating pumps; and (ii) any revised estimates of such aggregate costs as may be certified by the Company and confirmed by the Independent Engineer in a certificate delivered to the Collateral Agent after such first Monthly Distribution Date.

Permits means any and all franchises, licenses, leases, permits, approvals, notifications, certifications, registrations, authorizations, exemptions, qualifications, easements, rights of way, Liens and other rights, privileges and approvals required to be granted or entered into by, or filed or made with, any Governmental Authority under Applicable Law.

Permitted Debt is defined in the forepart of this Limited Offering Memorandum under “PROJECT OPERATION – Water Purchase Agreement – Financing.”

Permitted Plant Debt means (i) Debt under the Plant Financing Documents, the Project Contracts and the Permits, (ii) Additional Plant Senior Debt, (iii) trade payables, (iv) purchase money indebtedness or Capital Lease Obligations incurred to finance discrete items of equipment with a principal amount or capitalized portion not exceeding \$5,000,000 (Escalated) in the aggregate (in each case not exceeding the purchase price plus reasonable expenses), (v) Debt subordinate to the Senior Debt on terms set forth in the Plant Financing Documents and payable solely out of funds disbursed to the Company from the Distribution and Stabilization Account in accordance with the Collateral Trust Agreement, and (vi) obligations in respect of surety bonds, letters of credit, cash security deposits or similar instruments which the Company is required to deliver to other Persons under any Project Contract or Permit.

Permitted Encumbrances means

(1) undetermined Liens and charges incident to construction or maintenance, and Liens and charges incident to construction or maintenance now or hereafter filed of record that are being contested in good faith and have not proceeded to final judgment (and for which all

applicable periods for appeal or review have not expired), provided that the Company has delivered a surety bond therefor to the Collateral Agent in form and substance acceptable to a Senior Debt Majority;

(2) notices of lis pendens or other notices of or Liens with respect to pending actions which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), provided that the Company has set aside reserves with respect thereto in accordance with GAAP;

(3) the Lien of taxes, assessments, or other governmental charges which are not delinquent, or if delinquent are payable without penalty or are being contested in good faith; provided that the Company has set aside reserves with respect to any taxes, assessments or other governmental charges which are being contested which, in the opinion of its governing board, are adequate;

(4) minor defects and irregularities in the title to the Plant which in the aggregate do not materially adversely affect the value or operation of the Plant for the purposes for which it is or may reasonably be expected to be used;

(5) easements, exceptions or reservations for the purpose of ingress and egress, parking, pipelines, telephone lines, telegraph lines, power lines and substations, roads, streets, alleys, highways, railroad purposes, drainage and sewerage purposes, dikes, canals, laterals, ditches, the removal of oil, gas, coal or other minerals, and other like purposes, or for the joint or common use of real property, facilities and equipment, which in the aggregate do not materially interfere with or impair the operation of the Plant;

(6) rights reserved to or vested in any municipality or governmental or other public authority to control or regulate or use in any manner any portion of the Plant which do not materially impair the operation of the Plant for the purposes for which they are or may reasonably be expected to be used;

(7) present or future valid zoning laws and ordinances;

(8) the rights of the Issuer, the Company, the Collateral Agent and the Secured Parties under the Plant Financing Documents and the Lien and charge of the Plant Indenture and the Collateral Documents;

(9) Liens securing indebtedness for the payment, redemption or satisfaction of which money (or evidences of indebtedness) in the necessary amount has been deposited in trust with a trustee or other holder of such indebtedness;

(10) purchase money security interests and security interests existing on any personal property prior to the time of its acquisition by the Company through purchase, merger, consolidation or otherwise, whether or not assumed by the Company, or placed upon property being acquired by the Company to secure a portion of the purchase price thereof, or lessor's interests in leases required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP;

(11) statutory Liens (including mechanics Liens) arising in the ordinary course of business, or during the construction of the Plant or any Capital Project that are (i) not delinquent, (ii) being contested in good faith by the Company or (iii) subject in full to surety bonds,

performance bonds or similar arrangements with third party sureties or indemnitors or similar Persons or are fully insured by the Title Insurance Policy issued by Fidelity National Title Company on the Series 2012 Closing Date;

(12) the lease or license of the use of a part of the Plant for use in performing professional or other services necessary for the development, construction, operation and maintenance of the Plant in accordance with customary business practices in the industry;

(13) Liens of the Plant EPC Contractor in respect of the Contractor Security Account and the rights of the counterparties to the Project Contracts under the terms thereof;

(14) any exceptions to title existing as of the date of issuance of the Series 2012 Plant Bonds listed in in the Title Insurance Policy issued by issued by Fidelity National Title Company on the Series 2012 Closing Date;

(15) ordinary course Liens, or those arising during the construction of the Plant or any Capital Project, in connection with worker's compensation and unemployment insurance or other social security or pension obligations;

(16) Liens associated with trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business, or during the construction of the Plant or any Capital Project, so long as such trade accounts are payable within 90 days of the date the related goods are delivered or the related services are rendered;

(17) Liens on accounts or deposits containing cash or other Property dedicated to providing security for surety bonds, letters of credit or similar instruments which the Company is required to deliver to other Persons under any Project Contract or Permit; other deposits or pledges to secure statutory obligations or appeals; releases of attachments, stays of execution or injunctions; performance bids, tenders, contracts (other than for the repayment of borrowed money) or leases; or for purposes of like general nature in the ordinary course of business, or during the construction of the Plant or any Capital Project;

(18) judgment Liens if an appeal thereof is being prosecuted and for which reserves required in accordance with GAAP have been provided;

(19) Liens granted (i) under the Subordinated Deed of Trust and Subordinated Security Agreement made by the Company in favor of the City of Carlsbad pursuant to the Development Agreement and any other rights granted to the City of Carlsbad under the Development Agreement which constitute Liens and (ii) in favor of the Plant EPC Contractor in the Contractor Security Account and any funds therein and proceeds thereof;

(20) rights granted to the Ground Lessor under the Ground Lease that constitute Liens;

(21) any Liens granted to the Ground Lessor's lenders to the extent such lenders provide the Company with non-disturbance rights in accordance with Section 15.6 of the Ground Lease and any Liens granted by the Ground Lessor that are subordinate to the Ground Lease;

(22) any involuntary Liens not described in clauses (1) through (21) above of less than \$100,000 (Escalated) in the aggregate; and

(23) any other Liens not described in clauses (1) through (22) above on assets which have a fair market value of less than \$500,000 (Escalated) in the aggregate.

Person means any natural person, corporation, trust, business trust, joint venture, joint stock company, association, company, limited liability company, partnership, Governmental Authority or other entity.

Pipeline means, collectively, the pipelines, pumps, connectors and related equipment and structures required to deliver product water from the outlet flange of the product water pump station at the Plant Site to Water Authority's aqueduct.

Pipeline Bond Related Payments means, for any month, one-twelfth of the applicable "Annual Pipeline Bond Costs" set forth in a table in the Water Purchase Agreement for the applicable Budget Year.

Pipeline Bonds means the Series 2019 Pipeline Bonds and any Additional Pipeline Bonds.

Pipeline Bond Fund is defined in the forepart of this Limited Offering Memorandum under "THE SERIES 2019 PIPELINE BONDS – Redemption of Series 2019 Pipeline Bonds – Mandatory Sinking Fund Redemption."

Pipeline Bond Payment Date is defined in the forepart of this Limited Offering Memorandum under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Pipeline Loan Agreement."

Pipeline DBA means Design-Build Agreement for Product Water Pipeline Improvements Relating to the Carlsbad Seawater Desalination Project, dated as of December 24, 2012, between the Company and the Water Authority.

Pipeline Debt Service Reserve Requirement means, on any Monthly Disbursement Date, (a) for the Series 2019 Pipeline Bonds, an amount equal to the principal and interest due with respect to the Series 2019 Pipeline Bonds during the 12-month period succeeding such Monthly Disbursement Date, provided that such amount shall not exceed the lesser of the following, calculated as of the Closing Date, (i) 10% of the stated principal amount of the Series 2019 Pipeline Bonds, if the original issue discount does not exceed 2% times the stated redemption price of the Series 2019 Pipeline Bonds, or 10% of the issue price, if the original issue discount does exceed 2% times the stated redemption price of the Series 2019 Pipeline Bonds, (ii) the maximum annual principal and interest requirements on the Series 2019 Pipeline Bonds, based on a 12-month period ending July 1, or (iii) 125% of the average annual principal and interest requirements on the Series 2019 Pipeline Bonds, which amount is \$16,861,045.10, and (b) for any Additional Pipeline Bonds, the amount set forth in the related supplemental indenture.

Pipeline EPC Contract means the Product Water Delivery System Engineering, Procurement and Construction Services Agreement between the Company and the Pipeline EPC Contractor.

Pipeline EPC Contractor means Kiewit Shea Desalination, a joint venture of Kiewit Infrastructure West Co. and J.F. Shea Construction, Inc.

Pipeline Indenture means the Trust Indenture between the Issuer and the Pipeline Trustee, pursuant to which the Series 2019 Pipeline Bonds will be issued.

Pipeline Interest Payment Factor means, for any Budget Year or any month in a Budget Year, a fraction the numerator of which is the aggregate of the applicable amount of "Pipeline Bond Net Interest"

set forth in a table in the Water Purchase Agreement for such Budget Year and the denominator of which is the Pipeline Bond Related Payments for such Budget Year.

Pipeline Loan Agreement is defined in the forepart of this Limited Offering Memorandum under “PLAN OF REFUNDING.”

Pipeline Loan Repayments is defined in the forepart of this Limited Offering Memorandum under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Pipeline Loan Agreement.”

Pipeline Principal Payment Factor means, for any Budget Year or any month in a Budget Year, a fraction the numerator of which is the applicable amount of “Pipeline Bond Principal” set forth in a table in the Water Purchase Agreement for such Budget Year and the denominator of which is the Pipeline Bond Related Payments for such Budget Year.

Pipeline Reserve Increase Factor means, for any Budget Year or any month in a Budget Year, a fraction the numerator of which is the applicable amount of “Net Deposits to DSRF” set forth in a table in the Water Purchase Agreement for the applicable Budget Year and the denominator of which is the Pipeline Bond Related Payments for such Budget Year.

Pipeline Revenue Fund means the fund designated as the Revenue Fund under the Pipeline Indenture.

Pipeline Trust Estate is defined in the forepart of this Limited Offering Memorandum under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – General.”

Pipeline Trustee means MUFG Union Bank, N.A.

Plant means the reverse osmosis seawater desalination facility together with related pumps, pipelines, connectors and other equipment and structures constructed, operated and maintained on the Company Real Property in Carlsbad, California, and all ancillary facilities, equipment and infrastructure in connection therewith.

Plant Bond Fund means the fund of that name created under the Plant Indenture.

Plant Bonds means the Series 2012 Plant Bonds and any Additional Plant Bonds.

Plant Construction Account means the account designated as the Construction Account in the Collateral Trust Agreement in connection with the issuance of the Series 2012 Plant Bonds.

Plant Contractor Security Account means the account designated as the Contractor Security Account under the Collateral Trust Agreement.

Plant Debt Service Reserve Fund means the fund designated as the Debt Service Reserve Fund under the Collateral Trust Agreement.

Plant Debt Service Reserve Requirement means, with respect to any 12-month period (a) for the Series 2012 Plant Bonds, (i) prior to the Commercial Operation Date \$26,517,250, and (ii) thereafter an amount equal to the Revenues to be transferred by the Collateral Agent to the Plant Trustee during such 12-month period with respect to principal, premium, if any, and interest pursuant to the Collateral

Trust Agreement, and (b) for any Additional Plant Senior Debt, the amount set forth in the related Financing Documents.

Plant Default means any event which with the giving of notice, the passage of time, or both, would become a Plant Event of Default.

Plant EPC Contract means the Desalination Facility Engineering, Procurement and Construction Services Agreement between the Company and the Plant EPC Contractor.

Plant Event of Default means an Event of Default under the Plant Indenture as described in the summary of the Plant Indenture in Appendix I, a Plant Loan Default as described in the summary of the Plant Loan Agreement in Appendix I or an event of default identified in any other Plant Financing Document entered into in respect of Additional Plant Senior Debt that permits the exercise of remedies under such document.

Plant Financing Documents means (a) the Plant Bonds, the Plant Loan Agreement, the Plant Indenture, the Tax Agreement, (b) any purchase agreement or remarketing agreement entered into in connection with the Plant Senior Debt, (c) any agreement, document, indenture or instrument providing for or evidencing Secured Obligations owing to any Additional Plant Lender, and (d) the Collateral Documents.

Plant Indenture means the Trust Indenture between the Issuer and the Plant Trustee pursuant to which the Series 2012 Plant Bonds were issued, including any indentures supplemental to the Plant Indenture or amendatory of the Plant Indenture.

Plant Letter of Credit means any letter of credit securing obligations of the Company that is issued under a letter of credit and reimbursement facility described in the Collateral Trust Agreement, including the WPA Letter of Credit if issued under such facility.

Plant Letter of Credit Issuer means a bank or other financial institution that issues a Plant Letter of Credit.

Plant Loan Agreement is defined in the forepart of this Limited Offering Memorandum under “PLAN OF REFUNDING.”

Plant O&M Agreement means the Plant Operation, Maintenance, Repair and Replacement Agreement between the Company and IDE Americas.

Plant Project Fund means the fund designated as the Project Fund under the Collateral Trust Agreement.

Plant Restoration Fund means the fund of that name established pursuant to the Collateral Trust Agreement.

Plant Revenue Fund means the Revenue Fund established pursuant to the Collateral Trust Agreement.

Plant Revenues means, for any period, the sum of the following amounts attributable to that period (without duplication) and received by (or credited to the account of) the Company on a cash basis during such period:

- (a) all revenues under the Water Purchase Agreement and all other revenues from the operation of the Plant;
 - (b) all performance damages payable by the Operator;
 - (c) investment income on amounts on deposit in the Accounts held by the Plant Trustee or the Collateral Agent;
 - (d) proceeds of any insurance policy maintained by the Company pursuant to the Financing Documents, except Net Capital Proceeds;
 - (e) any cash security delivered by the Company under a Project Contract and returned to the Company;
 - (f) receipts derived from the sale of any property pertaining to the Plant or incidental to the operation of the Plant, except Net Capital Proceeds;
 - (g) Counterparty Interest Hedging Payments (but only to the extent that such payments are (x) not taken into account when calculating Debt Service, whether through netting them against Company Interest Hedging Payments or otherwise or (y) are not termination payments used by the Company to replace any Interest Hedging Arrangement with a new Interest Hedging Arrangement);
 - (h) any completion bonus or other payment to the Company under the Pipeline DBA that is not payable to the EPC Contractor pursuant to the Pipeline EPC Contract;
 - (i) all performance damage payments made by IDE Americas under the O&M Agreement;
- and
- (j) refunds received from SDG&E pursuant to the SDG&E Contract.

Revenues do not include (i) the proceeds of any drawings made under any Reserve Surety, (ii) proceeds from any Additional Plant Senior Debt, (iii) payments to the Company from the Operating Fund or the Working Capital Reserve Fund, (iv) amounts disbursed to the Company from the Distribution and Stabilization Fund, (v) Net Capital Proceeds, (vi) moneys received from the Company representing equity contributions or loans from its Partners, and (vii) Retained Rights.

Plant Senior Debt means the Company's obligations under the Plant Loan Agreement, its obligation to make Contracted Shortfall Payments and its obligations with respect to any Additional Plant Senior Debt.

Plant Site means the real property subject to the Ground Lease and all easements and rights or interests in real property granted to the Company pursuant to the Ground Lease.

Plant Trust Estate means the property interests conveyed to the Plant Trustee pursuant to the granting clauses of the Plant Indenture, excluding Retained Rights.

Plant Trustee means MUFG Union Bank, N.A., in its capacity as trustee under the Plant Indenture.

Pledge Agreements means (a) the Pledge and Security Agreement between the Poseidon GP, the Company and the Collateral Agent and (b) the Pledge and Security Agreement between the Limited Partner, the Company and the Collateral Agent.

Poseidon means the Company.

Poseidon Carlsbad is defined in the forepart of this Limited Offering Memorandum under “PROJECT PARTICIPANTS – Poseidon Resources (Channelside) LP.”

Poseidon GP means Poseidon Resources Channelside GP, Inc.

Poseidon Project Account means the account of that name established pursuant to the Collateral Trust Agreement.

Poseidon Water is defined in the forepart of this Limited Offering Memorandum under “PROJECT PARTICIPANTS – Poseidon Resources (Channelside) LP.”

Power Station means the Encina Power Station.

Premium Series 2019 Pipeline Bonds is defined in the forepart of this Limited Offering Memorandum under “TAX MATTERS.”

Prepayment Fund means the fund of that name established pursuant to the Collateral Trust Agreement.

Principal Office means, with respect to the Plant Trustee or the Pipeline Trustee, the corporate trust office of Union Bank located in Los Angeles, California, which office at the time of the issuance of the Series 2012 Plant Bonds and the Series 2019 Pipeline Bonds was located at the address specified in the Plant Indenture and the Pipeline Indenture, or any other corporate trust office of the Plant Trustee or the Pipeline Trustee identified in a notice sent in accordance with the Plant Indenture or the Pipeline Indenture, as applicable.

Principal Project Contracts means the O&M Agreement, the Water Purchase Agreement, the Pipeline DBA, the EPC Contracts, the IDE Subcontract, the IDE Guarantees, the EPC Guarantee, the Ground Lease, the Management Services Agreement, the State Lands Commission Lease, the SDG&E Contracts, the Development Agreement and any Additional Project Contracts.

Product Water means potable water produced by the Plant.

Project means (a) as used in the Water Purchase Agreement, the Plant and the Plant Site and (b) as used in the Plant Financing Documents, the Plant and the Pipeline.

Project Bonds means the Series 2012 Plant Bonds and the Series 2019 Pipeline Bonds, together.

Project Construction Budget means a budget prepared by the Company and delivered to the Independent Engineer on the Closing Date identifying all (a) Project Costs anticipated to be incurred through the Completion Date, including all construction and non-construction costs, working capital costs, interest, taxes and other carrying costs, and such other information as the Independent Engineer may require, together with a statement of then-anticipated uses of proceeds of the Project Fund and any other moneys necessary to complete the Plant and (b) all anticipated Poseidon Pipeline Costs.

Project Contracts means the Principal Project Contracts and any other contracts or agreements relating to the development or construction of the Pipeline or the development, construction, operation or use of the Plant to which the Company is a party, excluding the Plant.

Project Costs means, without duplication, costs and expenses incurred by the Company on or prior to the Completion Date in connection with the development, design, engineering, permitting, construction, financing, management, installation, equipping, assembly, inspection, start-up, testing and initial operations of the Plant and leasing and preparation of the Plant Site and the other Company Real Property, together with an adequate contingency, which costs and expenses shall include: (a) all amounts payable under the Plant EPC Contract and the other Project Contracts (other than the Pipeline EPC Contract) relating to any of the foregoing activities, any state sales taxes on equipment or other goods or services, amounts payable for chemicals, supplies, power and other utilities and services relating to construction, start-up and testing, and all project development expenses and fees incurred by the Company or any of its Affiliates constituting Closing Date Project Payments; (b) interest incurred on or in respect of the loan made to the Company pursuant to the Plant Loan Agreement and any other amounts required to be paid by the Company under the Financing Documents, including Fiduciary Fees and Issuer's fees and expenses; (c) Bond Insurer Payments and payments contemplated by the Bond Insurance Policy, and the fees and expenses and other reimbursement of the Issuer, the Plant Trustee, the Collateral Agent and any other agent or trustee party to the Financing Documents; (d) legal, accounting, consulting, financial advisory and other transaction fees and expenses incurred by the Company and its Affiliates prior to the Commercial Operation Date; (e) O&M Costs due and payable on or prior to the Commercial Operation Date; (f) the costs of obtaining surety bonds, letters of credit or other security required to be delivered under a Project Contract or Permit on or prior to the Commercial Operation Date (including any cash collateral required to be provided in connection therewith and security deposits made to applicable counterparties to the Project Contracts) and (g) all amounts payable to SDG&E under the SDG&E Contract. For the avoidance of doubt, Project Costs shall not include (i) Restricted Payments, (ii) non-cash charges, including depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, (iii) payments for restoration or repair of the Plant, or for any Capital Project, from the Plant Restoration Fund in accordance with the terms of the Collateral Trust Agreement, (iv) any income taxes of the Company and (v) other amounts which are not provided for in the Project Construction Budget, including in the contingency line-item therein, as amended from time to time in accordance with the Financing Documents.

Project Reserve Account means the account of that name within the Working Capital Reserve Fund established pursuant to the Collateral Trust Agreement.

Property means any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible. For the avoidance of doubt, for purposes of the Plant Financing Documents, Property includes all Renewable Energy Certificates and Verified Emissions Reductions notwithstanding any provision of Applicable Law.

Provisional Acceptance means that the conditions described in "THE PROJECT – Construction of the Project" have been satisfied.

Pumps is defined in the forepart of this Limited Offering Memorandum under "THE PROJECT – Intake System Modifications – Current Plant Operations."

Purchase Price is defined in the forepart of this Limited Offering Memorandum under "PROJECT OPERATION – Water Purchase Agreement – Product Water Purchase Price."

Qualified Institutional Buyer has the meaning ascribed to that term in Securities and Exchange Commission Rule 144A adopted under the Securities Act.

Rating Agency means each of the following: (a) Moody's; (b) S&P; (c) Fitch Ratings; and (d) if none of the foregoing is providing rating services, any nationally recognized rating agency designated in writing by the Company and acceptable to a Senior Debt Majority.

Rating Category means any of the principal rating categories assigned to investment securities or credit facilities by any Rating Agency, without regard to any gradation or distinction within any Rating Category (such as may be identified by numerical symbols or the symbols "+" or "-").

Record Date means with respect to any Interest Payment Date in respect of the Plant Bonds, the fifteenth day of the calendar month next preceding such Interest Payment Date.

REC/VER Reserve Fund means the fund of that name established pursuant to the Collateral Trust Agreement.

REC/VER Reserve Requirement means, as to any year in which the Company has elected to defer the acquisition of carbon offsets and renewable energy certificates as permitted under the Energy Minimization and Greenhouse Gas Reduction Plan for the Plant, as approved by the staff of the California Coastal Commission on October 1, 2009 and the State Lands Commission Lease, the amount of expenditures to acquire carbon offsets and renewable energy certificates which the Company would otherwise have been required by such Permits to incur with respect to such year, absent such election.

Refunding Debt is defined in the forepart of this Limited Offering Memorandum under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Additional Plant Senior Debt."

Registered Owner means the Person or Persons in whose name or names a Plant Bond or a Pipeline Bond is registered on the bond register for the Plant Bonds or the Series 2019 Pipeline Bonds, as applicable.

Registrar means the Plant Trustee or the Pipeline Trustee, as applicable.

Release means any release, spill, seepage, emission, leaking, pumping, injection, pouring, emptying, deposit, disposal, discharge, dispersal, dumping, escaping, leaching, or migration into the environment.

Reportable Event means any of the events set forth in Section 4043(c) of ERISA or the regulations issued thereunder, other than events for which the thirty (30) day notice period has been waived.

Required Project Reserve Account Balance is defined in the forepart of this Limited Offering Memorandum under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Collateral Trust Agreement – Working Capital Reserve Fund."

Reserve Surety means an Account Letter of Credit or other similar instrument issued by an Acceptable Credit Provider to the Collateral Agent for the purpose of satisfying the Company's obligations to fund a reserve account under the Collateral Trust Agreement and, with respect to which, the Company is not the account party. For the avoidance of doubt, any Account Letter of Credit held in the Poseidon Project Account is not a Reserve Surety.

Restricted Payment means all distributions of the Company (in cash, Property of the Company or obligations) on, or other payments or distributions on account of, or the setting apart of money for a sinking or other analogous fund for, or the purchase, redemption, retirement or other acquisition by the Company of, any portion of any Equity Interest in the Company. Payments to the Partners or their Affiliates permitted under the Loan Agreement and the payment to such Persons of Closing Date Project Payments do not constitute Restricted Payments.

Retained Rights of the Issuer means (i) the Issuer's right to obtain notices, reports and opinions and Additional Payments and indemnification; (ii) the Issuer's right to provide approvals and consents; and (iii) the Issuer's nonexclusive right to enforce the provisions of the Tax Agreement, provided, that the Issuer shall retain the exclusive right, as the taxpayer pursuant to the Internal Revenue Service Form 8038, which shall be completed by or on behalf of the Issuer in connection with the issuance of the Plant Bonds, to communicate with the Internal Revenue Service in any investigation of the Plant Bonds by the Internal Revenue Service.

RO is defined in the forepart of this Limited Offering Memorandum under "THE PROJECT – The Plant."

ROD is defined in the forepart of this Limited Offering Memorandum under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS — Collateral Trust Agreement — Wetlands Mitigation Reserve Fund."

ROWD is defined in the forepart of this Limited Offering Memorandum under "THE PROJECT – Intake System Modifications – Permitting the Intake System Modifications."

Rule is defined in the forepart of this Limited Offering Memorandum under "CONTINUING DISCLOSURE."

RWQCB is defined in the forepart of this Limited Offering Memorandum under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS — Collateral Trust Agreement — Wetlands Mitigation Reserve Fund."

S&P means Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc., its successors and their assigns, and, if Standard & Poor's Ratings Group shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, S&P shall be deemed to refer to any other nationally recognized securities rating agency designated by the Company, with notice to the Collateral Agent and a Senior Debt Majority.

Scheduled Monthly Pipeline Purchase Payments means for any calendar month one twelfth of the aggregate amounts of "Pipeline Bond Interest" and "Pipeline Bond Principal" set forth in a table in the Water Purchase Agreement for the Budget Year that includes such month.

Scheduled Pipeline Purchase Payments means: (a) for any month, the Scheduled Monthly Pipeline Purchase Payment; (b) for any twelve month year, including any Fiscal Year or Budget Year, the sum of the Scheduled Monthly Pipeline Purchase Payments for the months included in such year; and (c) for any period less than a calendar year but greater than a month, the sum of the Scheduled Monthly Pipeline Purchase Payments for each full calendar month included in such period.

SDG&E is defined in the forepart of this Limited Offering Memorandum under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Collateral Trust Agreement."

SDG&E Contract means the Special Conditions Contract dated October 21, 2009 between the Company and SDG&E.

Secured Obligations means, collectively, without duplication: (i) with respect to the holders of Senior Debt, (a) all of the Company's financial liabilities and obligations, of whatsoever nature and however evidenced (including, but not limited to, principal, interest, premium, Contracted Shortfall Payments, fees, reimbursement obligations, penalties, termination payments, settlement amounts, amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Law, indemnities and legal and other expenses, whether due after acceleration, termination or otherwise) to the Secured Parties in their capacity as such under the Financing Documents or any other agreement, document or instrument evidencing, securing or relating to such financial liabilities or obligations, in each case, direct or indirect, primary or secondary, fixed or contingent, now or hereafter arising out of or relating to any such agreements; (b) any and all sums advanced by any of the Secured Parties in order to preserve the Collateral or preserve its security interest in the Collateral; and (c) in the event of any proceeding for the collection or enforcement of the obligations described in clauses (a) and (b) above, after an Event of Default has occurred and is continuing and unwaived, the expenses of retaking, holding, preparing for sale or lease, selling or otherwise disposing of or realizing on the Collateral, or of any exercise by any of the Secured Parties of its rights under the Collateral Documents, together with reasonable attorneys' fees and court costs, (ii) with respect to Union Bank, the Company's obligations to pay any amounts due to the Collateral Agent or the Plant Trustee under the Collateral Trust Agreement or the Plant Indenture, (iii) with respect to the Issuer, the Company's obligation with respect to the Retained Rights, and (iv) with respect to the Plant EPC Contractor, the Company's obligation to make payments to the Plant EPC Contractor from the Contractor Security Account in accordance with the Collateral Trust Agreement.

Secured Parties means the Issuer, the Plant Trustee (for the benefit of the Registered Owners of the Plant Bonds), the Pipeline Trustee (for the benefit of the Registered Owners of the Series 2019 Pipeline Bonds and any Additional Pipeline Bonds), the Bond Insurer in respect of Insured Plant Bonds, the Plant EPC Contractor in respect of the Plant Contractor Security Account and the Additional Plant Lenders; provided that, notwithstanding anything to the contrary in the Collateral Trust Agreement or any other Plant Financing Document, MUFG Union Bank, N.A., in its individual capacity, is a Secured Party solely for purpose of having a security interest in the Collateral with respect to amounts payable by the Company to the Collateral Agent or the Plant Trustee under the Collateral Trust Agreement or the Plant Indenture, the Issuer is a Secured Party solely for the purpose of having a security interest in the Retained Rights and the Plant EPC Contractor is a Secured Party solely for the purpose of having a security interest in the Plant Contractor Security Account, and none of MUFG Union Bank, N.A., in its individual capacity, the Issuer or the Plant EPC Contractor will have any rights of a Secured Party with respect to giving approvals and consents, receiving notices or anything else except to the extent that any such rights relate to the payments due to the Collateral Agent or the Plant Trustee, Retained Rights or the disposition of amounts held in the Plant Contractor Security Account.

Securities Act means the Securities Act of 1933, as amended.

Securities Depository means initially The Depository Trust Company, New York, New York, and its successors and assigns, or a successor clearing agency designated pursuant to the Plant Indenture or the Pipeline Indenture, as the case may be.

Security Agreement means the Security Agreement between the Company and the Collateral Agent.

Senior Debt Majority means a majority in interest of the Outstanding Senior Debt based on the outstanding principal amount of such Senior Debt, including for these purposes the outstanding principal amount of the Series 2019 Pipeline Bonds, acting by written notice to the Collateral Agent.

Separate Project Modification a Capital Project for the construction, installation and operation of one or more modifications or enhancements to any part of the Plant in connection with a new desalination project located on, or adjacent to, the Plant Site.

Series means all Plant Bonds of a designated series.

Series 2012 Closing Date means December 24, 2012.

Series 2012 Plant Bonds means the Issuer's Water Furnishing Revenue Bonds, Series 2012 (Poseidon Resources (Channelside) LP Desalination Project).

Series 2012 Pipeline Bonds is defined in the forepart of this Limited Offering Memorandum under "INTRODUCTION."

Series 2019 Pipeline Bonds means the Issuer's Water Furnishing Revenue Refunding Bonds, Series 2019 (San Diego County Water Authority/Carlsbad Desalination Pipeline Project).

Shutdown Notice is defined in the forepart of this Limited Offering Memorandum under "THE PROJECT –Intake System Modifications – Permanent Pump Shutdown."

Special Conditions Contract is defined in the forepart of this Limited Offering Memorandum under "THE PROJECT –Plant Power Supply."

Special Maintenance Reserve Fund means the fund of that name to be established by the Collateral Agent pursuant to the Collateral Trust Agreement if a 10-Year Coverage Shortfall occurs.

Special Maintenance Reserve Release Date is defined in the forepart of this Limited Offering Memorandum under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS — Collateral Trust Agreement — Special Maintenance Reserve Fund."

Stand-alone Operations is defined in the forepart of this Limited Offering Memorandum under "INTRODUCTION."

State means the State of California.

Stated Maturity means as to any Project Bond the date specified in such Project Bond as the fixed date on which the principal is due and payable.

State Lands Commissions Lease means the Lease PRC 8727.1, executed by Cabrillo and the State of California State Lands Commission on May 31, 2007 and August 14, 2007, respectively, together with the State Lands Commission Lease Amendment.

State Lands Commission Lease Amendment means the Amendment of Lease PRC 8727.1, effective as of August 22, 2008, among the Commission, Cabrillo and the Company.

Stonepeak is defined in the forepart of this Limited Offering Memorandum under "PROJECT PARTICIPANTS – Poseidon Resources (Channelside) LP."

SWRCB is defined in the forepart of this Limited Offering Memorandum under “INTRODUCTION.”

Tax Agreement means any tax certificate and agreement, entered in connection with the issuance of any Plant Bonds of a Tax-Exempt Series or in connection with a conversion of a Taxable Rate Plant Bond to a Tax-Exempt Plant Bond, between the Issuer and the Company, as the same may be amended or supplemented in accordance with its terms.

Tax Exempt means, with respect to interest on any obligations of a state or local government, including any Tax Exempt Series, that such interest is excluded from gross income of the Owners or Beneficial Owners thereof for federal income tax purposes (other than in the case of an Owner or Beneficial Owner of any Plant Bonds who is a substantial user of the Project or a related person within the meaning of Section 147(a) of the Code) whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax or environmental tax, under the Code.

Taxes means any and all present or future taxes, levies, imposts, duties, deductions, charges, liabilities or withholdings imposed by any Governmental Authority (including any ad valorem, sales, use or property taxes) and any and all interest and penalties related thereto.

10-Year Coverage Shortfall is defined in the forepart of this Limited Offering Memorandum under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS — Collateral Trust Agreement — Special Maintenance Reserve Fund.”

Tentative Order is defined in the forepart of this Limited Offering Memorandum under “THE PROJECT – Intake System Modifications – Permitting the Intake System Modifications.”

Termination Operating Period Shortfall Payment is defined in the forepart of this Limited Offering Memorandum under “INTRODUCTION”.

UCC means the Uniform Commercial Code as the same may, from time to time, be in effect in the State; provided, however, in the event that, by reason of mandatory provisions of law, any or all of the perfection or priority of the security interest in any Collateral (including the Account Collateral) is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State, the term “UCC” means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions of the Collateral Trust Agreement relating to such perfection or priority and for purposes of definitions related to such provisions.

Uncontrollable Circumstances:

(a) as the term relates to the Plant EPC Contract and the Pipeline EPC Contract, is defined in the summaries of those documents in Appendix H to this Limited Offering Memorandum – Summaries of Certain Project Contracts.

(b) as such term relates to the Water Purchase Agreement and the Pipeline DBA, is defined in the summaries of those documents in Appendix G to this Limited Offering Memorandum – Summary of the Water Purchase Agreement; and

(c) as used in the Plant Financing Documents, means any act, event or condition that has had, or may reasonably be expected to have, a Material Adverse Effect if such act, event or condition is beyond the reasonable control of the Company, including the following:

(i) an Event of Loss or any other act of God, landslide, lightning, earthquake, fire or explosion, flood, sabotage or similar occurrence; acts of a public enemy, extortion, war, blockade or insurrection, riot or civil disturbance;

(ii) the order and/or judgment of any federal, State or local court, administrative agency or governmental body, except decisions of federal and state courts interpreting income tax laws, if such order or judgment is not also the result of the willful or negligent action or inaction of the party relying thereon; provided that neither the contesting in good faith of any such order or judgment nor the failure to so contest will constitute or be construed as a willful or negligent action or inaction of the Company;

(iii) a Change in Law;

(iv) the failure of any federal, State, county or local public agency or private utility or public utility having operational jurisdiction in the area in which the Project is located to provide and maintain utilities, services, water and sewer lines or any other governmentally provided services and power transmission lines to the Company Real Property or the Pipeline Site that are required to complete the Project;

(v) an Event of Eminent Domain or any other condemnation, taking, seizure, involuntary conversion or requisition of title to or use of the Plant, the Company Real Property, or any material portion or part thereof by the action of any federal, State or local government or governmental agency or authority;

(vi) any site condition for which the EPC Contractor is entitled to an equitable adjustment to the terms of the Plant EPC Contract or the Pipeline EPC Contract, as applicable; and

(v) Fault or breach of any unaffiliated third party to a project contract.

“Uncontrollable Circumstances” do not include:

(A) any site condition accepted by the Plant EPC Contractor or the Pipeline EPC Contractor; or

(B) any strike, walkout, job action or other labor difficulty for which the Plant EPC Contractor, Pipeline EPC Contractor or IDE Americans is responsible.

As used in this definition, “**Change in Law**” means (i) the adoption, promulgation or modification or reinterpretation (including any change in enforcement policy) after the Series 2012 Closing Date of any Applicable Law not adopted, and/or officially published in The Congressional Record, The Federal Register, California Code of Regulations or the California Regulatory Notice Register on or before the Series 2012 Closing Date, or (ii) the imposition after the Series 2012 Closing Date of any material conditions in connection with the issuance, renewal or modification of any official permit, license or approval, of which the Company has received a copy or been advised in writing if no written permit, license or approval is available, that, in the case of either (i) or (ii), establishes requirements affecting any portion of the Project that are more burdensome than the applicable requirements (A) in effect as of the Series 2012 Closing Date, (B) agreed to in any applications of the Company for official permits, licenses or approvals pending as of the Series 2012 Closing Date or (C) contained in any official permits, licenses, or approvals for the Plant obtained as of the Series 2012 Closing Date, or (iii) the failure of any applicable federal, State or local government agency or unit

having jurisdiction over the Project to issue any permit, license or approval necessary for any portion of the Project after the Series 2012 Closing Date, which permit, license or approval was not issuable on or before the Series 2012 Closing Date. A change in federal, State, local or any other income tax law, will not be a Change in Law.

Underwriters means J.P. Morgan Securities LLC; RBC Capital Markets, LLC; Goldman Sachs & Co. LLC and Loop Capital Markets, as underwriters with respect to the Series 2019 Pipeline Bonds.

Union Bank means (a) MUFG Union Bank, N.A., in its individual capacity and not as the Collateral Agent, the Plant Trustee or the Pipeline Trustee or (b) any institution acting as a successor Collateral Agent or a successor trustee, in such institution's individual capacity.

Unit Price Adjustment is defined in the forepart of this Limited Offering Memorandum under "PROJECT OPERATION – Water Purchase Agreement – Product Water Purchase Price."

USEPA is defined in the forepart of this Limited Offering Memorandum under "THE PROJECT – Intake System Modifications – Financing the Intake System Modifications."

USGCRP is defined in the forepart of this Limited Offering Memorandum under "INVESTMENT RISKS – Climate Change Issues."

Variable Unit Price is defined in the forepart of this Limited Offering Memorandum under "PROJECT OPERATION – Water Purchase Agreement – Product Water Purchase Price."

Water Authority means the San Diego County Water Authority.

Water Authority Act is defined in the forepart of this Limited Offering Memorandum under "PROJECT PARTICIPANTS – San Diego County Water Authority."

Water Authority Distribution System means the water distribution system (including all pipes, pipelines, pumping stations, mains, valves, distribution facilities and equipment, treatment works, sources of water supply, and related buildings, structures, improvements and assets) and all appurtenances thereto owned by the Water Authority and serving the Service Area including the Product Water Pipeline Improvements, the Twin Oaks Valley Water Treatment Plant, and the Water Authority Improvements. The "Water Authority Distribution System" shall not include the Project.

Water Authority Financing Agency means the San Diego County Water Authority Financing Agency.

Water Authority Improvements is defined in the forepart of this Limited Offering Memorandum under "THE PROJECT— Water Authority Improvements".

Water Authority Undertaking is defined in the forepart of this Limited Offering Memorandum under "CONTINUING DISCLOSURE – The Water Authority."

Water Connection Debt is defined in the forepart of this Limited Offering Memorandum under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2019 PIPELINE BONDS – Additional Plant Senior Debt."

Water Purchase Agreement means the Water Purchase Agreement, dated as of December 20, 2012, between the Company and the Water Authority, as amended.

Water Revenues means (a) all gross income and revenue received or receivable by the Water Authority from the ownership or operation of the Water System determined in accordance with GAAP plus (b) deposits to the Water Revenue Fund from the Rate Stabilization Fund, each maintained pursuant to the General Resolution minus (c) amounts transferred to the Rate Stabilization Fund.

Wetlands Mitigation Reserve Requirement means the aggregate costs reasonably expected to be incurred by the Company after the Commercial Operation Date in completing the wetlands restoration work which the Company is required to complete in accordance with the terms of the State Lands Commission Lease (taking into account funds available to pay such costs upon the partial release of security the Company is required to provide to the State Lands Commission in respect of such wetlands mitigation obligations), as set forth in a certificate signed by an Authorized Officer of the Company, and concurred in by the Independent Engineer, delivered to the Collateral Agent on or before the Commercial Operation Date.

WIFIA is defined in the forepart of this Limited Offering Memorandum under “THE PROJECT –Intake System Modifications – Financing the Intake System Modifications.”

Working Capital Reserve Fund means the fund of such name established pursuant to the Collateral Trust Agreement.

Working Capital Reserve Requirement means an amount equal to one-twelfth of the Company’s projected O&M Costs to be incurred during (a) as such term is used in respect of the Commercial Operation Date, the first twelve months of operations following the Commercial Operation Date, as set forth in the Operating Budget for such period; and (b) as such term is used in respect of any Budget Year commencing on the first July 1 after the Commercial Operation Date, such Budget Year, as set forth in the Operating Budget for such Budget Year.

WPA Amendment No. 004 is defined in the forepart of this Limited Offering Memorandum under “SUMMARY STATEMENT.”

WPA Amendment No. 005 is defined in the forepart of this Limited Offering Memorandum under “SUMMARY STATEMENT.”

WPA Letter of Credit means the letter of credit that the Company is required to deliver to the Water Authority under the Water Purchase Agreement.

APPENDIX B

COMPANY AUDITED FINANCIAL STATEMENTS FOR YEAR ENDED DECEMBER 31, 2017

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POSEIDON RESOURCES (CHANNELSIDE) LP
(A Limited Partnership)

Financial Statements and Supplementary Schedule
(with Independent Auditor's Report thereon)

DECEMBER 31, 2017

POSEIDON RESOURCES (CHANNELSIDE) LP
(A Limited Partnership)

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Schedule of Cumulative Post Closing Cash Flows	Schedule 1
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Independent Auditor's Report

General Partner
Poseidon Resources (Channelside) LP
Boston, Massachusetts

Report on the Audited Financial Statements

We have audited the accompanying financial statements of Poseidon Resources (Channelside) LP (a limited partnership) which comprise the balance sheet as of December 31, 2017 and the related statements of operations, partners' equity and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

General Partner
Poseidon Resources (Channelside) LP
Page Two

Auditor's Responsibility (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control appropriate to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are relevant in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Poseidon Resources (Channelside) LP as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of cumulative post closing cash flows for the period December 24, 2012 (financial closing) through December 31, 2017, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Cirone Friedberg LLP

March 27, 2018
Bridgeport, Connecticut

POSEIDON RESOURCES (CHANNELSIDE) LP
(A Limited Partnership)

BALANCE SHEET
DECEMBER 31, 2017

ASSETS

Utility plant, at cost	\$ 616,366,729
Less: accumulated depreciation	<u>(42,432,148)</u>
Utility plant, net	<u>573,934,581</u>
Current assets:	
Restricted cash and cash equivalents	37,673,173
Accounts receivable	19,473,368
Due from related entities	13,337
Prepaid expenses	<u>4,264,541</u>
Total current assets	<u>61,424,419</u>
Other assets:	
Restricted cash and cash equivalents	<u>51,175,799</u>
TOTAL ASSETS	<u>\$ 686,534,799</u>

PARTNERS' EQUITY AND LIABILITIES

Partners' equity	<u>\$ 130,787,233</u>
Long-term debt, net of unamortized deferred financing costs of \$24,097,404	<u>519,265,431</u>
Current liabilities:	
Accounts payable and accrued expenses	22,880,613
Interest payable	13,258,625
Due to related entities	<u>342,897</u>
Total current liabilities	<u>36,482,135</u>
Total liabilities	<u>555,747,566</u>
TOTAL PARTNERS' EQUITY AND LIABILITIES	<u>\$ 686,534,799</u>

See notes to financial statements.

POSEIDON RESOURCES (CHANNELSIDE) LP
(A Limited Partnership)

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017

Operating revenue	<u>\$ 81,687,293</u>
Operating expenses:	
Operation expenses	57,001,700
General and administrative expenses	194,760
Depreciation expense	<u>20,931,581</u>
Total operating expenses	<u>78,128,041</u>
Net operating income	<u>3,559,252</u>
Other income:	
Investment income, net of capitalized	<u>706,973</u>
Income before interest expense	<u>4,266,225</u>
Interest expense, net of capitalized:	
Interest on long-term debt	26,012,370
Interest on land restoration costs	158,667
Amortization of deferred financing costs	<u>634,347</u>
Total interest expense	<u>26,805,384</u>
Net loss	<u>\$ (22,539,159)</u>

See notes to financial statements.

POSEIDON RESOURCES (CHANNELSIDE) LP
(A Limited Partnership)STATEMENT OF PARTNERS' EQUITY
YEAR ENDED DECEMBER 31, 2017

Balance - January 1, 2017	\$ 166,198,719
Net loss	(22,539,159)
Partners' distributions	<u>(12,872,327)</u>
Balance - December 31, 2017	<u>\$ 130,787,233</u>

See notes to financial statements.

POSEIDON RESOURCES (CHANNELSIDE) LP
(A Limited Partnership)

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

Increase (Decrease) in Cash

Cash flows from operating activities:	
Net loss	\$ (22,539,159)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:	
Depreciation expense	20,931,581
Amortization of deferred financing costs included in interest expense	634,347
Accretion of bond premiums	(530,260)
Bond premium amortization, net	(504,880)
Realized loss on investments	1,709
Change in assets and liabilities:	
Accounts receivable	(65,369)
Prepaid expenses	(33,274)
Performance bond refund	1,000,000
Security deposit refund	3,700,000
Accounts payable and accrued expenses	<u>2,499,177</u>
Total adjustments	<u>27,633,031</u>
Net cash provided by operating activities	<u>5,093,872</u>
Cash flows from investing activities:	
Decrease in restricted cash and cash equivalents	8,005,926
Purchase of investments - held to maturity	(327,465,872)
Proceeds from maturity of investments - held to maturity	327,994,423
Investment in capitalized plant costs	<u>(798,209)</u>
Net cash provided by investing activities	<u>7,736,268</u>
Cash flows from financing activities:	
Net repayment of advances from related entities	42,187
Partners' distributions	<u>(12,872,327)</u>
Net cash used by financing activities	<u>(12,830,140)</u>
Net increase in cash	-
Cash - beginning	<u>-</u>
Cash - ending	<u>\$ -</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for:	
Interest	<u>\$ 26,517,250</u>

See notes to financial statements.

POSEIDON RESOURCES (CHANNELSIDE) LP
(A Limited Partnership)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - NATURE OF OPERATIONS AND BUSINESS STRUCTURE

Poseidon Resources (Channelside) LP (the Company or Channelside LP) is a Delaware limited partnership. The Company was formed as Poseidon Resources Channelside LLC (Channelside LLC) on April 15, 2003 and commenced business on May 8, 2003. In August 2010 Channelside LLC was converted to a limited partnership, Channelside LP. The Company is engaged in the development, ownership, financing, construction and operation of a 54-million gallon per day reverse osmosis seawater desalination project located in Carlsbad, California (the Plant). On December 24, 2012 (Financial Closing), the Company completed financing, and on December 26, 2012 began construction of the Plant and a 10-mile pipeline (the Pipeline and together with the Plant, the Project) that connects the Plant to the existing potable water distribution system of the San Diego County Water Authority (the Water Authority). On December 23, 2015 the Plant commenced commercial operations.

From May 8, 2003, when Poseidon Carlsbad LLC (Carlsbad) contributed \$100 in exchange for 100 membership units of Channelside LLC, until prior to August 2010, Channelside LLC was a wholly-owned subsidiary of Carlsbad. In August 2010, Channelside LLC was converted into a limited partnership, Channelside LP. As part of this conversion, Carlsbad transferred 1% of its interest in Channelside LP to Poseidon Resources Channelside GP, LLC (GP LLC), a newly formed limited liability company that is the general partner of Channelside LP and was also a wholly-owned subsidiary of Carlsbad. In December 2010, GP LLC transferred 90% of its interest in Channelside LP to Carlsbad. Subsequent to this transfer GP LLC converted from the form of an LLC to that of a corporation, Poseidon Resources Channelside GP, Inc. (GP INC), which was a wholly-owned subsidiary of Carlsbad. Upon Financial Closing, Carlsbad contributed its 99.9% interest in Channelside LP, its 100% interest in GP INC and cash to a newly formed limited liability company, Orion Water Partners, LLC (Orion) in exchange for 42,863.667 Class B Interests of Orion (bringing its total ownership of Orion to 42,864.667 Class B interests). Simultaneously, Orion contributed its 99.9% limited partnership interest in Channelside LP and its 100% ownership of GP INC to Poseidon Resources Channelside Holdings LLC (Holdings), its wholly-owned subsidiary.

Holdings entered into an Equity Contribution Agreement with the Company and the Collateral Agent in which it agreed to contribute up to \$167,043,862 to the Company for purposes of construction of the Project (all of which was contributed by the Commercial Operation Date).

In accordance with the Amended and Restated Agreement of Limited Partnership of Channelside LP (the LP Agreement), the management of the Company's business shall be vested solely in its general partner, GP INC, and the limited partners shall have no authority to manage the Company. The terms of the LP Agreement call for the Company to continue in perpetuity, unless and until it is dissolved and terminated in accordance with certain conditions in the LP Agreement.

POSEIDON RESOURCES (CHANNELSIDE) LP
(A Limited Partnership)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - NATURE OF OPERATIONS AND BUSINESS STRUCTURE (continued)

Net income and losses of the Company are allocated to the partners as defined in the LP Agreement. In 2017, the Company distributed a total of \$12,872,327 to its partners. Allocation of net loss for the year ended December 31, 2017 and ending Partners' Equity at December 31, 2017 for the partners were as follows:

<u>Member</u>	<u>Beginning Partners' Equity (Deficit)</u>	<u>Partners' Distributions</u>	<u>Allocated Net Loss</u>	<u>Ending Partners' Equity (Deficit)</u>
General Partner	\$ (846)	\$ (12,872)	\$ (22,539)	\$ (36,257)
Limited Partners	<u>166,199,565</u>	<u>(12,859,455)</u>	<u>(22,516,620)</u>	<u>130,823,490</u>
Total	<u>\$ 166,198,719</u>	<u>\$ (12,872,327)</u>	<u>\$ (22,539,159)</u>	<u>\$ 130,787,233</u>

Since the Company is a limited partnership, the liability of the limited partners is limited to their investments in the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

Securities are classified into categories of held to maturity, available for sale, or trading based on management's determination of the appropriate classification of its investments in debt and equity securities at the time of purchase. Management reevaluates such determinations at each balance sheet date. Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Carrying basis on securities held to maturity is reflected at cost adjusted for amortization of premiums and accretion of discounts computed using the level yield method. Securities for which the Company does not have the intent or ability to hold to maturity are classified as either available for sale or trading. At December 31, 2017 there were no investments held.

Gain or loss on the disposition of securities is based on the net proceeds and the adjusted carrying amount of the securities sold using the specific identification method.

Deferred Financing Costs

Deferred financing costs were capitalized as incurred and upon Financial Closing are being amortized over the term of the financing, fifteen to thirty-three years.

POSEIDON RESOURCES (CHANNELSIDE) LP
(A Limited Partnership)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Utility Plant/Capitalized Plant Costs

On November 15, 2007 the Company received its Coastal Development Permit and as of that date project costs were capitalized. Physical construction began December 26, 2012. Costs include labor, materials, services and charges for indirect costs including engineering and supervision and preliminary project startup and permitting costs. The Plant commenced commercial operation on December 23, 2015, at which time the Plant assets were placed in service and the Company began recording depreciation of the Plant assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

Channelside LP is treated as a partnership for U.S. Federal and state income tax purposes. Accordingly, no provision for federal or state income taxes related to the operations of Channelside LP is included in the financial statements. Each of the partners of the Company is therefore required to report their share of the Company's income or loss on their respective income tax returns.

Income Tax Positions

Management of the Company has evaluated all significant tax positions as required by accounting principles generally accepted in the United States of America.

Management of the Company is of the opinion that the Company has not taken any material tax positions that would require the recording of any or an additional tax liability by the Company or the partners of the Company nor is management of the Company of the opinion that there are any unrealized tax benefits that would either increase or decrease materially within the next year. If required, it is the Company's policy to recognize any estimated interest and penalties in the provision for taxes.

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

Management has evaluated subsequent events through March 27, 2018, the date the financial statements were available to be issued. Through that date, there were no material events that would require recognition or additional disclosure in the financial statements, other than as stated in Note 14.

NOTE 3 - CONCENTRATION OF CREDIT RISK

Cash

The Company maintains their cash accounts in two commercial banks. Cash accounts at banks are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation (FDIC). At times during the year, cash balances may have exceeded the insured limit. Certain cash balances are invested in short-term money market funds which are not insured by FDIC.

Accounts Receivable

The majority of the accounts receivable consist of amounts due from the Water Authority for the purchase of water in accordance with the Water Purchase Agreement.

Water Purchase Agreement

The Company's Water Purchase Agreement is with the Water Authority, for a 30-year term.

O&M Agreement

The Company's Operation, Maintenance, Repair and Replacement Agreement is with IDE Americas Inc. for a 30-year term. The Company is aware of other similar companies that can operate the plant, if necessary.

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 - RESTRICTED CASH AND CASH EQUIVALENTS

In conjunction with the bond financing that took place on December 24, 2012, the proceeds from the financing were deposited into restricted cash accounts. At December 31, 2017, the restricted balances were restricted for the following purposes:

Current:	
Payment of interest on bond obligations	\$ 13,286,826
Contractor Security Account	5,375,136
Revenue Fund	735
Operating Fund	2,012,588
Permanent Account	5,724,965
Wetlands Mitigation Reserve Fund	2,520,000
Distribution and Stabilization Fund	<u>8,752,923</u>
Total Current	<u>37,673,173</u>
Non-current:	
Water Purchase Agreement Reserve	5,141,914
Working Capital Reserve Fund - Project Reserve	11,752,913
Debt Service Reserve Fund	17,611,718
Wetlands Mitigation Reserve Fund	16,668,688
Plant Restoration	<u>566</u>
Total Non-current	<u>51,175,799</u>
Total	<u>\$ 88,848,972</u>

In 2017, Orion Water Acquisitions LLC, a related entity, issued two standby letters of credit in the amount of \$9,000,000 to partially fund the Debt Service Reserve Fund (Note 7).

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 - INVESTMENTS – HELD TO MATURITY

During the year ended December 31, 2017, held to maturity securities were sold or matured for total proceeds of \$327,994,423.

NOTE 6 - UTILITY PLANT COSTS AND PIPELINE COSTS

Capitalized project costs consist of project development costs and construction costs incurred during the Plant construction. On December 23, 2015 the Plant began commercial operation and depreciation commenced. The components of the Utility plant and equipment at December 31, 2017, were as follows:

Land improvements	\$ 2,150,000
Source of supply	105,695,002
Pumping	42,147,748
Water treatment	134,723,910
Transmission and distribution	40,193,873
General plant	282,008,410
Land restoration	1,920,121
Construction work in progress	<u>7,527,665</u>
Total Utility plant	<u>\$ 616,366,729</u>

The Company uses the straight-line method of depreciation over the estimated service lives of the depreciable plant ranging from 20 to 30 years. The construction work in progress is not depreciated until the work is completed and the property is placed in service.

Channelside LP was engaged by the Water Authority to construct the Pipeline on its behalf. The Design-Build Agreement (Pipeline DBA) between the Water Authority and Channelside LP provided that Channelside LP agreed to design and build the Pipeline on behalf of the Water Authority and the title to the Pipeline project passed to the Water Authority as it was constructed. As costs were incurred for the Pipeline project, a receivable was recorded representing the reimbursement due from the Water Authority. Additionally, the Company agreed to perform certain Pipeline work that was not reimbursed by the Water Authority, those costs are capitalized as a part of the Utility plant.

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 - UTILITY PLANT COSTS AND PIPELINE COSTS (continued)

As part of the Ground Lease and Easement Agreement, the Company is required to restore the land to its original condition before construction at the end of the term. Accordingly, the present value of the expected restoration cost of approximately \$17 million has been reflected at its present value as part of the Utility plant, with a corresponding accrued liability of approximately \$1,920,000 at December 31, 2015. The discount rate used for the present value calculation was 7.67% based on the Company's weighted average cost of capital. During the year ended December 31, 2017, interest expense in the amount of \$158,667 was recorded and the accrued liability adjusted to approximately \$2,227,000 at December 31, 2017.

NOTE 7 – RELATED ENTITIES

Management Services Agreement

Upon Financial Closing, the Company entered into a Management Services Agreement (MSA) with Poseidon Water LLC (PW) and GP INC. Under the MSA, PW will provide the Company and GP INC with management, financial and administrative services necessary for the management of the Project, including administration of the material contracts listed in Notes 8, 9, 10 and 11. Subject to the terms of the MSA, PW may enter into any contracts or other agreements on behalf of the Company and GP INC in connection with the performance of such services. The Company will reimburse PW the amount of out-of-pocket expenses incurred in connection with the services under the MSA.

Under the MSA, the Company will also pay PW a) a project management fee of \$1,000,000 per year during the term of Project construction (now completed), b) a fixed annual service fee of \$600,000 per year, and c) a performance-based management fee of at least \$5 and up to \$10 per acre foot of water delivered under the Water Purchase Agreement. The fixed annual service fee and the performance-based management fee are subject to annual inflation adjustments (as defined in the MSA) during the life of the contract. During the year ended December 31, 2017 the Company paid \$755,040 in fees and reimbursements related to the Plant. Additionally, during the year ended December 31, 2017, the Company recorded \$333,921 related to the performance-based management fees.

Standby Letters of Credit

During 2016 and 2017, three standby letters of credit were issued by Orion Water Acquisitions LLC, a related entity, to fully fund the Permanent Pump Shutdown Reserve account and to partially fund the Debt Service Reserve Fund. During the year ended December 31, 2017, Orion Water Acquisitions LLC billed the Company \$659,550 in fees related to these letters of credit.

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 7 – RELATED ENTITIES (continued)

Due to/from Related Entities

Current amounts due from/to related entities that are not eliminated in consolidation at December 31, 2017 were as follows:

Due from:	
Holdings	\$ 4,594
GP INC.	<u>8,743</u>
Total Due from	<u>\$ 13,337</u>

Due from:	
PW	\$165,857
Orion Water Acquisitions LLC	<u>177,040</u>
Total Due to	<u>\$342,897</u>

NOTE 8 - LONG-TERM DEBT

In September 2011, Channelside LP submitted an Initial Resolution Application to the California Pollution Control Financing Authority (CPCFA) for up to \$780,000,000 of Qualified Private Activity Bonds. The Initial Resolution was approved by CPCFA at its October 2011 board meeting.

On December 24, 2012, pursuant to that Initial Resolution, the CPCFA issued \$530,345,000 of 5% fixed rate tax-exempt revenue bonds (the Series 2012 Plant Bonds) at a premium of \$15,381,652 to pay a portion of the costs of developing, designing, acquiring and constructing the Plant and \$203,215,000 of 5% fixed rate tax-exempt revenue bonds (the Series 2012 Pipeline Bonds and together with the Series 2012 Plant Bonds, the Project Bonds) at a premium of \$6,890,719 to pay the cost of construction of the Pipeline and an interconnection pipeline and related improvements. The Company owns the Plant and contributed the balance of the cost of constructing the Plant with proceeds of equity contributed by its limited partner, Holdings, pursuant to the Equity Contribution Agreement. The Water Authority is the sole purchaser of the potable water produced by the Plant and owns the Pipeline, which was constructed by the Company.

The Series 2012 Plant Bonds were issued pursuant to a Trust Indenture, dated as of December 24, 2012 (the Plant Indenture), between the CPCFA and Union Bank, N.A. (in such capacity, the Plant Trustee). The CPCFA loaned the proceeds of the Series 2012 Plant Bonds to the Company pursuant to a Loan Agreement dated as of December 24, 2012 (the Plant Loan Agreement). Interest is payable on January 1 and July 1 of each year, beginning July 1, 2013 and is computed on a 360-day year consisting of twelve 30-day months.

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 8 - LONG-TERM DEBT (continued)

The Series 2012 Plant Bonds mature as follows, unless earlier paid or redeemed under the terms of the Plant Indenture:

July 2027	\$ 38,690,000
July 2030	33,345,000
July 2037	136,340,000
November 2045	<u>321,970,000</u>
Total	<u>\$ 530,345,000</u>

The Plant Bonds are callable at par at any time after the tenth anniversary of the Financial Closing. The Plant Loan Agreement requires the Company to repay the loan of the proceeds of the Series 2012 Plant Bonds at such times and in such amounts as required to satisfy the CPCFA's obligations to pay debt service on the Series 2012 Plant Bonds (Plant Loan Repayments).

The Series 2012 Pipeline Bonds were issued pursuant to a Trust Indenture, dated as of December 24, 2012 (the Pipeline Indenture), between the CPCFA and Union Bank, N.A. (in such capacity, the Pipeline Trustee). The CPCFA loaned the proceeds of the Series 2012 Pipeline Bonds to the Water Authority Financing Agency pursuant to a Loan Agreement dated as of December 24, 2012. The Water Authority Financing Agency made such proceeds available to the Water Authority pursuant to an Installment Sale and Assignment Agreement dated as of December 24, 2012 (the Installment Sale and Assignment Agreement) to pay the costs of developing, designing, acquiring and constructing the Pipeline. The Company designed and built the Pipeline. In certain circumstances (described below), the Company may be obligated to pay amounts to the Water Authority to satisfy its obligations under its Loan Agreement with the Water Authority Financing Agency related to the Series 2012 Pipeline Bonds.

Security

As of the Commercial Operation Date, as defined in the Water Purchase Agreement, the Water Authority has commenced making payments under the Installment Sale and Assignment Agreement for the benefit of the holders of the Series 2012 Pipeline Bonds and commenced the purchase of desalinated water produced at the Plant (Product Water) under the Water Purchase Agreement. The Collateral Agent will receive all revenues under the Water Purchase Agreement, and any damages payments from IDE Americas, in its capacity as operator of the Plant, and certain other funds will be applied to fund operating reserves. Amounts held by the Collateral Agent will secure the payment of Series 2012 Plant Bonds and Operating Period Shortfall Payments related to the Series 2012 Pipeline Bonds under the Water Purchase Agreement on a parity basis. In the Installment Sale and Assignment Agreement, the Water Authority will assign its rights to receive Contracted Shortfall Payments to the Water Authority Financing Agency which, in turn, will assign them to the CPCFA which will assign them to the Pipeline Trustee.

The Series 2012 Plant Bonds are also secured by a mortgage on and security interest in the Company's leasehold interest in the site of the Plant and its ownership interest in the Plant. Each of GP INC and Holdings have entered into a Pledge Agreement, dated December 24, 2012, in which each has pledged its partnership interests in the Company to the Collateral Agent.

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 8 - LONG-TERM DEBT (continued)

Collateral Trust Agreement

The Company's obligations under the Plant Loan Agreement, its obligation to make Contracted Shortfall Payments related to the Series 2012 Pipeline Bonds and its obligations with respect to any Additional Plant Senior Debt incurred pursuant to the Plant Indenture (collectively, Plant Senior Debt) are secured on a parity basis under a Collateral Trust Agreement among the Company, the Plant Trustee, the Pipeline Trustee and the Collateral Agent, dated December 24, 2012.

The CPCFA pledged its rights under the Plant Loan Agreement (excluding certain retained rights) to the Plant Trustee under the Plant Indenture. The Plant Trustee, in turn, pledged those rights to the Collateral Agent. Any lender of Additional Plant Senior Debt will pledge its rights under the Plant Financing Documents for the related Additional Plant Senior Debt (excluding any rights identified therein as reserved to such lender of Additional Plant Senior Debt) to the Collateral Agent.

The Collateral Agent will hold in trust for the holders of the Series 2012 Pipeline Bonds and the Series 2012 Plant Bonds all of the Company's right, title and interest in the Collateral. The "Collateral" includes, among other things, the property rights granted to the Plant Trustee under the Plant Indenture, including the right to receive loan repayments under the Plant Loan Agreement; the right to receive revenues from the Plant; and the funds and accounts held under the Collateral Trust Agreement and the monies and instruments held therein.

Deferred Financing Costs

Costs related to the bond financing that took place on December 24, 2012 are being amortized over the term of the financing.

Estimated future amortization expense including the capitalizable portion as of December 31, 2017 was approximately as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2018	\$ 669,100
2019	705,800
2020	744,500
2021	785,300
2022	828,300
2023 and subsequent	<u>20,364,400</u>
Total	<u>\$ 24,097,400</u>

Amortization expense for the year ended December 31, 2017 was \$634,347.

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 8 - LONG-TERM DEBT (continued)

The Company's long-term debt consisted of the following at December 31, 2017:

Revenue bonds due July 1, 2027 at 5%	\$ 38,690,000
Revenue bonds due July 1, 2030 at 5%	33,345,000
Revenue bonds due July 1, 2037 at 5%	136,340,000
Revenue bonds due November 21, 2045 at 5%	<u>321,970,000</u>
	530,345,000
Unamortized premium	13,017,835
Unamortized deferred financing costs	<u>(24,097,404)</u>
Long-term debt, net	\$ <u>519,265,431</u>

Accrued unpaid interest on the debt at December 31, 2017 was \$13,258,625.

NOTE 9 - GROUND LEASE AND EASEMENT AGREEMENT

On July 11, 2003 (the Effective Date), the Company entered into a Ground Lease and Easement Agreement with Cabrillo Power I LLC (Cabrillo Power and, collectively with the Company, the Parties). On August 25, 2009, the Parties entered into an Amended and Restated Ground Lease and Easement Agreement and on April 7, 2010, the Parties entered into a Second Amended and Restated Ground Lease and Easement Agreement (the Lease Agreement). Cabrillo Power agreed to lease land it owns to the Company for the construction and operation of the Project. The initial term of the agreement commenced on the Effective Date and shall expire on the day immediately preceding the thirty-fifth anniversary of the date on which the Company first sells Product Water in commercial quantities pursuant to any water sales agreement between the Company and any other entity (the Commercial Operation Date). The Company has the option to extend the term of the Lease Agreement beyond the end of the initial term (as described above) for up to two consecutive ten-year periods.

Prior to June 30, 2017, the Company paid \$340,000 per year, subject to annual CPI adjustments (as defined in the Lease Agreement), in base rent. Effective July 1, 2017, the Company pays \$1,287,000 per year in base rent, subject to annual CPI adjustments (as defined in the Lease Agreement), until the last day of the initial term. During any extended term (as described above), the rent shall be the fair market value of the leased premises (as defined in the Lease Agreement) subject to annual CPI adjustments (as defined in the Lease Agreement).

Subsequent to the year ended December 31, 2017, the Lease Agreement was amended (Note 14).

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 9 - GROUND LEASE AND EASEMENT AGREEMENT (continued)

Estimated minimum lease and easement fees (excluding the annual CPI adjustment) at December 31, 2017 consisted of the following:

<u>Years Ending December 31,</u>	<u>Amount</u>
2018	\$ 1,287,000
2019	1,287,000
2020	1,287,000
2021	1,287,000
2022	1,287,000
2023 and subsequent	36,036,000
Total	<u>\$ 42,471,000</u>

In conjunction with its lease to the Company, Cabrillo Power amended its lease with the State of California (the SLC Lease) effective August 22, 2008 (Cabrillo's Lease Amendment) to allow for the Company's construction project and operation of a desalination facility. Among other things, Cabrillo's Lease Amendment provides for the Company to deposit a \$1,000,000 performance bond prior to the commencement of construction but no more than one year from the effective date. This bond, which was delivered in August 2009, must remain in place during the entire term of the SLC Lease. Cabrillo's Lease Amendment also required the Company to provide the State of California a parent company guaranty, which was delivered in November 2009 by PW. Additionally, Cabrillo's Lease Amendment provides that prior to commencement of operations of the desalination facility the Company must make a \$3,700,000 wetland performance deposit to ensure the implementation of compensatory mitigation, monitoring and maintenance as stipulated in the approved Project plan. This deposit was delivered on December 23, 2015, the Commercial Operation Date. Fifty percent of this deposit shall be released upon completion of construction of the mitigation project, with the remaining amount released incrementally based upon performance standards stipulated in the Marine Life Mitigation Plan applicable to the Project as adopted by the California Coastal Commission. During the year ended December 31, 2017, \$4,700,000 in cash was released back to the Company related to these performance obligations. The \$3,700,000 wetland performance cash deposit was replaced with a \$3,700,000 performance bond and the \$1,000,000 cash collateralized performance bond was replaced with a non-cash collateralized performance bond.

As security for its obligation to restore the leased premises at the end of the term of the Lease Agreement, the Company is obligated to provide a prepaid and irrevocable bond, irrevocable letter of credit, guaranty or cash collateral (if Cabrillo determines that such cash collateral will not be part of the Company's bankruptcy estate) in an amount equal to the future cost (estimated as of December 31, 2015) of performing the Company's obligation to restore the property at the end of the term or earlier termination of the Lease Agreement. The security must be posted before the 20th anniversary of the commercial operation date and maintained until the end of the term. Cabrillo may draw on the restoration security if the Company defaults on its obligation under the Lease Agreement.

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 9 - GROUND LEASE AND EASEMENT AGREEMENT (continued)

In May 2014, Cabrillo notified the Company, as required by the terms of the Lease Agreement, of its intention of shutting down the power plant intake pumps which the Company relies on for the source of the feed water to the Project by a date as early as June 1, 2017. This shutdown will require the Company to redesign the Project's feed water intake system to allow direct access to the feed water and discharge locations available to the Company through the SLC Lease. The current project schedule contemplates the stand-alone improvements being ready to go into service in the second half of 2019. The Encina Power Station was scheduled to be decommissioned at the end of 2017. However, in 2017 the State Water Resources Control Board extended the operation of the Encina Power Station through the end of 2018 due to delays associated with construction of the replacement power plant (Carlsbad Energy Center).

NOTE 10 - CONTRACTS

The EPC Contracts

Plant

The Company entered into a Desalination Facility Engineering, Procurement and Construction Agreement dated December 20, 2012 (the Plant EPC Contract) with Kiewit Shea Desalination, a joint venture of Kiewit Infrastructure West Co. and J.F. Shea Construction Company, in a joint and several capacity (the EPC Contractor). The Plant EPC Contract provides for the design, engineering, procurement, construction, start-up, commissioning and testing of the Plant.

The EPC Contractor's liability under the Plant EPC Contract after Provisional Acceptance will not exceed \$200 million, less (i) damages incurred and paid by the EPC Contractor under the Pipeline EPC Contract prior to Provisional Acceptance and, after Provisional Acceptance, in excess of \$29,382,000 and (ii) other damages incurred and paid under the Plant EPC Contract.

Pipeline

The Company also entered into a Product Water Delivery System Engineering, Procurement and Construction Contract, dated December 20, 2012, for the design, engineering, procurement, construction, start-up, commissioning and testing of the Pipeline (the Pipeline EPC Contract) with the EPC Contractor. Completion of the Pipeline was a condition of achieving Provisional Acceptance of the Plant under the Plant EPC contract. Pipeline construction was completed during the year ended December 31, 2017.

The EPC Contractor's liability under the Pipeline EPC Contract after Provisional Acceptance will not exceed \$57,439,600, less damages incurred and paid by the EPC Contractor under the Pipeline EPC Contract prior to the Plant Provisional Acceptance in excess of the amount that can be credited against the liability limit under the Plant EPC Contract.

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 – CONTRACTS (continued)

The EPC Contracts (continued)

Security

The obligations of the EPC Contractor under the Plant EPC Contract and the Pipeline EPC Contract are guaranteed by Kiewit Infrastructure Co., and the EPC Contractor has delivered performance and payment bonds to secure performance of such obligations.

O&M Agreement

The Company entered into an Operation, Maintenance, Repair and Replacement Agreement, dated December 20, 2012, with IDE Americas, Inc. (IDE) for the operation, maintenance, repair and replacement of the Plant (the O&M Agreement). The term of the O&M Agreement is 30 years from the date that the Plant is turned over to IDE for operation. The Plant was turned over to IDE on December 23, 2015.

IDE receives monthly payments under the O&M Agreement consisting of a fixed fee and a variable fee per thousand gallons of delivered water produced by the desalination plant. The O&M Agreement contains an energy adjustment whereby IDE is responsible for the cost of energy consumption above a guaranteed amount and IDE and the Company will share in cost savings if energy consumption is below the guaranteed amount. IDE will be liable for liquidated damages for shortfalls in Product Water production and failure to meet the O&M Agreement's quality standards. IDE's performance under the O&M Agreement is secured by a \$10 million surety bond (subject to inflation) and a parent guaranty from IDE Technologies, Ltd. The surety bond was delivered on April 1, 2015 and is being held by the Collateral Agent.

The Design Build Agreement

The Company and the Water Authority entered into a Pipeline Design Build Agreement dated December 20, 2012 (the Pipeline DBA) under which the Company developed, designed and constructed the Pipeline. Amounts payable to the Company under the Pipeline DBA were funded with proceeds of the Series 2012 Pipeline Bonds.

The Company must achieve acceptance of the Pipeline within 1,430 days following issuance of the Pipeline Bonds (as such period may be extended in accordance with the terms of the Pipeline DBA). The Pipeline must achieve certain acceptance requirements, including pressure testing of the Pipeline, in order for acceptance of the Pipeline to occur. Acceptance of the Pipeline is a condition to achieving Commercial Operation of the Plant under the Water Purchase Agreement. The Pipeline Interconnection Facility, a portion of the project constructed under the Pipeline DBA, achieved provisional acceptance on December 23, 2015 and the remainder of the Pipeline project achieved provisional acceptance on May 26, 2016. Notwithstanding the foregoing, the Water Authority agreed to treat December 23, 2015 as Commercial Operation Date for the Plant. Pipeline construction was completed during the year ended December 31, 2017.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11 - WATER PURCHASE AGREEMENT

On December 20, 2012, the Company and the Water Authority entered into a Water Purchase Agreement (the Water Purchase Agreement). The Company began selling Product Water to the Water Authority pursuant to the Water Purchase Agreement in November 2015 and the Commercial Operation Date occurred on December 23, 2015. The Water Authority is the sole purchaser of Product Water. The initial term of the Water Purchase Agreement expires 30 years after the Commercial Operation Date.

The Water Authority has an obligation to purchase or pay for 48,000 acre feet/year of Product Water that meets the requirements of the Water Purchase Agreement and may request up to 56,000 acre feet/year. The Water Authority will pay a per-acre-foot charge for delivered or deliverable water calculated to be sufficient to pay debt service on the Series 2012 Plant Bonds, an equity return and variable and fixed operating costs. The Water Purchase Agreement provides for three groups of charges: capital (debt and equity), operating and electricity.

The capital charges for debt service and equity return are fixed for each Contract Year subject to certain exceptions as outlined in the Water Purchase Agreement.

The operating charge has a fixed and variable component. The fixed operating charge is fixed, subject to certain exceptions as outlined in the Water Purchase Agreement, but provides for inflation escalation per the terms of the Water Purchase Agreement. The variable operating charge is calculated as outlined in the Water Purchase Agreement and provides for inflation escalation per the terms of the Water Purchase Agreement. The variable operating charge may also be adjusted based on the occurrence of specific events as outlined in the Water Purchase Agreement.

The electricity charge has a fixed and variable component. The fixed electricity charge is calculated annually in advance of each Contract Year; however the fixed electricity charge may be revised during the Contract Year if the electricity tariff rates change. Electricity consumption for purposes of the fixed electricity charge is based on the guaranteed energy consumption set forth in the Water Purchase Agreement. The variable electricity charge is calculated monthly in arrears, and is based on the monthly delivered water quantity and the actual electricity tariff rates.

The Company is obligated to make monthly and annual shortfall payments to the Water Authority for the failure to deliver Product Water as required under the Water Purchase Agreement (Operating Period Shortfall Payments and Annual Adjusted Supply Commitment True-Up Payments). During 2017 the Company incurred \$2,894,753 related to Operating Period Shortfall Payments and \$1,846,953 related to the Annual Adjusted Supply Commitment True-Up Payment.

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11 - WATER PURCHASE AGREEMENT (continued)

Additionally, the Water Authority will pay a performance-based management fee of at least \$5 and up to \$10 per acre foot of water delivered under the Water Purchase Agreement, subject to inflation escalations. This fee is paid to PW under the MSA.

The weighted average water unit price under the Water Purchase Agreement as of December 31, 2017 was as follows:

	<u>Amount</u> <u>Per Acre Foot</u>
Fixed:	
Debt service charge	\$ 552.44
Equity return charge	385.63
Fixed operating charge	441.84
Fixed electricity charge	137.81
Total Fixed	<u>1,517.72</u>
Variable:	
Variable operating charge	114.33
Variable electricity charge	653.69
Total Variable	<u>768.02</u>
Total	<u>\$ 2,285.74</u>

The Water Authority has an option to purchase the Plant at any time following the tenth anniversary of the Commercial Operation Date for a price sufficient to redeem or defease the Series 2012 Plant Bonds and any Additional Plant Senior Debt incurred for the construction and modification of the Plant and which constitutes Permitted Approved Debt under the Water Purchase Agreement plus a return on equity. The Water Authority will also have an option to purchase the Plant for the same price if financing is unavailable to pay for modifying or reinstating the Plant after certain force majeure events. The Water Authority may also purchase the Plant for the aggregate outstanding principal and accrued interest on the Series 2012 Plant Bonds and any Additional Plant Senior Debt under the Plant Loan Agreement incurred for the construction and modification of the Plant and which constitutes Permitted Approved Debt under the Water Purchase Agreement upon a termination of the Water Purchase Agreement due to an event of default by the Company.

To secure its performance obligations under the Water Purchase Agreement, the Company was required to post a \$5.125 million letter of credit, secured by restricted cash (Note 4) from the Company.

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 12 - PARTNERS' CAPITAL

Neither the Company nor its partners have redemption or conversion rights. GP INC manages the operations of the business of the Company.

NOTE 13 – CONTINGENCIES

The Company and IDE are currently in dispute regarding certain costs of approximately \$7,000,000 which represents the difference between the amount billed by IDE and the amount the Company owes to IDE. This amount does not include potential disputes between the Company and IDE that could result, depending on the outcome of property insurance claims (Note 14). Any differences between the amounts billed by IDE and the amount the Company believes it owes have not been recognized in the financial statements.

NOTE 14 - SUBSEQUENT EVENTS

Letter of Credit

On January 5, 2018 Orion Water Acquisitions LLC issued a standby letter of credit in the amount of \$13,500,000 to partially fund the Debt Service Reserve Fund.

Distribution

On January 8, 2018 the Company distributed a total of \$17,337,806 to its Partners.

Water Purchase Agreement

On January 8, 2018, the Company made a payment of \$2,038,639 to the Water Authority related to the Annual Adjusted Supply Commitment True-Up and the Annual Operating Period Shortfall Payment True-Up Payment as required under the Water Purchase Agreement for the water contract year from July 1, 2016 to June 30, 2017, which was reflected in accounts payable and accrued expenses on the accompanying balance sheet at December 31, 2017. Any potential liability related to the Annual Adjusted Supply Commitment True-Up and the Annual Operating Period Shortfall Payment True-Up for the water contract year from July 1, 2017 to June 30, 2018 will not be known until the referenced contract year is over. The payment of the Annual Adjusted Supply Commitment True-Up, and the Annual Operating Period Shortfall Payment True-Up is contingent upon a cash distribution to the Company's Partners.

POSEIDON RESOURCES (CHANNELSIDE) LP
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 14 - SUBSEQUENT EVENTS (continued)

Ground Lease and Easement Agreement

On February 16, 2018 the Company and Cabrillo executed Amendment 11 to the Lease Agreement to keep the cooling water pumps in service through the end of 2019 (or longer if needed) in anticipation that the Encina Power Station will be retired prior to when the stand-alone intake and discharge facilities are ready to go into service and to provide additional easement space for planned construction of intake improvements. The annual rent increased by \$75,911 retroactively as of July 1, 2017, subject to annual CPI adjustments (as defined in the amendment). Additionally, the Company and Cabrillo entered into a hazardous waste remediation reimbursement agreement. Under the terms of this agreement, Cabrillo will reimburse the Company \$786,000 for its share of the remediation costs incurred during construction. This reimbursement is to be recovered as an offset against the incremental increase in the rent going forward noted above.

Insurance Claims

On August 17, 2017, there was a failure of a mechanical coupling on the high pressure line leading to reverse osmosis Train 5 in the Plant (one of 14 reverse osmosis trains in the Plant). Train 5 has been isolated from the remainder of the Plant and will be under repair for several months. The costs of the initial isolation of Train 5, approximately \$2 million, are the subject of a property insurance claim. The deductible under the property insurance policy is \$100,000.

Permanent repair of Train 5 is expected to cost approximately an additional \$3 million. Procurement and repairs are expected to be completed by June 2018. The final schedule and costs of the permanent repair of Train 5 remain under development by IDE and will also be the subject of a property insurance claim.

On January 3, 2018, AFM, the business interruption insurance policy insurer, approved a partial payment, \$3,500,000, on the \$8,200,000 claim related to Train 5 failure. On February 21, 2018, AFM agreed to increase the partial payment from \$3,500,000 to \$5,000,000. Certain releases must be obtained prior to receipt of the partial payment. AFM also has a right to claw back any advanced funds and needs to perform additional analysis before a final payout amount on the claim can be determined. No recognition has been made in the financial statements related to any proceeds recoverable under the property or business interruption insurance claims.

POSEIDON RESOURCES (CHANNELSIDE) LP
(A Limited Partnership)

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SCHEDULE OF COMMULATIVE
POST CLOSING CASH FLOWS
Period December 24, 2012
(Financial Closing) to December 31, 2017

Period
December 24, 2012
(Financial Closing) to
December 31, 2017

Cash flows from operating activities:	
Net loss	\$ (23,385,183)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:	
Depreciation expense	42,432,148
Amortization of deferred financing costs, net of capitalized	1,302,767
Accretion of bond premiums, net of capitalized	(1,069,959)
Bond premium amortization, net	(104,236)
Realized loss on sale of investments	3,759
Change in assets and liabilities:	
Accounts receivable	(19,473,366)
Prepaid expenses	(4,117,621)
Performance bond refund	1,000,000
Accounts payable and accrued expenses	<u>33,836,162</u>
Total adjustments	<u>53,809,654</u>
Net cash provided by operating activities	<u>30,424,471</u>
Cash flows from investing activities:	
Increase in restricted cash and cash equivalents	(88,848,972)
Purchase of investments - held to maturity	(1,890,441,414)
Proceeds from sale and maturity of investments - held to maturity	1,890,567,275
Investment in capitalized plant costs	<u>(572,620,784)</u>
Net cash used by investing activities	<u>(661,343,895)</u>
Cash flows from financing activities:	
Proceeds from issuance of long-term debt	546,021,288
Deferred financing costs	(16,590,936)
Net advances from related entities	70,334
Partner contributions	167,043,863
Partner distributions	<u>(65,625,125)</u>
Net cash provided by financing activities	<u>630,919,424</u>
Net increase in cash	-
Cash - beginning	-
Cash - ending	<u>\$ -</u>

See independent auditor's report.

POSEIDON RESOURCES (CHANNELSIDE) LP
(A Limited Partnership)

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SCHEDULE OF COMMULATIVE
POST CLOSING CASH FLOWS
Period December 24, 2012
(Financial Closing) to December 31, 2017

Period
December 24, 2012
(Financial Closing) to
December 31, 2017

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for:

Interest, net of capitalized interest of \$63,360,921

\$ 55,866,189

See independent auditor's report.

APPENDIX C

WATER AUTHORITY INFORMATION

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I. INFORMATION REGARDING THE SAN DIEGO COUNTY WATER AUTHORITY

Introduction; The Water Authority

The San Diego County Water Authority (the “**Water Authority**”) was organized on June 9, 1944 under the California County Water Authority Act for the primary purpose of providing a safe and reliable supply of imported water to its member agencies for domestic, municipal, and agricultural uses. The Water Authority’s service area encompasses roughly the western one-third of San Diego County or approximately 1,479 square miles. The Water Authority’s service area is a semi-arid region where historically the natural occurrence of water from rainfall and groundwater provides a firm water supply for only a small portion of the water needs of the current population.

The Water Authority serves its 24 member agencies which in turn deliver water to end users. These member agencies include six cities, five water districts, three irrigation districts, eight municipal water districts, one public utility district, and one federal agency.

The following are the member agencies of the Water Authority:

Cities

Del Mar	Oceanside
Escondido	Poway
National City	San Diego

Special Districts

Carlsbad Municipal Water District	Rincon del Diablo Municipal Water District
Fallbrook Public Utility District	San Dieguito Water District
Helix Water District	Santa Fe Irrigation District
Lakeside Water District	South Bay Irrigation District
Olivenhain Municipal Water District	Vallecitos Water District
Otay Water District	Valley Center Municipal Water District
Padre Dam Municipal Water District	Vista Irrigation District
Rainbow Municipal Water District	Yuima Municipal Water District
Ramona Municipal Water District	

Federal Agency

Pendleton Military Reservation

Board of Directors; Management

A 36-member Board of Directors governs the Water Authority with each of the member agencies having at least one voting representative on the Board. Any member agency may appoint one additional representative for each full five percent of total assessed value of property taxable for Water Authority purposes that is within the public agency service area. As a result, the City of San Diego is currently entitled to representation by ten directors and the Helix Water District, the Otay Water District and Carlsbad Municipal Water District are each currently entitled to representation by two directors. Directors are appointed to six-year terms by the chief executive officers of the respective member agencies, subject to approval by the agencies’ governing bodies.

Jim Madaffer, representing the City of San Diego, serves as Chair of the Board; and Gary Croucher, representing the Otay Water District, serves as Vice-Chair of the Board. Christy Guerin, representing the Olivenhain Municipal Water District, is the current Secretary of the Board.

The Water Authority management team includes:

Maureen A. Stapleton, General Manager
Sandra L. Kerl, Deputy General Manager
Dennis A. Cushman, Assistant General Manager
Dan Denham, Assistant General Manager
Mark J. Hattam, General Counsel
Lisa Marie Harris, Director of Finance/Treasurer
Gerard (Jerry) E. Reed III, Director of Engineering

Water Authority Service Area

The Water Authority's service area lies within the foothill and coastal areas of the westerly third of San Diego County, encompassing approximately 946,300 acres (or approximately 1,479 square miles). When the Water Authority was established in 1944, its service area consisted of approximately 94,707 acres. Growth has primarily resulted from the addition of and annexation of additional service areas by member agencies. The City of San Diego, with approximately 213,121 acres, is the largest member agency within the Water Authority's service area. In its 2016 county population estimate, the United States Census Bureau ranked San Diego County the second largest county by population in California. Of the total population of San Diego County, approximately 97 percent live within the Water Authority's service area. It is estimated that the population of the Water Authority's service area as of July 1, 2017 was approximately 3.3 million. The population of the City of San Diego, estimated at approximately 1.4 million as of July 1, 2017, represented approximately 43% of the total population of the Water Authority's service area.

Water Use by Member Agencies

The term "water use" describes the quantity of water a member agency obtains from all sources to meet its consumers' needs. These sources presently include impounding surface water reservoirs, groundwater, desalinated groundwater and seawater, recycled water and supplies imported to the Water Authority's service area through the transportation system of The Metropolitan Water District of Southern California ("MWD"). Quantities of water are often expressed in terms of acre-feet. An acre-foot is the amount of water that will cover one acre to a depth of one foot and is equivalent to approximately 326,000 gallons, which is approximately the average annual water use of two households of four persons each.

It is the policy and responsibility of the Water Authority to provide all supplemental water required by its member agencies to meet their consumers' needs. The level of dependence varies widely across the Water Authority's member agencies. Some member agencies are completely dependent on the Water Authority for water supplies. Other member agencies' dependence on Water Authority water supplies varies from approximately 90 percent to no utilization of Water Authority supplies during above normal rainfall cycles. The Water Authority's member agencies are required to pay certain charges irrespective of whether they order water from the Water Authority in a given year. Except as set forth in the next sentence, the Water Authority's member agencies are not contractually or otherwise required to order and pay for any set amounts of water from the Water Authority. Two of the Water Authority's member agencies, the Carlsbad Municipal Water District and Vallecitos Water District, have entered into contracts with the Water Authority to purchase 2,500 and 3,500 AFY of treated water from the Plant, respectively, subject to adjustment generally in parallel to adjustments under the Water Purchase Agreement. Water subject to these agreements is treated as "local supply" for purposes of the Water Authority's Water Shortage Contingency Plan ("WSCP") approved by the Board in August 2017 and as such is eligible for the Local Projects Development Adjustment under the Water Authority's Supply Allocation Methodology.

Due to the aggregated level of data provided by its member agencies, the Water Authority tracks water use under two class of service categories: the agricultural class and municipal and industrial (“M&I”) class. Water tracked as agricultural is delivered pursuant to Water Authority’s Transitional Special Agricultural Water Rate (“TSAWR”). All remaining non-agricultural consumptive use reported by Water Authority member agencies is deemed M&I water use.

Water use in the San Diego region is closely linked to the local economy, population, and weather. Additionally, MWD supply allocations and implementation of state mandated water demand reductions can affect and have affected total water demand. In fiscal year 2007, annual water demands in the Water Authority’s service area reached an all-time high of 741,893 acre-feet, and has since dropped by almost 30 percent to 518,397 acre-feet by the end of fiscal year 2016.

Over the long-term 2040 planning horizon, regional water demand is anticipated to increase based on the San Diego Association of Governments (“SANDAG”) Regional Growth Forecast. According to SANDAG demographic projections, between 2020 and 2040 the region will add roughly 484,000 people and add a combined total of roughly 182,000 new single-family and multi-family housing units in the region. Based on these growth estimates, the Water Authority’s 2015 Urban Water Management Plan (“UWMP”), a comprehensive document that includes long-term water demand projections for the San Diego region, was released. Since release of the 2015 UWMP, changed conditions (such as, a multi-year drought, The Governor’s state-wide drought emergency proclamation and the State Water Resources Control Board’s mandatory conservation standards) have impacted the region’s water use patterns. These events triggered a drop in total water demand. As a result, in February 2018 an Interim Demand Forecast Reset was developed, and presented to the Board, to address the discontinuity between 2015 UWMP demand projections and current demand levels. The net impact of the Interim Demand Forecast Reset is a downward shift in water demands of roughly 60,000 acre-feet across the entire 2020 through 2040 planning horizon. These projections are net of estimated conservation savings, resulting from member agency long-term water use efficiency efforts.

Other factors influence demand. For example, on November 4, 2009, the State Legislature passed a comprehensive package of water legislation (the “**2009 State Water Legislation**”) that included five bills addressing California’s statewide water situation, with particular emphasis on the San Francisco Bay/Sacramento-San Joaquin Delta Estuary (“**Bay-Delta**”) which, among other things, included a 20 percent water conservation mandate for most localities in the State by 2020, requirements that urban retail water suppliers develop urban water use targets to help meet the 20 percent goal, and an interim water reduction target by 2015. Although compliance with the legislative mandate rests with retail water agencies, the law requires that the Water Authority, as the wholesale supplier, support its retail member agencies’ efforts to comply with the 2009 State Water Legislation through a combination of regionally and locally administered active and passive water conservation measures, programs and policies, as well as the use of recycled water. In addition, two significant bills related to long-term water use efficiency (SB 606 and AB 1668) were signed into law by the Governor. The laws contain provisions that address water supply planning that do apply to the Water Authority. See “PRIMARY SOURCES OF SUPPLY – Recent California Drought”.

Water Authority Storage Facilities

Water storage facilities assist in managing consistent water availability to meet demand notwithstanding fluctuation in available supply. Ample storage allows the Water Authority to store water in wet years for use in dry years.

While the Water Authority does have some operational storage, the bulk of local storage was developed through the Emergency Storage Project (“**ESP**”) and Carryover Storage Project (“**CSP**”). The ESP and CSP consist of a system of reservoirs, interconnected pipelines and pumping stations that allow the Water Authority to convey water throughout the County during an emergency or extreme drought condition. With the completion of the San Vicente Dam Raise Project in 2014, regional capacity for

emergency and carryover storage increased by approximately 152,000 acre-feet and raised the total storage capacity in the region to approximately 743,690 acre-feet. As of September 2018, local storage owned by the Water Authority was approximately 153,600 acre-feet.

Agricultural Water Use

San Diego County has a well-established agricultural sector with approximately 251,147 acres in production and an annual value for all commodities of approximately \$1.7 billion in 2015, according to the County of San Diego's 2015 Crop Statistics and Annual Report. Nursery and cut flowers crops contributed approximately \$1.15 billion of output during 2015; fruits and nuts and vegetable production contributed an additional approximately \$467 million.

Since 2009, the Water Authority has made available to agricultural customers its TSAWR program. In exchange for receiving the TSAWR rate, composed of a supply rate differential and exemption from both the supply reliability charge and storage charge, agricultural customers forego the additional supply reliability benefit associated with the Water Authority's supplies, and receive a higher cutback rate that matches the MWD reduction level. The supply rate differential represents the difference between MWD's Tier 1 untreated rate and the Water Authority's Melded Supply Rate. The TSAWR program is scheduled to terminate on December 31, 2020.

OVERVIEW OF WATER SUPPLY AND PLANNING

The Water Authority's mission is to provide its service area a safe and reliable water supply. Historically, the principal source of supply for the Water Authority's service area has been water purchased by the Water Authority from MWD for sale to the Water Authority's member agencies. However, historic supply shortage events, regulatory uncertainties and continued population growth in the Water Authority's service area have reinforced the need for diversification of the Water Authority's water supply. Therefore, consistent with its mission statement, the Water Authority has actively pursued a strategy of supply diversification that includes the acquisition and importation of additional water supplies, the development of additional local water supply projects and enhancements to the reliability of its water supply via local and regional water storage capacity.

Water supplies utilized within the Water Authority service area originate from two sources: (1) imported water, and (2) local supplies (such as local runoff, groundwater, recycled water, and seawater desalination). The Water Authority has implemented programs and supported new technologies to increase local supply development. A significant milestone in local supply development was reached at the end of 2015, when the commercial operations commenced at the Claude "Bud" Lewis Carlsbad Desalination Plant (the "**Plant**"). Delivery of water from this drought proof local supply followed approval in 2012 by the Water Authority Board of a long-term Water Purchase Agreement with Poseidon Resources (Channelside) LP for the purchase of 48,000 to 56,000 acre-feet per year of desalinated seawater from the Plant.

Notwithstanding the Water Authority's successful water supply diversification strategy, MWD remains a significant imported water supply source for the Water Authority. MWD obtains its water supply from two primary sources: the Colorado River, via MWD's Colorado River Aqueduct, and the State of California Department of Water Resources' State Water Project ("**SWP**"), via the Edmund G. Brown California Aqueduct.

As an alternative to purchasing all of its imported water from MWD, the Water Authority diversified its purchases through, among other things, acquiring imported supplies of water conserved as a result of the lining of the All-American Canal and the Coachella Canal, and water conserved from agricultural conservation measures in the Imperial Irrigation District service area. Since 2003, the Water Authority has been receiving a portion of its imported water pursuant to the terms of the Quantification Settlement Agreement ("**QSA**") among the State, acting by and through the Department of Fish and Wildlife ("**DFW**"), the Coachella Valley Water District ("**CVWD**"), the Imperial Irrigation District

(“IID”) and the Water Authority, executed on October 10, 2003, the Water Transfer Agreement (defined below) and other QSA related agreements. See “Quantification Settlement Agreement”. Water that the Water Authority receives from IID is conveyed through the Colorado River Aqueduct pursuant to an exchange agreement with MWD. The Water Authority began receiving transferred water from IID in December 2003. Starting with the initial delivery of 10,000 acre-feet, the amount of water to be delivered is increasing according to an agreed-upon schedule until the maximum transfer yield of 200,000 acre-feet per year is achieved in 2021. The Water Authority received 115,000 acre-feet from IID transfers in 2018. In addition, the Water Authority’s portfolio includes imported supplies from water conserved as a result of the lining of the All-American Canal and the Coachella Canal. The Water Authority began receiving water from the Coachella Canal Lining Project in 2007 and from the All-American Canal Lining Project in 2009. In 2018, the Water Authority received approximately 79,000 acre-feet from the Coachella Canal Lining Project and All-American Canal Lining Project transfers. Dry year water transfers, which are short term transfers or leases that are typically agreed to and completed within one to three years, have been used occasionally in the past, most recently in 2011.

Water Supply; Facilities

The Water Authority is a member agency of and obtains a portion of its water supply from MWD. The Water Authority also obtains conserved water from the Colorado River under long-term agreements: from the IID and water conserved through the lining of the All-American Canal, an 80-mile long aqueduct which runs parallel to the Mexico California border in southeastern California and conveys water from the Colorado River to the Imperial Valley; and the Coachella Canal, a 122-mile aqueduct which also conveys Colorado River water from the All-American Canal to the Coachella Valley north of the Salton Sea.

During the period 2013-2017, the San Diego region received approximately 72% of its water supply from the Colorado River, 11% from State Water Project facilities and 17% from local facilities.

The Water Authority’s water facilities include approximately 310 miles of water conveyance pipelines, storage capacity in several regional reservoirs and approximately 136 million gallons per day (MGD) of water treatment capacity through a Water Authority-owned water treatment plant and capacity in a plant owned by a member agency.

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The Water Authority’s overall progress in supply diversification for the last five fiscal years is set forth in the following table:

WATER AUTHORITY SERVICE AREA WATER SUPPLY
Fiscal Year Ended June 30 (In Acre-Feet)

<u>Supply Source</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
MWD	325,729	305,039	187,053	192,701	163,639
IID Transfer	100,000	100,000	100,000	100,000	115,000
Canal Lining	80,256	80,123	79,347	78,278	79,326
Dry Year Transfer	—	—	—	0	0
Surface Water ¹	40,396	4,071	18,021	25,747	44,563
Groundwater ²	19,223	23,643	20,371	16,103	25,819
Recycled Water	28,932	26,485	22,818	23,774	27,116
San Luis Rey Water Transfer ³	0	0	0	0	22,027
Seawater Desalination	0	0	27,353	40,421	40,907
Total	594,536	539,361	454,963	477,024	518,397

¹ Fluctuations in surface water use attributed to variation in local hydrology.

² Includes Yuima Municipal Water District supplemental groundwater use.

³ San Luis Rey Water Transfers commenced in 2017

Future Water Supply Planning

Over the past several years, the Water Authority’s primary water supply sources were adversely impacted by a combination of multiple dry-year climatic events and regulatory constraints imposed on water deliveries. The Colorado River has experienced long term dry conditions since 2000 and regulatory issues related to the Bay-Delta continue to constrain supply availability and impact the cost of SWP water. As such, the Water Authority continues to pursue regional supply diversification efforts through the support of long-term planning efforts for local surface water, groundwater, recycled water, local seawater desalination and conservation efforts.

The Water Authority’s supply planning strategy was developed and continues to be implemented in cooperation with its member agencies. As part of its strategic supply planning process, the Water Authority produces several long-range planning documents, including the Water Authority’s 2015 UWMP. The preferred mix reflects the Water Authority Board policy to diversify supplies required to meet future water needs and increase supply reliability through local agency control. The 2015 UWMP was approved by the Water Authority Board in June 2016. The 2015 UWMP distinguishes “verifiable” new water supplies from “additional planned” or “conceptual” new water supplies. Verifiable projects are those with adequate documentation regarding implementation and supply utilization. “Additional planned” projects are those that either the Water Authority or member agencies are actively pursuing and currently funding, but do not currently rise to the level of verifiable for implementation. Conceptual projects are those considered to be in the pre-planning phase, where the projects have not progressed to a point where the project yield can be factored into reliability assessments conducted as part of the UWMP. Individual components of the projected water supply mix contained in the 2015 UWMP include: supplies from MWD, long-term water transfers from conserved IID agricultural water, water savings from the lining of the All-American Canal and Coachella Canal, seawater desalination supplies from the Carlsbad Desalination Plant, surface water, potable reuse and continued development of recycled water and groundwater. Additionally, through an agreement with local Native American bands, member agency supplies now include water transfers from the San Luis Rey Indian Water Authority. The Water Authority

also supports water conservation as an important part of its supply diversification strategy. The Water Authority’s conservation efforts are intended to reduce demand for imported water, demonstrate a continued commitment to conservation best management practices, and assist member agencies in complying with the per-capita water use reduction required under the 2009 State Water Legislation.

Seawater desalination is a key component of the Water Authority’s supply diversification strategy. The Water Authority’s seawater desalination efforts include the Plant – See the forepart of this Limited Offering Memorandum.

The Water Authority member agencies are pursuing options to further diversify the region’s water resources through local supply development, which includes implementation of projects such as brackish groundwater recovery, potable reuse, seawater desalination and non-potable water recycling. With the goal of maximizing the use of recycled water, member agencies are pursuing the development of potable reuse projects.

The percent breakdown of Water Authority and its member agencies’ projected water supply mix for 2020 and 2035 based on the 2015 UWMP and total water demands based on the Interim Demand Forecast Reset are shown in the table below. To account for the long-term nature of the 2035 projections, production from member agencies’ additional planned local supply projects are included.

**WATER AUTHORITY SERVICE AREA
PROJECTED WATER SUPPLY MIX (NORMAL WEATHER YEAR)**

2020			2035		
Resource	Percentage Goal*	Total AF	Resource	Percentage Goal*	Total AF
MWD	11%	59	MWD	2%	10
IID Transfer	35%	190	IID Transfer	32%	200
Seawater Desalination	10%	56	Seawater Desalination	11%	72
Canal Lining Transfer	15%	80	Canal Lining Transfer	13%	80
Local Surface Water	10%	52	Local Surface Water	8%	51
Groundwater	6%	33	Groundwater	6%	36
Recycled Water	8%	43	Recycled Water	9%	57
San Luis Rey Water Transfer	3%	16	San Luis Rey Water Transfer	2%	16
Potable Reuse	2%	8	Potable Reuse	17%	110
	100%	537		100%	632

*Amounts may not add due to rounding

Climate Change. Evaluation of potential climate change impacts on water demand represents a prudent water resources planning exercise. However, definitive projections on the timing and magnitude of climate change-initiated variations to local temperature and precipitation patterns are still forthcoming. The body of work currently available from national and international research contains a full spectrum of possible outcomes based on numerous greenhouse gas emission scenarios run through an assortment of General Circulation Models (“GCM”). In the absence of research consensus, the Water Authority has adopted a qualitative evaluation approach that uses five climate change scenarios to develop a range of potential future water demand outcomes.

Findings from the evaluation of the climate change scenarios indicate no dramatic shifts in near-term precipitation patterns for the San Diego area. Additionally, for reference year 2040, the end of the 2015 UWMP planning horizon, mixed results were observed in the variation of precipitation projections among the climate models. Only two of the climate scenarios resulted in annual precipitation estimates for the region lower than the historic average. Results for temperature change revealed warming on average relative to historic conditions under all scenarios. Climate change impact on water demand ranged from negligible to under a 10 percent increase across the five scenarios.

The Water Authority Board approved a Climate Action Plan on March 27, 2014, updated December 2015, that contains a voluntary strategy for reducing the agency's greenhouse gas emissions (carbon dioxide equivalent) linked to climate change. The plan demonstrates the Water Authority's commitment to improving the energy efficiency of its operations and saving ratepayer money by limiting greenhouse gas emissions over which the Water Authority has direct control. The Climate Action Plan includes a 15 percent reduction in the baseline amount of carbon dioxide emissions. Water Authority projections show that the agency will achieve the targeted reductions. In addition, future facilities will incorporate energy-efficient designs, and the Water Authority continues to investigate additional ways to mitigate greenhouse gas emissions through expansion of renewable energy sources such as hydropower and solar.

On April 25, 2013, San Diego Coastkeeper filed a lawsuit in San Diego Superior Court challenging the 2013 Master Plan and Climate Action Plan on environmental grounds. The 2013 Master Plan update and Climate Action Plan, along with the related environmental review documents, were approved in a process that involved approximately two dozen public workshops, meetings and hearings since September 2011. The San Diego Superior Court entered a judgment in the Water Authority's favor denying the petition for writ of mandate. Notice of entry of judgment was given on August 27, 2015. Though Coastkeeper initially appealed, Coastkeeper's appeal was later dismissed and the judgment for the Water Authority is final.

PRIMARY SOURCES OF SUPPLY

Local Water Supplies

In 1990, San Diego County area local supplies consisted almost exclusively of surface water and groundwater sources which represented only five percent of the region's total water supply. These sources are heavily dependent upon precipitation and are cyclical in nature. Over the last several decades, total local supplies have ranged from a low of approximately 26,000 acre-feet in fiscal year ended June 30, 1991 to more than 151,000 acre-feet in fiscal year ended June 30, 1999. Total local water use came to approximately 47,000 acre-feet in the fiscal year ended June 30, 2016.

In the fiscal year ended June 30, 2018, local member agency supplies accounted for approximately 23 percent of the region's water supply portfolio or roughly 119,000 acre-feet. The year-over-year increase in member agency local supplies was achieved through expanded brackish groundwater production, greater surface water use resulting from above average precipitation and runoff in the 2016-2017 winter and water transfers from the San Luis Rey Indian Water Authority.

The Plant

See the forepart of this Limited Offering Memorandum for a description of the Plant.

Water Authority Water Transfers

Core water transfers have emerged as one of the Water Authority's primary alternatives to heavy reliance upon purchases from MWD, thus helping the Water Authority accomplish its supply diversification goal. In general, water transfers typically involve purchasing water for a specified period of time from an agency or district that then reduces its water use by the equivalent amount. The principle behind water transfers is that market forces will work to reallocate water supplies. The Water

Authority/IID core water transfer, described below under “Quantification Settlement Agreement”, is an example of this principle, providing for gradual increases to a maximum of 205,000 acre-feet per year by 2021, then stabilizing at 200,000 acre-feet per year beginning in 2023. Also see “—All-American Canal and Coachella Canal Lining Projects” below.

Quantification Settlement Agreement

The QSA and its existing priorities and guidelines impact the Water Authority’s supply portfolio with respect to both water transfers as well as water purchased from MWD. The QSA establishes a plan for California to reduce its overuse of Colorado River water. The Water Authority’s Water Transfer Agreement with IID, described in detail below, is a cornerstone of the QSA. The Water Authority’s Colorado River Program manages the implementation of the Water Authority’s agreements under the QSA, including the Water Transfer Agreement and the agreements relating to lining of portions of the All-American and Coachella Canals. Taking into account the Interim Demand Forecast Reset, the Water Authority expects approximately 50 percent of the region’s water supply from the IID water transfer and canal lining projects by 2020.

The Water Authority/IID core water transfer provides for gradual increases to a maximum of 205,000 acre-feet per year by 2021, then stabilizing at 200,000 acre-feet per year beginning in 2023. Canal linings in Imperial and Coachella Valley have also allowed the Water Authority to reduce its reliance on purchases from MWD. The All-American and Coachella canal lining projects are critical components of the Quantification Settlement Agreement, and provide approximately 80,000 acre-feet per year for 110 years. Through September 30 2018, the Water Authority has received almost 1.9 million acre-feet of Colorado River supplies from its QSA transfer with IID and canal lining projects.

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The following table details the existing priorities of the California users of Colorado River water under the 1931 Seven-Party Agreement. The Water Authority is entitled to Priority 3(a) under its Water Transfer Agreement with IID. The Colorado River supplies purchased from MWD fall under Priority 4 and, when available, 5(a) and 5(b).

PRIORITIES UNDER THE 1931 CALIFORNIA SEVEN-PARTY AGREEMENT¹

Priority	Description	Acre-Feet Annually
1 2 3(a) 3(b)	1 Palo Verde Irrigation District gross area of 104,500 acres of land in the Palo Verde Valley	3,850,000
	2 Yuma Project in California not exceeding a gross area of 25,000 acres in California	
	3(a) Imperial Irrigation District and other lands in Imperial and Coachella Valleys ² to be served by All-American Canal	
	3(b) Palo Verde Irrigation District - 16,000 acres of land on the Lower Palo Verde Mesa	
4	Metropolitan Water District of Southern California for use on the coastal plain	550,000
	SUBTOTAL	4,400,000
5(a)	Metropolitan Water District of Southern California for use on the coastal plain	550,000
5(b)	Metropolitan Water District of Southern California for use on the coastal plain ³	112,000
6(a) 6(b)	6(a) Imperial Irrigation District and other lands in Imperial and Coachella Valleys to be served by the All-American Canal	300,000
	6(b) Palo Verde Irrigation District - 16,000 acres of land on the Lower Palo Verde Mesa	
	TOTAL	5,362,000
7	Agricultural use in the Colorado River Basin in California	Remaining surplus

Source: MWD Official Statement dated February 24, 2017, Water Revenue Bonds 2017 Authorization Series A

¹ Agreement dated August 18, 1931, among Palo Verde Irrigation District, IID, CVWD, MWD, the City of Los Angeles, the City of San Diego and the County of San Diego. These priorities were memorialized in the agencies' respective water delivery contracts with the Secretary of the Interior.

² The CVWD serves Coachella Valley.

³ In 1946, the City of San Diego, the Water Authority, MWD and the Secretary of the Interior entered into a contract that merged and added the City of San Diego and the County of San Diego's rights to storage and delivery of Colorado River water to the rights of MWD.

Water Authority/Imperial Irrigation District Water Transfer. In September 1995, the Water Authority approved a Memorandum of Understanding with IID to negotiate a long-term transfer of conserved agricultural water. In July 1996, the Water Authority and IID agreed to draft terms for a Cooperative Water Conservation and Transfer Program. On April 29, 1998, the Water Authority and IID approved an Agreement for the Transfer of Conserved Water (the “**Water Transfer Agreement**”). Concurrently with its approval of the QSA on October 10, 2003, the Water Authority executed a Revised Fourth Amendment to the Water Transfer Agreement and commenced implementation of the water transfer. The Water Transfer Agreement provides that reliable water saved through conservation measures in Imperial Valley will be transferred to the Water Authority through existing MWD facilities. This water supply is highly reliable because it is part of IID’s Colorado River Water, Priority 3(a). This water would be expected to remain available to the Water Authority even if Colorado River supplies to MWD were interrupted under its lower Priority 4. Implementation of the water transfer began in 2003 with a transfer of 10,000 acre-feet of water. IID has increased the volume of water conserved and transferred to the Water Authority according to the schedule described in the Water Transfer Agreement. Since deliveries began in 2003, IID Transfer deliveries through September 30, 2018 totaled 1,097,500 million acre-feet.

In calendar year 2018, the Water Authority received 130,000 acre-feet of conserved water from the Water Transfer Agreement, and 160,000 acre-feet of conserved water is scheduled for deliveries in calendar year 2019. An additional 10,000 acre-feet of water is scheduled for calendar years 2020-2022 consisting of 2,500 acre-feet in 2020 and 2022, and 5,000 acre-feet in 2021 through the Early Transfer Water provision in the Revised Fourth Amendment to the Water Transfer Agreement.

The Water Transfer Agreement provides for annual deliveries through 2047 as follows:

**SCHEDULED ANNUAL WATER TRANSFER
DELIVERIES**

<u>Calendar Year</u>	<u>Transfer Amount</u>
2016	100,000
2017	100,000
2018	130,000
2019	160,000
2020	190,000
2021 – 2047	200,000

All-American Canal and Coachella Canal Lining Projects. As part of the QSA and related negotiations, MWD assigned to the Water Authority its rights to develop approximately 80,000 acre-feet per year of conserved Colorado River water from projects to line portions of the earthen All-American Canal (the “**All-American Canal Lining Project**” or “**AACLP**”) and the Coachella Canal (the “**Coachella Canal Lining Project**” or “**CCLP**”) and, collectively with the AACLP, the “**Canal Lining Projects**”) pursuant to an Allocation Agreement among various parties to the QSA. Construction work on the CCLP was complete in April 2007 and it produces approximately 21,500 acre-feet of conserved water annually to the Water Authority, plus any unused environmental mitigation water. The Water Authority is entitled to receive up to an additional 4,850 acre-feet of water supply annually from the portion not used on environmental mitigation projects of the CCLP. Water began flowing in the AACLP in 2009, and 56,200 acre-feet of water is conserved annually for the Water Authority. The AACLP and CCLP also provide an additional 16,000 acre-feet of water supply annually for use by certain Indian tribes and local agencies located in northern San Diego County. The Water Authority has received approximately 832,000 acre-feet of water supply from Canal Lining Projects through September 30, 2018. Conserved water from

the Canal Lining Projects is expected to provide the Water Authority's service area with more than 8.5 million acre-feet of water over the 110-year life of the agreement.

Exchange Agreement. The 2003 Exchange Agreement between the Water Authority and MWD provides for transportation of Colorado River water from the Canal Lining Projects and the IID water transfer through MWD facilities. Under the Exchange Agreement, MWD is required to deliver water from the IID water transfer and Canal Lining Projects for up to 45 years and 110 years, respectively. The Water Authority agreed to pay MWD's lawful wheeling rate for transportation of these water supplies.

The Water Authority and MWD are engaged in a legal dispute regarding lawful rates for transportation. The dispute was heard by the 1st District Court of Appeal in San Francisco on May 10, 2017, and was affirmed in part and reversed in part, with remand back to the superior court for further proceedings. See "Litigation Challenging MWD Rate Structure".

Salton Sea Environmental Issues. Implementation of the QSA requires certain mitigation of the impacts of QSA programs on the Salton Sea, which is an important habitat for a wide variety of fish-eating birds as a stopover spot along the Pacific flyway. Some of these birds are listed as threatened or endangered species under the federal or California Endangered Species Acts (respectively, the "**Federal ESA**" and the "**California ESA**" and, collectively, the "**ESAs**"). Located at the lowest elevations of an inland basin and fed primarily by agricultural drainage with no outflows other than evaporation, the Salton Sea is on a trend towards hyper-salinity, which has already impacted the Salton Sea's fishery. This fishery in the Salton Sea has historically been suitable habitat for the fish-eating birds. The transfer of water from IID to the Water Authority will reduce the volume of agricultural run-off from IID into the Salton Sea, which in turn may accelerate the natural trend of the Salton Sea to hyper-salinity and potentially increase particulate matter ("**PM10**") emissions or "dust" as the sea's shoreline recedes. The appropriate mitigation for impacts to the Salton Sea from the Water Authority/IID water transfer and the larger issue of Salton Sea restoration has been addressed by State legislation implementing the QSA. In passing that legislation, the State Legislature committed the State to undertake restoration of the Salton Sea ecosystem. Restoration of the Salton Sea is subject to selection and approval of an alternative by the State Legislature and funding of the associated capital improvements and operating costs.

A primary initial strategy to mitigate the reduction in inflows resulting from QSA water transfers in the Imperial and Coachella valley was to deliver water to the Salton Sea for a 15-year period from 2003 through 2017. This 15-year period was intended to allow the State to identify and select a preferred alternative for Salton Sea restoration. Since 2003, however, the State has made only minimal progress toward the Salton Sea's restoration.

On November 18, 2014, IID filed a petition with the SWRCB seeking modification of SWRCB Revised Order WRO 2002-2013, which approved the long-term transfers from IID to the Water Authority and to CVWD. In its petition, IID requested the SWRCB modify this order to require the State of California to fulfill its commitment to restore the Salton Sea as a condition of transfer. On March 15, 2017 IID filed a motion for an evidentiary hearing to revisit SWRCB Revised Order WRO 2002-2013 and push for continued progress from the State. On November 7, 2017, the SWRCB responded to the petition through a revised WRO stipulating additional requirements for the State of California including: provide dust control and restore habitat on 30,000 acres of exposed playa over 10 years; grant the SWRCB continued oversight of State's restoration efforts; and develop a long-term restoration plan by 2022. The stipulated order also allows for continued implementation of the mitigation program approved as part of the original WRO for the Quantification Settlement Agreement water transfers.

The State has made some progress in moving forward to meet its obligations to restore the Salton Sea. In May 2015, the California Governor created a Salton Sea Task Force, led by a newly appointed Assistant Secretary for Salton Sea Policy, and consisting of representatives from the California Natural Resources Agency, the California Environmental Protection Agency and related state departments. Further, State legislation signed in October 2015 tasked the Natural Resources Agency with providing a list of “shovel ready” projects at the Salton Sea. In August 2016, a memorandum of understanding was signed by the U.S. Department of the Interior and the California Natural Resources Agency to solidify these goals and call for \$30 million in federal funding over the next ten years for activities associated with the Salton Sea Management Program. An addendum to this MOU was signed in January 2017 to establish that the California Natural Resources Agency would coordinate with the QSA Joint Powers Authority and expedite the use of JPA mitigation funds for air quality mitigation. Following these agreements, the California Natural Resources Agency released its draft Salton Sea Management Program Phase I: 10-Year Plan in March 2017. As required under the SWRCB 2017 Stipulated Order, the State’s Salton Sea Management Program is currently working on plans for projects to meet its annual acreage milestones for dust control and habitat creation..

Quantification Settlement Agreement Joint Powers Authority. The Quantification Settlement Agreement JPA Agreement, which was executed in October 2003, established the Quantification Settlement Agreement Joint Powers Authority (“**Quantification Settlement Agreement JPA**”). The purpose of the Quantification Settlement Agreement JPA is to administer the funding of environmental mitigation requirements related to QSA water transfers. The Quantification Settlement Agreement JPA collects, holds, invests, and disburses funds needed for mitigation projects. The Quantification Settlement Agreement JPA is comprised of representatives from the DFW, CVWD, IID and the Water Authority. Under terms of the Quantification Settlement Agreement JPA Agreement, the collective financial obligation of the three water agencies (CVWD, IID and the Water Authority) is capped at \$133 million (in 2003 dollars, discounted at six percent per annum), or \$288 million in nominal dollars, of which the Water Authority is responsible for \$52.2 million in 2003 dollars (\$94 million in nominal dollars). The Water Authority has spent \$81 million to date towards its Quantification Settlement Agreement JPA environmental mitigation obligations through calendar year 2018. The Quantification Settlement Agreement JPA modified its payment schedules on May 20, 2015 to advance \$40.5 million to pay for environmental mitigation requirements. Advance payments made by the water agencies are discounted at a rate of six percent. This modification includes an advance from the Water Authority of \$10 million over six years beginning in fiscal year ending June 30, 2016, which will result in a nominal savings to the Water Authority of approximately \$4.61 million. The Water Authority’s obligations are payable from Net Water Revenues subordinate to Bonds and Contracts and the Subordinate Obligations. See “General Resolution Definitions”.

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The table below shows a history of payments the Water Authority has made to date and scheduled payments through 2025:

HISTORICAL AND SCHEDULED WATER AUTHORITY PAYMENTS PER QUANTIFICATION SETTLEMENT AGREEMENT JPA (MODIFIED IN 2007 AND 2015)

<u>Calendar Year</u>	<u>Historical Payments*</u>	<u>Calendar Year</u>	<u>Scheduled Payments</u>
2003	\$2,340,273	2019	2,810,053
2004	1,032,775	2020	1,900,836
2005	1,100,347	2021	3,801,632
2006	1,314,855	2022	1,517,597
2007	5,599,469	2023	1,221,837
2008	4,363,369	2024	1,345,439
2009	8,141,875	2025	1,047,693
2010	2,770,483		
2011	3,084,803		
2012	3,496,247		
2013	5,245,201		
2014	5,291,989		
2015	8,076,346		
2016	10,054,386		
2017	10,164,814		
2018	8,664,667		

*In addition to the payments listed here, the Water Authority received a \$3.35 million credit for payments made to the Bureau of Reclamation for Implementation of Conservation and Mitigation Measures for the Colorado River described in the U.S. Fish and Wildlife Service 2001 Biological Opinion.

The water agencies are also responsible for providing \$30 million (in 2003 dollars) for the Salton Sea Restoration Fund, which is administered by DFW. CVWD and the Water Authority paid their full obligations to this fund in fiscal year ended June 30, 2005 (\$8.3 million for CVWD, and \$11.8 million for the Water Authority (in 2003 dollars)). IID is paying its share of these funds according to a payment schedule.

Potential Colorado River Shortage. In December 2007, the Secretary of the Interior executed a Record of Decision (“**ROD**”) for guidelines that determine potential shortage allocations among the Lower Basin states of California, Arizona, and Nevada (Colorado River Interim Guidelines for Lower Basin Shortages and the Coordinated Operations for Lake Powell and Lake Mead). Prolonged drought conditions have plagued the Colorado River Basin since 2000, which caused Lake Mead to fall to a record low elevation level in July 2016 and created an increased likelihood of future shortage allocations, which have never occurred on the Colorado River. The Bureau of Reclamation has been meeting with the Colorado River Basin States and water agencies on a Lower Basin Drought Contingency Plan to address a potential shortage of Colorado River water due to anticipated elevation and storage levels at Lake Mead. Though under the existing Law of the River, California is not legally required to initially reduce Colorado River diversions during a declared shortage, the draft Drought Contingency Plan includes California voluntarily reducing its Colorado River water use if future reservoir levels reach specified conditions. Per the Quantification Settlement Agreement and Conserved Water Transfer Agreement with IID, the Water Authority would be required to take a pro-rata reduction in its water transfer supplies if the Secretary of the Interior declares an official shortage in the Lower Colorado River Basin that affects deliveries to IID.

The Metropolitan Water District of Southern California

As described above, the Water Authority is a member agency of and obtains water from MWD, which derives its supply from the Colorado River via MWD's Colorado River Aqueduct, and the SWP, via the Edmund G. Brown California Aqueduct. The information contained herein regarding MWD was derived from publicly available information regarding MWD.

MWD's primary purpose is to provide wholesale imported water to its member agencies. The MWD service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. There are 26 member agencies of MWD, consisting of 14 cities, 11 municipal water districts and the Water Authority. A Board of Directors, currently numbering 38 members, governs MWD. Each member agency has at least one representative on the MWD's Board. Representation and voting rights are based upon the assessed valuation of property within each member agency. The Water Authority has four members on the MWD's Board and its voting entitlement is 17.42 percent as of August 20, 2018. The population of the MWD service area is currently estimated to be approximately 19 million.

Historically, the Water Authority has been the largest purchaser of water from MWD. In the fiscal year ended June 30, 2018, the Water Authority's estimated water purchases from MWD represented approximately 12.8 percent of MWD's total sales. In addition, under an exchange agreement, MWD transported about 180,000 acre-feet of the Water Authority's independently obtained Colorado River water to the Water Authority.

In the fiscal year ended June 30, 2018, MWD supplied approximately 1.34million acre-feet of water to its member agencies. MWD faces a number of challenges in providing a reliable and high quality water supply for Southern California. These include, among others: (1) population growth within the service area; (2) increased environmental regulations, which may impact treatment techniques and operations of facilities; (3) regulatory restrictions on the operation of the SWP; (4) variable weather conditions; (5) climate change that influences the availability and timing of imported supplies; (6) cost associated with maintaining its supplies; and (7) increasing water rates, improved water use efficiency and member agencies' local supply development's impact on MWD water sales. Supply deficiencies can occur during periods of drought. While MWD plans and manages reserve supplies to account for normal occurrences of drought conditions, increased regulatory restrictions and prolonged droughts may impact MWD's ability to provide water to its member agencies. Additionally, planning by MWD member agencies to increase their own local supplies may affect MWD water sales.

The MWD Act provides a preferential right for the purchase of water by each of the MWD member agencies. This preferential right is based upon a ratio of all payments made to MWD by each member agency on tax assessments and payments toward the capital and operating expenses of MWD, except purchases of water, to all such payments made by all member agencies. As part of the Water Authority's rate litigation against MWD (See "Litigation Challenging MWD Rate Structure"), the Water Authority challenged MWD's method of calculation preferential rights. The court ruled in the Water Authority's favor. MWD has since corrected its calculation, and as of June 30, 2017, the Water Authority has a statutory preferential right to 24.22% of MWD's total available supply.

It is MWD's declared policy to meet all its member agencies' wholesale water needs, including those of the Water Authority. In the most recent three water supply shortages in the early 1990's and 2000's, the MWD Board has adopted allocation plans using financial penalties to limit the amount of water MWD supplies to its member agencies. Operating under the 2008 Water Supply Allocation Plan (the "**Water Supply Allocation Plan**" or the "**WSAP**") as amended in December

2014, MWD's allocation of water takes into consideration population growth, local supply investments, changes in local supply conditions, demand hardening from conservation, groundwater replenishment needs of some of its member agencies, and each member agency's dependence on MWD supplies. MWD implemented Level 2 of its WSAP in fiscal year 2010 and most of fiscal year 2011. MWD terminated the WSAP Level 2 allocation in April 2011 based on the water supply outlook, improved storage conditions, and reduced water demands. Due to renewed and worsening statewide drought conditions, on February 11, 2014, MWD declared a water supply alert that urged its service area's cities, counties, local public water agencies and retailers to achieve extraordinary voluntary conservation. On April 14, 2015, MWD's Board approved Level 3 WSAP effective on July 1, 2015. On May 10, 2016, MWD rescinded its WSAP Level 3 allocation, effective immediately, due to improved supply conditions.

MWD Water Supply

MWD imports water from primarily two sources: the Colorado River via the Colorado River Aqueduct, and the Bay-Delta via the Edmund G. Brown California Aqueduct of the SWP owned by the State of California.

Colorado River Water. Under applicable laws, agreements and treaties governing the use of water from the Colorado River, California is entitled to 4.4 million acre-feet of Colorado River water annually, plus one-half of any surplus that may be available collectively for Arizona, California and Nevada as declared on an annual basis by the United States Secretary of the Interior. Under a priority system that governs the distribution of Colorado River water made available to California, MWD holds the fourth priority right of 550,000 acre-feet per year and a fifth priority right of 662,000 acre-feet per year. MWD's fourth priority right is within California's basic annual apportionment of 4.4 million acre-feet; however, its fifth priority right is outside of this entitlement and therefore is not considered a firm supply. (For a description of the priority of various California water users see the table under "Quantification Settlement Agreement".) Until 2003, MWD had been able to take full advantage of its fifth priority right as a result of the availability of surplus water and apportioned but unused water by other states. However, Arizona and Nevada increased their use of water from the Colorado River, thus reducing the availability of unused apportionment for California. In addition, beginning in 2003, a severe drought in the Colorado River Basin reduced storage reserves in system reservoirs, thus eliminating MWD's access to surplus water since that time. Prior to 2003, MWD was able to divert approximately 1.25 million acre-feet (its aqueduct capacity) in any year, but since that time, MWD's Colorado River water deliveries, inclusive of the Water Authority's QSA water, have been limited to a low of approximately 633,000 acre-feet in 2006 and a high of approximately 1,179,000 acre-feet in 2015, and totaled over 677,000 acre-feet in 2017. Average annual net deliveries from 2008 to 2017 were approximately 959,000 acre-feet, with annual volumes dependent primarily on increasing transfers of conserved water and on availability of unused higher priority agricultural water within California. MWD has entered into agreements with other Colorado River water users to mitigate its loss of access to Colorado River surplus supplies. As of May 20, 2018, MWD plans to divert a little under 877,000 acre-feet of Colorado River supplies, inclusive of transporting approximately 209,000 acre-feet of the Water Authority's QSA supplies, to its service area in 2018.

The Colorado River Aqueduct is owned and operated by MWD. Work on the Colorado River Aqueduct commenced in 1933 and water deliveries started in 1941. Additional facilities were completed by 1961 to meet additional requirements of MWD's member agencies. The Colorado River Aqueduct is 242 miles long, starting at Lake Havasu in Mohave County, Arizona, and terminating at Lake Mathews in Riverside County, California. After deducting evaporation and seepage losses in transporting and storing the water and considering maintenance requirements, the maximum aqueduct

capacity available for delivery by MWD to its member agencies is approximately 1.25 million acre-feet per year.

Colorado River Water Environmental Considerations. Several fish species and other wildlife species either directly or indirectly have the potential to affect Colorado River operations, thus changing power operations and the amount of water deliveries to the Colorado River Aqueduct. A number of species that are on either “endangered” or “threatened” lists under the Federal ESA or the California ESA are present in the area of the Lower Colorado River. To address this issue, a broad-based state/federal/tribal/private regional partnership, which includes water, hydroelectric power and wildlife management agencies in Arizona, California and Nevada, developed a multi-species conservation plan for the main stem of the Lower Colorado River (the **Lower Colorado River Multi-Species Conservation Program** or “MSCP”). The MSCP allows MWD to obtain federal and state permits for any incidental take of protected species resulting from current and future water and power operations and diversions on the Colorado River for a term of 50 years. The MSCP also covers operations of federal dams and power plants on the Colorado River, and environmental coverage for the Water Authority for the change in point of diversion from Imperial Dam to Lake Havasu for Colorado River supplies from the IID water transfer and Canal Lining Projects.

Colorado River Water Seismic Considerations. Portions of the Colorado River Aqueduct are located near earthquake faults, including the San Andreas Fault. The five pumping plants on the Colorado River Aqueduct have been buttressed to better withstand seismic events. Other components of the Colorado River Aqueduct are monitored for any necessary rehabilitation and repair. Supplies are dispersed throughout MWD’s service area, and a six-month reserve supply of water normally held in local storage provides reasonable assurance of continuing water supplies during and following seismic events. MWD has developed an emergency plan that calls for specific levels of response appropriate to an earthquake’s magnitude and location. However, no assurance can be made that a significant seismic event would not cause damage to project structures, which could thereby interrupt the supply of water from the Colorado River Aqueduct.

State Water Project. MWD’s other major source of water is the SWP. The State-owned SWP is operated by DWR. The SWP transports Feather River water stored in, and released from Oroville Dam and unregulated flows diverted directly from the Bay-Delta south via the California Aqueduct to four delivery points near the northern and eastern boundaries of MWD’s service area. The total length of the California Aqueduct is 444 miles.

In 1906, MWD signed a water supply contract with DWR. MWD is one of 29 agencies that have long-term contracts for a water supply with DWR. MWD is the largest of the 29 agencies in terms of the population it serves (approximately 18.8 million), the share of SWP water to which it is entitled, and the total amount of annual payments made to DWR. MWD’s water supply contract with DWR provides for the delivery of up to 1,911,500 acre-feet per year, or about 46 percent of project deliveries. MWD also has a “call” on 100,000 acre-feet per year of water it transferred to CVWD and the Desert Water Agency, if needed, and is required to pay for the financial obligations associated with that water supply during the call period.

The SWP was originally intended to produce 4.2 million acre-feet of water supply annually. The first SWP facilities were completed in the early 1970s; at that time, it was envisioned that additional facilities would be constructed as the demand for SWP water increased. Several factors, including public opposition and increased costs, combined to delay the construction of additional facilities. The quantity of SWP water supply available for delivery each year is determined largely by hydrology, operational considerations and, pumping restrictions due to environmental concerns. Uncertainties from climate change that influences future temperature and precipitation patterns also

present challenges. Water supplies received from the SWP by MWD from 2004 through 2017, including water from water transfers, groundwater banking and exchange programs, varied from a high of 1,800,000 acre-feet in calendar year 2004 to a low of 593,000 acre-feet in calendar year 2015. MWD's water supply from the SWP for calendar year 2017 was 685 percent of its contracted amount, or 1,625,000 acre-feet.

MWD's SWP allocation for calendar year 2018 is 35 percent, or approximately 669,025 acre-feet.

Bay-Delta Regulatory and Planning Activities. The water supply and reliability challenges affecting the SWP are largely a result of longstanding environmental issues in the Bay-Delta estuary. In addition to its importance to urban and agricultural water users, the Bay-Delta is of critical ecological importance. The Bay-Delta is the largest estuary on the West Coast of the United States and provides habitat for more than 750 plant and animal species. One hundred fifty years of human activity have contributed to the destruction of habitat, the decline of several estuarine and anadromous fish species, and the deterioration of water quality. These activities have historically included increasing water demands from urban and agricultural water uses, the dredging and filling of tidal marshes, the construction of levees, urban runoff, wastewater discharges, agricultural drainage, runoff from abandoned mines, and the introduction of non-native species.

Endangered Species Act Considerations. The listing of several fish species as threatened or endangered under the Federal Endangered Species Act ("ESA") and California ESA have adversely impacted SWP operations and limited its flexibility. Currently, five species (the winter-run and spring-run Chinook salmon, Delta smelt, North American green sturgeon and Central Valley steelhead) are listed under the ESAs. In addition, the longfin smelt is listed as a threatened species under the California ESA.

The Federal ESA requires that before any federal agency authorizes funds or carries out an action it must consult with the appropriate federal fishery agency to determine whether the action would jeopardize the continued existence of any threatened or endangered species, or adversely modify habitat critical to the species' needs. The result of the consultation is known as a "biological opinion". In the biological opinion the federal fishery agency determines whether the action would cause jeopardy to a threatened or endangered species or adverse modification to critical habitat and recommends reasonable and prudent alternatives or measures that would allow the action to proceed without causing jeopardy or adverse modification. The biological opinion also includes an "incidental take statement". The incidental take statement allows the action to go forward even though it will result in some level of "take," including harming or killing some members of the species, incidental to the agency action, provided that the agency action does not jeopardize the continued existence of any threatened or endangered species and complies with reasonable mitigation and minimization measures recommended by the federal fishery agency.

The United States Fish and Wildlife Service released a biological opinion on the impacts of the SWP and Central Valley Project on Delta smelt on in December 2008 following the filing by several environmental interest groups of legal challenges to those biological opinions under the Federal ESA. In June 2009, the National Marine Fisheries Service released a biological opinion for salmonid species. These biological opinions on delta smelt and salmonid species contain water supply restrictions that have a range of impacts on MWD's deliveries from the SWP depending on hydrologic conditions, and are estimated to result in reductions of an average of one million acre-feet per year.

State Water Resources Control Board. The State Water Resources Control Board ("SWRCB") is the agency responsible for setting water quality standards and administering certain water rights

throughout California. SWRCB decisions can affect the availability of water to users of SWP water, including MWD. SWRCB exercises its regulatory authority over the Bay-Delta by means of public proceedings leading to regulations and decisions. These include the Bay/Delta Water Quality Control Plan (“**WQCP**”), which establishes the water quality standards and proposed flow regime of the estuary, and water rights decisions that assign responsibility for implementing the objectives of the WQCP to users throughout the system by adjusting their respective water rights. Since 2000, the SWRCB’s Water Rights Decision 1641 (“**D-1641**”) has governed the SWP’s ability to export water from the Bay-Delta for delivery to SWP contractors. See “State Water Project Operational Constraints”. The SWRCB is updating the WQCP via two separate processes, called plan amendments. On July 6, 2018 the SWRCB released a final proposal for the first set of amendments for new and revised flow water quality objectives for the Lower San Joaquin River and its three salmon-bearing tributaries, the Stanislaus, Tuolumne, and Merced Rivers, revised salinity water quality objectives in the southern Bay-Delta, and a program of implementation. The SWRCB plans to take action on the proposed flow on December 12, 2018 after it postponed action in August and again in November. Concurrently, the SWRCB has released a framework focused on the Sacramento River and its tributaries, Delta eastside tributaries (including the Calaveras, Cosumnes, and Mokelumne rivers), Delta outflows, and interior Delta flows. The framework indicates potential amendments the SWRCB may propose related to the Sacramento River and its tributaries – the SWRCB plans to release a draft proposed plan and staff report analyzing alternatives for public review later in 2018.

State Water Project Operational Constraints. DWR has altered the operations of the SWP to accommodate species of fish listed under the ESAs. These changes in project operations have adversely affected SWP deliveries. The impact on total SWP deliveries attributable to the Delta smelt and salmonid species biological opinions combined is estimated to be one million acre-feet in an average year, reducing SWP deliveries from approximately 3.3 million acre-feet to approximately 2.3 million acre-feet, and are estimated to range from 0.3 million acre-feet during critically dry years to 1.3 million acre-feet in above normal water years.

Operational constraints may be required to remain in place until a long-term solution to the problems in the Bay-Delta is identified and implemented. New litigation, listings of additional species or new regulatory requirements could further adversely affect future SWP operations by requiring additional export reductions, releases of additional water from storage or other operational changes impacting water supply availability. The Water Authority cannot predict the ultimate outcome of any of the litigation or regulatory processes described above but believes they could have a materially adverse impact on the availability and cost of SWP and MWD water supplies.

Bay Delta Planning Activities. In 2000, several State and federal agencies released the CALFED Bay Delta Programmatic ROD and related environmental documents that outlined a 30-year plan to improve the Bay-Delta’s water supply, water quality, ecosystem, and levee stability. The CALFED ROD remains in effect and many of the State, federal and local projects begun under CALFED continue.

Building on CALFED and other Bay Delta planning activities, in 2006 multiple State and federal agencies, water agencies and other stakeholder groups entered into a planning agreement for the Bay-Delta Conservation Plan (“**BDCP**”). The BDCP was originally conceived as a comprehensive conservation strategy for the Bay Delta designed to restore and protect ecosystem health, water supply and water quality within a stable regulatory framework over a 50-year timeframe with corresponding long-term permit authorizations from fish and wildlife regulatory agencies. The BDCP includes a new water conveyance infrastructure and extensive habitat restoration for the Bay Delta.

In 2015, the State and federal lead agencies proposed an alternative implementation strategy and new alternatives to the BDCP to provide for the protection of water supplies conveyed through the Bay-Delta and the restoration of the ecosystem of the Bay-Delta, termed "California WaterFix" and "California EcoRestore," respectively. In this alternative approach, DWR and the Bureau of Reclamation would implement planned water conveyance improvements as a stand-alone project (California WaterFix, as further described below) that would seek incidental take authorization for an unspecified period and would include only limited amounts of habitat restoration. The habitat restoration to be required would be that directly related to construction mitigation and the associated costs of such mitigation which would be underwritten by the public water agencies participating in the California WaterFix project. Ecosystem improvements and habitat restoration more generally (California EcoRestore) would be undertaken under a more phased approach than previously contemplated by the BDCP and would not be linked with the California WaterFix project or permits. Accelerated restoration actions totaling 30,000 acres of tidal marsh habitat were proposed to be undertaken in the coming decade to provide public benefits for listed fish in the Bay-Delta. Subsequent actions would be based on the proven merits of restoration.

Delta Stewardship Council.

On November 4, 2009, the State Legislature passed a comprehensive package of water legislation that included five bills addressing California's statewide water situation, with particular emphasis on the Bay-Delta. The water legislation signed into law (the "**2009 State Water Legislation**") includes, among other things, a 20 percent water conservation mandate for most localities in the State by 2020, new regulations regarding voluntary monitoring of groundwater levels by localities, and a State general obligation bond measure that would provide funding for projects and programs throughout the State and in the Bay-Delta.

The 2009 State Water Legislation also directed that the Bay-Delta be managed with the dual goals of water supply reliability and ecosystem protection. It created two new governmental agencies – the Sacramento-San Joaquin Delta Conservancy and the Delta Stewardship Council. The Sacramento-San Joaquin Delta Conservancy will implement ecosystem restoration activities in the Bay. The Delta Stewardship Council, formed in February 2010, is CALFED's successor agency; it was directed to adopt and oversee implementation of a comprehensive management plan for the Bay-Delta (the "**Delta Plan**") by January 1, 2012. The Delta Plan was intended to lay the foundation for projects and programs that will meet the State's co-equal goals of improving statewide water supply reliability while providing a healthy ecosystem. The Delta Plan was adopted by the Delta Stewardship Council on May 16, 2013. Subsequently, its 14 regulatory policies were approved by the Office of Administrative Law. The Delta Plan became effective with legally-enforceable regulations on September 1, 2013. The 2009 State Water Legislation also provides that the BDCP, when completed and successfully permitted as a habitat conservation plan, be incorporated into the Delta Plan.

California WaterFix. California WaterFix is a project that was approved by DWR in July 2017 as an improvement to the State Water Project. Upon completion, it would provide new conveyance facilities for the transportation of State Water Project and Central Valley Project water from the north Delta, principally from three new intakes through two 30-mile long tunnels running under the Delta, to the existing aqueduct systems in the south Delta. The existing State Water Project Delta water conveyance system needs to be improved and modernized to address operational constraints on pumping in the south Delta. The State Water Project is subject to biological opinions and incidental take permits that substantially limit the way DWR operates the State Water Project. Therefore, under the California WaterFix, DWR will extend the delivery system from new north Delta water intakes on the Sacramento River to a new forebay in the south Delta to provide additional flexibility in operating the State Water Project. As configured, the total maximum north Delta diversion intake capacity would be 17,851 AFD.

In early 2018, DWR announced that it may consider staged implementation of the project in the future. The initial phase would consist of 11,900 AFD of diversion capacity through two intakes and one tunnel under the Delta. The remaining 5,950 AFD facilities would be constructed at a later date. Depending on the manner of implementing the project, the benefits to MWD could be materially impacted.

MWD indicates that the California WaterFix is expected to improve the reliability of Southern California's water delivery system by updating aging infrastructure. In addition to the more efficient and effective delivery of water supplies through the Delta, DWR has identified other benefits of the California WaterFix, including allowing for more operational flexibility to deliver water through the Delta, and enabling a more natural flow of rivers in the Delta to protect sensitive fish species. DWR indicates that it would provide greater opportunity to capture and convey water from storm flows in wet and above-normal hydrological weather years to the State Water Contractors (as defined below) to refill reservoirs and replenish groundwater basins. DWR also indicates that it would improve the quality of water for export, and reduce climate change risk of increased salinity from rising sea levels. MWD indicates that the California WaterFix would additionally help reduce the risks from a catastrophic seismic event in the Delta.

DWR estimates that it will take approximately 15 years to substantially complete the California WaterFix after commencement of construction. In July, 2017 DWR filed a validation action to legally establish its authority to issue revenue bonds to finance California WaterFix. More than a dozen public agencies and six environmental groups filed answers opposing the validation action; MWD and three other public water agencies filed answers in support. A number of other lawsuits with respect to the project have also been filed as described below. Certain permits and other approvals necessary to commence construction remain to be obtained. Accordingly, DWR has not yet commenced construction of the project.

Based upon DWR's preliminary estimate, the capital costs of California WaterFix are estimated to be approximately \$17 billion (in 2017 dollars). The preliminary cost estimate includes contingencies for construction costs and unknown expenses related to land acquisition. Given the scope of the project and the length of time it will take DWR to construct the project, this cost estimate may change based on numerous factors and the actual cost of construction of the project may differ materially.

MWD's Estimated Costs and Rate Impacts. MWD has projected that the impact on overall water rates and charges of an investment of this magnitude, based on MWD's 2017-18 revenue requirements and assuming financing over a 40-year term at an assumed annual interest cost of 4.0 percent, would be an incremental increase in overall water rates and charges of approximately 2.2 percent per year over the anticipated construction timeline, or an approximate cumulative 33 percent at the end of 15 years. MWD indicates that it is not possible to calculate the precise water rate impacts on retail ratepayers within MWD's service area because of the wide variation of costs and water sources for each retail agency, and the fact that each retail agency makes its own retail rate decisions based on various factors. However, MWD has estimated cost impacts for the average Southern California household. MWD estimates that the average cost impact on households within its service area is approximately \$4.80 per month, assuming approximately 70 percent of water users are residential and an estimated 6.2 million occupied households within the MWD service area.

The incremental projected costs associated with participation by MWD in the California WaterFix at the level approved on April 10, 2018 are estimated to increase MWD's long-term projected average 3.0 percent annual rate increases by approximately 1.1 percent to 4.1 percent. Upon the successful completion of the California WaterFix, any water revenues that may be generated in the future from potential wheeling or delivery of water by MWD utilizing the additional acquired capacity in the

project could offset some of the projected financial impact of MWD's participation; however, specific future actions are speculative and subject to separate approvals, hence receipt of any such revenues cannot be assured and is not included in the above estimates.

MWD's projections of future costs of the California WaterFix are based upon a number of assumptions, including those identified above. The actual cost impacts to MWD of the California WaterFix will depend on a variety of factors, including among other things, the total costs of construction of the project and the interest rates at which any future financing of project costs can be implemented. Construction projects are subject to ordinary construction risks and delays applicable to projects of their kind, examples of which include contractor nonperformance; inclement weather affecting timeliness of completion; the costs and availability of, or delivery schedule for, land acquisition, equipment, components, materials, labor or subcontractors; issues regarding compliance with applicable environmental standards; natural hazards or seismic events during construction; and changing economic conditions (such as rising interest rates and inflation), the occurrence of any of which could increase construction costs substantially. Moreover, actual construction bids could be higher than projected for purposes of the preliminary cost estimate described herein. The scope and magnitude of, and the extended construction period required for, a project of the nature of the California WaterFix may exacerbate these risks. Further, as described below, the California WaterFix is the subject of ongoing litigation. Any delays in the implementation due to litigation or other causes will increase the risk of cost escalation. Finally, in the event the project is forestalled from implementation or abandoned prior to completion, expenditures incurred by MWD prior to that time may represent sunk costs.

Completion of California WaterFix is subject to numerous lawsuits and other actions. The California WaterFix is currently subject to several lawsuits and MWD indicates that it expects that additional lawsuits may be filed in the future with respect to the project. The current lawsuits primarily relate to DWR's powers to finance and construct the project and various environmental approvals and related matters. These lawsuits challenge multiple aspects of the project and, if DWR is unsuccessful in any of these actions, it could cause delays, increases of costs of the project, changes in scope to the project and/or mitigation, or even cancellation of the project. Actions taken by MWD in connection with its approved participation in the project could also be the subject of litigation. Subsequent to the actions taken on April 10, 2018 by MWD's Board in connection with the California WaterFix, as described above, MWD received a notice from two organizations alleging certain violations of the Ralph M. Brown Act (the California state law governing how meetings of governmental agencies in the State are agendaized and conducted) in connection with that meeting. There can be no assurance all of the permits and approvals will be obtained from the responsible parties in a timely manner and acceptable form, or at all. Further, the outcome of any litigation opposing the project cannot be known. Any such litigation could result in delays or, if successful, otherwise materially adversely impair the development, implementation or completion of the project.

State Water Project Contract Extension. During the 1960s, as the SWP was being constructed, long term contracts were signed with 29 public water agencies known as the “**SWP Contractors**”. The term of the majority of the SWP Contractors’ contracts with DWR currently extends to December 31, 2035 or until all DWR bonds issued to finance construction of project facilities are repaid, whichever is longer. In June 2014, DWR and the SWP Contractors reached an Agreement in Principle to extend the contract to 2085 and to make certain changes related to the financial management of the SWP going forward. DWR and 26 of the SWP Contractors, including MWD have signed the Agreement in Principle. DWR issued a Notice of Availability of the Draft Environmental Impact Report on August 17, 2016. The public review period ended October 17, 2016. On September 11, 2018, the Joint Legislature Budget Committee conducted a hearing to review the SWP contract amendment, clearing the way for the contracts to be extended. Through a separate process, DWR and SWP Contractors have also reached an Agreement in Principle on contract

amendments for water management and California WaterFix. While DWR has historically defined and billed projects similar to WaterFix (e.g., its proposed project known as Peripheral Canal) as Conservation Facilities, or a supply cost, the Agreement in Principle reached for WaterFix proposes to define California WaterFix under a separate category that could be a supply and/or transportation cost. MWD has indicated that it plans to discuss with its Board and member agencies on the proper allocation of WaterFix costs in 2019. DWR issued a Notice of Preparation for Environmental Impact Report on July 13, 2018. The Water Authority cannot predict the ultimate outcome of the finalized contract extension or amendments for WaterFix described above but either or both could have a materially adverse impact on the cost of SWP and MWD water supplies.

Seismic Considerations. Major portions of the California Aqueduct are located parallel to and near the San Andreas and other faults. All major faults are crossed either by canal at ground level or by pipeline at very shallow depths to ease repair in case of damage from movement along a fault. SWP facilities are designed to withstand earthquakes without major damage. Dams, for example, are designed to accommodate movement along their foundations and to resist earthquake forces on their embankments. Earthquake loads have been taken into consideration in the design of project structures such as pumping and power plants. The location of check structures on the canal allows for hydraulic isolation of the fault-crossing repair. No assurance can be made that a significant seismic event would not cause damage to SWP structures and interrupt the water supply available from the SWP.

2017 Oroville Dam Spillway Incident. Oroville Dam is a facility of the SWP. On February 7, 2017 the main flood control spillway at Oroville Dam was significantly damaged as DWR released water to manage higher inflows. The damaged main spillway impaired DWR's ability to manage lake levels causing water to flow over the emergency spillway. The use of the emergency spillway resulted in erosion that threatened the stability of the emergency spillway structure. On February 12, 2017, an evacuation order was issued for approximately 200,000 people living in Oroville and surrounding communities. In April 2017, DWR released details of a recovery plan designed to ensure that the main spillway would be reconstructed sufficiently to handle flows of 100,000 cfs by November 1, 2017. DWR operated Oroville at a lower level during winter of 2018. Reconstruction work is ongoing and expected to be largely completed in 2019. In September 2018, DWR reported that the total costs of recovery and restoration are now at \$1.1 billion, exceeding the earlier estimate of 870 million. The Federal Emergency Management Agency ("FEMA") has already approved and provided reimbursement to DWR for a portion of the emergency response costs. FEMA is evaluating information related to the recovery and construction phases of the project to determine eligibility. Any costs to be paid for by the SWP Contractors under the SWP contracts are expected to be financed long-term with DWR bonds.

Integrated Resources Plan. MWD's "Integrated Water Resources Plan" (the "IRP") was first adopted by the MWD Board in January 1996 as a long-term planning guideline for water resources and capital investments. IRP has evolved. The stated purpose of the IRP was to develop a "preferred resource mix" to meet the water supply reliability objective at the retail level, under foreseeable hydrologic conditions. In 2004, MWD's Board adopted an updated IRP that added a proposal for a "planning buffer" to develop an additional 500,000 acre-feet of water to address "uncertainty" in future water supply availability. In October 2010, MWD's Board adopted a second IRP update that recommended an "Adaptive Management" approach, with a strategy to implement the core and 500,000 acre-feet of buffer supplies and a third category of water supply development called, "Foundational Actions". Because of the lack of nexus between MWD investments and its member agencies' willingness to pay, if implemented successfully, the 2010 IRP could result in MWD having stranded costs in connection with supply assets. In March 2015, MWD convened an IRP Committee to update its 2010 IRP. The MWD Board adopted the 2015 IRP in January 2016. The 2015 IRP added that MWD would ensure the region's local supply production target of 2.43 million acre-feet is reached

by 2040 based on the premise that local supply projects may not perform as projected. However, while the 2015 IRP identified more than 205,000 acre-feet of local supplies member and sub agencies have in advanced planning stages, the 2015 IRP local supply target is based on production levels of local supply projects operating and being constructed during the IRP update and only includes 20,000 acre-feet of new local supply production by 2040. Instead of working with its member agencies to assess the probabilities and risks of local supply production, MWD is taking on an “all of the above” approach by shoring up its imported water supplies, developing a “regional” recycling project, and encouraging its member agencies to develop additional local supplies, thus continuing its approach to potentially over-develop supplies.

Additional MWD Water Supplies. MWD has a number of water transfer and storage and exchange programs with state, federal, public and private water districts and individuals in order to augment its imported water supplies. In 1988 MWD entered into a conserved water transfer agreement with IID under which it receives approximately 105,000 acre-feet per year until December 31, 2041, or 270 days beyond the termination of the QSA, whichever is later. MWD has entered into groundwater basin storage agreements with the Arvin Edison Water Storage District and Semitropic Water Storage District, an agreement with San Bernardino Valley Municipal Water District to coordinate the use of facilities and SWP supplies, and groundwater banking and exchange transfer agreements with the Antelope Valley-East Kern Water Agency, Kern Delta Water District, the Mojave Water Agency, CVWD and the Desert Water Agency. In February 2016, the MWD Board approved the purchase of up to 100,000 acre-feet of transfer supplies from Sacramento Valley to augment its supplies. Due to improved hydrologic conditions and the Governor’s conservation mandate, supplies exceed demands in 2016, ultimately, MWD did not pursue these supplies transfers. MWD also entered into an agreement with DWR, in December 2007, to purchase a portion of the water released by the Yuba County Water Agency (“YCWA”); MWD’s agreement allows MWD to purchase at least 6,555 acre-feet to 67,068 acre-feet per year of water supplies in dry years through 2025.

MWD Storage. In addition to making its imported water supplies available for annual consumptive uses, MWD also purchases and stores excess imported water in wet years for use in dry years. MWD reports that its storage capacity is 6.1 million acre-feet, which includes reservoirs, conjunctive use and other groundwater storage programs within its service area, and groundwater and surface storage programs along the SWP and Colorado River Aqueduct. In 2018, MWD had approximately 626,000 acre-feet of additional water in its emergency storage that is reserved for use in the event of supply interruptions from earthquakes or similar emergencies. In 2014 and 2015, MWD withdrew 1.13 million acre-feet and 294,000 acre-feet, respectively, of water to meet demands. With the improved hydrologic conditions in 2016, MWD added 350,000 acre-feet to its storage reserves, bringing its dry-year storage reserves levels to approximately 1.27 million acre-feet as of January 1, 2017. In 2017, MWD stored more than 1 million acre-feet of supplies in storage, bringing its dry-year storage to approximately 2.35 million acre-feet.

Litigation Challenging MWD Rate Structure

The Water Authority filed *San Diego County Water Authority v Metropolitan Water District of Southern California, et al.* on June 11, 2010, challenging MWD’s 2011 and 2012 rates. Because the case was still pending and MWD continued to adopt new rates based on the same cost of service methodology, the Water Authority filed additional lawsuits against MWD in 2012, 2014, 2016, 2017, and 2018 challenging MWD’s 2013-2020 rates. The core legal issues and facts in the first two cases are similar. Each lawsuit asserts that MWD’s rates assign water supply costs to transportation in violation of State law and the State constitution. All of the cases allege that MWD has breached its contract with the Water Authority by setting its water rates to discriminate against the Water Authority by artificially inflating the price charged for wheeling (transporting) water independently obtained by

the Water Authority through MWD's pipes by an improper allocation of certain supply related costs, including the majority of SWP costs and MWD's costs for conservation and local supply projects to the wheeling rate it charges the Water Authority. The Water Authority's 2010 lawsuit included a claim that MWD's calculation of preferential rights fails to properly account for payments made by the Water Authority under the 2003 Amended and Restated Agreement between MWD and the Water Authority for the Exchange of Water.

The Water Authority's lawsuits also challenge MWD's termination and withholding of further funding agreements with the Water Authority for local water supply development projects and conservation programs as a result of its rate challenge; MWD's local supply development and conservation subsidies are funded primarily through its Water Stewardship Rate. MWD collects tens of million dollars annually from the Water Authority through the Water Stewardship Rate.

In another cause of action, the Water Authority asserts that MWD incorrectly excluded the wheeling revenues it collects from the Water Authority in its calculation of the Water Authority's statutory preferential right to MWD water supplies, further discriminating against the Water Authority.

MWD has defended the rate litigation on a number of grounds, including but not limited to assertions that its rates are lawful, that the Exchange Agreement does not mean what the Water Authority contends, and that if that contract did mean what the Water Authority contends then it is an illegal and void contract. The Water Authority has contended that MWD's assertions are without merit, and countered that the Exchange Agreement is lawful and was conclusively determined to be valid pursuant to the provisions of the California Code of Civil Procedure. During the pendency of this litigation the Water Authority has continued to receive water deliveries under the Exchange Agreement.

The 2010 and 2012 lawsuits were tried in the San Francisco Superior Court. The cases were heard in two phases, with all claims against MWD's rates heard in the first phase, followed by the breach of contract and preferential rights claims in the second phase. The 2014 and 2016 cases (challenging MWD's 2015-2018 rates) have been stayed in San Francisco Superior Court pending the outcome of the 2010 and 2012 cases. In October 2018, the 2018 case was transferred from Los Angeles Superior Court to San Francisco Superior Court.

On April 24, 2014, San Francisco Superior Court Judge Curtis E.A. Karnow issued his phase one decision and ruled that in setting rates for 2011, 2012, 2013 and 2014, MWD violated cost of service requirements of California law, including the wheeling statute, common law and, for the 2013 and 2014 rates, the California Constitution (Proposition 26, now Article XIII C) by assigning water supply costs to transportation. The court invalidated the System Access Rate, System Power Rate, Water Stewardship Rate, and MWD's wheeling rate for 2011, 2012, 2013, and 2014. The court also held that the Water Authority had not met its prima facie burden of establishing that MWD's failure to account for standby costs of dry-year peaking renders MWD's Transportation Rates unconstitutional and unlawful. On August 28, 2015, Judge Karnow issued a final ruling for phase two, which ruling included, among other things, that MWD has been under-calculating the Water Authority's preferential right to MWD water supplies. The ruling awarded \$188.3 million plus interest to the Water Authority for illegal water rates MWD charged from 2011 through 2014. Judge Karnow also ruled that MWD under-calculated the Water Authority's right to MWD water supplies. As part of the Water Authority's Exchange Agreement with MWD wherein MWD agreed to transport the Water Authority's independently obtained supplies through MWD's facilities, MWD is contractually required to set aside the disputed amount of the Water Authority's payments to MWD in a separate interest-bearing account during the pendency of the litigation. On November 19, 2015, Judge Karnow issued his final judgment that affirmed his two prior rulings in the Water Authority's favor. Included in the judgment was an order for MWD to recalculate the Water Authority's preferential right to MWD water

supply. The final judgment concluded the initial trial court phase of the lawsuits that were filed in 2010 and 2012.

The trial court's decision was appealed by MWD. The First District Court of Appeal issued a ruling in 2017 that held in both parties' favor on different issues. The reported decision can be found at *San Diego County Water Authority v. Metropolitan Water Dist. of Southern California*, 12 Cal.App.5th 1124 (2017). The Court of Appeal agreed with MWD that State Water Project costs could be charged as transportation under the Water Authority's Exchange Agreement. However, the Court of Appeal agreed with the Water Authority that: (1) MWD breached the Exchange Agreement by charging Water Stewardship Rates; (2) the Exchange Agreement was not invalid; (3) MWD violated the MWD Act by not crediting Exchange Agreement payments to the calculation of the Water Authority's Preferential Rights; (4) MWD's "Rate Structure Integrity" contract provisions were unconstitutional and the Water Authority was entitled to relief; and (5) the Water Authority is entitled to statutory interest on the damages MWD must pay. The matter was remanded back to the trial court for further proceedings in accord with the Court of Appeal's direction. (A Writ Petition to the California Supreme Court by the Water Authority on the sole issue MWD prevailed on was denied.) The matter is now before Judge Mary Wiss in San Francisco Superior Court, with proceedings still pending.

The Water Authority and MWD have met on several occasions to try to reach consensual resolution of all their pending disputes. The contents of such meetings are confidential. However, there have also been some communications in public discussing non-confidential possible settlement terms. The most recent such communication was by Water Authority Board Chair Jim Madaffer, and can be found at: <https://www.sdcwa.org/water-authority-board-chair-outlines-compromise-terms-potentially-end-mwd-litigation>.

The Water Authority is unable to predict the outcome of this litigation and there can be no assurance that an unfavorable outcome would not have material adverse consequences to the Water Authority.

Recent California Drought

In January 2014, the California Governor proclaimed a state of emergency throughout California, calling for increased conservation across the State. In response to the Governor's drought declaration and call for conservation, the Water Authority activated its WSCP for the second time since its adoption in 2006. It also declared in February 2014, a regional drought response Stage I, Voluntary Supply Management, and notified the member agencies of a voluntary Drought Watch condition under the Model Drought Response Ordinance ("**Model Ordinance**"). The Water Authority recognized that voluntary measures to reduce water use would be instrumental to help preserve critical water reserves should dry conditions continue.

As drought conditions intensified across the State, with smaller communities in the Central Valley at risk of significant water supply shortages, in April 2014, the Governor directed the SWRCB to adopt emergency regulations to prevent "the waste and unreasonable use of water," calling for a voluntary 20 percent reduction in urban water use statewide. In July 2014, the SWRCB adopted an emergency regulation for urban water conservation aimed at reducing outdoor water use, which established prohibitions on water waste and identified actions local water agencies should take to reduce water demand in their service areas. Consistent with the Governor's call for statewide conservation, in July 2014, the Water Authority increased the regional drought response to Stage II, Supply Enhancement, and Drought Alert under the regional Model Ordinance, which included mandatory water-use restrictions with a regional savings target of up to 20 percent.

Dry conditions continued to worsen into a fourth year in the spring of 2015, as reflected by a record low level of snow water content in the northern Sierra Nevada of 5 percent of average for April 1, the date that usually marks the maximum accumulation of snowpack. In April 2015, the Governor directed the SWRCB to impose restrictions on urban suppliers to achieve a statewide reduction in potable urban use of 25 percent. Also in April 2015, the MWD Board of Directors announced that it would implement its WSAP, calling for a 15 percent cutback in fiscal year 2016 deliveries in its service area. In response to these cutbacks and the SWRCB emergency regulation, in May 2015, the Water Authority declared the Mandatory Supply Cutback stage under its WSCP and approved member agency municipal and industrial (M&I) and TSAWR supply allocations for fiscal year 2016. The Water Authority's member agencies also were required to limit outdoor irrigation of ornamental landscapes and turf with potable water to no more than two days per week.

An important element to drought response planning is determining the regional shortage level based on available supplies and projected demands. This analysis was conducted in 2015 for fiscal year 2016, based on the supply allocation from MWD. The MWD supply allocation was combined with member agency dry-year local supplies, supplies from the Water Authority's Colorado River transfers of conserved water, and deliveries from the Plant. Normal water demands were calculated for fiscal year 2016 based on fiscal year 2014 demands. The analysis showed a shortage of less than one percent for the region, which demonstrated that the planning and actions taken by the Water Authority and its member agencies were effective to manage severe multi-year droughts. The SWRCB emergency regulation did not take into account the supplies water agencies had available during the drought and the required agency reduction levels did not reflect the supply reliability investments water agencies had taken to avoid or mitigate shortage due to drought.

In May 2015, the SWRCB amended and readopted its emergency regulation to require a 25 percent reduction statewide in potable water use effective June 2015 through February 2016. The regulation included water conservation standards for retail urban water suppliers based on a reduction in water use that varied between 4 and 36 percent depending on residential gallons-per-capita-per-day (GPCD), compared with 2013 water-use levels. This marked the first time in California's history that conservation measures were mandated statewide to respond to drought conditions. In November 2015, the Governor issued Executive Order B-36-15, which extended the regulation until October 2016 and directed the SWRCB to consider modifications to the regulation. The Water Authority advocated for revisions to the regulation that took into account investments in drought resilient supplies. In February 2016, the SWRCB amended the emergency regulation to allow for adjustments to the conservation standards, including for new local drought-resilient supplies developed after 2013. In March 2016, the SWRCB certified supply from the Plant as drought-resilient, which lowered the range of member agencies' conservation standards to between eight percent and 28 percent, with the regional aggregate water conservation goal reduced from 20 percent to approximately 13 percent. Under the regulations, a water supplier's conservation standard required at least an eight percent reduction in water use, regardless of supply availability.

Water supply conditions improved during the winter of water year 2016, with an El Niño weather pattern that brought rain and snow to parched California. In March 2016, the Water Authority Board revised its regional drought management actions and rescinded its declaration of a regional Level 2 Drought Alert condition under the Model Ordinance. In May 2016, due to the improved supply conditions and sufficient supply availability, MWD terminated its member agency allocations. In response, the Water Authority ended allocations to its member agencies, consistent with the WSCP. Also in May 2016, the SWRCB adopted an emergency regulation that replaced the prior percentage reduction-based water conservation standard with a localized "stress test" approach. The Water Authority and its member agencies advocated for the stress test approach since it took into account local supply investments and actual shortages being experienced within a community. Utilizing the conservative stress test criteria, the

Water Authority and its member agencies demonstrated the availability of adequate supplies to meet demands for the years 2017, 2018, and 2019, should dry conditions continue.

In January 2017, supported by the results of the self-certification stress test analysis and improved statewide water supply conditions that bolstered and enhanced the analysis, the Water Authority's board adopted Resolution No. 2017-01, which declared an end to drought conditions in San Diego County. Also in January, the Department of Water Resources ("DWR") increased its allocation to State Water Contractors to 60 percent of the requested amounts. At that level, MWD will receive approximately 1.15 million acre-feet of supply. Based on estimated operations, MWD anticipated taking all of its State Water Project allocation this year and any additional contract supplies that become available.

In February 2017, despite objections by the Water Authority and other water suppliers throughout the State, the SWRCB re-adopted and extended the emergency regulation for another 270 days, or until the Governor rescinded or modified the drought declaration. The action maintained the stress test approach and kept in place existing water use reporting requirements and prohibitions on wasteful water use practices.

On March 30, 2017, the DWR conducted the fourth of five seasonal manual surveys of the Sierra Nevada snowpack. DWR staff measured snow water content at the Phillips Station, located in the central Sierra region, to be 183 percent of average for that time of year, up slightly from 179 percent a month earlier.

In April 2017, the California Governor issued Executive Order B-40-17, which lifted the statewide drought emergency in all California counties except Fresno, Kings, Tulare, and Tuolumne. The action ended the emergency drought proclamation put in place by the Governor in January 2014. Through establishment of its drought awareness effort, the Water Authority continued its messaging and outreach to residents and businesses to promote an ongoing community commitment to advance water-use efficiency across the region during fiscal year 2018.

Two significant bills related to long-term water use efficiency (SB 606 and AB 1668) were the subject of much discussion and deliberation in the State Legislature during fiscal year 2018. The Water Authority and its member agencies were engaged in the associated stakeholder process to represent San Diego regional interests. On May 31, 2018, the two bills were signed into law by the Governor. The laws are intended to help the State better prepare for droughts and climate change through various provisions, including the creation of water-use objectives for retail water agencies (not individual households or businesses). As a wholesale water supplier, the Water Authority is not subject to the water-use objective provision of the laws. However, there are other provisions of the laws that address water supply planning that do apply to the Water Authority.

The new water-use objectives for retail water agencies will be calculated based on aggregated standards for indoor and outdoor use, system water loss, variances, and potable reuse credit. The State has initiated work on developing the standards, which are required to be adopted by the State Water Resources Control Board by June 2022. Retail water suppliers will report compliance beginning in November 2023, and by November 1 every year thereafter. Starting in 2027, fines could be issued to retail water agencies that do not meet their water-use objectives. The fines would be levied on retail water suppliers and not individual households or businesses. The laws also establish new planning and submittal requirements for agricultural water management and urban water management plans. Water Authority staff are working closely with local retail water agencies to engage in the State's implementation of the long-term framework water-use objectives and reporting requirements.

WATER AUTHORITY FINANCIAL POSITION

The Water Authority's principal source of revenue is net revenues from the sale of water by the Water Authority to its member agencies. The Water Authority's rates and charges to member agencies for delivered water are set to equal the cost of water to the Water Authority plus additional components (e.g., debt service costs, QSA commitments). The Water Authority also levies Water Standby Availability Charges, capacity charges and Infrastructure Access Charges ("IAC") and receives hydroelectric power sales revenues, property tax revenues and Build America Bonds interest subsidy payments. The Water Authority's ability to generate revenue may be limited by certain provisions of the State Constitution.

Revenues from capacity charges are related directly to development activity in the Water Authority service area. Reductions in building activity may result in the receipt by the Water Authority of significantly lower capacity charge revenues. On the other hand, continued development may stress already limited water supplies.

Water rates are established by the Board and are not subject to regulation by the California Public Utilities Commission or by any other local, state or federal agency. The Water Authority bills member agencies for water deliveries by the tenth business day of every month for water purchased during the prior month. Payments are due from the member agencies by the last business day of the month and are delinquent if not paid by the tenth business day of the following month.

In June 2018, a comprehensive rate and charge cost of service study was completed by an independent rate consultant. The scope of the study included an evaluation of the cost allocation methodologies and the calculation of all Water Authority rates and charges. After comparing the cost allocation methodologies and rate calculation methodologies to Board policies and statutory requirements, the consultant concluded that the Water Authority's rates and charges were in full compliance with legal and policy requirements. The validated rate calculation methodologies are applied each year to determine rates and charges. The Water Authority also uses an independent cost of service consultant periodically to validate the calculation of rates and charges.

Financial Management Policies

In August 2006, the Board adopted two enhancements to the Water Authority's financial management policies. These policy enhancements were phased-in over a three-year period. The adopted enhancements include setting a 1.50x coverage target for senior lien debt service (1.00x coverage excluding capacity charges) and setting a new target and maximum fund balance for the Rate Stabilization Fund.

The target for debt service coverage is designed to both enhance the Water Authority's credit ratings and increase the cash funding of the Water Authority's Capital Improvement Program (the "CIP"). Because of the aforementioned policy enhancements, as of the date of this Official Statement the CIP program currently is funded entirely from cash.

The Rate Stabilization Fund (the "RSF") is designed and is utilized from time to time to mitigate the negative financial impacts of decreased water sales resulting from wet weather, supply restrictions and conservation. The enhanced Rate Stabilization Fund target balance is equal to the negative financial impact of 2.5 years of wet weather and the maximum fund balance is set equal to the negative financial impact of 3.5 years of wet weather. Since 2006 a 25 percent reduction in water sales was used as the potential wet weather decrease. However, data from events in 2005 and 2011 demonstrated a reduction of water demand in wet years of just 14-15 percent. The Water Authority revised the reserve policy down to a 20 percent reduction in water sales effective January 1st, 2019, and will revise the policy to a 15 percent reduction in water sales effective January 1st, 2021.

As of September 30, 2018, the Water Authority had approximately \$155.5 million on deposit in the Rate Stabilization Fund with a target Rate Stabilization Fund balance of approximately \$147.0 million and a maximum level of \$211.2 million. While the Water Authority is not obligated to maintain any funds in the Rate Stabilization Fund, achieving the target level is a significant financial management milestone for the Water Authority and was accomplished earlier than expected.

As of June 30, 2017, the Water Authority's pension funded ratio was 71.55%. Since the CalPERS Board of Administration lowered its discount rate assumption in December 2016, the Water Authority has been exploring various funding vehicles and options to respond to the changes. The impact on the Water Authority of the changes affects the Water Authority's normal costs, and its unfunded accrued liability. Following study and committee work on this issue, on October 25, 2018, the Board of Directors of the Water Authority adopted a pension funding policy framework that is designed to support the long-term fiscal health of the Water Authority and strike a balance between the cost of additional contributions and the reduction to the unfunded pension liability. As adopted, the policy is designed to achieve a target pension funded ratio of 75-85%, over a period of twenty years. The funding sources will include annual budgetary savings, application of unanticipated one-time revenues and an annual additional budgeted amount of \$1 million to \$2 million. The additional annual budgeted amount is expected to be used to make supplemental payments to CalPERS. By taking these steps the Board expects to reduce future annual pension contributions, increase the pension funded level and reduce future interest costs. See the Water Authority's Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2018 and 2017, attached as Schedule 1 to this Appendix C.

Operating Expenses

The main components of the Water Authority's operating expenses consist of the cost of water sales and the cost of wheeling IID water to the Water Authority via MWD's transportation system. The cost of water sales primarily consists of water purchases from MWD and IID. The balance of operating expenses consists of operations and maintenance, planning and reclamation and general and administrative costs. The water rates charged by MWD for delivered water are the principal cost to the Water Authority of MWD water. However, the Water Authority is also obligated to pay MWD's Readiness-to-Serve Charge and Capacity Reservation Charge. The Water Authority's policy is to pass through all of MWD's charges to the Water Authority's member agencies.

The cost of the IID water mainly consists of (1) the price paid to IID, (2) the MWD charge for exchanging the transfer water at Lake Havasu for a like amount delivered to the Water Authority in its service area, and (3) QSA mitigation payments. Beginning in 2035, either the Water Authority or IID can, if certain criteria are met, elect a market rate price through a formula described in the Water Transfer Agreement. The 2018 and 2019 adopted cost for MWD's exchange of water, or the wheeling rate, are \$486 and \$453 per acre-foot from January 1 through December 31, respectively. The decrease in 2019 is due to a settlement outcome and MWD's corresponding decision to not collect the Water Stewardship Rate on IID transported water. Future wheeling rates shall be equal to the charge set by MWD pursuant to applicable law and regulation generally applicable to the conveyance of water by MWD on behalf of its member agencies.

The Water Authority does not pay a supply cost for water received from the AACLP and CCLP; however, an estimated \$15 per acre-foot is necessary for operations and maintenance expenses at the canals. Any construction cost that exceeds State funding will be recovered in the Melded M&I Supply Rate. The total project cost of the CCLP was \$129 million of which \$87 million was available from the State General Fund and Proposition 50 funds. The total project cost for the AACLP was \$319 million of which \$170 million was available from the State General Fund, Proposition 50 funds, and Proposition 87 funds. The Water Authority financed the costs that exceeded State funding on both canal lining projects. The Water Authority pays MWD the same wheeling rate for this water as it pays for the IID transfer water.

The Plant's Water Purchase Agreement establishes a contract price for water delivered and establishes both conditions precedent for contract price changes and limits on the cumulative change in contract price over the contract term. While there are efficiency requirements in the Water Purchase Agreement governing the Plant's energy consumption, Poseidon will ultimately pass-through the energy costs to the Water Authority. Other costs associated with the project, including replacement chemicals and labor, are indexed to inflation.

The unit cost of desalinated water from the Plant, inclusive of debt service on the Desalination Bonds and the Pipeline Bonds, was \$2,317 per acre foot in the fiscal year ending June 30, 2018 and is estimated to be \$2,430 per acre-foot in the fiscal year ending June 30, 2019, for production at a 48,000 acre-feet per year level. The Plant came online in December 2015. For the first full year of desalinated water deliveries in 2016, typical monthly costs were about \$5 per household, at the low end of the Water Authority's 2012 forecast. Product water delivered to the Water Authority from the Plant beyond the 48,000 acre-feet annual commitment, up to 56,000 acre-feet at the request of the Water Authority will be supplied, subject to availability, at rates equal to the variable costs of producing such water, including charges for electricity.

Monthly Water Purchase Payments and other payments by the Water Authority for water under the Water Purchase Agreement constitute "Maintenance and Operation Costs".

Bankruptcy or Financial Failure of a Member Agency

The financial failure or bankruptcy of a member agency could adversely affect the ability of such member agency to honor its obligations to the Water Authority (including its obligation to pay the purchase price of water delivered by the Water Authority to such member agency). The Water Authority is not aware of the existing or impending financial failure or bankruptcy of any member agency, but there can be no assurance that a financial failure or bankruptcy of a member agency will not occur. If a member agency were to become bankrupt, the Water Authority's right to receive payment for water delivered prior to bankruptcy but not invoiced or invoiced but not paid, for example, may be limited to the rights of an unsecured creditor of the bankrupt entity. Further, there can be no assurance that the Water Authority will be physically able or legally permitted to cease or interrupt deliveries of water to a non-paying member agency. The Water Authority believes that any reduction in Water Revenues as a result of the inability to collect payment for water delivered to a bankrupt member agency or as a result of any temporary interruption or reduction of water deliveries will not be material. The Water Authority further believes that, following such bankruptcy, the amount of water delivered for the service area currently served by such member agency will not be reduced and that the Water Authority will be able to obtain payment for such water.

The Water Authority's Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2018 is attached to this Appendix C as Schedule 1.

CAPITAL IMPROVEMENT PROGRAM

The CIP is designed to meet the mission of the Water Authority to provide a safe and reliable supply of water to its member agencies serving the San Diego Region.

The present CIP budget is \$2.5 billion for 38 projects that are in various stages of planning, design, and construction. Of such amount, approximately \$1.1 billion has been expended on various projects, leaving an unspent balance in the CIP budget of approximately \$1.4 billion. The Water Authority expects to spend approximately \$312.8 million over the next five years on capital improvement projects. Approximately 44% of that amount, \$137.6 million, is expected to be spent in the period for fiscal years ending June 30, 2018 and June 30, 2019.

OBLIGATIONS PAYABLE FROM WATER REVENUES

On May 11, 1989, the Water Authority adopted its Resolution No. 89-21, entitled “A Resolution of the Board of Directors of the San Diego County Water Authority Providing for the Allocation of Water System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Revenues,” which was supplemented by Resolution No. 97-52 of the Water Authority, adopted on December 11, 1997 and by Resolution No. 09-23 of the Water Authority, adopted on December 17, 2009 (as supplemented, the “**General Resolution**”).

The following obligations, consisting of certificates of participation representing interests in installment payments made by the Water Authority, bonds issued by the San Diego County Water Authority Financing Agency and secured by installment payments made by the Water Authority, revenue bonds issued by the Water Authority, commercial paper notes issued by the Water Authority and obligations under revolving credit agreements providing liquidity for the Water Authority’s commercial paper program, are presently secured by a pledge of Net Water Revenues under the General Resolution:

Water Revenue Obligations* Outstanding as of December 31, 2018

	Initial Principal Amount	Principal Amount Outstanding as of December 31, 2018
Senior Lien Water Revenue Certificates of Participation:		
Water Revenue Certificates of Participation, Series 1998A	\$180,000,000	\$11,685,000
Water Revenue Certificates of Participation, Series 2005A	107,455,000	13,800,000
Water Revenue Certificates of Participation, Series 2008A	558,015,000	17,140,000
Senior Lien Joint Powers Agency Water Revenue Bonds:		
Water Revenue Bonds, Series 2010A	98,495,000	9,165,000
Water Revenue Bonds, Series 2010B (Taxable Build America Bonds)	526,135,000	526,135,000
Senior Lien Water Revenue Bonds:		
Water Revenue Refunding Bonds, Series 2011A	139,945,000	95,320,000
Water Revenue Refunding Bonds, Series 2011B	94,540,000	94,540,000
Water Revenue Refunding Bonds, Series 2013A	299,105,000	299,105,000
Water Revenue Refunding Bonds, Series 2015A	184,795,000	184,795,000
Water Revenue Refunding Bonds, Series 2016A	98,945,000	98,945,000
Water Revenue Refunding Bonds, Series 2016B	197,395,000	197,395,000
Total Senior Lien	\$2,484,825,000	\$1,548,025,000
Subordinate Lien Water Revenue Bonds:		
Subordinate Lien Water Revenue Refunding Bonds, Series 2016S-1	\$87,685,000	\$87,685,000
Subordinate Lien Commercial Paper Notes:		
Series 1 (ECP)	100,000,000	100,000,000
Series 8	110,000,000	110,000,000
Series 9	135,000,000	135,000,000
Total Subordinate Lien	\$ 432,685,000	\$432,685,000
Total Senior Lien and Subordinate Lien	\$2,917,510,000	\$1,980,710,000

*The CPCFA issued 2012 Pipeline Bond is not shown as it is a super-subordinate bond and therefore excluded from debt service coverage calculations.

The Water Authority currently has three forms of short-term debt: fixed-rate bonds, Tax-Exempt Commercial Paper (TECP) and Extendable Commercial Paper ECP).

The Water Authority issued \$87,685,000 of Subordinate Lien Water Revenue Refunding Bonds, Series 2016S-1 in June 2016. These bonds mature May 1, 2021.

The Water Authority established its TECP Program in 1995. Commercial paper is a form of variable-rate debt, and is issued with maturities of 1 to 270 days. When the commercial paper matures, it is rolled over to new investors by the Water Authority's commercial paper dealers. The Water Authority has authorized the issuance of up to \$460,000,000 of TECP, with \$345,000,000 issued and outstanding. The TECP has been issued in two series: Series 8 (\$110,000,000), and Series 9 (\$135,000,000). Series 8 was issued in 2014 and series 9 was issued in 2016. Each of these series is supported with a bank revolving credit and term loan agreement. As of June 30, 2016, no advances have been made under any of the revolving credit and term loan agreements.

The Water Authority has remarketing agreements with seven separate broker-dealers, all of which serve on all series for TECP: Bank of America Securities LLC/Merrill Lynch, Citigroup Global Markets Inc., Goldman Sachs and Co. LLC, J.P. Morgan Securities, LLC, Morgan Stanley and Co. LLC, Loop Capital Markets, LLC, and RBC Capital Markets, LLC.

The Water Authority established an ECP Program in June 2014. ECP is considered a market access product. A market access product such as ECP does not require bank liquidity to back stop the notes. This allows the Water Authority to save on bank costs for revolving credit and term loan agreements which support the TECP program. ECP is issued with a final maturity between 1 and 120 days. If the notes cannot be remarketed at their maturity date, the notes will be automatically extended to 270 days from the initial issuance and bear interest at a penalty rate until the notes can be remarketed or redeemed. The product's final maturity of 270 days assures that ECP complies with SEC Rule 2a7, making the notes eligible investments for money market funds. The ECP has been issued as Series 1, for \$100,000,000 par amount.

The Water Authority has remarketing agreements with Bank of America Merrill Lynch, Morgan Stanley & Co. LLC, and J.P. Morgan Securities, LLC which serve as the dealers for ECP. Any Water Authority repayment obligation under any such agreement would be a subordinate lien obligation.

Payments Under the Water Purchase Agreement

Payments by the Water Authority of Monthly Water Purchase Payments and other payments by the Water Authority for water under the Water Purchase Agreement constitute "Maintenance and Operation Costs" under the General Resolution. The General Resolution does not limit the ability of the Water Authority to utilize Water Revenues to pay Maintenance and Operation Costs. The obligation of the Water Authority to make Monthly Water Purchase Payments and to pay other amounts under the Water Purchase Agreement is, however, limited by the term of the Water Purchase Agreement.

Payment of Installment Sale Payments

Installment Sale Payments payable by the Water Authority under the Installment Sale and Assignment Agreement are payable solely out of amounts on deposit in the General Reserve Fund established under the General Resolution.

The Water Authority's obligation to make the Installment Sale Payments from Water Revenues is subordinate to the payment from Water Revenues of Maintenance and Operation Costs, Bond Payments, Installment Sale Payments, Reimbursement Payments and Subordinate Obligations, including all of the obligations described above under "Obligations Payable from Water Revenues" and similar obligations incurred by the Water Authority in the future, and the maintenance of reserve funds in connection with such obligations. The obligation of the Water Authority to make the Installment Sale Payments is also limited by the terms of the Installment Sale and Assignment Agreement.

The Water Authority may issue, enter into or incur additional Bonds, Contracts, Reimbursement Obligations and Subordinate Obligations in an unlimited amount upon satisfaction of the requirements of the General Resolution. The Installment Sale and Assignment Agreement does not limit the issuance, entering into or incurring of such obligations.

The Water Authority covenants in the Installment Sale and Assignment Agreement to comply with the covenants made by the Water Authority in the General Resolution, including those described below under “Rate Covenant” and “Additional Covenants in the General Resolution”.

Future Financial Commitments Related to the Quantification Settlement Agreement

The following paragraphs described future financial commitments of the Water Authority related to the QSA that are all payable from Net Water Revenues on a subordinate basis to Monthly Water Purchase Payments under the Water Purchase Agreement and on parity with Installment Sale Payments under the Installment Sale and Assignment Agreement.

Socioeconomic Mitigation Payments. On May 8, 2007 the Water Authority and IID executed an agreement that settled all disputes related to the payment by the Water Authority for potential third-party socioeconomic impacts from the water transfer. The value of the settlement was \$50 million, of which the Water Authority agreed to pay \$40 million. The Water Authority completed its \$40 million with annual payments through 2017. As part of the agreements, \$10 million will be reimbursed by IID via annual invoice credits from 2018 through 2047 calculated by dividing the cumulative transfer volume scheduled from 2018-2047 by the \$10 million credit equaling \$1.70/acre-foot credit. IID and the Water Authority recognize that in exchange for the commitments in the settlement agreement between the two parties, IID will remain solely responsible for any additional socioeconomic mitigation funding necessary to mitigate the impacts of the IID fallowing program for transfer of conserved water to the Water Authority and to mitigate impacts on the Salton Sea in connection with the water transfer should the SWRCB, the California Legislature, or any court order additional funding for such purpose.

Water Authority Prepayment for Water. Pursuant to the Revised Fourth Amendment to the Conserved Water Transfer Agreement between IID and the Water Authority, in December 2007 the Water Authority made a payment of \$10 million to IID for future deliveries of water. Beginning in calendar year 2019 through the end of 2033, if not repaid sooner, IID will credit the Water Authority’s monthly invoice for transfer of conserved water \$55,555.56 plus interest accrued after 2018.

Quantification Settlement Agreement JPA Environmental Mitigation Payments. Pursuant to the Quantification Settlement Agreement Funding Agreement, the Water Authority is scheduled to make annual payments through 2025 in support of the environmental mitigation requirements related to the Quantification Settlement Agreement.

Lower Colorado River Multi-Species Conservation Program Payments. The Water Authority has environmental coverage for the change in point of diversion from Imperial Dam to Lake Havasu for Colorado River supplies from the IID water transfer and Canal Lining Projects through the Lower Colorado River Multi-Species Conservation Program. The Water Authority received a funding credit for contributions toward implementation of Conservation and Mitigation Measures for the Colorado River described in the U.S. Fish and Wildlife Service 2001 Biological Opinion. In fiscal year 2009, the Water Authority began using these funding credits to meet its Lower Colorado River Multi-Species Conservation Program (LCR MSCP) annual contribution, and will continue to use these credits to meet its annual obligations until the credits are exhausted in 2022. Beginning in 2022, the Water Authority will make annual payments to the program according to the MSCP Funding and Management Agreement.

Definitions

The following are definitions of certain terms used in the General Resolution.

“**Accreted Value**” means, with respect to any Capital Appreciation Bonds or Capital Appreciation Certificates, as of the date of calculation, the initial amount thereof plus the interest accrued thereon to such date of calculation, compounded from the date of initial delivery at the appropriate interest rate thereof on each semiannual date specified with respect thereto, as determined in accordance

with the table of accreted values for any Capital Appreciation Bonds or Capital Appreciation Certificates prepared by the Water Authority at the time of sale thereof, assuming in any year that such Accreted Value increases in equal daily amounts on the basis of a year of three hundred sixty (360) days composed of twelve (12) months of thirty (30) days each.

“Accreted Value Payment Date” means any Installment Payment Date on which Accreted Value is payable.

“Bond or Contract Reserve Fund” means any debt service reserve fund established to secure the payment of Bond Payments or Installment Sale Payments.

“Bond Payments” means the principal and interest payments scheduled to be paid by the Water Authority on Bonds.

“Bonds” means all revenue bonds of the Water Authority authorized, executed, issued and delivered by the Water Authority under and pursuant to applicable law, the interest and principal and redemption premium, if any, payments under and pursuant to which are payable from Net Water Revenues on a parity with all other Bonds and Contracts.

“Capital Appreciation Bonds” means any Bonds described as such when issued.

“Capital Appreciation Certificates” means any certificates of participation in Installment Sale Payments described as such when issued.

“Contracts” means all Installment Sale Agreements, Leases and Contracts of Indebtedness.

“Contracts of Indebtedness” means contracts of indebtedness or similar obligations of the Water Authority authorized and executed by the Water Authority under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water Revenues on a parity with all other Contracts and Bonds.

“Current Water Revenues” means all gross income and revenue received or receivable by the Water Authority from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including connection fees and charges and standby charges) received by the Water Authority for the Water Service and the other services of the Water System and all other income and revenue howsoever derived by the Water Authority from the ownership or operation of the Water System or arising from the Water System, and also including (1) all income from the deposit or investment of any money in the Water Revenue Fund, the General Reserve Fund and the Rate Stabilization Fund, and (2) all income from the deposit or investment of money held in the Installment Payment Fund, the Subordinate Obligation Fund or any Bond or Contract Reserve Fund or other fund established pursuant to a Trust Agreement to the extent such income will be available to pay Bond Payments or Installment Sale Payments, but excluding any proceeds of taxes and any refundable deposits made to establish credit and advances or contributions in aid of construction.

“Debt Service” means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled, (2) that portion of the principal amount of all outstanding serial Bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year or period if such principal amount were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all outstanding term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year or period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year

preceding the first redemption date, as the case may be, and (4) that portion of the Installment Sale Payments required to be made at the times provided in the Contracts that would have accrued during such Fiscal Year or period if such Installment Sale Payments were deemed to accrue daily in equal amounts from, in each case, the next preceding Installment Payment Date of interest or principal or the date of the pertinent Contract, as the case may be; provided, that (a) if any of such Bonds are Capital Appreciation Bonds or if the Installment Sale Payments due under any of such Contracts are evidenced by Capital Appreciation Certificates, then the Accreted Value payment shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond or Capital Appreciation Certificate; (b) if any of such Bonds or if the Installment Sale Payments due under such Contracts bear interest payable pursuant to a variable interest rate formula, the interest rate on such Bonds or such Contracts for periods when the actual interest rate cannot yet be determined, shall be assumed to be equal to the greater of (1) the current interest rate calculated pursuant to the provisions of the terms of such Bonds or Contracts (with respect to the issuance of Bonds or the execution of Contracts pursuant to the General Resolution, the initial interest rate on such Bonds or Contracts), or, (2) if available, the average interest rate on such Bonds or Contracts during the thirty-six (36) months preceding the date of calculation or, (3) if such Bonds or Contracts have not been outstanding for such thirty-six month period (or with respect to the issuance of Bonds or the execution of Contracts pursuant to the General Resolution), such average interest rate on comparable debt of a state or political subdivision of a state which debt is then rated by the rating agencies rating such Bonds or Contracts in a rating category equivalent to the rating on such Bonds or Contracts; and (c) if 20% or more of the original principal of such Bonds or the Installment Sale Payments due under such Contracts is not due until the final stated maturity of such Bonds or the Installment Sale Payments due under such Contracts, such principal may, at the option of the Water Authority, be treated as if it were due based upon a level amortization of such principal over the term of such Bonds or Contracts or twenty (20) years, whichever is greater; provided further, that “Debt Service” shall not include (1) payments due on voter-approved general obligation bonds and other voter-approved general obligation debts for which taxes are then being levied and collected, or (2) interest on Bonds or Contracts which is to be paid from amounts constituting capitalized interest held pursuant to a Trust Agreement.

Interest Subsidy Payments received by the Water Authority with respect to the San Diego County Water Authority Financing Agency Water Revenue Bonds, Series 2010B, constitute Current Water Revenues. The Water Authority has amended the General Resolution pursuant to Resolution 09-23, adopted on December 17, 2009, to provide that Interest Subsidy Payments are treated as a reduction to Debt Service rather than as Current Water Revenues. Such amendment will become effective, however, only if and when requisite approvals for an amendment of the General Resolution have been obtained by the Water Authority.

“**Fiscal Year**” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period selected and designated by the Board of Directors of the Water Authority as the Fiscal Year of the Water Authority.

“**Installment Payment Date**” means any date on which Bond Payments or Installment Sale Payments are scheduled to be paid by the Water Authority under and pursuant to any Contract or Bonds.

“**Installment Sale Payments**” means Contract Payments, Installment Sale Payments or Lease Payments.

“**Interest Subsidy Payments**” means cash subsidy payments entitled to be received by the Water Authority from the United States Treasury with respect to Bonds issued and Contracts executed by the Water Authority, including, but not limited to, “Build America Bonds” issued as contemplated by the American Recovery and Reinvestment Act of 2009.

“**Lease Payments**” means the rental payments scheduled to be paid by the Water Authority under and pursuant to Leases.

“Leases” means capital leases or similar obligations of the Water Authority authorized and executed by the Water Authority under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water Revenues on a parity with the payment of all other Contracts and Bonds.

“Maintenance and Operation Costs” means all costs paid or incurred by the Water Authority for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased by the Water Authority for resale, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the Water Authority, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the Water Authority or charges required to be paid by it to comply with the terms of the General Resolution or of any resolution authorizing the execution of any Contract or of such Contract or of any resolution authorizing the issuance of any Bonds or of such Bonds, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Contracts or Bonds and fees and expenses of independent certified public accountants, but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, (2) interest expense and (3) amounts paid from other than Water Revenues (including, but not limited to, amounts paid from the proceeds of *ad valorem* property taxes).

“Monthly Accrued Debt Service” means, with respect to any month, an amount equal to the sum of Debt Service with respect to all Bonds and Contracts accrued and to accrue to the end of such month; provided, in calculating the amount of Monthly Accrued Debt Service (i) Accreted Value with respect to Capital Appreciation Bonds and Capital Appreciation Certificates shall be deemed to accrue over the twelve-month period immediately preceding the scheduled redemption or prepayment date of such Capital Appreciation Bond or Capital Appreciation Certificate, (ii) the adjustment to principal described in provision (c) of the definition of Debt Service shall not be made and (iii) if the interest on any Bonds or Installment Sale Payments due under any Contract bear interest payable pursuant to a variable rate formula, the amount of interest deemed to accrue during any period shall be the actual interest borne by such Bonds or Installment Sale Payments during such period.

“Net Water Revenues” means, for any Fiscal Year or other period, the Water Revenues during such Fiscal Year or period less the Maintenance and Operation Costs during such Fiscal Year or period.

“Reimbursement Agreement” means an agreement between the Water Authority and a bank or financial institution providing for the issuance of a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments or Installment Sale Payments and requiring the Water Authority to make payments to reimburse or compensate such bank or financial institution for draws under such instruments from Net Water Revenues on a parity with all Contracts and Bonds.

“Reimbursement Payments” means amounts payable by the Water Authority as compensation or reimbursement for a draw on a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments or Installment Sale Payments in accordance with any Reimbursement Agreement.

“Subordinate Obligations” means obligations of the Water Authority authorized and executed by the Water Authority under applicable law, the interest and principal payments under and pursuant to which are payable from Net Water Revenues, from the Subordinate Obligation Payment Fund, subject and subordinate to Bond Payments and Installment Sale Payments.

“Trust Agreement” means any indenture or trust agreement providing for the issuance of Bonds or Certificates.

“Water Service” means the water service furnished, made available or provided by the Water System.

“**Water System**” means all property rights, contractual rights and facilities of the Water Authority, including all facilities for the conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith now owned by the Water Authority and all other properties, structures or works for the conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith hereafter acquired and constructed by or for the Water Authority and determined by the Water Authority to be a part of the Water System; together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

Application of Water Revenues Under the General Resolution

The General Resolution established five special funds which are held by the Water Authority: a Water Revenue Fund; a Rate Stabilization Fund; an Installment Payment Fund; a Subordinate Obligation Payment Fund; and a General Reserve Fund.

Water Revenue Fund. Under the General Resolution, all Current Water Revenues are deposited initially in the Water Revenue Fund. The Water Revenue Fund may also receive transfers from the Rate Stabilization Fund, and the Water Authority may make transfers from the Water Revenue Fund to the Rate Stabilization Fund.

Amounts in the Water Revenue Fund are utilized to pay Maintenance and Operation Costs as they become due and payable. Payments by the Water Authority of Monthly Water Purchase Payments and other payments by the Water Authority for water under the Water Purchase Agreement will constitute “Maintenance and Operation Costs”. Remaining amounts, constituting Net Water Revenues, are set aside and deposited or transferred by the Water Authority, as the case may be, at the following times in the following order of priority:

(a) Installment Payment Fund. On or before the last business day of each month, the Water Authority shall deposit in the Installment Payment Fund a sum equal to the Monthly Accrued Debt Service for such month, plus a sum equal to all Reimbursement Payments then due and payable, provided that no such deposit need be made if amounts on deposit in the Installment Payment Fund equal the amount of Bond Payments or Installment Payments due with respect to all Bonds and Contracts on the next succeeding Interest Payment Date (with respect to interest), Principal Payment Date (with respect to principal) and Accreted Value Payment Date (with respect to Accreted Value) for such Bonds or Contracts, and the Reimbursement Payments then due and payable.

(b) Bond or Contract Reserve Fund. On or before the last business day of each month, the Water Authority shall transfer to each trustee for deposit in the applicable Bond or Contract Reserve Fund an amount equal to the amount, if any, required to be deposited therein to build up or replenish such Bond or Contract Reserve Fund as, and to the extent, required by the applicable Contract or Trust Agreement.

(c) Subordinate Obligation Payment Fund. On or before the last business day of each month, the Water Authority shall deposit in the Subordinate Obligation Payment Fund the sum or sums required to be deposited under or pursuant to the indenture, trust agreement or other instrument securing each Subordinate Obligation.

(d) Subordinate Obligation Reserve Fund. On or before the last business day of each month, the Water Authority shall transfer to each trustee with respect to Subordinate Obligations for deposit in the debt service reserve fund with respect to such Subordinate Obligations an amount equal to the amount, if any, required to be deposited therein to build up or replenish such debt service reserve fund as and to the extent required by the applicable Subordinate Obligation or indenture, trust agreement or other instrument securing such Subordinate Obligation.

(e) General Reserve Fund. On the last business day of each month, the Water Authority shall, after making each of the foregoing deposits and transfers, transfer all money remaining in the Water

Revenue Fund to the General Reserve Fund. The Water Authority may withdraw money in the General Reserve Fund for any lawful purpose of the Water Authority except to make transfers to the Rate Stabilization Fund.

The Water Authority’s operating revenues reduced by operating expenses and operating revenue-supported Senior and Subordinate debt service results in the balance available for other obligations (e.g., payment of the Series 2019 Pipeline Bonds). The calculation is disclosed annually in the Continuing Disclosure table included in the Comprehensive Annual Financial Report for “Historical Operating Results by Fiscal Year”. See Table 9 in Schedule 1 of this Appendix C (Water Authority’s Comprehensive Annual Financial Report).

Dollars in thousands	FY2016	FY2017	FY2018
Net Water Revenue Available for Debt Service	\$173,085	\$189,967	\$192,456
Less: Revenue Supported Senior Lien Debt Service	-115,213	-126,604	-128,304
Revenue Supported Subordinate Lien Debt Service	-6,131	-7,738	-9,028
Net Funds Available	\$51,741	\$55,625	\$55,124

In addition to current year revenues available for Pipeline Bond debt service, certain funds held by the Water Authority are also available to pay debt service on the Series 2019 Pipeline Bonds. The funds available for payment of the Pipeline Bonds include Series 2019 Operating and Pay-As-You-Go. The funds balance over the past 5 years is shown in the table below:

	FY2014	FY2015	FY2016	FY2017	FY2018
Pay-As-You-Go	\$201,515,355	\$143,301,875	\$156,647,460	\$147,352,064	\$119,984,952
Operating	\$23,533,027	\$8,150,206	\$49,282,921	\$55,645,254	\$56,369,103
“Total”	\$225,048,382	\$151,452,081	\$205,930,381	\$202,997,318	\$176,354,055

These balances can be found in Table 1 of the Continuing Disclosure section in the Water Authority’s Comprehensive Annual Financial Report in Schedule 1 of this Appendix C. It should be noted that these balances will fluctuate based on future fiscal year activity.

Installment Sale Payments payable by the Water Authority under the Installment Sale and Assignment Agreement are payable out of amounts on deposit in the General Reserve Fund.

The Water Authority covenants in the General Resolution to keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System. To fulfill this requirement, the Water Authority employs enterprise accounting principles and practices in accordance with Generally Accepted Accounting Principles. Consistent with such accounting principles and practices and as authorized by the General Resolution, the Water Authority does not maintain on its books the specific funds named in the General Resolution. The Water Authority does, however, account for Water Revenues, Maintenance and Operation Costs, Debt Service and Monthly Accrued Debt Service in a manner consistent with and authorized by the General Resolution, and the accounting system employed by the Water Authority enables the Water Authority to calculate Net Water Revenues and to allocate Water Revenues in the priority specified in the General Resolution.

Rate Covenant

The Water Authority covenants under the General Resolution that it will at all times fix, prescribe and collect or cause to be collected rates, fees and charges for Water Service which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield, during the next succeeding fiscal year of the Water Authority, Net Water Revenues sufficient for the payment of all amounts payable from Net Water Revenues (including Subordinate Obligations) and at least equal to 120 percent of the Debt Service on all Bonds and Contracts for such fiscal year. The Water Authority may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Net Water Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of such covenant.

The Water Authority has amended the General Resolution to provide that Interest Subsidy Payments are treated as a reduction to Debt Service rather than as Current Water Revenues. Such amendment has not yet, however, become effective.

Additional Parity Obligations

The Water Authority may at any time issue any Bonds or execute any Contract the payments under and pursuant to which are payable from the Net Water Revenues on a parity with any Bonds; provided:

(a) For any period of 12 consecutive calendar months within the 24 calendar month period next preceding the month in which such Bonds are issued or such Contract is executed, as the case may be, as evidenced by a certificate of the Water Authority (together with supporting calculations prepared by the Water Authority), (1) the Net Water Revenues shall have been equal to at least 120 percent of the Maximum Annual Debt Service on all Bonds and Contracts outstanding after the issuance of such Bonds or the execution of such Contract, as the case may be, and (2) the Net Water Revenues shall have been sufficient for the payment of all amounts payable from Net Water Revenues during such 12-month period and at least equal to 120 percent of Debt Service on all Bonds and Contracts outstanding during such 12-month period; or

(b) (1) For any period of 12 consecutive calendar months within the 24 calendar month period next preceding the month in which such Bonds are issued or such Contract is executed, as the case may be, as evidenced by a certificate of the Water Authority (together with supporting calculations prepared by the Water Authority), the Net Water Revenues shall have been sufficient for the payment of all amounts payable from Net Water Revenues during such 12-month period and at least equal to 120 percent of Debt Service on all Bonds and Contracts outstanding during such 12-month period, and (2) as evidenced by a certificate of the Water Authority (together with supporting calculations and assumptions prepared by the Water Authority), in each of the five succeeding fiscal years, projected Net Water Revenues shall be sufficient for the payment of all amounts payable from Net Water Revenues in each such fiscal year and at least equal to 120 percent of Debt Service on all Bonds and Contracts to be outstanding in each such fiscal year; and

(c) The Water Authority shall certify that it is not then in default under any Trust Agreement or with respect to any Bonds or Contracts; and

(d) No Bond or Contract shall allow the declaration of Bond Payments or Installment Payments to be immediately due and payable in the event of default by the Water Authority thereunder or under the applicable Trust Agreement unless such remedy is made applicable to all Bonds and Contracts then outstanding. (None of the Water Authority's Outstanding Bonds or Contracts allows such a declaration.)

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the Water Authority to execute any Contract or to issue any Bonds at any time to refund any outstanding Bonds or any outstanding Contract or to execute Reimbursement Agreements.

Additional Subordinate Obligations

Other than the 2016S-1 Bonds and the Commercial Paper Notes (except to the extent the aggregate principal amount of Commercial Paper Notes at the time outstanding exceeds \$345,000,000), the Water Authority covenants in the Indenture that it will not issue or incur any additional Subordinate Obligations the payments under and pursuant to which are payable from the Net Water Revenues on parity with the 2016S-1 Bonds and the Water Authority's other outstanding Subordinate Obligations, unless the Water Authority shall determine that such issuance or incurrence will not adversely impact its ability to comply with the covenants under the Indenture that it will at all times fix, prescribe and collect or cause to be collected rates, fees and charges for the Water Service which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield during the next succeeding fiscal year of the Water Authority Net Water Revenues sufficient for the payment of all amounts payable from Net Water Revenues during such fiscal year, including payment of interest on and principal of the 2016S-1 Bonds expected by the Water Authority to be paid with Net Water Revenues (e.g., excluding capitalized interest and principal expected to be paid from the proceeds of refunding obligations).

Notwithstanding the foregoing provisions, there shall be no limitation on the ability of the Water Authority to enter into agreements with banks or other financial institutions to provide for liquidity or credit support for Subordinate Obligations and to incur repayment or reimbursement obligations with respect thereto or to issue or incur Subordinate Obligations to refund any outstanding Subordinate Obligations.

The Indenture defines "**Total Debt Service**" to mean (i) Debt Service (as defined in the General Resolution, including as amended by Resolution No. 09-23 whether or not Resolution No. 09-23 has taken effect) on Prior Obligations, plus (ii) interest on and principal of Subordinate Obligations expected by the Water Authority to be paid with Net Water Revenues (e.g., excluding capitalized interest and amounts expected to be paid from the proceeds of refunding obligations).

Additional Covenants in the General Resolution

The Water Authority has made the following additional covenants in the General Resolution:

Against Encumbrances. The Water Authority will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the Water Authority in, upon, about or relating to the Water System and will keep the Water System free of any and all liens against any portion of the Water System. In the event any such lien attaches to or is filed against any portion of the Water System, the Water Authority will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the Water Authority desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the Water Authority will forthwith pay or cause to be paid and discharged such judgment.

Against Sale or Other Disposition of Property. The Water Authority will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of the Net Water Revenues; *provided*, that any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has become worn out, may be sold if such sale will not reduce the Net Water Revenues below the requirements of the Water Authority's rate covenant.

Maintenance and Operation of the Water System. The Water Authority will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable.

Compliance with Contracts. The Water Authority will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the Water Authority is a party thereto.

Insurance. The Water Authority will procure and maintain such insurance relating to the Water System which it shall deem advisable or necessary to protect its interests, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with facilities, properties, structures and works similar to the Water System; provided, the Water Authority shall not be required to procure or maintain any such insurance unless such insurance is commercially available at reasonable cost; provided, further, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with facilities, properties, structures and works similar to the Water System.

Payment of Taxes and Compliance with Governmental Regulations. The Water Authority will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System or any part thereof when the same shall become due. The Water Authority will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the Water Authority shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Collection of Rates, Fees and Charges. The Water Authority will charge and collect or cause to be collected the rates, fees and charges applicable to the Water Service and will not permit any part of the Water System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the Water Authority may without charge use the Water Service.

Eminent Domain and Insurance Proceeds. If all or any part of the Water System shall be taken by eminent domain proceedings, or if the Water Authority receives any insurance proceeds resulting from a casualty loss to the Water System, the proceeds thereof shall be used to substitute other components for the condemned or destroyed components of the Water System.

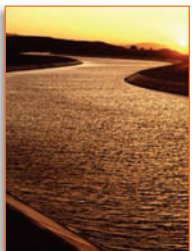
SCHEDULE 1 TO APPENDIX C

Water Authority's Comprehensive Annual Financial Report

Fiscal Years ended June 30, 2018 and 2017

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**BROUGHT
TO YOU
BY WATER...**
EVERYTHING IN SAN DIEGO COUNTY



 Our Region's Trusted Water Leader
San Diego County Water Authority

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018



San Diego, California 92123
Prepared by the Finance Department

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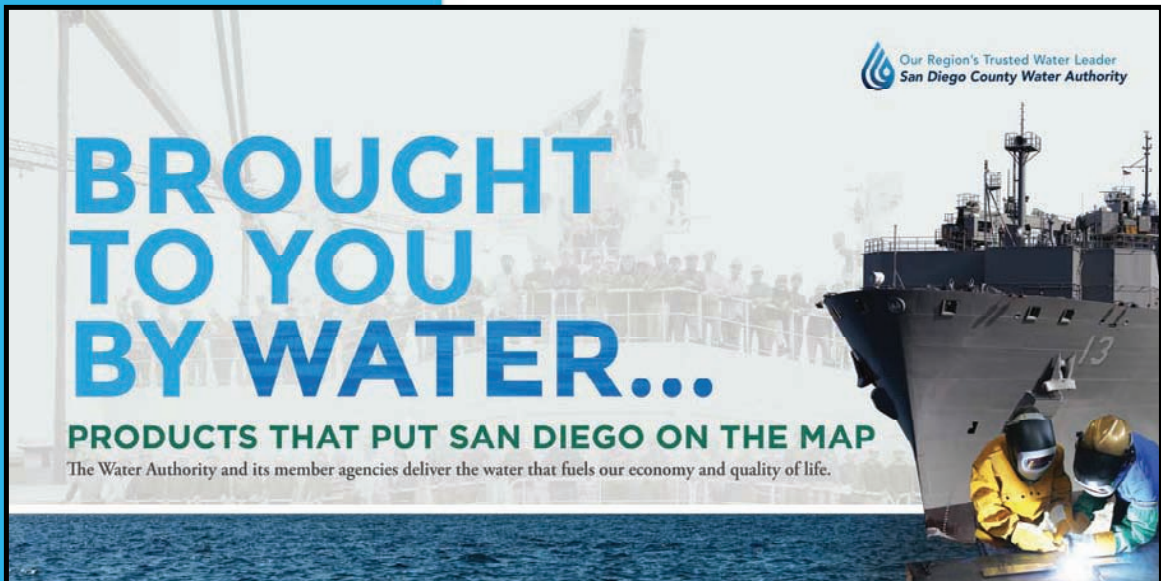
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Introductory Section



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October 26, 2018

MEMBER AGENCIES

- Carlsbad
Municipal Water District
- City of Del Mar
- City of Escondido
- City of National City
- City of Oceanside
- City of Poway
- City of San Diego
- Fallbrook
Public Utility District
- Helix Water District
- Lakeside Water District
- Olivenhain
Municipal Water District
- Otay Water District
- Padre Dam
Municipal Water District
- Camp Pendleton
Marine Corps Base
- Rainbow
Municipal Water District
- Rainona
Municipal Water District
- Rincon del Diabla
Municipal Water District
- San Dieguito Water District
- Santa Fe Irrigation District
- Souls Bay Irrigation District
- Vallecitos Water District
- Valley Center
Municipal Water District
- Vista Irrigation District
- Yuma
Municipal Water District

**OTHER
REPRESENTATIVE**

- County of San Diego

The Honorable Board of Directors
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the San Diego County Water Authority (Water Authority) for the fiscal year ended June 30, 2018 in accordance with Section 25253 of the California Government Code. The purpose of this report is to provide the Board of Directors (Board), member agencies, investors, the public, and other interested parties with reliable financial information about the Water Authority.

Management assumes full responsibility for the completeness and reliability of the information contained in the CAFR, which is based upon a comprehensive framework of internal controls that were established for this purpose. Because the costs of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Water Authority policy requires that an independent certified public accounting firm, selected by the Board, audit the financial statements on an annual basis. Davis Farr, LLP, has issued an unmodified (or clean) opinion on the Water Authority's financial statements for the fiscal year ended June 30, 2018. The independent auditor's report is presented as the first component of the Financial Section of this report.

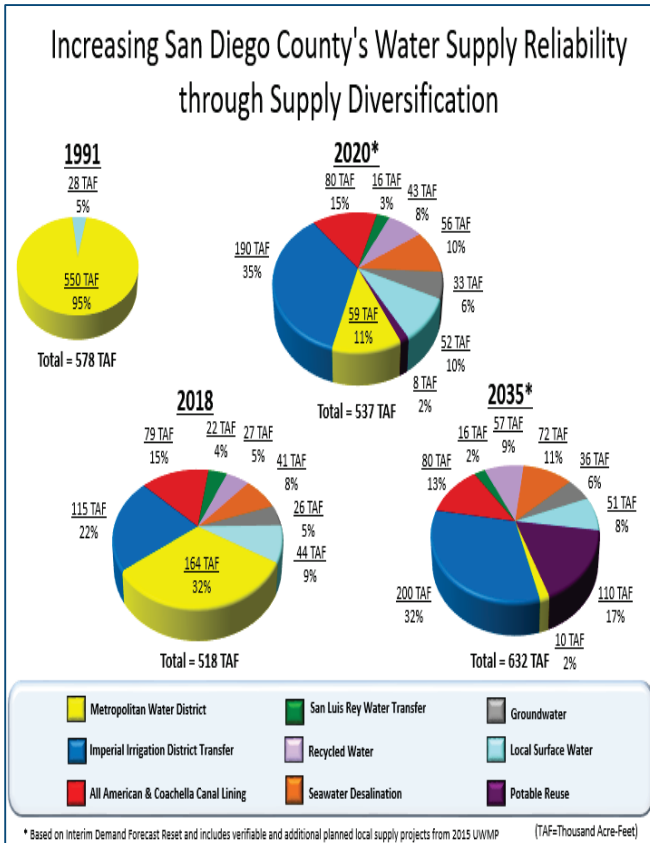
Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report in the Financial Section and provides an overview, summary, and analysis of the financial statements. The MD&A complements this Letter of Transmittal and should be read in conjunction with it.

According to Generally Accepted Accounting Principles (GAAP) enterprise funds are not legally required to adopt and adhere to a budget, nor present budgetary comparison information. However, the Board has chosen to adopt a two-year budget as a management tool for estimating and planning Water Authority revenues and expenses which is used to identify unusual or unanticipated trends. The Water Authority adopted a multi-year budget for fiscal years 2018 and 2019, and a Budgetary Comparison Schedule for the fiscal year ended June 30, 2018 can be found in the Supplemental Section of this report.

Water Authority Profile

The Water Authority was organized on June 9, 1944 under the County Water Authority Act for the primary purpose of providing a safe and reliable supply of imported water to its member agencies for domestic, municipal, and agricultural uses.

The Water Authority’s service area encompasses roughly the western one-third of San Diego County or approximately 1,490 square miles. As a semi-arid region, local surface water and groundwater supplies met only 14 percent of regional demand in Fiscal Year 2018. Thirteen percent of regional supply was generated from the use of recycled water, and desalinated water. The remaining 73 percent of the region’s water supply is from Water Authority and member agency sources outside of the region. (Starting in 2017, the City of Escondido and Vista Irrigation District began receiving San Luis Rey water transfers.) As noted in the pie charts to the left, the Water Authority is continuing to diversify its sources of water. Additionally, as a wholesale entity, the Water Authority has no retail customers; it serves only its 24 member agencies, which deliver water to approximately 97 percent of San Diego County’s 3.3 million residents. These member agencies include six cities, five water districts, three irrigation districts, eight municipal water districts, one public utility district, and one federal agency. The Water Authority is a member agency of, and obtains water from the Metropolitan Water District of Southern California (MWD), which derives its supply from the Colorado River and the California State



Water Project. The Water Authority also obtains water under long-term agreements from the Imperial Irrigation District (IID), which derives its supply from the Colorado River, and through a water purchase agreement for water produced at the Claude “Bud” Lewis Carlsbad Desalination Plant.

Board of Directors

A 36-member board governs the Water Authority, with each of the 24 member agencies having at least one voting representative on the Board. Member agencies may also designate and appoint one additional representative for each full five percent of Water Authority assessed value within the member agency service area. Currently, the City of San Diego has 10 directors; Carlsbad, Helix, and Otay Water District have two directors each; and the remaining member agencies have one director each. Directors are appointed to six-year terms by the chief executive officers of the respective member agencies, subject to approval by the member agencies’ governing bodies. The voting rights of member agencies are weighted and based upon each agency’s total historical financial contribution to the Water Authority. Currently, all Board actions require an affirmative vote constituting at least 55 percent of the total weighted vote of the member agencies. In addition to the 36 voting members, the County of San Diego has one representative who may participate in certain Board deliberations and committee actions, but has no voting rights on Board actions. Officers of the Board begin two-year terms on October 1st of each even-numbered year.

Committees and Organizational Structure

To facilitate matters, most business coming before the Water Authority's Board is first considered by one of its five standing committees, described below, which then makes recommendations to the full Board for formal action:

The Administrative and Finance Committee is responsible for administrative and finance matters, including: rates, fees, charges, and other sources of revenue; budget; investments; human resources; employer-employee relations; information technology; insurance; risk management; and other matters of general business operations.

The Engineering and Operations Committee is responsible for matters of design, construction, replacement, maintenance and operation of the Water Authority's facilities, property and equipment, including: administration of the Capital Improvement Program; administration of the Aqueduct Protection Program; right of way acquisition and management; system and facility security; water quality; and other matters relating to facility operations.

The Imported Water Committee is responsible for imported water supply matters, including: activities and issues as a member agency of MWD; administration of the Colorado River Quantification Settlement Agreement and related agreements; Colorado River Board; State Water Project; California WaterFix; and other matters relating to water supplies from sources outside San Diego County.

The Legislation and Public Outreach Committee is responsible for community and governmental outreach matters, including: legislation, lobbying, and intergovernmental relations; community relations; media relations; social media; online communication; capital project outreach; and small-business contracting outreach.

The Water Planning Committee is responsible for water supply planning and supporting local supply development, including: water supply and demand forecasting and reporting; shortage allocation planning and administration; seawater desalination; water recycling and potable reuse; groundwater and conjunctive use; local surface water; environmental management; regulatory compliance and policy; Urban Water Management Plans; water use efficiency programs; and other planning matters.

In addition, the Water Authority has one special purpose Board committee that is responsible for oversight of the audit and Comprehensive Annual Financial Report (CAFR) as follows:

The Audit Committee is responsible for independent oversight of the annual financial reporting process, including the selection of, and communication with the Water Authority's outside audit firms. The Audit Committee was established in 2009 driven by the Board's desire to separate oversight responsibilities for the audit function from the Administrative and Finance Committee.

The Water Authority's organizational structure as of June 30, 2018 can be found on page 15. The General Manager reports directly to the Board and manages the Water Authority's day-to-day operations. The General Counsel also reports directly to the Board. Reporting directly to the General Manager is a Deputy General Manager, two Assistant General Managers and the Human Resources Manager. The remainder of the executive team consists of nine department and program directors, responsible for managing the Administrative Services, Engineering, Finance, Operations and Maintenance, Public Outreach and Conservation, and Water Resources Departments, and the MWD Program, Colorado River Program and Government Relations Program.

Economic Conditions and Outlook

San Diego labor market fundamentals remain strong in 2018 with continuing job growth. According to the San Diego Regional Economic Development Corporation's June Snapshot, the region added 32,500 jobs year-over-year, a 2.2 percent increase in total employment since 2017. The PST Services (professional, scientific and technical) sector experienced the largest growth in employment at 6.8 percent, followed closely by construction at 6.6 percent. The unemployment rate trended lower to 2.9 percent, which is the lowest since January 2000. San Diego County's median home price reached \$575,000 in June, its highest point in a decade and a 5.5 percent increase in a year, as reported by real estate tracker CoreLogic. In spite of the increase in prices, residential development was up compared to last year with the number of new residential building permits increasing by 64 percent with 6,953 residential building permits pulled in the first six months of 2018, as reported by the Construction Industry Research Board. Multifamily construction, condominiums and apartments led building in the county comprising 4,948 multifamily permits.

Stable economic conditions coupled with being further removed from statewide emergency water use reductions that terminated in April 2017, culminated in a second consecutive year-over-year increase in total water use. San Diego area water use for fiscal year ending June 30, 2018 totaled approximately 518,000 acre-feet, an increase of roughly 9 percent over 2017 consumptive use levels. The modest upward trend in water use is projected to continue as water demands recover from extraordinary conservation measures taken during the recent drought emergency. Additionally, continued implementation of long-term water use efficiency measures in the San Diego region and the Water Authority's investments in highly reliable supplies (such as Colorado River transfers, local seawater desalination, and in-region carryover storage) will help to buffer San Diego's exposure to supply shortages and support sustained growth in our local economy.

Long-Range Planning

The Government Finance Officers Association (GFOA) recommends that all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting. The Water Authority has developed a comprehensive Long-Range Financing Plan (LRFP) that is monitored and reviewed frequently to adapt to the ever-changing environment. The current LRFP was developed with member agency involvement and approved by the Board of Directors in January 2016. The LRFP codifies certain enhanced financial policies relating to debt service coverage, reserve levels, and financial risks. The current LRFP highlights the transition to an operations and asset management-focused agency from a construction-oriented agency. The LRFP also addresses the near-term financial impacts of statewide demand regulations and provides additional information regarding key assumptions, sensitivity analysis, and non-bonded liabilities. More information about the LRFP can be found at: http://www.sdcwa.org/sites/default/files/files/finance-investor/FINAL_LRFP2015.pdf

Financial Policies

The Water Authority has adopted a comprehensive set of financial policies. During the current year, four of these policies were of most significance.

Debt

The Water Authority has a Debt Management and Disclosure Policy that sets forth comprehensive guidelines for the issuance and management of the Water Authority's debt. Compliance with the policy is essential to ensure that the Water Authority maintains a sound debt position and that it protects the credit quality of its debt obligations. The Water Authority's policy establishes

guidelines for its disclosure obligations and refinancing debt to achieve savings levels based on a call option pricing model.

Investments

Annually, the Board adopts an investment policy that is in compliance with California Government Code Section 53600 et seq. The investment of idle funds is delegated by the Board to the Water Authority’s Treasurer, who assumes full responsibility for the transactions of the investment program, which includes the investment of bond proceeds and debt service reserves. The objectives of the investment policy are safety, liquidity, yield, and public trust. The Water Authority’s investments are in compliance with the adopted investment policy. Refer to Note 2 in the Notes to the Financial Statements for detailed investment information and the Continuing Disclosure Section for a more detailed overview of the policy.

Funds

The Board has an adopted policy that governs the Rate Stabilization Fund’s (RSF) balances. The policy established a minimum target balance and maximum target balance. The minimum RSF target balance is equal to the financial impact of 2.5 years of wet weather and the maximum target balance (cash reserve) is set equal to the financial impact of 3.5 years of wet weather. As a general rule, the Water Authority will transfer portions of its net water revenues exceeding its debt service coverage requirement into the RSF. From time to time, as needed, the Water Authority will transfer amounts from the RSF into water revenues to meet debt service coverage requirements, or to help provide adequate working capital to the Operating Fund.

Budget

In addition to the financial statements, the Water Authority includes a schedule in the Other Supplementary Information Section that compares the final budget to the actual amounts for fiscal year ended June 30, 2018. The schedule includes a reconciliation of adjustments from the budgetary basis to the Generally Accepted Accounting Principles (GAAP) basis.

This report also contains a Statistical Section, which provides both financial and non-financial trend data about the Water Authority and its operations, and a Continuing Disclosure Section, which provides both financial and non-financial information in compliance with the Water Authority’s Continuing Disclosure requirements.

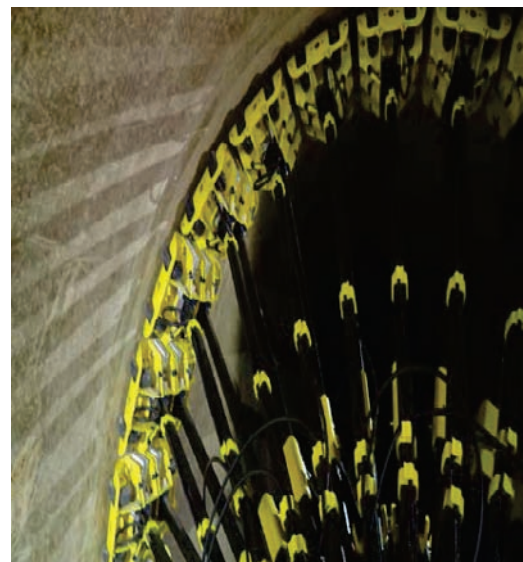
Highlights of the Capital Improvement Program

The major Capital Improvement Program (CIP) activities include the following:

Asset Management Program

The Water Authority continues to invest in its critical water conveyance infrastructure through the Asset Management Program. The overall goal of the program is to manage infrastructure assets by analyzing a broad spectrum of risks and optimizing the timing of infrastructure rehabilitation spending.

All infrastructure assets are evaluated for performance and integrity and the methodology is guided by a rolling five-year Condition Assessment Plan. The plan also schedules assessments over the medium and long term.



Remote Field Technology

A dedicated team of staff delivering the Asset Management Program uses the latest technological tools to perform comprehensive condition assessments of pipelines and associated facilities.

An important part of the program is the evaluation of the condition data in relation to operational risk. Performing a system-wide risk assessment every two-year budget cycle, staff ensures that probability of failure and consequence of failure are evaluated in the process of developing priority projects that are designed to extend the service life of the most critical assets.

These projects then roll into the upcoming fiscal period for implementation. Currently 12 priority projects are being implemented in the FY2018/FY2019 budget cycle and the team is developing recommended projects for the FY2020/2021 budget cycle.



Ramona Pin Brazing

This year the program was recognized by the American Water Works Association (AWWA) for leading business practices in asset management and Government Technology and the AT&T Special Districts Program for pipeline risk visualization. The Water Authority constantly scrutinizes its methodology through industry-specific peer review at an international level, and by self-monitoring its progress through its five-year Scorecard evaluation. This ensures key areas of asset management are resourced, managed, and continually evaluated at an appropriate level.



Technology Innovation Award

Over the past year, the asset management program has completed the electromagnetic scanning and evaluation of five miles of a pipeline that was rehabilitated in the early 1980s, completed corrosion protection (interior joint bonding) on one mile of concrete pressure pipe, and visually inspected over 20 miles of pipelines throughout the system.

More information about the Asset Management Program and Relining and Pipe Replacement Program can be found at the project web pages at: <http://www.sdcwa.org/asset-management> and <http://www.sdcwa.org/pipeline-relining>

Capital Assets

The Water Authority also has a significant investment in capital assets approximating \$3.5 billion to ensure the safe and reliable delivery of water to the San Diego region. The capital assets are comprised of non-depreciable assets such as land, easements, mitigation bank credits and construction in progress. Depreciable assets include pipelines and dams, buildings and facilities, machinery and equipment, and intangible assets such as software and mitigation improvements, participation and capacity rights and water storage rights. These assets are monitored and maintained to ensure continuous performance and then replaced according to set schedules or as needed. Supporting this practice is the Equipment Replacement Fund created to receive monies designated for replacing machinery, equipment and rolling stock when needed.

As part of the budget adoption process, the Board authorizes monies to be deposited into this Fund where it will accrue over time to correspond back to the replacement cost of the individual asset lives. Footnotes 1(f) and 6-9 in the Notes to the Financial Statements provides further information on the Water Authority's Capital Assets.

Major Initiatives

Energy Program

Energy is a significant cost in treating and delivering water to our member agencies. The Energy Program was created to oversee agency-wide planning, regulatory, and operational energy-related issues regarding energy usage and production. The following initiatives are examples of the Energy Program's pursuit of opportunities to reduce energy demands and costs, stabilize water rates, and reduce greenhouse gas emissions by leveraging existing water infrastructure.

The Water Authority received a \$1 million incentive from the California Public Utilities Commission to build and deploy an intelligent 1 megawatt/2 megawatt-hours commercial-sized battery system that will save ratepayers money and stretch the energy output potential of solar panels already installed at the Water Authority's Twin Oaks Valley Water Treatment Plant. The storage system, through a public-private-partnership agreement and no capital cost investment to the Water Authority, is expected to save the Water Authority nearly \$100,000 annually in energy costs by storing low-cost energy for use during high energy demand periods when energy costs are higher, avoiding peak demand charges.

The 4.5-megawatt Rancho Peñasquitos Hydro-generation and Pressure Control Facility (Rancho Hydro) Power Purchase Agreement with San Diego Gas & Electric expired in January 2017. The Water Authority is instead selling the power generated from Rancho Hydro into the California Independent System Operator (CAISO) wholesale energy market. Additionally, the Renewable Energy Credits (RECs) associated with the facility are being sold to a third party to help offset the third party's greenhouse gases. Revenue from selling both the energy and RECs is estimated to be over \$300,000 annually.

The Water Authority applied for and received approximately 1.6 megawatts of federal preference Boulder Canyon power from the Western Area Power Administration. This clean source of power from hydroelectricity will help to diversify the agency's energy supply portfolio and lessen its impact on greenhouse gases.

The Water Authority and City of San Diego (Owners) are exploring a potential 500-megawatt energy storage facility located at the San Vicente Reservoir, which is owned by the City and where the Owners share water storage. The facility would consist of a closed-loop pumping system between the existing lower reservoir and a new, smaller reservoir located uphill. It would pump water uphill when renewable energy is plentiful to a new upper reservoir to create a bank of stored hydroelectric energy that would be released to the lower reservoir by gravity at times when renewable energy supplies are unavailable and energy demand and costs are higher. This potential project could lessen upward pressure on water rates and also increase opportunities for renewable energy penetration throughout the region.

Energy supply diversification, energy regulatory engagement, and public-private partnerships constitute a multifaceted strategy for effective energy management. Combined, this approach provides additional revenue and cost savings to the Water Authority that translates to savings for our member agencies and supports energy reliability, which is crucial to fulfilling our water supply driven mission.

Innovation Program

The Water Authority's Innovation Program provides structure and processes to identify creative ideas, which assist the Water Authority in meeting our goals. The goal of the Water Authority's Innovation Program, which began in November 2015, is to create a work environment that supports the identification and implementation of ideas, from optimizing existing business practices (core innovation) to implementing game-changing (transformative) innovation. The innovation process includes efforts across four focus areas: Culture, Capability, Creativity and Collaboration. Since its inception, the Innovation Program collected 142 "Bright Ideas". Of those, 55 projects have been implemented and 22 projects are currently in the piloting or concept phase. Our innovation efforts are aligned with our strategic direction, mission and vision, and will evolve over the next few years as we respond to challenges at the Water Authority and in our industry.

Prudent Financial Management

Adopted Calendar Year 2019 Rates and Charges

In June 2018 the Water Authority Board approved adjustments to rates and charges for Calendar Year 2019. These adjustments amount to an increase of \$14/acre foot (AF) or 0.9 percent for treated water and \$38/AF or 2.9 percent for untreated water. The increases are among the smallest in the past 15 years due to financial benefits secured through litigation against the Los Angeles-based Metropolitan Water District of Southern California and the Water Authority's planned use of its Rate Stabilization Fund.

Adopted Debt Management and Disclosure Policy

The most significant change in the Debt Policy adopted by the Board in January 2018 was the addition of a disclosure section and an update to the title of the Policy now stated as the Debt Management and Disclosure Policy. As a result of the 2017 Security Exchange Commission amendments to Rule 15c2-12, under the Securities Exchange Act of 1934 that would add 1) the incurrence of material financial obligations, or any agreement to certain covenants, events of default, remedies, priority rights or other terms that could affect securities holders; and 2) report of an occurrence of such financial obligations impacting policies and practices of issuers and obligors of municipal securities. As such, the Water Authority's new debt policy reflects those changes. Topics addressed include guidelines involving public statements made by Water Authority officials, initial market disclosure involved with securities offerings, and compliance with continuing disclosure. The Policy also includes additions/changes to arbitrage management and post-issuance tax compliance, as well as additions under Section IX.

Adopted Statement of Investment Policy and Long-Term Investment Strategy

In December 2017, the Water Authority Board approved the Annual Statement of Investment Policy for Calendar Year 2018. Annual statements of investment policy to the legislative body are optional per California Government Code section 53646. The Policy and permitted investments are consistent with California Government Code. The Policy allows for portfolio performance enhancement through diversification of investment types. The annual review and adoption of the Policy, along with the submission of the monthly Treasurer's Report to the Board, is central to a transparent portfolio management process. With the approval of the 2018 Investment Policy, as interest rates increased, the Water Authority has moved toward a structure to safely enhance earnings and long-term capital appreciation through investments in high quality, longer-maturity investments. Taking full advantage of the investment types permitted by California Government Code can increase overall diversification and safety for the portfolio, while providing additional opportunities to enhance long-term return and value to the Water Authority's investment program.

Adopted Updated Rate Stabilization Fund Policy

In June 2018, the Water Authority Board formally adopted a change in the Rate Stabilization Fund (RSF) Policy. Since 2006 the RSF was calculated based on 2.5 years (3.5 years max) of wet weather, and the projection that the Water Authority would experience a 25 percent reduction in water sales. However, wet weather events in 2005 and 2011 demonstrated a reduction of water demand in wet years of just 14-15 percent. The Water Authority revised the reserve policy down to a 20 percent reduction in water sales effective January 1, 2019, and to a 15 percent reduction in water sales effective January 1, 2021.

Metropolitan Water District (MWD) Litigation

The Water Authority has sued MWD in various related cases, mainly pertaining to alleged rate overcharges by MWD. The Water Authority has been paying the disputed MWD rates over the years, so the cases generally relate to potential damages to be awarded to the Water Authority, not additional new payments or damages to MWD. The general status of these cases:

2010/2012 Rate Cases:

The Water Authority won a trial court award of \$234,932,782 from MWD on rate overcharges, interest, and attorney's fees for years 2011-2014. On June 21, 2017, the First District Court of Appeal issued its decision in the MWD appeal of that trial award. The Court of Appeal decision may be found at 12 Cal.App.5th 1124. The Court of Appeal sided with the Water Authority on most issues, but allowed MWD to charge the Water Authority certain State Water Project costs for water being transported under an exchange agreement, thereby potentially significantly reducing the ultimate monetary award to the Water Authority. That Court of Appeal decision was subject to a Petition for Review to the California Supreme Court, which was filed by the Water Authority on July 31, 2017. The Supreme Court, however, denied review on September 27, 2017. The Court of Appeal opinion therefore becomes final, and the case has returned to the trial court for further proceedings consistent with the Court of Appeal's ruling.

2014 Rate Case:

This case challenges MWD's rates adopted in 2014 for 2015 and 2016, was transferred to San Francisco Superior Court, and currently remains stayed. However, the stay may be lifted in the future, given the above result in the 2010/2012 cases.

2016 Rate Case:

This case challenges MWD's rates adopted in 2016 for 2017 and 2018, and was transferred to San Francisco Superior Court. The Water Authority, MWD, and the eight MWD member agencies who answered the 2016 complaint entered into a stipulation (1) allowing the Water Authority to amend the 2016 complaint to add claims under the Exchange Agreement and for monetary damages; and (2) staying the 2016 case pending the outcome of the appeal in the 2010 and 2012 cases. On November 14, 2016, the Water Authority filed its amended complaint, and the 2016 case remains stayed. However, the stay may be lifted in the future, given the above result in the 2010/2012 cases.

2017 Rate Case:

This case challenges MWD's rates adopted in 2017 for 2018 and has been transferred to San Francisco Superior Court. It may be allowed to proceed, given the above result in the 2010/2012 cases.

2018 Rate Case:

This case challenges MWD's rates adopted in 2018 for 2019/2020 and is currently in the process of being transferred to San Francisco Superior Court. It may be allowed to proceed, given the above result in the 2010/2012 cases.

For detailed information on the Water Authority's rate litigation, visit: <http://www.sdewa.org/mwdrate-challenge>. For any other information, contact the General Counsel's office, 4677 Overland Ave., San Diego, CA 92123, (858) 522-6790.

California Weather and Supply

Following a dry start to Water Year (WY) 2018, hydrologic conditions improved in California with a shift to wetter weather beginning in early March 2018 and continuing through April 2018. Despite improved weather conditions in March and April, precipitation for WY 2018 remained below average – with the Northern Sierra 8-Station Index accumulated precipitation for October 2017 through July 2018, totaling just under 41 inches, or 81 percent of normal. When coupled with below average snowpack, the unimpaired statewide runoff through the spring of 2018 was at 75 percent of average. These conditions prompted the Department of Water Resources to set State Water Project contractors' Table A allocation for 2018 at 35 percent of requested supplies - less than half of the previous year's Table A allocation of 85 percent of requested supplies. Water Authority staff continues to closely monitor seasonal weather patterns and evolving hydrologic conditions to assess potential impacts on the San Diego region's water supplies.

Drought Cessation and Continuing Water Use Efficiency

In April 2017, Governor Brown issued Executive Order B-40-17, which lifted the statewide drought emergency in all California counties except Fresno, Kings, Tulare, and Tuolumne. The action ended the emergency drought proclamation put in place by the Governor in January 2014. Through establishment of its drought awareness effort, the Water Authority continued its messaging and outreach to residents and businesses to ensure an ongoing community commitment to advance water-use efficiency across the region during Fiscal Year 2018.

Two significant bills related to long-term water use efficiency (SB 606 and AB 1668) were the subject of much discussion and deliberation in the state Legislature during Fiscal Year 2018. The Water Authority and its member agencies were engaged in the associated stakeholder process to represent San Diego regional interests. On May 31, 2018, the two bills were signed into law by Governor Jerry Brown. The laws are intended to help the state better prepare for droughts and climate change through various provisions, including the creation of water-use objectives for retail water agencies (not individual households or businesses). As a wholesale water supplier, the Water Authority is not subject to the water-use objective provision of the law. However, there are other provisions of the law that address water supply planning that do apply to the Water Authority.

The new water-use objectives for retail water agencies will be calculated based on aggregated standards for indoor and outdoor use, system water loss, variances, and potable reuse credit. The state has initiated work on developing the standards, which must be adopted by the State Water Resources Control Board by June 2022. Retail water suppliers will report compliance beginning in November 2023, and by November 1 every year thereafter. Starting in 2027, fines could be issued to retail water agencies that do not meet their water-use objectives. The fines would be levied on retail water suppliers and not individual households or businesses. The laws also establish new planning and submittal requirements for agricultural water management and urban water management plans.

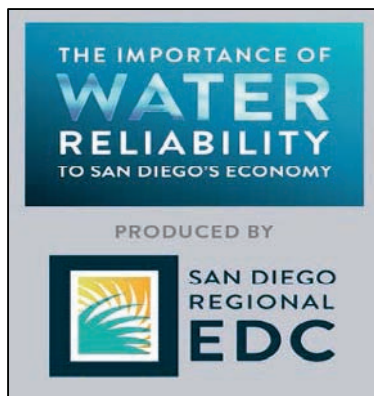
Water Authority staff will work closely with local retail water agencies and remain engaged in the State’s implementation of the long-term framework water-use objectives and reporting requirements.

Public Outreach and Conservation

The Water Authority has a decades-long track record of successfully managing a comprehensive and increasingly sophisticated public outreach and education program that evolves to address changing circumstances such as supply conditions, member agency needs and state mandates.

With sufficient water supplies for the foreseeable future, the Water Authority currently promotes the efficient use of water resources through its comprehensive Water Smart platform, which includes a website, landscaping makeover classes, social media, promotional items and events. In Fiscal Year 2018, the Water Authority also encouraged the adoption of sustainable landscape practices and turf conversions through a grant-funded incentive program and training/certification programs for landscape professionals. Those efforts have contributed to regional water-use levels that remain far below the state’s 2013 baseline levels and State-mandated targets for 2020.

In addition, the Water Authority has collaborated with its member agencies for decades to educate the public about the importance of a safe and reliable water supply during both drought and non-drought periods in collaboration with its Joint Public Information Council. In February, the Water Authority Board approved an enhanced communications program to boost appreciation for the ratepayer investments necessary to support the region’s \$220 billion economy and its 3.3 million residents. The program, called “Brought to You by Water,” highlights iconic San Diego industries, connecting the importance of water reliability to business attraction and expansion. The program is supported with a focused website, digital and social media advertisements, television advertisements and extensive community outreach. The program website is located at <https://b2ubyh2o.org/>



Also, in Fiscal Year 2018, in partnership with the San Diego Regional Economic Development Corporation, a study was completed quantifying the economic impact of the Water Authority’s \$2.4 billion investment in regional infrastructure. The study found that these projects have generated \$4.8 billion in total economic impact, supporting an average of 1,475 jobs annually over two decades and creating more than \$1.8 billion in local wages and salaries. Water Authority investments over the past 20 years support \$482 million in total regional sales per day and support nearly 140,000 jobs. The full report can be found at: www.sdcwa.org/sites/default/files/EDC-WATERSTUDY-F-SEP.pdf

The Water Authority also has raised the region’s water IQ through its groundbreaking and award-winning Citizens Water Academy, which now boasts more than 500 civically engaged alumni. Further, the Water Authority is an active leader in the region’s civic affairs through engagement with numerous chambers of commerce, economic development councils and other stakeholders. As part of this effort, staff organizes an active, countywide speaker’s bureau, which coordinated nearly 70 presentations last fiscal year to inform groups about the Water Authority’s diversification strategy and timely water policy issues.


Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Water Authority for its CAFR for the fiscal year ended June 30, 2017. This is the eighteenth consecutive year that the Water Authority has received this prestigious award. In order to be awarded a Certificate of Achievement, the Water Authority had to publish an easily readable and efficiently organized CAFR that satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe the current CAFR continues to meet the Certificate of Achievement Program requirements and are submitting it to GFOA to determine its eligibility for another certificate.

We would like to thank the Board for its continued leadership in excellence in financial management. Additionally, this report could not have been accomplished without the hard work and dedication of the entire Finance Department with recognition to the Accounting Division. Special appreciation is extended to: Christopher W. Woidzik, Controller; Geena Balistrieri and Yollie Cerezo, Accounting Supervisors, Jocelyn Matsuo and Holly Judy, Senior Accountants; Monika Wojcik and Melody Parker, Management Analysts; and Nicole Spriggs, Administrative Assistant. We also wish to express our appreciation to all departments that assisted and contributed to the preparation of this report.

Respectfully submitted,



Maureen A. Stapleton
General Manager



Lisa Marie Harris
Director of Finance/Treasurer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**San Diego County Water Authority
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morvill

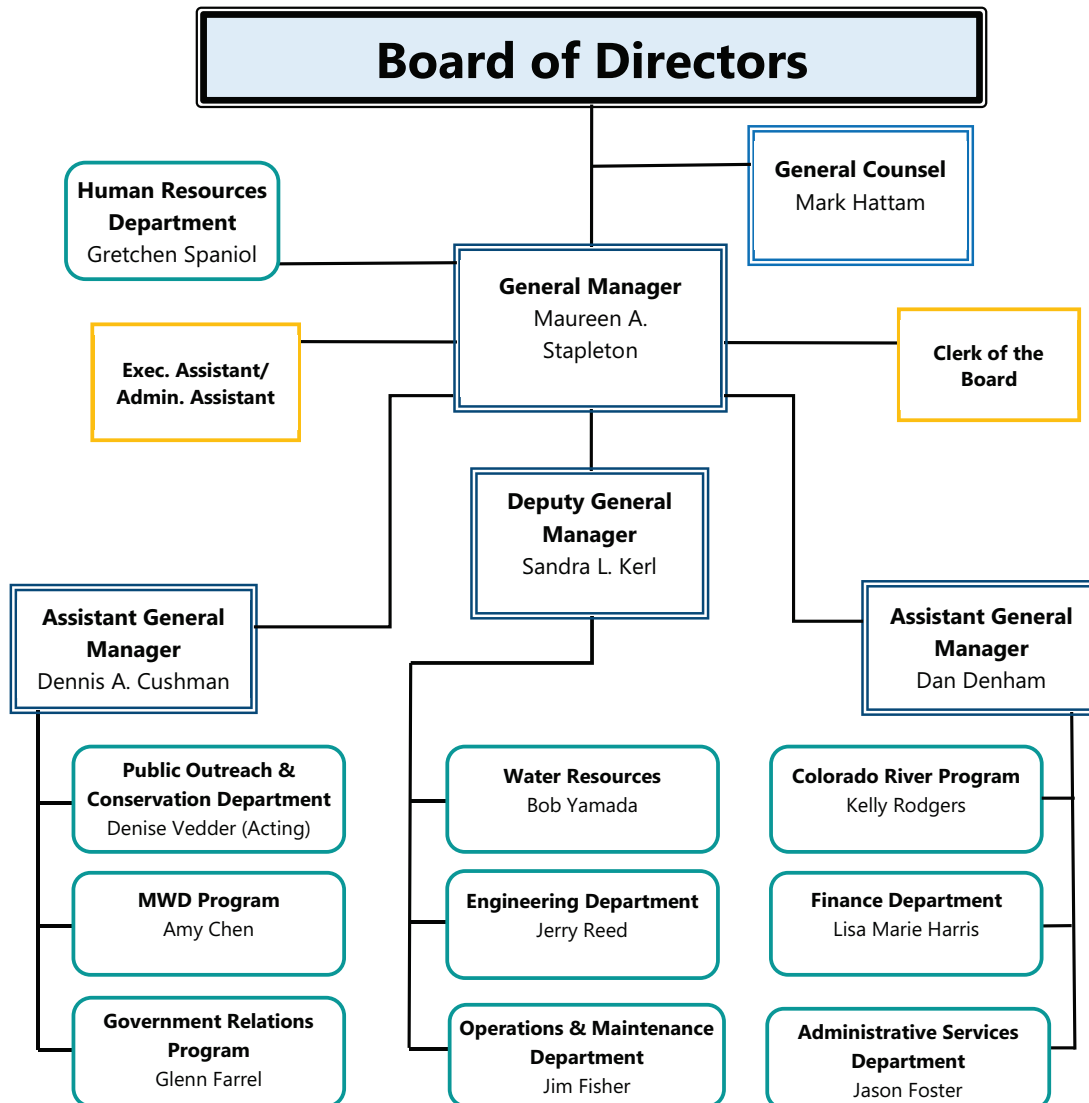
Executive Director/CEO

San Diego County Water Authority Board of Directors

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- Jim Madaffer, **Vice Chair**, City of San Diego
- Gary Croucher, **Secretary**, Otay Water District

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San Diego County Water Authority Organizational Structure



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Financial Section



 Our Region's Trusted Water Leader
San Diego County Water Authority

**BROUGHT
TO YOU
BY WATER...**

AMERICA'S #1 PRODUCER OF AVOCADOS

The Water Authority and its member agencies deliver the water that fuels our economy and quality of life.

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Board of Directors
San Diego County Water Authority
San Diego, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the San Diego County Water Authority (the "Water Authority") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Water Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Authority, as of June 30, 2018, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described further in Note 1 to the financial statements, during the year ended June 30, 2018, the Water Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 89. The Water Authority also reported a prior period adjustment as described further in Note 18 to the financial statements. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We previously audited the Water Authority's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis*, the *defined benefit pension schedules*, and the *other post-employment benefits schedules* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

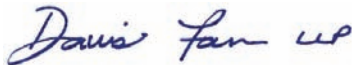
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Water Authority's basic financial statements. The *budgetary comparison schedule*, *introductory section*, *statistical section*, and *continuing disclosure section* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The *budgetary comparison schedule* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying

accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *budgetary comparison schedule* is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The *introductory section*, *statistical section*, and *continuing disclosure section* have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

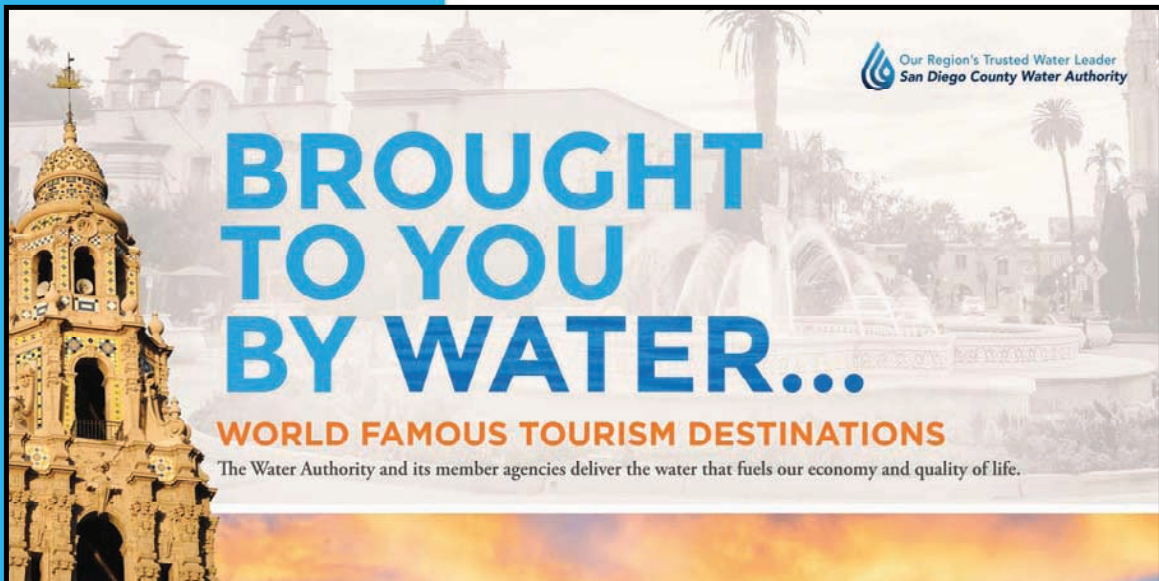
In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2018 on our consideration of the Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Authority's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Lan" followed by a stylized flourish.

Irvine, California
October 26, 2018

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Management's Discussion and Analysis



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Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial performance of the San Diego County Water Authority (Water Authority) during the fiscal year ended June 30, 2018. Please read it in conjunction with the Letter of Transmittal located in the Introductory Section, and the Water Authority's Basic Financial Statements and accompanying Notes to the Financial Statements (Notes), which follow this section. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Overview of the Financial Statements

The basic financial statements report information about the Water Authority's financial position and changes in financial position using the accrual basis of accounting, similar to methods used by private sector companies. They are designed to provide readers with a broad overview of the finances, and also present changes in cash balances and information about both short-term and long-term activities. There are three required components to these statements: the MD&A, the Financial Statements, and the Notes.

The Statement of Net Position presents information on all of the Water Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information on how the Water Authority's net position changed during the fiscal year. All changes in net position are reported on the accrual basis of accounting, recognizing all revenues when earned and all expenses when incurred.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities for the fiscal year.

The Notes provide additional information essential for a full understanding of the data provided in the Financial Statements. The Notes are located immediately following the Financial Statements.

Other Information

The Financial Statements include the accounts of the San Diego County Water Authority Financing Corporation, a separate legal entity established in December 1997, and the San Diego County Water Authority Financing Agency, a Joint Powers Authority (JPA), established in December 2009. The accounts of these entities are blended into the Water Authority's Financial Statements in accordance with Governmental Accounting Standards. See Note 1(a) of the Notes for further information regarding these entities.

Financial Analysis of the Water Authority

San Diego County Water Authority Condensed Statement of Net Position, in Millions (\$)

	June 30,	
	2018	2017
Assets:		
Capital assets	\$ 3,464.6	\$ 3,477.2
Other assets	606.4	606.0
Total assets	4,071.0	4,083.2
Deferred outflows of resources	78.5	97.6
Liabilities:		
Long-term liabilities	2,029.3	2,099.2
Other liabilities	540.1	522.7
Total liabilities	2,569.4	2,621.9
Deferred inflows of resources	3.1	2.6
Net position:		
Net investment in capital assets	1,154.7	1,123.9
Restricted	120.4	147.6
Unrestricted	301.9	284.8
Total net position	\$ 1,577.0	\$ 1,556.3

Net Position

Over time net position may serve as a useful indicator of an entity's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,577.0 million and \$1,556.3 million as of June 30, 2018 and 2017, respectively. Of these amounts, \$301.9 million and \$284.8 million in unrestricted net position as of June 30, 2018 and June 30, 2017, respectively, were available for current approved services and construction projects, and for new programs for the region's citizenry. During Fiscal Year 2018, total net position increased by \$20.7 million, or 1.3 percent. The largest portion of the Water Authority's net position, 73.2 percent, reflected the investment in capital assets less any related outstanding debt and deferred outflows of resources used to acquire those assets.

Capital Assets

San Diego County Water Authority Capital Assets (Net of Accumulated Depreciation and Amortization), in Millions (\$)

	June 30,	
	2018	2017
Capital Assets - Non-Depreciable	\$ 118.3	\$ 152.0
Capital Assets - Depreciable, net	<u>3,346.3</u>	<u>3,325.2</u>
Total	<u>\$ 3,464.6</u>	<u>\$ 3,477.2</u>

Capital assets are classified into two categories: non-depreciable and depreciable capital assets. Non-depreciable capital assets include land, easements, mitigation bank credits, and construction in progress. Depreciable capital assets include pipelines and dams, buildings and facilities, equipment, computer systems software, participation and capacity rights, and storage rights, net of accumulated depreciation and amortization. In accordance with the Water Authority's capitalization policy, capital assets under construction are capitalized to construction in progress and when a project is substantially complete and has been issued a notice of operational acceptance or has been placed in service, it is reclassified to the appropriate depreciable category. Additional information regarding capital assets can be found in the Notes 6 – 9 of the Notes to the Financial Statements.

During Fiscal Years 2018 and 2017, total capital asset additions were \$75.0 million and \$65.1 million, respectively. Of those amounts, \$69.5 million and \$60.3 million were additions to construction in progress, a non-depreciable category of capital assets, for the Fiscal Years ended June 30, 2018 and 2017, respectively. Other non-depreciable additions consisting of land and easements additions in Fiscal Years 2018 and 2017 were \$1.1 million and \$0.1 million, respectively. Depreciable capital asset additions in Fiscal Years 2018 and 2017 relating to buildings and facilities, machinery and equipment, participation and capacity rights and intangible software additions were \$4.5 million and \$4.7 million, respectively.

There were no material commitments under construction contracts existing at June 30, 2018. The following projects accounted for the majority of the 90 capital projects expenditures incurred during Fiscal Year 2018:

Pipeline 3 Lake Murray to Sweetwater Reservoir	\$32.4 million
Carlsbad 6 Flow Control Facility	\$2.2 million
San Vicente Pumped Storage	\$1.5 million
First Aqueduct Structure & Lining Rehab Hubbard Hill North	\$1.4 million
Condition Assessment of Pipeline 3 PCCP Steel Liners	\$1.1 million

Debt Administration

Short-Term Debt

San Diego County Water Authority Outstanding Short-Term Debt, in Millions (\$)

	June 30,	
	2018	2017
Tax-Exempt Commercial Paper Program	\$ 245.0	\$ 245.0
Extendable Commercial Paper Program	100.0	100.0
Total	\$ 345.0	\$ 345.0

The Water Authority has a short-term Tax-Exempt Commercial Paper (TECP) program and an Extendable Commercial Paper (ECP) program to provide financing for the capital improvement programs. More detailed information on short-term debt is presented in Note 10 of the Notes.

There was no change to the outstanding amount in the short-term debt program for Fiscal Year 2018. During the year the Water Authority extended the Series 9 Tax-Exempt Commercial Paper Notes to July 2020. The Series 8 Tax-Exempt Commercial Paper Notes expire in June 2019 and the non-tax exempt Extendable Commercial Paper Notes, Series 1 do not expire. The Water Authority has a practice of extending its short-term debt borrowings to service its capital improvement program requirements.

Long-Term Debt

San Diego County Water Authority Outstanding Long-Term Debt, in Millions (\$)

	June 30,	
	2018	2017
Revenue Bonds	\$ 1,793.7	\$ 1,808.9
Certificates of Participation	42.6	74.6
Total	\$ 1,836.3	\$ 1,883.5

Long-term debt consists of revenue bonds and certificates of participation used to fund the capital improvement program. The Water Authority continues to hold long-term senior lien credit ratings of AAA, AA+, and Aa2 from Standard & Poor's, Fitch and Moody's, respectively. Long-term subordinate lien credit ratings are usually rated one level below the senior lien credit ratings of the same issuer. Accordingly, credit ratings of long-term Water Authority subordinate lien debt are inferred to be at AA+, AA, and Aa3 by Standard & Poor's, Fitch, and Moody's, respectively. More detailed information on long-term debt is presented in Note 11 of the Notes.

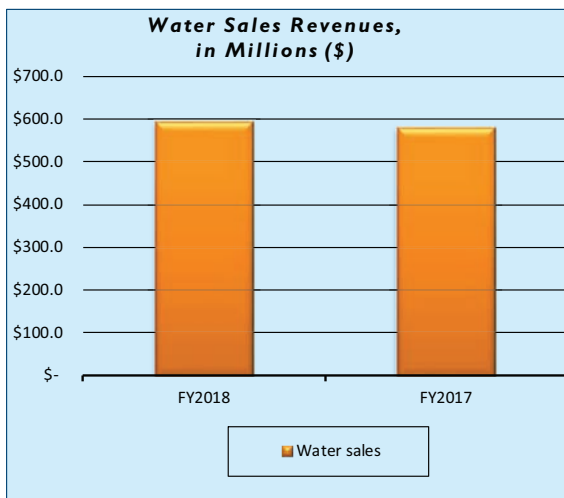
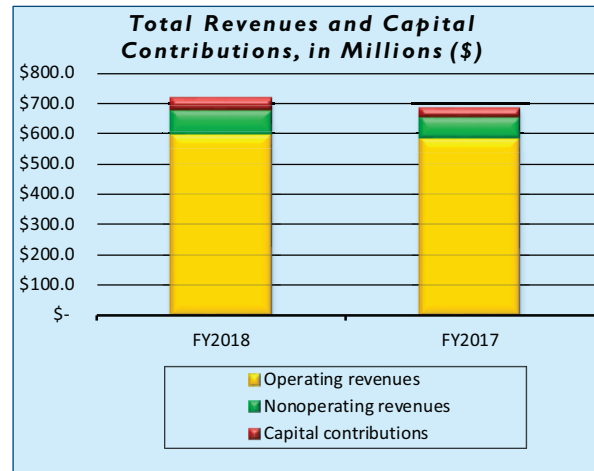
As of June 30, 2018, the Water Authority had \$1.8 billion in long-term debt outstanding, a 2.5 percent decrease compared to Fiscal Year 2017. As of June 30, 2018 and 2017, the total Revenue Bonds outstanding approximated \$1.8 billion for both years. The total Certificates of Participation outstanding as of June 30, 2018 and 2017 was \$42.6 million and \$74.6 million, respectively. During Fiscal Year 2018, \$15.2 million of revenue bond principal payments and \$32.0 million of certificates of participation principal payments were made.

San Diego County Water Authority
Statement of Revenues, Expenses and Changes in Net Position, in Millions (\$)

	June 30,	
	2018	2017
Operating revenues:		
Water sales	\$ 591.8	\$ 579.1
Other revenues	4.1	3.7
Total operating revenues	595.9	582.8
Nonoperating revenues:		
Property taxes and in-lieu charges	13.8	12.9
Infrastructure access charges	32.5	31.1
Investment income	4.3	2.2
Other income	19.2	11.4
Intergovernmental	10.7	11.5
Gain on sale/retirement of capital assets	0.1	-
Total nonoperating revenues	80.6	69.1
Total revenues	676.5	651.9
Operating expenses:		
Cost of sales	442.4	430.6
Operations and maintenance	24.2	19.1
Planning	9.2	9.0
General and administrative	16.9	14.5
Depreciation and amortization	62.8	67.1
Total operating expenses	555.5	540.3
Nonoperating expenses:		
Interest expense	99.9	95.5
Debt issuance costs	0.2	0.4
Other expenses	39.5	17.1
Loss on sale/retirement of capital assets	-	0.7
Total nonoperating expenses	139.6	113.7
Total expenses	695.1	654.0
Income before capital contributions	(18.6)	(2.1)
Capital contributions:		
Capacity charges	28.2	21.1
Water standby availability charges	11.1	11.1
Contributions in aid of capital assets	-	0.2
Total capital contributions	39.3	32.4
Changes in net position	20.7	30.3
Net position, beginning of year, as restated (Note 18)	1,556.3	1,526.0
Net position, end of year	\$ 1,577.0	\$ 1,556.3

Revenues by Source

Total revenues (operating and nonoperating) and capital contributions for the Fiscal Years 2018 and 2017 were \$715.8 million and \$684.3 million, respectively. Operating revenues consist primarily of water sales. Nonoperating revenues include property taxes and in-lieu charges, infrastructure access charges (IAC), investment income, intergovernmental revenue, gain on sale/retirement of capital assets, and other income. Capital contributions include capacity charges, water standby availability charges, and contributions in aid of capital assets. For Fiscal Year 2018, water sales and other operating revenues, nonoperating revenues, and capital contributions accounted for 83.3 percent, 11.2 percent and 5.5 percent, respectively, of the total revenues and capital contributions.



Operating Revenues

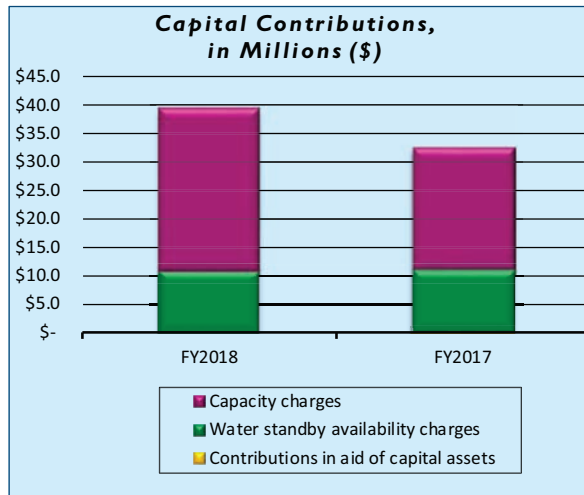
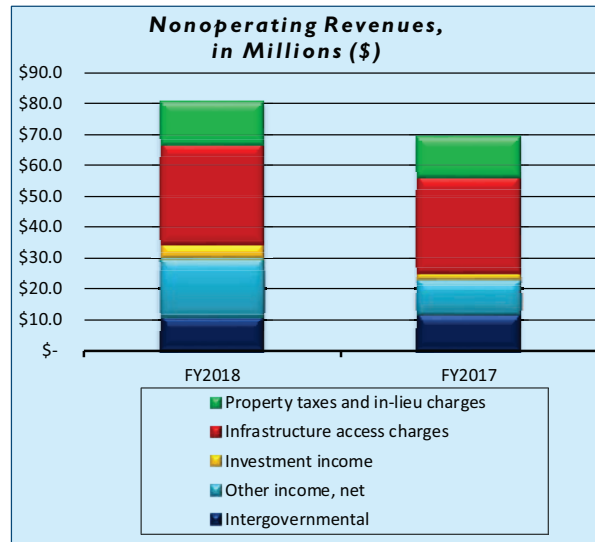
Water sales revenue is the principal source of revenue and totaled \$591.8 million for Fiscal Year 2018, an increase of \$12.7 million or 2.2 percent over the Fiscal Year 2017 total of \$579.1 million. This increase in water sales revenue was attributable largely to the increase in rates for treated and untreated water as well as the increase associated with the treated water surcharge. Overall in Fiscal Year 2018, total water deliveries decreased by 4.9 percent to 399,826 acre-feet (AF) from 420,271 AF in Fiscal Year 2017. The decrease resulted from (1) commencement of deliveries through the Indian Water Authority to the City of Escondido and Vista Irrigation District that directly offset budgeted sales to those agencies and (2) greater than projected member agency use of

local surface water supplies. Other revenues increased by \$0.4 million compared to Fiscal Year 2017 primarily due to the Water Authority leasing some of its capacity in the Semitropic Water Storage District's underground basin in Kern County to another agency. Hydroelectric revenues were minimally higher in Fiscal Year 2018 due to increases at Hodges Hydro and new revenues from Boulder Canyon, but much of this was offset by lower revenues related to Rancho Hydro operations.

Revenues by Source (continued)

Nonoperating Revenues

Nonoperating revenues were \$11.5 million higher in Fiscal Year 2018 compared to Fiscal Year 2017. Other income was \$7.8 million higher due to the \$7.2 million shortfall revenue payment related to the Claude “Bud” Lewis Carlsbad Desalination Plant and \$600 thousand of additional miscellaneous income. Investment income increased by \$2.1 million benefitting from (1) higher interest rates, (2) the favorable change in fair market value of investments and (3) the shift in investment strategy to longer-term investments as a response to the changing interest rate environment. The other nonoperating revenues categories experienced modest changes during the year comprising the remaining \$2.2 million increase.

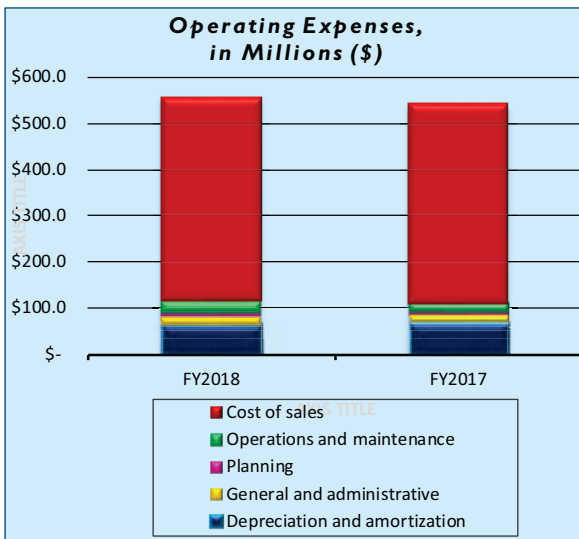
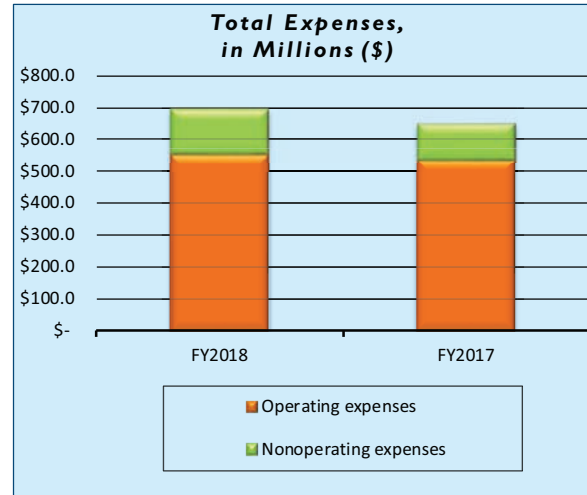


Capital Contributions

Capital contributions increased by \$6.9 million in Fiscal Year 2018 compared to Fiscal Year 2017. The change was the result of a \$7.1 million increase in capacity charges revenue resulting from an increase in building permits primarily related to residential housing construction that was offset by a \$0.2 million decrease in contributions in aid of capital assets due to project delays. In Fiscal Year 2018, the Water Authority planned for contributions related to the Carlsbad 5 Flow Control Facility project being completed but this was delayed by the City of Carlsbad, and the Camp Pendleton Desalination Project could not be pursued further.

Expenses by Function

Total expenses for Fiscal Years 2018 and 2017 were \$695.1 million and \$654.0 million, respectively. Operating expenses include the cost of water sales, operating department/program expenses, and depreciation and amortization expenses. Operating expenses were \$555.5 million and \$540.3 million for Fiscal Years 2018 and 2017, respectively. Nonoperating expenses, consist of interest, debt issuance costs, loss on sale/retirement of capital assets and other expenses. Total nonoperating expenses were \$139.6 million and \$113.7 million for Fiscal Years 2018 and 2017, respectively. Interest expense for Fiscal Year 2018 was \$99.9 million and \$95.5 million, net of capitalized interest, for Fiscal Year 2017.



Operating Expenses

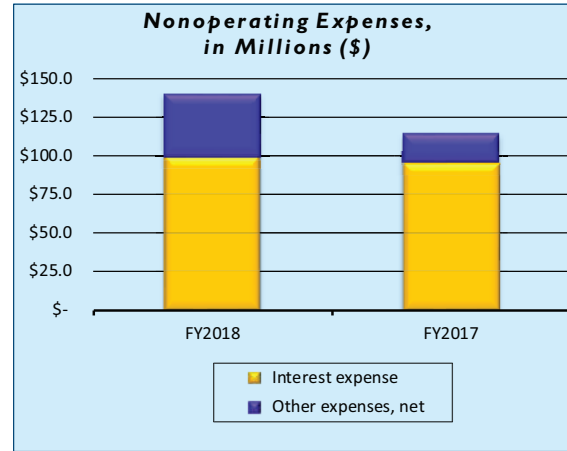
Total operating expenses increased by \$15.2 million in Fiscal Year 2018 compared to Fiscal Year 2017. The 2.8 percent increase in operating expenses in Fiscal Year 2018 was due to a \$11.8 million increase in the cost of water sales due to increased water purchasing costs as well as treatment costs. The Water Authority is obligated to purchase increased amounts of water from IID which includes a related transfer charge as being the main contributor for the increase. Total operating department expenses increased by \$7.7 million in Fiscal Year 2018 compared to Fiscal Year 2017 primarily due to \$6.7 million in higher pension costs resulting from the effects of updated CalPERS pension assumptions. The remaining \$1 million increase is attributable to increased operations and maintenance costs at various facilities.

Depreciation and amortization expense decreased by \$4.3 million from Fiscal Year 2017 due to (1) the IID Socioeconomic Participation Rights becoming fully amortized in Fiscal Year 2017 along with (2) the impact of a catch-up amortization adjustment in Fiscal Year 2017 due to a change in useful life assessment connected to the IID base contract price settlement participation right.

Expenses by Function (continued)

Nonoperating Expenses

Total nonoperating expenses, consisting primarily of interest expense, debt issuance costs and other expenses, totaled \$139.6 million and \$113.7 million in Fiscal Years 2018 and 2017, respectively. Interest costs remain similar to the prior year with \$99.9 million recorded in Fiscal Year 2018 and \$95.5 million, net of \$4.9 million in capitalized interest, recorded in Fiscal Year 2017. The Water Authority adopted GASB 89 in Fiscal Year 2018 thereby no longer permitting interest costs to be capitalized to projects during construction, so it is now all expensed. Interest costs remain a significant part of nonoperating expenses and will continue to do so until long-term debt principal begins to be paid down according to the set payoff schedules. Debt issuance costs were lower and amounted to \$0.2 million in Fiscal Year 2018 compared to \$0.4 million in Fiscal Year 2017. Costs in both years primarily related to completing extensions on the short-term debt issues while continuing to keep the same amount of short-term debt outstanding. Other expenses increased by a net \$22.4 million in Fiscal Year 2018 compared to Fiscal Year 2017 primarily due to the write-off of several projects in construction in progress that were not going to be completed, as well as increased maintenance costs associated with the Mission Trails Chlorine Injection project and Skinner Plant project.



Currently Known Facts, Conditions, or Decisions

GASB Statement No. 89 Implementation

The Water Authority implemented GASB Statement No. 89, *Accounting for Interest Costs Incurred Before the End of the Construction Period* for the fiscal year ending June 30, 2018. The Statement becomes effective in Fiscal Year 2019, but the Water Authority early adopted this fiscal year. Statement No. 89 discontinues the practice of capitalizing interest costs during construction for enterprise funds and, accordingly, higher interest expense will be reported in the financial statements this fiscal year and going forward. The adoption of this Statement will bring uniformity and comparability to financial reporting with other governmental entities as non-enterprise fund governmental entities previously could not capitalize such costs.

Contacting the Water Authority's Finance Department

This financial report is designed to provide the Board of Directors, the Water Authority's member agencies, taxpayers, creditors, and investors with a general overview of the Water Authority's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact Christopher W. Woidzik, CPA, Controller in the Finance Department at the San Diego County Water Authority, 4677 Overland Avenue, San Diego, California 92123, via email at cwoidzik@sdewa.org, or 858-522-6670.

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Financial Statements



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San Diego County Water Authority
Statement of Net Position
June 30, 2018
(with comparative data as of June 30, 2017)

	2018	2017
ASSETS		
Current assets:		
Cash and investments (Note 2)	\$ 104,682,066	\$ 56,840,335
Restricted cash and investments (Note 2)	119,984,952	149,126,977
Water receivables	106,982,874	102,593,505
Interest receivable	1,112,444	918,016
Taxes receivable	1,026,196	1,153,812
Other receivables	19,833,613	13,731,984
Inventories (Note 3)	96,334,231	96,983,153
Prepaid expenses (Note 4)	4,649,883	4,640,248
Total current assets	<u>454,606,259</u>	<u>425,988,030</u>
Noncurrent assets:		
Cash and investments (Note 2)	107,746,039	135,072,833
Restricted cash and investments (Note 2)	22,665,917	23,411,934
Advances to other agencies	217,594	650,477
Retention receivable	1,245,470	823,942
Long-term loan receivables (Note 5)	19,174,304	20,000,000
Net OPEB asset (Note 13)	795,852	-
Capital assets (Note 6):		
Non-Depreciable	118,295,114	151,945,443
Depreciable, net	<u>3,346,284,374</u>	<u>3,325,243,161</u>
Total noncurrent assets	<u>3,616,424,664</u>	<u>3,657,147,790</u>
Total assets	<u>4,071,030,923</u>	<u>4,083,135,820</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	61,113,716	72,294,728
Pension contributions subsequent to measurement date (Note 12)	4,240,681	16,163,814
OPEB contributions subsequent to measurement date (Note 13)	366,591	324,982
Deferred actuarial amounts related to pensions (Note 12)	12,733,072	8,560,959
Deferred actuarial amounts related to OPEB (Note 13)	84,422	275,965
Total deferred outflows of resources	<u>78,538,482</u>	<u>97,620,448</u>
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities	104,266,238	85,111,259
Interest payable	20,430,541	20,806,003
Construction deposits	362,845	429,144
Short-term liabilities (Note 10)	345,000,000	345,000,000
Current portion of long-term liabilities (Note 11)	54,165,278	57,293,370
Total current liabilities	<u>524,224,902</u>	<u>508,639,776</u>
Noncurrent liabilities:		
Long-term liabilities (Note 11)	1,975,170,555	2,041,933,667
Net pension liability (Note 12)	70,106,317	71,135,027
Net OPEB liability (Note 13)	-	170,141
Total noncurrent liabilities	<u>2,045,276,872</u>	<u>2,113,238,835</u>
Total liabilities	<u>2,569,501,774</u>	<u>2,621,878,611</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred actuarial amounts related to pensions (Note 12)	2,528,360	2,561,555
Deferred actuarial amounts related to OPEB (Note 13)	581,562	-
Total deferred inflows of resources	<u>3,109,922</u>	<u>2,561,555</u>
NET POSITION		
Net investment in capital assets	1,154,718,703	1,123,928,892
Restricted for construction projects	119,984,952	147,352,064
Restricted for debt service	377,929	235,337
Unrestricted	301,876,125	284,799,809
Total net position	<u>\$1,576,957,709</u>	<u>\$1,556,316,102</u>

See accompanying notes to the financial statements.

San Diego County Water Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018
(with comparative data for the Fiscal Year Ended June 30, 2017)

	2018	2017
OPERATING REVENUES:		
Water sales	\$ 591,809,280	\$ 579,057,028
Other revenues	4,053,221	3,727,332
Total operating revenues	595,862,501	582,784,360
OPERATING EXPENSES:		
Cost of sales	442,369,171	430,560,992
Operations and maintenance	24,219,304	19,097,518
Planning	9,179,960	9,040,200
General and administrative	16,914,642	14,487,899
Depreciation and amortization	62,842,596	67,086,517
Total operating expenses	555,525,673	540,273,126
Operating income	40,336,828	42,511,234
NONOPERATING REVENUES (EXPENSES):		
Property taxes and in-lieu charges	13,753,714	12,913,313
Infrastructure access charges	32,482,290	31,144,704
Investment income	4,342,461	2,237,947
Other income	19,253,393	11,408,632
Intergovernmental	10,665,858	11,452,308
Gain (Loss) on sale/retirement of capital assets	131,308	(727,294)
Interest expense	(99,915,662)	(95,533,730)
Debt issuance costs	(227,212)	(352,544)
Other expenses	(39,453,750)	(17,143,705)
Total nonoperating revenues (expenses)	(58,967,600)	(44,600,369)
Income before capital contributions	(18,630,772)	(2,089,135)
CAPITAL CONTRIBUTIONS:		
Capacity charges	28,153,768	21,080,540
Water standby availability charges	11,102,611	11,091,285
Contributions in aid of capital assets	16,000	219,325
Total capital contributions	39,272,379	32,391,150
Changes in net position	20,641,607	30,302,015
NET POSITION AT BEGINNING OF YEAR, AS RESTATED (Note 18)	1,556,316,102	1,526,014,087
NET POSITION AT END OF YEAR	\$ 1,576,957,709	\$ 1,556,316,102

See accompanying notes to the financial statements.

San Diego County Water Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018
(with comparative data for the Fiscal Year Ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 637,794,300	\$ 626,401,750
Payments to suppliers for purchases of water	(434,619,711)	(438,012,010)
Payments to suppliers for goods and services	(17,483,304)	(17,846,859)
Payments to employees for services	(42,295,487)	(50,800,832)
Net cash provided by operating activities	<u>143,395,798</u>	<u>119,742,049</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes and in-lieu charges received	13,881,330	12,958,384
Intergovernmental	10,665,858	11,452,308
Net cash provided by noncapital financing activities	<u>24,547,188</u>	<u>24,410,692</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(61,801,353)	(92,757,402)
Contributions and capital related revenues received from other governments	38,585,265	29,795,740
Proceeds from disposition of capital assets	1,118,207	159,134
Cost of debt issuance	(227,212)	(352,544)
Principal paid on long-term debt	(55,798,383)	(52,477,816)
Interest paid on debt	(103,340,648)	(102,106,617)
Net cash used for capital and related financing activities	<u>(181,464,124)</u>	<u>(217,739,505)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(92,138,325)	(107,913,747)
Proceeds from sale of investments	125,240,959	145,358,522
Interest received on investments	5,739,312	4,275,322
Net cash provided by investing activities	<u>38,841,946</u>	<u>41,720,097</u>
Net increase (decrease) in cash and cash equivalents	25,320,808	(31,866,667)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>87,769,261</u>	<u>119,635,928</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 113,090,069</u>	<u>\$ 87,769,261</u>
Reconciliation of cash and cash equivalents at end of year to the Statement of Net Position:		
Current assets:		
Cash and investments	\$ 104,682,066	\$ 56,840,335
Restricted cash and investments	119,984,952	149,126,977
Noncurrent assets:		
Cash and investments	107,746,039	135,072,833
Restricted cash and investments	22,665,917	23,411,934
Less Investments not meeting the definition of cash equivalents	(241,988,905)	(276,682,818)
Cash and cash equivalents at end of year	<u>\$ 113,090,069</u>	<u>\$ 87,769,261</u>

See accompanying notes to the financial statements.

**San Diego County Water Authority
Statement of Cash Flows (continued)
For the Fiscal Year Ended June 30, 2018
(with comparative data for the Fiscal Year Ended June 30, 2017)**

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 40,336,828	\$ 42,511,234
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	62,842,596	67,086,517
Infrastructure access charges	32,482,290	31,144,704
Other expenses	(15,637,172)	(15,373,886)
Other income	19,253,393	11,408,632
(Increase) Decrease in assets:		
Water receivables	(4,389,369)	(2,634,446)
Other receivables	(5,414,515)	3,698,500
Inventories	648,922	3,647,099
Prepaid expenses	(9,635)	(4,519)
Retention receivable	(421,528)	1,489,422
Long-term loan receivables	825,696	-
Net OPEB asset	(795,852)	92,104
(Increase) Decrease in deferred outflows of resources:		
Pension contributions subsequent to measurement date	11,923,133	(9,965,672)
OPEB contributions subsequent to measurement date	(41,609)	(45,973)
Deferred actuarial amounts related to pensions	(4,172,113)	(8,560,959)
Deferred actuarial amounts related to OPEB	191,543	(275,965)
Increase (Decrease) in liabilities:		
Accounts payable and other liabilities	6,352,258	(10,841,052)
Construction deposits	(66,299)	(4,890)
Compensated absences	137,715	230,511
Net pension liability	(1,028,710)	8,587,438
Net OPEB liability	(170,141)	170,141
Increase (Decrease) in deferred inflows of resources:		
Deferred actuarial amounts related to pensions	(33,195)	(2,616,891)
Deferred actuarial amounts related to OPEB	581,562	-
Total adjustments	103,058,970	77,230,815
Net cash provided by operating activities	\$ 143,395,798	\$ 119,742,049
Noncash investing activities:		
Change in fair value of investments	\$ (1,591,279)	\$ (1,900,658)

See accompanying notes to the financial statements.

Notes to the Financial Statements



**BROUGHT
TO YOU
BY WATER...**

110,000 MANUFACTURING JOBS

The Water Authority and its member agencies deliver the water that fuels our economy and quality of life.

Our Region's Trusted Water Leader
San Diego County Water Authority

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1. Nature of Business and Summary of Significant Accounting Policies

(a) Nature of Business

The San Diego County Water Authority (Water Authority) was organized on June 9, 1944 under the County Water Authority Act (Act). The Water Authority's primary purpose is providing wholesale water to its member agencies for domestic, municipal, and agricultural uses. The Water Authority consists of 24 member public agencies that are each represented by at least one person on the Water Authority's Board of Directors (Board). The Water Authority is also a member of the Metropolitan Water District of Southern California (MWD). Historically, the Water Authority purchased all the water it required from MWD to meet the demands of the member agencies.

The Water Authority has been in the process of diversifying its supply and adopted a Regional Water Facilities Master Plan in 2003 to identify capital facilities necessary to store, treat, and deliver a reliable water supply. Pursuant to the Colorado River Quantification Settlement Agreement (QSA), signed on October 10, 2003, and its related contracts, the Water Authority is obtaining conserved water from the Imperial Irrigation District (IID) and receives water conserved by lining of the All-American and Coachella Canals. On December 20, 2012, the Water Authority entered into a 30-year Water Purchase Agreement to purchase potable water from the Claude "Bud" Lewis Carlsbad Desalination Plant. The plant became operational in December 2015 (see Note 17).

The MWD Act provides a preferential right for the purchase of water by each of its constituent agencies. This preferential right is calculated using a formula. Based on the formula, the Water Authority has a statutory preferential right to approximately 24.22 percent of MWD's total supply as of June 30, 2018. MWD has represented that it will provide reliable water supplies notwithstanding preferential rights.

The San Diego County Water Authority Financing Corporation (SDCWAFC) was incorporated on December 29, 1997. The SDCWAFC is a California non-profit public benefit corporation formed to assist the Water Authority as a financing entity and is administered by a governing board, which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Board, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCWAFC because its activities are blended with those of the Water Authority for financial reporting purposes.

The San Diego County Water Authority Financing Agency (SDCWafa) was established on December 17, 2009 to facilitate financing and refinancing of capital improvement projects of the Water Authority. The SDCWafa is a Joint Powers Authority (JPA) with statutory authority to issue revenue bonds and was formed by an agreement between the Water Authority and the California Municipal Finance Authority (CMFA). The CMFA itself is a JPA that was created in 2004 by various local agencies to facilitate tax-exempt financing. The CMFA has entered into such JPA agreements. Under the JPA agreement, the Water Authority has control over all finance matters.

The SDCWafa's sole purpose is to be a financing entity for the Water Authority and is administered by a governing board, which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Board, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCWafa because its activities are blended with those of the Water Authority for financial reporting purposes.

1. Nature of Business and Summary of Significant Accounting Policies (continued)

(b) Basis of Accounting

The Water Authority is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and changes in financial position of a specific governmental activity. The activities of enterprise funds closely resemble those of private-sector businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

The Water Authority utilizes the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized as they are incurred. The Water Authority's financial statements apply all effective pronouncements of the Governmental Accounting Standards Board (GASB).

(c) Cash and Investments

The Water Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, investments in money market mutual funds, pooled funds, and short-term investments with original maturities of three months or less from the date of acquisition. For financial statement presentation purposes, cash and cash equivalents includes both restricted and unrestricted cash and investments.

The Water Authority has the following legally restricted funds: Construction, Debt Service Reserve, and Pay-As-You-Go (PAYGO). The Construction Fund includes the proceeds from long-term and short-term debt and is restricted for use on capital project expenses. The Debt Service Reserve Fund holds the required amount for Water Authority debt issues. The Debt Service Reserve Fund is held for the purpose of making an issue's annual debt service payments in the event that the Water Authority should be unable to make such payments. The PAYGO Fund consists of Capacity Charges and Water Standby Availability Charges and is restricted per Board adopted ordinances for the Capital Improvement Program (CIP). The funds are dedicated for capital project outlays, as well as debt service.

Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. Note 2 contains additional information on permissible investments per the Water Authority's Investment Policy.

Fair Value Measurements

The Water Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the investments. The three levels of the fair value hierarchy are as follows:

LEVEL 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

LEVEL 2: Inputs are significant other observable inputs for the asset or liability.

LEVEL 3: Inputs are significant unobservable inputs for the asset or liability.

1. Nature of Business and Summary of Significant Accounting Policies (continued)

(c) Cash and Investments (continued)

Fair Value Measurements (continued)

The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured as an exit price for financial investments.

The Water Authority utilizes valuation techniques consistent with market, cost, or income approaches to determine fair value. The most appropriate technique is utilized to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Water Authority owns investments utilizing a stable one dollar per share value. These investment assets are exempt from reporting under the fair value measurement levels. There are no redemption restrictions for the investments reported at a value of one dollar per share.

(d) Inventories and Prepaid Expenses

The Water Authority's inventories consist of water, valves, and materials in storage and are valued using the average cost method. Prepaid expenses represent benefits prepayments and purchases of prepaid water stored in Northern California outside the Water Authority's service area, and in a long-term groundwater storage facility. Both inventory and prepaid items use the consumption method whereby they are reported as an asset and expensed as they are consumed.

(e) Reserves

The Water Authority established other designated funds in alignment with best practice guidance:

Rate Stabilization Fund (RSF) - The RSF was established for the purpose of collecting the excess amount of net revenues in years when operating revenues exceeded operating expenses. These monies are to be used to mitigate "rate shock" in years of weak water sales and/or to manage debt service coverage ensuring coverage ratios remain above the legally required minimum.

Equipment Replacement Fund - The Equipment Replacement Fund was established to ensure monies were available to replace equipment that has reached the end of its useful life including small capital equipment purchases such as computers, vehicles, the Supervisory Control and Data Acquisition (SCADA) system, etc. It is funded through scheduled draws from the Operating Fund per the Board approved budget.

Stored Water Fund - The Stored Water Fund was established to support the purchase of water to fill the various Water Authority reservoirs. The majority of the monies have been used to fill San Vicente Reservoir for the Emergency and Carryover Storage projects.

1. Nature of Business and Summary of Significant Accounting Policies (continued)

(f) Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are reported at acquisition value. The Water Authority capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least three years as the Water Authority does not have any capital assets with less than a three-year useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Non-depreciable capital assets include Land, Easements, Mitigation Bank Credits, and Construction in Progress. Depreciable capital assets include Pipelines and Dams, Facilities, Equipment, Computer Systems Software, Mitigation Improvements, Participation and Capacity Rights, and Storage Rights.

Depreciation and amortization is computed utilizing the straight-line method over the following estimated useful lives:

Pipelines and Dams	60 to 100 years
Buildings and Facilities	5 to 50 years
Machinery and Equipment	3 to 8 years
Computer Systems Software	4 years
Mitigation Improvements	30 to 55 years
Participation and Capacity Rights	10 to 110 years
Storage Rights	10 to 100 years

Intangible Assets

In addition to computer systems software intangible assets, the Water Authority also participates in various storage and water management programs or builds capital assets that by agreement entitle it to permanent storage rights as participation and capacity rights that are included in capital assets as intangible assets. Some projects also require payments for on-going maintenance, which are charged to expense as incurred. Amortization is computed utilizing the straight-line method over the estimated useful life for storage and participation and capacity rights, software, and mitigation improvements. Amortization of participation rights is computed over the life of the agreement.

(g) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. The Water Authority has the following items that qualify for reporting in this category:

- Deferred loss on refunding
- Employer contributions subsequent to measurement date for pensions and other post-employment benefits
- Deferred actuarial amounts related to pensions and other post-employment benefits

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Water Authority has the following item that qualifies for reporting in this category:

- Deferred actuarial amounts related to pensions and other post-employment benefits

1. Nature of Business and Summary of Significant Accounting Policies (continued)

(h) Compensated Absences

It is the Water Authority's policy to permit employees to accumulate earned, but unused vacation benefits up to a maximum of 50 days (75 days for management). Sick leave hours accrue at the rate of one day per month. The sick leave policy restricts unused sick leave conversion to vacation at a 50 percent hourly conversion rate for employees with more than 1,000 hours of accrued sick leave. Employees that terminated employment prior to retirement or death are paid zero percent of the unused sick leave. Employees that attained the age of 55, were vested with five years of service, and terminated employment due to retirement, layoff, or death, are paid 100 percent of unused vacation and 100 percent of unused sick leave (up to 1,000 hours), and 50 percent of any amount over 1,000 hours. A Terminal Pay Plan (TPP) was established requiring retirees, or those separating due to death, to transfer 100 percent of all accrued but unused vacation leave and up to 1,000 hours of sick leave (50 percent of any amount over 1,000 hours) into the TPP after completing five years of service and reaching the age of 55. Those who voluntarily separate (or are discharged) with five years of service and have reached the age of 55, are able to use the TPP for payout of accrued vacation hours only.

All accumulated and unused vacation and sick leave pay is recorded as an expense and as compensated absences liability at the time the benefit is earned. At the end of each fiscal year, the Water Authority conducts an analysis of historical annual leave payouts. Based on this analysis, the Water Authority recognizes 66 percent of the accrued but unused leave balances at June 30 as a current liability with the remaining 34 percent of the balance recorded as a long-term liability.

(i) Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Net investment in capital assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding, net of unspent proceeds related to the acquisition, construction, or improvement of those assets, and deferred outflows and inflows of resources related to debt.

Restricted for construction projects

This component of net position consists of external constraints placed on net position use imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation, less outstanding debt associated with restricted assets.

Restricted for debt service

This component of net position consists of amounts required by bond covenants to be set aside in reserve to be used to pay debt service in the event pledged revenues are insufficient to cover the debt service requirements, less outstanding debt associated with restricted assets.

Unrestricted

This component of net position consists of net position that does not meet the definition of net investment in capital assets, restricted for construction projects, or restricted for debt service.

When both restricted and unrestricted resources are available, it is the Water Authority's policy to use restricted resources first followed by unrestricted resources as they are needed.

1. Nature of Business and Summary of Significant Accounting Policies (continued)

(j) Infrastructure Access Charges

In June 1998, the Infrastructure Access Charge (IAC) was adopted by the Board as an additional source of fixed revenue to provide better coverage of the Water Authority's projected fixed expenses. The IAC is levied on each Water Authority member agency based on the number and size of retail water meters within the agencies and the Water Authority's service area. The fixed charge levied against each member agency together with the water standby charge and property tax revenue all combine for the purpose of maintaining a minimum ratio of projected fixed revenue to projected fixed expenses of at least 25 percent. The IAC is adjusted each calendar year as part of the regular rate-setting process and was \$3.01 per meter equivalent per month for Calendar Year 2018.

(k) Property Taxes

The Water Authority is authorized under the Act to levy taxes on all taxable property within its boundaries for the purposes of carrying on its operations and paying its obligations subject to certain limitations in the Act, the Revenue and Taxation Code, and the California Constitution. Property taxes are billed and collected by the County of San Diego and are remitted to the Water Authority throughout the year. The tax rate is based upon the San Diego County Assessor's valuation of taxable property within the Water Authority's service area. In addition, the Water Authority collects an in-lieu charge from the City of San Diego.

(l) In-Lieu Charges

Member agencies of the Water Authority may elect to pay in-lieu charges instead of the tax levy. Presently, only the City of San Diego pays the in-lieu charge directly to the Water Authority.

(m) Classification of Revenues

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the Water Authority consist of sales of water. Nonoperating revenues consist of property taxes, in-lieu charges, IAC, investment income, intergovernmental, and other miscellaneous income.

(n) Capital Contributions

Capital contributions include capacity charges, water standby availability charges, and contributions in aid of capital assets that are reflected in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenses by state law or by the Board action that established those charges.

The Water Authority has two separate revenue sources to fund the Capital Improvement Program. A water standby availability charge was put into effect in Fiscal Year 1990 and is intended to recover some of the capital costs associated with maintaining the system. In Fiscal Year 1991, a capacity charge on all new or larger retail water meters installed within the boundaries of the Water Authority was implemented. This charge, based on meter size, is designed to recover a proportionate share of the capital costs associated with providing services to new connections.

Federal, state, and private grants used for capital purposes are included in contributions in aid of capital assets. These grants are typically of a reimbursable nature, that is the Water Authority first pays for the project and then the granting agency reimburses the Water Authority for its eligible expenses.

1. Nature of Business and Summary of Significant Accounting Policies (continued)

(o) Classification of Expenses

Operating expenses for the Water Authority include the cost of sales, operations and maintenance, planning, general and administrative expenses, depreciation on capital assets, and amortization of intangible assets. Expenses not meeting this definition are reported as nonoperating expenses and include interest expense, debt issuance costs, amortization of bond premiums, amortization of deferred loss on refunding, and other miscellaneous expenses.

(p) Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates. Management believes that all estimates in the financial statements are reasonable.

(q) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Water Authority's plan (Plan), which is administered by the California Public Employees' Retirement System (CalPERS), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

(r) Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Water Authority's plan (OPEB Plan), the assets of which are held by the California Employers' Retiree Benefit Trust (CERBT), and additions to/deductions from the OPEB Plan's fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

1. Nature of Business and Summary of Significant Accounting Policies (continued)

(s) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Water Authority's prior year financial statements, from which this selected financial data was derived.

(t) New Accounting Pronouncements

Early Implementation

The Water Authority early implemented the following GASB Statement for the fiscal year ended June 30, 2018, which did impact the Water Authority's financial statements:

- **GASB Statement No. 89** – *Accounting for Interest Cost Incurred Before the End of The Construction Period*, effective for periods beginning after December 15, 2018.

Current Year Standards

The following GASB Statements were implemented for the fiscal year ended June 30, 2018, as required, impacting the Water Authority's financial statements:

- **GASB Statement No. 85** – *Omnibus 2017*, effective for periods beginning after June 15, 2017.

The following GASB Statements were implemented for the fiscal year ended June 30, 2018, as required, and did not impact the Water Authority's financial statements:

- **GASB Statement No. 81** – *Irrevocable Split-Interest Agreements*, effective for periods beginning after December 15, 2016.
- **GASB Statement No. 86** – *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017.

Pending Accounting Standards

The following GASB Statements have been issued which may impact the Water Authority's financial reporting requirements in the future:

- **GASB Statement No. 83** – *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.
- **GASB Statement No. 84** – *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- **GASB Statement No. 87** – *Leases*, effective for periods beginning after December 15, 2019.
- **GASB Statement No. 88** – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018.

2. Cash and Investments

Cash and investments are classified in the accompanying Statement of Net Position at June 30, 2018 as follows:

Current assets:	
Cash and investments	\$ 104,682,066
Restricted cash and investments	119,984,952
Total current assets	224,667,018
Noncurrent assets:	
Cash and investments	107,746,039
Restricted cash and investments	22,665,917
Total noncurrent assets	130,411,956
Total cash and investments	\$ 355,078,974

The carrying value of cash and investments held by the Water Authority at June 30, 2018 consisted of the following:

Petty cash	\$ 2,500
Deposits	4,119,779
Investments	350,956,695
Total cash and investments	\$ 355,078,974

(a) Investments Authorized by the California Government Code and the Water Authority's Investment Policy

The following table identifies the investment types that are authorized for the Water Authority by the California Government Code (Gov't. Code) and the Water Authority's Investment Policy (Inv. Policy). The table also identifies certain provisions of the California Government Code (or the Water Authority's Investment Policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Water Authority rather than the general provisions of the California Government Code Sections 53600 et seq. or the Water Authority's Investment Policy.

2. Cash and Investments (continued)

(a) Investments Authorized by the California Government Code and the Water Authority's Investment Policy (continued)

	Maximum Maturity		Maximum Percentage of Portfolio		Maximum Investment in One Issuer		Minimum Rating	
	Gov't. Code	Inv. Policy	Gov't. Code	Inv. Policy	Gov't. Code	Inv. Policy	Gov't. Code	Inv. Policy
Local agency bonds	5 years	5 years	None	20%	None	5%	None	A
U.S. Treasury securities	5 years	5 years	None	None	None	None	None	None
Federal agency securities	5 years	5 years	None	None	None	None	None	None
Bankers' acceptances	180 days	180 days	40%	40%	30%	5%	None	A1/P1/F1
Commercial paper	270 days	270 days	25%	25%	10%	5%	A1/P1/F1	A1/P1/F1
Certificates of deposit	5 years	5 years	30%	20%	None	None	None	None
Placement service deposits	5 years	5 years	30% ⁽⁴⁾	30% ⁽⁵⁾	None	None	None	None
Negotiable certificates of deposit	5 years	5 years	30% ⁽⁴⁾	30% ⁽⁵⁾	None	5% ⁽⁶⁾	None	A ⁽⁷⁾
Repurchase agreements	1 year	1 year	None	20%	None	None	None	A
Reverse repurchase agreements	92 days	92 days	20% of portfolio base value	20% of portfolio base value	None	None	None	None
Medium-term notes	5 years	5 years	30%	30%	None	5%	A	A ⁽⁷⁾
Mutual funds	n/a	n/a	20%	20%	10%	10%	AAA	AAA
Money market mutual funds	n/a	n/a	20%	20%	None	20%	AAA	AAA
Mortgage pass-through securities	5 years	5 years	20%	20%	None	5%	AA	AA
County pooled investment funds ⁽¹⁾	n/a	⁽³⁾	None	⁽³⁾	None	⁽³⁾	None	⁽³⁾
JPA pools (other investment pools)	n/a	n/a	None	25%	None	None	None	AAA
Supranationals ⁽⁸⁾	5 years	5 years	30%	10%	None	5%	AA	AA
Local agency investment fund (LAIF) ⁽²⁾	n/a	n/a	None	⁽⁹⁾	None	None	None	None

Notes:

- (1) Authorized by Government Code Section 53684 (a).
- (2) Authorized by Government Code Section 16429.1
- (3) These investments are not authorized by the Investment Policy.
- (4) The Government Code maximum portfolio exposure to placement service certificates of deposit and negotiable certificates of deposit is 30 percent each.
- (5) The combined Investment Policy maximum portfolio exposure to certificates of deposit, placement service certificates of deposit and negotiable certificates of deposit is 30 percent.
- (6) The Investment Policy maximum investment in one issuer for negotiable certificates of deposit is 5 percent.
- (7) Must have a minimum rating of "A" by all three credit rating agencies.
- (8) Authorized by Government Code Section 53601 (q).
- (9) The Investment Policy's maximum permitted investment amount is governed by current State Law.

2. Cash and Investments (continued)

(b) Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the Water Authority's Investment Policy. In addition to the investments authorized in the previous table, debt proceeds held by bond trustees may be invested in guaranteed investment contracts with a maximum maturity that is limited to the final maturity of the bonds being issued.

(c) Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk where changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. One of the ways that the Water Authority manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Water Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that show the distribution of the Water Authority's investments by terms to maturity for Fiscal Year 2018.

Investment Type	June 30, 2018	Remaining Term to Maturity			
		12 months or less	13 to 36 months	37 to 60 months	More than 60 months
U.S. Treasury securities	\$ 66,508,631	\$ 36,771,755	\$ 25,752,056	\$ 3,984,820	\$ -
Federal agency securities	95,741,843	50,583,123	45,158,720	-	-
Medium-term notes	32,950,096	5,929,781	13,832,920	13,187,395	-
Supranationals	5,786,420	-	-	5,786,420	-
Commercial paper	12,855,022	12,855,022	-	-	-
LAIF	48,368,629	48,368,629	-	-	-
JPA pools	55,582,146	55,582,146	-	-	-
Money market mutual funds	4,926,244	4,926,244	-	-	-
Held by bond trustees:					
Guaranteed investment contract	12,240,775	-	-	-	12,240,775
Money market mutual funds	5,571,750	5,571,750	-	-	-
JPA pools	10,425,139	10,425,139	-	-	-
Total	\$ 350,956,695	\$ 231,013,589	\$ 84,743,696	\$ 22,958,635	\$ 12,240,775

2. Cash and Investments (continued)

(d) Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following table for Fiscal Year 2018 is the minimum rating required (where applicable) by the California Government Code, the Water Authority's Investment Policy, or debt agreements, and the actual rating as of year-end for each investment type.

Investment Type	June 30, 2018	Minimum Rating	Exempt from Disclosure	Rating as of Fiscal Year Ended June 30, 2018			
				AAA/AA-	A	A1	Not Rated
U.S. Treasury securities	\$ 66,508,631	n/a	\$ 66,508,631	\$ -	\$ -	\$ -	\$ -
Federal agency securities	95,741,843	n/a	-	95,741,843	-	-	-
Medium-term notes	32,950,096	A	-	21,706,521	11,243,575	-	-
Supranationals	5,786,420	AA	-	5,786,420	-	-	-
Commercial paper	12,855,022	A1	-	-	-	12,855,022	-
LAIF	48,368,629	n/a	-	-	-	-	48,368,629
JPA pools	55,582,146	AAAm	-	55,582,146	-	-	-
Money market mutual funds	4,926,244	AAAm	-	4,926,244	-	-	-
Held by bond trustees:							
Guaranteed investment contract	12,240,775	n/a	-	-	-	-	12,240,775
Money market mutual funds	5,571,750	AAAm	-	5,571,750	-	-	-
JPA pools	10,425,139	AAAm	-	10,425,139	-	-	-
Total	\$ 350,956,695		\$ 66,508,631	\$ 199,740,063	\$ 11,243,575	\$ 12,855,022	\$ 60,609,404

(e) Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, money market mutual funds, and external investment pools) that represent five percent or more of total Water Authority investments for Fiscal Year 2018 are as follows:

Issuer	Investment Type	Reported Amount	% of Total Investments
Federal Home Loan Mortgage Corporation	Federal agency securities	\$ 51,833,915	14.8%
Federal National Mortgage Association	Federal agency securities	\$ 28,663,561	8.2%

(f) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (for example, broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Water Authority's Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

2. Cash and Investments (continued)

(g) Investment Value Measurement

The Water Authority categorizes certain assets and liabilities within the fair value hierarchy established by generally accepted accounting principles. The following is a summary of Water Authority investments based on the method for measuring value as of June 30, 2018:

	Fair Value Measurements Using			June 30, 2018
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments by fair value level				
U.S. Treasury securities	\$ -	\$ 66,508,631	\$ -	\$ 66,508,631
Federal agency securities	-	95,741,843	-	95,741,843
Medium-term notes	-	32,950,096	-	32,950,096
Supranationals	-	5,786,420	-	5,786,420
Commercial paper	-	12,855,022	-	12,855,022
Total investments by fair value level	\$ -	\$ 213,842,012	\$ -	\$ 213,842,012
Investments measured at cost				
Guaranteed investment contract				12,240,775
Money market mutual funds ⁽¹⁾				10,497,994
LAIF ⁽²⁾				48,368,629
JPA pools ⁽³⁾				66,007,285
Total investments measured at cost				137,114,683
Total investments				\$ 350,956,695

Notes:

(1) Reported as a stable one-dollar value per share.

(2) Reported based on the application of a fair value factor to each one-dollar share.

(3) Measured at amortized cost.

(h) Investment in State Investment Pool

The Water Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429.1 under the oversight of the Treasurer of the State of California. The value of the Water Authority's investment in the pool is reported in the accompanying financial statements at amounts based upon a fair value factor applied to each one-dollar share.

(i) JPA Pools

The Water Authority is a voluntary participant in the California Asset Management Program (CAMP), a California Joint Powers Authority that falls under California Government Code Section 53601(p), which is directed by a Board of Trustees that is made up of experienced local government finance directors and treasurers.

3. Inventories

Components of inventories at June 30, 2018 are as follows:

Water in storage	\$ 95,502,264
Valves in storage	680,050
Materials in storage	151,917
Total inventories	\$ 96,334,231

Water in storage:	Value	Acre-Feet
San Vicente	\$ 79,748,519	132,562.5
Olivenhain	12,258,259	20,287.0
Lake Hodges	2,247,630	3,739.2
Sweetwater	1,085,845	1,806.7
Otay	162,011	232.6
Total water in storage	\$ 95,502,264	158,628.0

4. Prepaid Expenses

In March 2008, the Water Authority purchased 10,006 and 13,071 acre-feet of transfer water from the Butte Water District and Sutter Extension Water District, respectively, for a total of 23,077 acre-feet. As part of the transfer, the Water Authority incurred a Delta carriage loss of 20 percent, a conveyance loss of three percent and evaporative and aquifer losses of ten percent. After the adjustments, the total acre-feet for Butte Water District and Sutter Extension Water District are 6,930 and 9,187, respectively, a total of 16,117 acre-feet. This water is currently stored outside the Water Authority's service area pursuant to a long-term groundwater storage agreement as outlined in Note 8(d). As such, it is classified as prepaid expenses on the Statement of Net Position in the amount of \$4,620,500 as of June 30, 2018. Other prepaid expenses were \$29,383 as of June 30, 2018, which includes payments to the Water Authority's benefits administrator and payments for financing application fee in the amount of \$24,383 and \$5,000, respectively. The total prepaid expenses balance as of June 30, 2018 was \$4,649,883.

5. Long-Term Loan Receivables

Imperial Irrigation District (IID)

In October 2003, the Water Authority amended its Transfer Agreement with IID. As part of this amendment, the Water Authority made initial socioeconomic impact payments totaling \$10.0 million (the "Loan").

These funds will be used to pay for the initial administrative costs and estimated and annual cumulative socioeconomic impact costs. Beginning in Calendar Year 2018, the Water Authority began receiving credits from IID to be applied against any payments due and shall continue until Calendar Year 2047 or until the agreement is terminated, whichever comes first. If the agreement terminates before Calendar Year 2047, IID is under no obligation to pay the Water Authority the remaining balance of the loan.

Under the terms of the amended agreement, in December 2007, the Water Authority paid IID \$10.0 million for future deliveries of water. Interest on the prepayment shall begin to accrue on December 31, 2018 using the Water Authority's weighted average cost of funds for its short-term and long-term debt outstanding as shown in the Water Authority's annual financial report for each fiscal year ending June 30. If not repaid sooner, beginning on December 31, 2018 through December 31, 2033, IID shall credit the Water Authority's monthly invoice for conserved water in 180 equal monthly installments of \$55,556 plus accrued interest.

As of June 30, 2018, the total outstanding balance due from IID is \$19,779,287, of which \$604,983 is expected to be collected within the next year, and the \$19,174,304 balance collected according to a payment schedule.

6. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance at June 30, 2017, as Restated	Additions	Deletions	Transfers	Balance at June 30, 2018
Non-depreciable capital assets:					
Land	\$ 24,490,954	\$ 130,072	\$ -	\$ -	\$ 24,621,026
Easements	11,915,888	927,875	-	-	12,843,763
Mitigation bank credits	5,329,998	-	(6,880)	-	5,323,118
Construction in progress	110,208,603	69,525,191	(23,809,698) ⁽²⁾	(80,416,889)	75,507,207
Total non-depreciable capital assets	151,945,443	70,583,138	(23,816,578)	(80,416,889)	118,295,114
Depreciable capital assets:					
Pipelines and dams	2,160,923,351	-	(5,518)	39,777,526	2,200,695,359
Buildings and Facilities	789,443,884	517,887	(392,403)	8,702,771	798,272,139
Machinery and Equipment	32,025,782	1,571,382	(999,816)	373,634	32,970,982
Intangible software and mitigation imp.	5,306,323	-	-	1,293,054	6,599,377
Participation and capacity rights	517,686,553	2,364,550	-	-	520,051,103
Storage rights	489,681,404 ⁽¹⁾	-	(899,049) ⁽³⁾	30,269,904	519,052,259
Total depreciable capital assets	3,995,067,297	4,453,819	(2,296,786)	80,416,889	4,077,641,219
Less accumulated depreciation and amortization for:					
Pipelines and dams	(344,217,046)	(25,724,843)	-	-	(369,941,889)
Facilities	(190,626,418)	(21,877,479)	310,071	-	(212,193,826)
Equipment	(28,029,449)	(1,108,746)	999,816	-	(28,138,379)
Intangible software and mitigation	(1,859,994)	(481,398)	-	-	(2,341,392)
Participation and capacity rights	(89,670,600)	(8,280,857)	-	-	(97,951,457)
Storage rights	(15,420,629) ⁽¹⁾	(5,369,273)	-	-	(20,789,902)
Total accumulated depreciation and amortization	(669,824,136)	(62,842,596)	1,309,887	-	(731,356,845)
Total depreciable capital assets, net	3,325,243,161	(58,388,777)	(986,899)	80,416,889	3,346,284,374
Total capital assets, net	\$ 3,477,188,604	\$ 12,194,361	\$ (24,803,477)	\$ -	\$ 3,464,579,488

Notes:

- (1) The June 30, 2017 ending balance of Storage Rights in the amount of \$485,570,349 was recategorized from non-depreciable to depreciable. Additionally, Storage Rights related costs previously included in Participation and Capacity Rights of \$4,111,055 were reclassified to the new depreciable Storage Rights category. See Footnote 18 for related accumulated amortization.
- (2) Construction in progress deletions pertain to write-offs of accumulated project costs for Pipeline 6, Camp Pendleton Desal, Pipeline 3 Scripps Ranch to SR-52 and certain no longer applicable Water Facilities Master Plan and right of way costs, and demolition expenses for the Lake Murray, Otay 3 and Otay 9 projects.
- (3) The Water Authority received an \$899,049 insurance refund related to the San Vicente Emergency Storage Project.

7. Mitigation Bank

The Mitigation Bank contains purchased rights to designate the future use of land in which title is held by another entity. This acreage includes wetland, stream, or other open space areas that have been restored, established, enhanced, or preserved for the purpose of providing compensation to the public for unavoidable impacts to the environment permitted under Section 404 of the Federal Clean Water Act or other state or local regulation. The Water Authority transfers a proportionate share of the cost of the Mitigation Bank to the capital project at the time the acreage is identified to mitigate the impacts from a specific project. These costs are then amortized over the estimated useful life of the related asset. As of June 30, 2018, the value of acreage remaining was \$5,323,118.

Mitigation Sites	Acres		Value
	Total	Remaining	
Crestridge Habitat Management Area (HMA)	258.45	16.93	\$ 148,840
San Miguel Conservation	820.85	819.76	5,174,278
Total Mitigation Bank	1,079.30	836.69	\$ 5,323,118

8. Participation and Capacity Rights

The Water Authority builds capital assets that, by agreement, entitle it to certain participation and capacity rights. The total participation and capacity rights, net of amortization, were \$422,099,646 as of June 30, 2018.

Participation Rights:		
Colorado River Water Delivery Settlement, All-American Canal (a)		\$ 263,029,552
Quantification Settlement Agreement Joint Powers Authority (b)		77,675,325
Imperial Irrigation District Water Transfer (c)		46,423,262
Semitropic-Rosamond Water Bank (d)		9,603,658
Vidler Water Company (d)		7,477,209
Rancho Canada Permit for Endangered Species (e)		5,171,092
Total Participation Rights		409,380,098
Capacity Rights:		
Helix Water District Levy Plant (f)		10,616,488
Los Coches Pump Station (g)		1,078,154
Helix Flume Pipeline (g)		964,558
Moreno-Lakeside Pipeline (h)		60,348
Total Capacity Rights		12,719,548
Total Participation and Capacity Rights, net of amortization		\$ 422,099,646

8. Participation and Capacity Rights (continued)

(a) Canal Lining Participation Rights

On October 10, 2003, the Water Authority assumed MWD's rights and obligations for the All-American Canal and Coachella Canal Lining Projects under Article 4A of the Colorado River Water Delivery Settlement Allocation agreement between the United States, MWD, IID, CVWD, and the San Luis Rey Indian Water Authority (SLR). The agreement, net of amortization, required payment of \$3,471,329 as of June 30, 2018 to IID for MWD's outstanding obligations.

The agreement specifically assigned the project of lining the Coachella Canal, which is a branch of the All-American Canal from the Colorado River and is owned by the U.S. Bureau of Reclamation (BOR), to the Water Authority. The lining of the canal prevents and conserves water seepage through the previous unlined canal. The Coachella Canal now provides a firm supply of 21,500 acre-feet per year to the Water Authority. The cost of the project was offset by a funding agreement with the Department of Water Resources for \$79,447,974. Participation rights for this project, net of amortization, totaled \$116,943,883 as of June 30, 2018 and are amortized utilizing the straight-line method over the life of the agreement, which is 110 years.

The agreement executed January 13, 2006 between BOR, IID, and the Water Authority for the construction of the All-American Canal Lining Project provides for the construction of the canal by IID with oversight by the Water Authority and the BOR. The All-American Canal provides 56,200 acre-feet per year to the Water Authority annually for 110 years. The Department of Water Resources funded \$135.7 million for construction of the All-American Canal Lining Project, and the Water Authority funded the amount over the state subsidy. Participation rights for this project, net of amortization, totaled \$142,614,340 as of June 30, 2018 and are amortized utilizing the straight-line method over the life of the agreement of 110 years.

(b) Quantification Settlement Agreement Joint Powers Authority Participation Rights

Pursuant to the Quantification Settlement Agreement Joint Powers Authority (QSA JPA) Creation and Funding Agreement (Agreement), the Water Authority agreed with IID, Coachella Valley Water District (CVWD), and the State of California, to accept responsibility for certain environmental mitigation requirements.

Under Article IX of the Agreement, the environmental mitigation contribution required by the Water Authority net of amortization was \$47,902,914 as of June 30, 2018. Amortization is computed using the acre-feet assigned per calendar year over the 75-year life of the Agreement.

In addition, the Agreement required the Water Authority to pay, net of amortization, \$7,918,200 as of June 30, 2018 as a contribution to the Salton Sea Restoration Fund. Amortization is computed utilizing the straight-line method over the 75-year life of the Agreement.

Legal expenses associated with the right to purchase water were capitalized in Fiscal Year 2011 due to litigation finalized in that fiscal year with MWD, in relation to the QSA JPA projects. These costs are being amortized utilizing the straight-line method over the life of the 75-year Agreement, and totaled, net of amortization, \$21,854,211 for fiscal year ended June 30, 2018. The QSA JPA is not a named party to separate ongoing Water Authority litigation challenging MWD's rate structure, as discussed in Note 17.

8. Participation and Capacity Rights (continued)

(c) IID Water Transfer - Base Contract Price Settlement Participation Rights

IID and the Water Authority executed an agreement that settled all disputes related to the Base Contract Price and the Water Authority/IID Conserved Water Transfer Agreement as stated in the Fifth Amendment to the agreement. Participation rights for this agreement, net of amortization, totaled \$46,423,262 as of June 30, 2018 and are being amortized utilizing the straight-line method over the 75-year life of the agreement.

(d) Vidler and Semitropic Participation Rights

In July 2008, the Water Authority entered into agreements with Vidler Water Company (Vidler) and Semitropic-Rosamond Water Bank (Semitropic) that entitles the Water Authority to storage, withdrawal, and exchange rights within the Semitropic Water Banking and Exchange Program, the Semitropic Water Bank Recovery Unit, and the Antelope Valley Water Bank.

The Water Authority bought Vidler's 30,000 acre-feet of storage and recovery rights in the Semitropic Water Storage District's underground basin in Kern County. The Water Authority also invested in Semitropic, which will provide a total of 40,000 acre-feet of storage rights, for a total amount of 70,000 acre-feet. Storage and recovery rights for this program totaled, net of amortization, \$9,603,658 for Semitropic and \$7,477,209 for Vidler as of June 30, 2018. These rights are amortized using the straight-line method over the life of the agreements, which end in 2035.

(e) Rancho Canada Permit for Endangered Species

The Water Authority contributed to property acquisition for conservation measures under this permit in an amount net of amortization of \$5,171,092 as of June 30, 2018. The property is owned and managed by the Department of Fish and Wildlife consistent with mitigation requirements associated with the Emergency Storage Project (ESP) and Carryover Storage Project (CSP), Federal Endangered Species Act (Section 7), Clean Water Act, Porter-Cologne Act, California Fish and Game Code 1602 permits and the CSP California Environmental Quality Act (CEQA) mitigation measures, and the Natural Community Conservation Plan/Habitat Conservation Plan, a 55-year multi-species take permit issued pursuant to the Federal Endangered Species Act (Section 10) and Natural Community Conservation Planning Act (NCCPA). Any acreage not applied as mitigation to ESP or CSP, constitutes the Water Authority's commitment towards regional multi-species conservation pursuant to provisions of the NCCPA, and allowed for the issuance of the 55-year multi-species take permit, which streamlines endangered species permitting for the Water Authority's current and future CIP projects and operation and maintenance activities.

(f) Levy Treatment Plant Capacity Rights

In April 1997, the Water Authority entered into a capacity agreement with Helix Water District (Helix) for installation of an untreated water transmission pipeline, a flow control facility, and expansion of the R.M. Levy Water Treatment Plant (Levy Plant). Helix owns, operates, and maintains the Levy Plant and agreed to its phased expansion to 106 million gallons per day (mgd). In accordance with the April 1997 agreement, the Water Authority has capacity rights of 26 mgd. In April 2006, a third amendment to the agreement with Helix transferred to the Water Authority an additional 10 mgd capacity in the Levy Plant, for total capacity rights of 36 mgd. The Water Authority paid \$10.6 million to Helix for 10 mgd of additional capacity in the Levy Plant, \$300,000 to Helix for 4 mgd of additional capacity in the 54-inch transmission main (for Lakeside Water District), \$1.5 million to Helix for 8 mgd of additional capacity in Helix Flume Pipeline (for Otay Water District), and \$600,000 to Helix for 12 mgd of additional capacity in Helix Flume Pipeline (for Padre Dam Municipal Water District). Capacity rights for Levy Plant Capacity Purchases, net of amortization, totaled \$10,616,488 as of June 30, 2018 and are being amortized using the straight-line method over 35 years.

8. Participation and Capacity Rights (continued)

(g) Los Coches Pump Station and Helix Flume Pipeline Capacity Rights

In April 2006, the Water Authority entered into an agreement with Helix regarding implementation of the East County Regional Treated Water Improvement Program (ECRTWIP). The purpose of the ECRTWIP is to significantly improve the regional water treatment capacity in East County by maximizing utilization of the Levy Plant to provide additional capacity to serve Otay Water District, Lakeside Water District, and Padre Dam Municipal Water District. The Los Coches Pump Station, which pumps into the Helix Flume Pipeline, was increased from 22 mgd to 64 mgd, with the Water Authority having capacity rights to 24 mgd. A section of the Helix Flume Pipeline had to be replaced with a new 48-inch steel pipe to withstand the increased pressure, with the Water Authority having capacity rights to an additional 12 mgd. Capacity rights for Los Coches Pump Station, net of amortization, totaled \$1,078,154 as of June 30, 2018 and for Helix Flume Pipeline, net of amortization, totaled \$964,558 as of June 30, 2018 and are being amortized using the straight-line method over ten years.

(h) Moreno-Lakeside Pipeline Capacity Rights

In June 2001, the Water Authority and Helix executed the first amendment to the 1997 Capacity Agreement. Capacity rights for this project have been fully amortized as of June 30, 2018. Otay Water District constructed a new pipeline from the Otay 14 Flow Control Facility location to the regulatory reservoirs in the Otay System. The Water Authority reimbursed Otay Water District for the new pipeline and Otay Water District agreed to purchase at least 10,000 acre-feet of water per calendar year from the Water Authority. The capacity rights added to the Moreno-Lakeside Pipeline, net of amortization, totaled \$60,348 as of June 30, 2018 and are being amortized using the straight-line method over ten years.

9. Storage Rights

In 1995, the Water Authority entered into agreements with the City of San Diego (City) to acquire permanent water storage rights in the City's Hodges and San Vicente reservoirs as part of the Water Authority's Emergency Storage Project (ESP) program. The ESP consists of a system of reservoirs, interconnected pipelines, and pumping stations designed to make water available to the San Diego region in the event of an interruption in imported water deliveries.

The Lake Hodges Projects connected the City's Hodges Reservoir, also called Lake Hodges, to the Water Authority's Olivenhain Reservoir. The Water Authority constructed the Tailrace Tunnel and Inlet/Outlet components to permit water movement between the reservoirs and to store 20,000 acre-feet of water for emergency use in the Hodges Reservoir. The related improvements for the storage rights, net of amortization, totaled \$38,589,579, as of June 30, 2018 and are amortized utilizing the straight-line method over 100 years. Separately, the Water Authority completed two related subprojects that are being amortized over twenty years and ten years that have a net unamortized balance of \$2,715,239. All of the corresponding improvements have been turned over to the City and SDG&E in exchange for the Water Authority receiving permanent storage rights.

The San Vicente Dam Raise Project raised the San Vicente Dam by 117 feet, more than doubling the capacity of the reservoir, and adding 157,000 acre-feet of water for emergency use by the Water Authority in San Vicente Reservoir. Storage rights for this project, net of amortization, totaled \$456,957,539 as of June 30, 2018 and are amortized utilizing the straight-line method over 100 years. The corresponding improvements have been turned over to the City in exchange for the Water Authority receiving permanent storage rights.

10. Short-Term Liabilities

The Water Authority has a Tax-Exempt Commercial Paper (TECP) program through which it can borrow funds on a tax-exempt basis for periods up to 270 days to provide financing for the Water Authority's CIP. The Water Authority also has an Extendable Commercial Paper (ECP) program to provide financing for the Water Authority's CIP. ECP offers a lower cost of funds than TECP but is only available to highly rated agencies like the Water Authority. The Water Authority has the ability to access the capital markets and redeem the notes before the end of the 150-day extension period. ECP maturities are limited to between 1 and 120 days to allow a 150-day extension period and maintain a maximum maturity of 270 days. The total amount of short-term revenue certificates (TECP and ECP Notes) authorized at any time to be outstanding is \$460,000,000.

The TECP and ECP notes are secured and payable on a parity basis solely from net water revenues and are subordinate to the Water Revenue Certificates of Participation (COP), Water Revenue Bonds, and Water Revenue Refunding Bonds. At June 30, 2018, the Water Authority had short-term debt outstanding of \$345,000,000.

Short-term liabilities activity for the fiscal year ended June 30, 2018 are as follows:

	Original Issue	Interest Rate	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018
Commercial Paper Notes, Series 8	2014	1.40%	\$ 110,000,000	\$ -	\$ -	\$ 110,000,000
Commercial Paper Notes, Series 9	2016	1.45%	135,000,000	-	-	135,000,000
Extendable Commercial Paper Notes, Series 1	2014	1.35%	100,000,000	-	-	100,000,000
Total short-term liabilities			\$ 345,000,000	\$ -	\$ -	\$ 345,000,000

11. Long-Term Liabilities

(a) Changes in Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2018 are as follows:

	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018	Due Within One Year
Revenue Bonds	\$ 1,808,910,000	\$ -	\$ (15,220,000)	\$ 1,793,690,000	\$ 34,075,000
Certificates of Participation	74,635,000	-	(32,010,000)	42,625,000	8,315,000
Total long-term debt	1,883,545,000	-	(47,230,000)	1,836,315,000	42,390,000
Unamortized bond premiums	181,348,352	-	(14,230,536)	167,117,816	-
Total long-term debt, net	2,064,893,352	-	(61,460,536)	2,003,432,816	42,390,000
Contributions payable	27,513,571	-	(8,568,383)	18,945,188	7,579,399
Compensated absences	6,219,677	3,763,961	(3,626,246)	6,357,392	4,195,879
Arbitrage rebate	600,437	-	-	600,437	-
Total long-term liabilities, net	\$ 2,099,227,037	\$ 3,763,961	\$ (73,655,165)	\$ 2,029,335,833	\$ 54,165,278

11. Long-Term Liabilities (continued)

(b) Long-Term Debt Outstanding

The following schedule summarizes the major terms of outstanding long-term debt at June 30, 2018:

	Issue Date	Interest Rates to Maturity	Final Maturity Fiscal Year	Original Amount	Balance Outstanding June 30, 2018
Revenue Bonds:					
Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)	2010	4.00-5.25%	2020	\$ 98,495,000	\$ 9,165,000
Water Revenue Bonds, Series 2010B (Taxable Build America Bonds) ⁽¹⁾	2010	6.138%	2049	526,135,000	526,135,000
Water Revenue Refunding Bonds, Series 2011A	2011	0.45-5.00%	2027	139,945,000	95,320,000
Water Revenue Refunding Bonds, Series 2011B	2011	3.00-5.00%	2031	94,540,000	94,540,000
Water Furnishing Revenue Bonds, Series 2012 (Pipeline Bonds)	2012	5.00%	2046	203,215,000	200,605,000
Water Revenue Refunding Bonds, Series 2013A	2013	3.00-5.00%	2034	299,105,000	299,105,000
Water Revenue Refunding Bonds, Series 2015A	2015	2.00-5.00%	2029	184,795,000	184,795,000
Subordinate Lien Water Revenue Refunding Bonds, Series 2016S-1	2016	3.00-5.00%	2021	87,685,000	87,685,000
Water Revenue Refunding Bonds, Series 2016A	2016	5.00%	2033	98,945,000	98,945,000
Water Revenue Refunding Bonds, Series 2016B	2016	5.00%	2038	197,395,000	197,395,000
Total Revenue Bonds					\$ 1,793,690,000
Certificates of Participation (COP):					
Water Revenue COP, 1998A	1998	4.50-5.25%	2028	\$180,000,000	\$ 11,685,000
Water Revenue Refunding COP, Series 2005A	2005	5.00-5.25%	2022	107,455,000	13,800,000
Water Revenue COP, Series 2008A	2008	4.00-5.00%	2020	558,015,000	17,140,000
Total COP					\$ 42,625,000
Total long-term debt					\$ 1,836,315,000

Note:

⁽¹⁾ The 2010B Bonds were designated as Taxable Build America Bonds (BABs) under the provisions of the American Recovery and Reinvestment Act of 2009, the interest with respect to which is not excluded from gross income for Federal income tax purposes, but is exempt from State of California personal income taxes. The Water Authority receives semi-annual subsidy payments from the United States Treasury equal to 35 percent of the interest payable on the 2010B Bonds.

11. Long-Term Liabilities (continued)

(c) Debt Service Requirements

The total debt service requirements, including principal and interest payments, are as follows:

Fiscal Year	Revenue Bonds		Certificates of Participation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 34,075,000	\$ 93,876,785	\$ 8,315,000	\$ 2,136,538	\$ 42,390,000	\$ 96,013,323
2020	36,100,000	92,253,135	8,825,000	1,720,788	44,925,000	93,973,923
2021	130,445,000	90,576,460	6,725,000	1,279,538	137,170,000	91,855,998
2022	45,270,000	84,431,960	7,075,000	926,476	52,345,000	85,358,436
2023	52,550,000	82,260,335	-	555,038	52,550,000	82,815,373
2024-2028	304,260,000	369,890,126	11,685,000	2,775,185	315,945,000	372,665,311
2029-2033	360,025,000	286,290,192	-	-	360,025,000	286,290,192
2034-2038	363,135,000	192,968,538	-	-	363,135,000	192,968,538
2039-2043	200,905,000	113,194,282	-	-	200,905,000	113,194,282
2044-2048	228,960,000	48,805,339	-	-	228,960,000	48,805,339
2049	37,965,000	2,330,292	-	-	37,965,000	2,330,292
Total	\$1,793,690,000	\$1,456,877,444	\$42,625,000	\$9,393,563	\$1,836,315,000	\$1,466,271,007

(d) Redemption and Defeasance of Debt

On December 18, 2017, the Water Authority redeemed bonds on the Water Furnishing Revenue Bonds, Series 2012 totaling \$2,610,000 plus accrued interest to the redemption date, and the related liabilities were removed from the financial statements. The funds for the redemption were provided from funds on hand in the Bond Fund established pursuant to the Indenture.

In prior years, the following refunded debts were defeased and the related liabilities were removed from the financial statements. At June 30, 2018, principal amounts payable from escrow funds established for defeased debts are as follows:

Defeased Debt Outstanding	Amount	Redemption Date
2015 Escrow September 22, 2015:		
Water Revenue Bonds, Series 2010A	\$ 52,375,000	11/1/2019
2016 Escrow June 23, 2016:		
Water Revenue Bonds, Series 2010A	<u>20,425,000</u>	11/1/2019
Total defeased debt outstanding	<u>\$ 72,800,000</u>	

11. Long-Term Liabilities (continued)

(e) Long-Term Pledged Liabilities

Long-term pledged liabilities for the fiscal year ended June 30, 2018 are comprised of the following:

Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal and Interest Paid	Pledged Revenue Recognized
Pledged Net Water Revenue:				
Water Revenue COP, Series 1998A	2028	\$ 17,235,375	\$ 555,038	\$ 555,038
Water Revenue Refunding COP, Series 2005A	2022	16,344,938	16,185,725	16,185,725
Water Revenue COP, Series 2008A	2020	18,438,250	19,043,000	19,043,000
Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)	2020	9,764,100	4,878,100	4,878,100
Water Revenue Bonds, Series 2010B (Taxable Build America Bonds)	2049	1,261,429,344	32,294,166	32,294,166
Water Revenue Refunding Bonds, Series 2011A	2027	119,624,300	13,289,150	13,289,150
Water Revenue Refunding Bonds, Series 2011B	2031	134,860,250	4,707,000	4,707,000
Water Furnishing Revenue Bonds, Series 2012 (Pipeline Bonds)	2046	407,279,250	10,156,037	10,156,037
Water Revenue Refunding Bonds, Series 2013A	2034	439,526,450	13,981,519	13,981,519
Water Revenue Refunding Bonds, Series 2015A	2029	244,128,750	8,909,750	8,909,750
Subordinate Lien Water Revenue Refunding Bonds, Series 2016S-1	2021	99,937,750	4,084,250	4,084,250
Water Revenue Refunding Bonds, Series 2016A	2033	166,566,750	4,947,250	4,947,250
Water Revenue Refunding Bonds, Series 2016B	2038	367,450,500	9,869,750	9,869,750
Total Pledged Net Water Revenue		\$ 3,302,586,007	\$ 142,900,735	\$ 142,900,735

(f) Contributions Payable

Contributions Payable concern the Water Authority's payment obligation to the QSA JPA for environmental mitigation pursuant to the QSA JPA Creation and Funding Agreement. The outstanding balance of the payment obligation at June 30, 2018 was \$18,945,188. The total contributions payable, including principal and interest payments, are as follows:

Fiscal Year	Contributions Payable		
	Principal	Interest	Total
2019	\$ 7,579,399	\$ 1,085,268	\$ 8,664,667
2020	2,179,549	630,504	2,810,053
2021	1,374,649	526,187	1,900,836
2022	3,332,937	468,695	3,801,632
2023	1,248,878	268,719	1,517,597
2024-2026	3,229,776	385,193	3,614,969
Total	\$ 18,945,188	\$ 3,364,566	\$ 22,309,754

11. Long-Term Liabilities (continued)

(g) Rate Covenants

Under the Water Authority Act, the Board sets water rates and charges that are sufficient to meet its operation expenses and payment obligations. The Board has established that, exclusive of the tax revenue and debt servicing costs associated with voter-approved general obligation bonds and other voter-approved debt, net water revenues will equal or exceed 120 percent of senior lien debt service costs (principal and interest). The Water Authority was in compliance with its rate obligations for Fiscal Year 2018.

12. Defined Benefit Pension Plan

California Public Employees' Retirement System

Plan Description

All qualified full-time Water Authority employees are required to participate in the Water Authority's Miscellaneous Plan with CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by state statutes within the Public Employees' Retirement Law. The Water Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. Benefit provisions and all other requirements are established by state statute, Water Authority resolution, and contracts with employee bargaining groups.

Effective January 1, 2013, Water Authority new hires who meet the definition of "new employee" and "new member" accrue and receive defined benefit pension plan benefits in accordance with the California Public Employees' Pension Reform Act (PEPRA) of 2013.

Financial statements for the Water Authority's plan are not separately issued. Requests for detailed plan provisions and copies of CalPERS' annual financial report can be obtained from CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA, 94229-2703 or <http://www.calpers.ca.gov>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 or 52, depending on hire date, with statutorily reduced benefits. All members are eligible for non-duty disability benefits after ten years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments is applied as specified by the Public Employees' Retirement Law.

12. Defined Benefit Pension Plan (continued)

California Public Employees' Retirement System (continued)

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

Hire Date	Miscellaneous Plan	
	Prior to January 1, 2013 "Classic Members"	On or after January 1, 2013 "PEPRA Members"
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation ⁽¹⁾	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.00%	6.00%
Required employer contribution rates ⁽²⁾	25.51%	25.51%

Notes:

⁽¹⁾ Benefit amounts varies depending on retirement age. Classic members retiring between ages 50-55 receive a benefit of 2% and 2.5% at age 55 or later. PEPRA members retiring between ages 52-62 receive a benefit of 1%, 2% between ages 62-67 and 2.5% thereafter.

⁽²⁾ Employer contribution includes the normal cost percentage plus unfunded actuarially liability percentage.

Employees Covered

As of the June 30, 2016 actuarial valuation, the following current and former employees were covered by the benefit terms under the Miscellaneous Plan:

Miscellaneous Plan	
Active employees	238
Inactive employees or beneficiaries currently receiving benefits	225
Inactive employees entitled to, but not yet receiving benefits	144
Total	607

Contributions

Water Authority employees hired prior to January 1, 2013, and any employees hired on or after this date who are not considered "New Members" within the meaning of the Public Employees' Pension Reform Act of 2013 (PEPRA) are Tier 1 members or "Classic Members". Tier II members are employees hired on or after January 1, 2013 and are considered "New Members" as defined by PEPRA. Current Classic Members are required to contribute eight percent of their annual covered salary to fund the Plan. The Water Authority currently pays seven percent of the employees' required member contribution. Employees pay the remaining one percent of the required member contribution. As a cost sharing method, pursuant to Government Code Section 20516 of the California Public Employees' Retirement Law, Classic Members pay seven percent of the Water Authority's required employer contributions.

12. Defined Benefit Pension Plan (continued)

California Public Employees' Retirement System (continued)

Contributions (continued)

Due to cost sharing, for "classic" employees, effective July 1, 2013, the Technical/Support, Professional/Administrative, Managerial/Supervisory, and Confidential classified employees increased the amount they pay toward CalPERS by 1.25 percent for a total contribution of seven percent, increasing to eight percent by July 2014. Executive and Senior Management employees increased the amount they pay toward CalPERS by 1.75 percent for a total contribution of eight percent as of July 1, 2013.

The terms of PEPRA mandate that a "New Member" contribution rate be the greater of 50 percent of the total normal cost rate for their defined benefit plan or the current contribution rate of similarly situated employees. The current employee contribution rate of new members and similarly situated employees at the Water Authority is six percent.

The Water Authority is required to contribute the remaining amounts, as determined by calculating the required employer contribution rate multiplied by the covered salary, necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants, and adopted by the CalPERS Board of Administration.

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Water Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

12. Defined Benefit Pension Plan (continued)

California Public Employees' Retirement System (continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2016 valuation was rolled forward to determine the June 30, 2017 total pension liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method:	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.15% net of pension plan investment expenses; includes inflation
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' Membership Data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

Note:

⁽¹⁾ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the [2014 Experience Study Report](#).

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study Report may be accessed on the CalPERS website <http://www.calpers.ca.gov> under Forms and Publications.

Change of Assumptions

In 2017, the Accounting Discount Rate reduced from 7.65 percent to 7.15 percent.

Subsequent Event

The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

12. Defined Benefit Pension Plan (continued)

California Public Employees’ Retirement System (continued)

Discount Rate

The discount rate used to measure the total pension liability is 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees’ Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Using historical returns of all the funds’ asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11- 60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The following table reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

Asset Class	Current Target Allocation	Real Return Years 1 - 10 ⁽¹⁾	Real Return Years 11 + ⁽²⁾
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100%		

Notes:

(1) An expected inflation of 2.5% used for this period.

(2) An expected inflation of 3.0% used for this period.

12. Defined Benefit Pension Plan (continued)

California Public Employees' Retirement System (continued)

Net Pension Liability

The Water Authority's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures.

Changes in the Net Pension Liability

The changes in the net pension liability for the Plan are as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2017 <i>(Valuation Date June 30, 2016)</i>	\$ 221,189,315	\$ 150,054,288	\$ 71,135,027
Changes recognized for the measurement period:			
Service cost	5,050,914	-	5,050,914
Interest on total pension liability	16,572,166	-	16,572,166
Changes of assumptions	14,456,305	-	14,456,305
Differences between expected and actual experience	(1,924,464)	-	(1,924,464)
Contributions - employer	-	16,165,772	(16,165,772)
Contributions - employees	-	2,040,297	(2,040,297)
Net investment income	-	17,199,107	(17,199,107)
Benefit payments, including refunds of employee contributions	(8,936,136)	(8,936,136)	-
Administrative expense	-	(221,545)	221,545
Net Changes	25,218,785	26,247,495	(1,028,710)
Balance at June 30, 2018 <i>(Measurement Date June 30, 2017)</i>	\$ 246,408,100	\$ 176,301,783	\$ 70,106,317

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Water Authority if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ending June 30, 2017:

	1% Decrease	Current Discount Rate	1% Increase
	6.15%	7.15%	8.15%
Net Pension Liability	\$105,464,426	\$70,106,317	\$41,008,222

12. Defined Benefit Pension Plan (continued)

California Public Employees' Retirement System (continued)

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued CalPERS GASB 68 Accounting Valuation report for the Water Authority.

Amortization of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5-year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2018, the Water Authority recognized pension expense of \$10,931,754. As of fiscal year ended June 30, 2018, the Water Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,240,681	\$ -
Changes of assumptions	10,440,665	(813,617)
Differences between expected and actual experiences	242,345	(1,714,743)
Net difference between projected and actual earnings on pension plan investments	2,050,062	-
Total	\$ 16,973,753	\$ (2,528,360)

12. Defined Benefit Pension Plan (continued)

California Public Employees' Retirement System (continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

The \$4,240,681 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net pension liability during the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense/(income) as follows:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ 2,457,328
2020	6,005,711
2021	2,972,437
2022	(1,230,764)
Thereafter	-

The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gain/loses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

For inactive employers the new amortization policy imposes a maximum amortization period of 15 years for all unfunded accrued liabilities effective June 30, 2017. Furthermore, the plan actuary has the ability to shorten the amortization period on any valuation date based on the life expectancy of plan members and projected cash flow needs to the plan. The impact of this has been reflected in the current valuation results.

13. Other Post-Employment Benefits (OPEB)

(a) Terminal Pay Plan

Plan Description

The Water Authority established a Terminal Pay Plan (TPP), effective December 10, 2007, which is administered by the Water Authority's Controller, who serves as the administrator and trustee. The TPP was established and is governed under the Internal Revenue Code Section 414(d), which provides benefits to participants. The benefit is the accumulated balance of the retiring employee's (or a separated employee due to death) earned but unpaid vacation and sick leave on the date of retirement. Each employee of the Water Authority who is entitled to vacation-leave pay or sick-leave pay (under the applicable rules, regulations, and policies) is required to participate in the TPP if the participant retires, or separates employment due to death, from the Water Authority after reaching the age of 55 and completing five years of service.

GASB states the definition of pensions does not include postemployment healthcare benefits and termination benefits. As such, the TPP liability is related to earned, but unpaid sick and vacation benefits, and is recorded in the financial statements as compensated absences.

Employees may elect benefits be disbursed from the TPP in a lump sum or in monthly installments over a 60-month period (with no interest). As an alternative, an employee has the right to elect that all or a portion of benefits be immediately rolled over or transferred to an individual retirement account (IRA), a tax-sheltered annuity, another tax-qualified retirement plan, or an eligible deferred compensation plan such as a Section 457 deferred compensation plan. A separate financial report is not prepared for the TPP.

13. Other Post-Employment Benefits (OPEB) (continued)

Benefits Provided

Contributions equal to the accumulated balance in the employee’s earned but unpaid vacation and sick leave accounts are made by the Water Authority to the TPP for eligible employees who retire, or separate due to death, from the Water Authority after reaching the age of 55 and completing five years of service, and are made as soon as administratively practicable after termination of employment. Amounts held on behalf of participants are fully vested and held in trust at all times. TPP benefits for a participant who retires, or separates due to death, from Water Authority service are fully vested once they are accrued and the value of TPP benefits is the amount of an employee’s earned but unpaid vacation and sick leave on the date of retirement. No additional employee contributions are permitted. Benefits earned are accrued as compensated absences.

Distribution

If the value of benefits is over \$5,000, a distribution will only be made if the employee consents before April 1st following the calendar year in which they reach age 70½. If the value of an employee’s vested benefit is \$5,000 or less on the date of retirement, or separation due to death, benefits will be distributed in a single lump sum.

Changes or Termination of Plan

The Water Authority reserves the right to amend the TPP at any time and for any reason. In the event the TPP is terminated, no additional contributions will be made, but the persons affected will continue to be entitled to the entire benefits under the TPP. Benefits under the TPP are not insured by the Pension Benefit Guaranty Corporation or any other government agency.

(b) Retiree Health Benefit

Plan Description

The Water Authority has established a Retiree Healthcare Plan (HC Plan), an agent multiple-employer defined benefit retiree healthcare plan. The HC Plan, administered by the Water Authority, provides employees who retire directly from the Water Authority, at a minimum age of 55, with a minimum of five years of service, a cash subsidy for monthly medical insurance premiums up to a cap of \$200 per employee or \$320 for employee plus spouse. Payments cease at age 65 when the retiree or spouse is eligible for Medicare. If applicable, a cash subsidy for the monthly medical premium continues up to a cap of \$160 for a spouse until age 65 is attained. Surviving spouses are also eligible for this benefit.

Employees who retire directly from the Water Authority at a minimum age of 55 with a minimum of five years of CalPERS service are eligible to continue medical coverage as a participant with active employees at a blended premium rate until eligible for Medicare at age 65 as an implied subsidy. A separate financial report is not prepared for the HC Plan.

Employees Covered

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the HC Plan:

HC Plan	
Active employees	235
Inactive employees or beneficiaries currently receiving benefits	57
Inactive employees entitled to, but not yet receiving benefits	-
Total	292

13. Other Post-Employment Benefits (OPEB) (continued)

(b) Retiree Health Benefit (continued)

Contributions

The HC Plan and its contribution requirements are established by a Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the Water Authority and the bargaining units. The annual contribution is based on projected pay-as-you-go financing requirements. For the fiscal year ended June 30, 2018, the Water Authority’s cash contributions were \$177,727 in current premiums and the estimated implied subsidy was \$188,864 resulting in total payments of \$366,591. In Fiscal Year 2015, the Water Authority made a contribution of \$4,300,000 to fund California Employers’ Retiree Benefit Trust (CERBT), an OPEB trust administrator and affiliate program of CalPERS, for the purpose of prefunding obligations for past services.

Actuarial Methods and Assumptions Used to Determine Total OPEB Liability

The June 30, 2017 valuation was used to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method:	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75%
Salary Increases	3.00% per annum, in aggregate
Investment Rate of Return	7.00%, assuming actuarially determined contributions funded into CERBT Investment Strategy 1
Mortality Rate ⁽¹⁾	Derived using CalPERS’ Membership Data for all funds
Pre-Retirement Turnover ⁽²⁾	Derived using CalPERS’ Membership Data for all funds
Healthcare Trend Rate	6.00% HMO/6.50% PPO decreasing to 4.50%HMO/4.50% PPO

Note:

⁽¹⁾ Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

⁽²⁾ The pre-retirement turnover information was developed based on CalPERS’ specific data. For more details, please refer to the 2007 to 2011 Experience Study Report. The Experience Study Report may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

13. Other Post-Employment Benefits (OPEB) (continued)

(b) Retiree Health Benefit (continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that Water Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	STRATEGY 1 *	
	Target Allocation	Long-term expected real rate of return
Global Equities	57.0%	5.50%
US Fixed Income	27.0%	2.35%
REITs	8.0%	3.65%
Inflation Assets	5.0%	1.50%
Commodities	3.0%	1.75%
Total	100%	

* Long-term expected rate of return is 7.00%.

Net OPEB Liability

The Water Authority’s net OPEB liability for the HC Plan is measured as the total pension liability, less the OPEB plan’s fiduciary net position. The net OPEB liability of the HC Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016.

13. Other Post-Employment Benefits (OPEB) (continued)

(b) Retiree Health Benefit (continued)

Changes in the OPEB Liability

The changes in the net OPEB liability for the HC Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2017 <i>(Valuation Date June 30, 2017)</i>	\$ 4,579,269	\$ 4,409,128	\$ 170,141
Changes recognized for the measurement period:			
Service cost	200,118	-	200,118
Interest	321,724	-	321,724
Changes of benefit terms	-	-	-
Changes of assumptions	(488,219)	-	(488,219)
Differences between expected and actual experience	(209,656)	-	(209,656)
Contributions - employer	-	324,982	(324,982)
Net investment income	-	467,344	(467,344)
Benefit payments	(324,982)	(324,982)	-
Administrative expense	-	(2,366)	2,366
Net Changes	(501,015)	464,978	(965,993)
Balance at June 30, 2018 <i>(Measurement Date June 30, 2017)</i>	\$ 4,078,254	\$ 4,874,106	\$ (795,852)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Water Authority if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ending June 30, 2017:

	1% Decrease	Current Discount Rate	1% Increase
	6.00%	7.00%	8.00%
Net OPEB Liability/(Asset)	(\$544,965)	(\$795,852)	(\$1,026,447)

13. Other Post-Employment Benefits (OPEB) (continued)

(b) Retiree Health Benefit (continued)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the Water Authority if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ending June 30, 2017:

	1% Decrease (5.00%HMO/5.50%PPO decreasing to 3.50%HMO/3.50%PPO)	Current Healthcare Cost Trend Rates (6.00%HMO/6.50%PPO decreasing to 4.50%HMO/4.50%PPO)	1% Increase (7.00%HMO/7.50%PPO decreasing to 5.50%HMO/5.50%PPO)
Net OPEB Liability/(Asset)	(\$995,265)	(\$795,852)	(\$569,109)

OPEB Plan Fiduciary Net Position

The HC Plan assets are held by CERBT where they are audited annually and a copy of the financial statements may be obtained by contacting CalPERS’s CERBT program at www.calpers.ca.gov. Additional, information about the HC Plan’s is available in the separately issued Nyhart Actuary and Employee Benefits GASB 75 Actuarial Valuation report for the Water Authority.

Amortization of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5-year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARS�) of all members that are provided with benefits (active and retired) as of the beginning of the measurement period

13. Other Post-Employment Benefits (OPEB) (continued)

(b) Retiree Health Benefit (continued)

OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the Water Authority recognized OPEB expense of \$134,779. As of fiscal year ended June 30, 2018, the Water Authority reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 366,591	\$ -
Changes of assumptions	54,191	(406,849)
Differences between expected and actual experiences	-	(174,713)
Net difference between projected and actual earnings on OPEB plan investments	30,231	-
Total	\$ 451,013	\$ (581,562)

The \$366,591 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as OPEB expense as follows:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ (82,193)
2020	(82,193)
2021	(82,195)
2022	(134,249)
2023	(116,310)
Thereafter	-

14. Deferred Compensation Plans and Defined Contribution Plans

The Water Authority Board of Directors has adopted deferred compensation plans and defined contribution plans (the Plans) in accordance with Sections 457(f) and 401(a), respectively, of the Internal Revenue Code. The Water Authority Board of Directors has discretion to amend the Plans. These plans permit all eligible employees to defer, either pre-tax or post-tax, a portion of their salary until future years. The plan administrators for the Water Authority at June 30, 2018 were CREF and ICMA.

Participation in the 457(f) plan is not required and employee contributions may be modified from time to time at the employee's direction. Employees eligible for the 401(a) plan must contribute an irrevocable mandatory minimum of three percent up to a maximum of 20 percent of salary to the plan. The Water Authority makes an annual contribution to the 401(a) plan on behalf of Senior and Executive Managers as specified in the compensation plans. Contributions to the Plans and interest earnings are 100 percent vested immediately. Benefits depend solely on the amounts contributed to the Plans plus investment earnings.

Plan contributions and earnings are not available to employees until termination, retirement, death, disability, or an unforeseeable emergency. All assets and income of the Plans are held in trust for the exclusive benefit of plan participants and their beneficiaries. The Plans are not considered part of the Water Authority's financial reporting entity. Employee contributions to the 457(f) plan were \$1,512,198 for Fiscal Year 2018. Employee contributions to the 401(a) plan were \$451,774 for Fiscal Year 2018. Employer 401(a) matching contributions were \$49,692 for Fiscal Year 2018.

15. Insurance

The Water Authority is exposed to various risks of loss related to torts, including theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Water Authority obtains coverage for general liability, errors and omissions, employment practices liability, and crime coverage from the Joint Powers Risk and Insurance Management Authority (JPRIMA) underwritten by Allied World Assurance Company and coverage for auto, property, boiler and machinery from Travelers Property Casualty Company of America (Travelers). Liability coverage is \$46 million per occurrence with a \$75,000 deductible per occurrence. Property coverage is provided with a \$500 million per occurrence and aggregate coverage limit and a sub-limit of \$100 million per occurrence for boiler and machinery coverage. Property and boiler and machinery coverage have a \$25,000 deductible per occurrence. The current property policy limit of \$500 million exceeds the current \$300 million valuation of scheduled property. The Water Authority is a participant in Joint Powers Risk and Insurance Management Authority (JPRIMA) pooled insurance program and obtains workers' compensation coverage through the program underwritten by The Zenith Insurance Company. Workers' compensation coverage is per California statutory limits with \$1 million per occurrence for employer's liability coverage. There is no deductible per occurrence.

The amount of claims settlements did not exceed insurance coverage for the past three fiscal years for all coverage types, individually and collectively.

16. Jointly Governed Organization

The Water Authority's payment of specific environmental mitigation costs are being made to the QSA JPA, which reviews and approves actual expenses for required mitigation and environmental costs. The QSA JPA is administered by the Water Authority and is made up of the Water Authority, IID, CVWD, and the State of California's Department of Fish and Game. The QSA JPA board is comprised of one member from each participating entity. See Note 11(f) for the Water Authority's remaining required payments to the QSA JPA.

17. Commitments and Contingencies

(a) Construction Projects

There are no material commitments under construction contracts as of June 30, 2018.

(b) Water Purchase Agreement

On December 20, 2012, the Water Authority entered into a 30-year Water Purchase Agreement with Poseidon Resources (Channelside) LP (Company) to purchase potable water from the Claude "Bud" Lewis Carlsbad Desalination Plant (Plant) upon commencement of commercial operations, which was achieved December 23, 2015. The Plant is a 54 million gallons per day (mgd) reverse osmosis desalination plant with an approximate ten-mile pipeline (Pipeline) that connects the Plant to the Water Authority's existing distribution system.

The project was developed as a "public-private partnership" between the Water Authority and the Company. The Company owns, operates and maintains the Plant whereas the Water Authority owns, operates and maintains the Pipeline. Pursuant to the Water Purchase Agreement (WPA), the Company sells the potable water produced by the Plant (Product Water) to the Water Authority and the Water Authority is the sole purchaser of the Product Water.

The Water Authority has an annual obligation to purchase or pay (a take-or-pay contract) for 48,000 acre-feet, the minimum annual demand commitment by the Water Authority, of Product Water that meets the requirements of the WPA and may request up to 56,000 acre-feet each year, the maximum annual supply commitment, of Product Water produced by the Company. Prior to each contract year, the Water Authority and the Company schedule the monthly delivery of the Product Water such that the annual total will be between 48,000 acre-feet and 56,000 acre-feet, unless otherwise adjusted in accordance with the terms of the WPA. The monthly payments are based on actual units of Product Water delivered or deliverable according to the delivery schedule. The Water Authority pays a per-acre-foot charge for delivered or deliverable water calculated to be sufficient to pay debt service on the Series 2012 Plant Bonds, an equity return, and variable and fixed Project operating costs. The Water Authority is responsible for paying debt service costs on the Series 2012 Water Furnishing Revenue Pipeline Bonds. The Company is obligated to make shortfall payments to the Water Authority for the failure to deliver Product Water as required under the WPA (Operating Period Shortfall Payments). To secure its performance obligations under the WPA, the Company was required to post a \$5.125 million letter of credit.

The Water Authority has an option to purchase the Plant at any time following the tenth anniversary of the December 23, 2015 Commercial Operation Date for a price sufficient to redeem or defease the Series 2012 Plant Bonds and any additional plant senior debt incurred for the construction and modification of the Plant that constitutes permitted approved debt under the WPA plus a return on equity. The Water Authority will also have an option to purchase the Plant for the same price if financing is unavailable to pay for modifying or reinstating the Plant under those circumstances. The Water Authority may also purchase the Plant for the aggregate outstanding principal and accrued interest on the Series 2012 Plant Bonds and any additional plant senior debt under the Plant Loan Agreement (described in the Project Financing section) incurred for the construction and modification of the Plant and that constitutes permitted approved debt under the WPA upon a termination of the WPA for the Company's default.

17. Commitments and Contingencies (continued)

(c) Litigation

The Water Authority is subject to lawsuits and claims, which arise out of the normal course of business. In the opinion of management, based upon the opinion of legal counsel, the disposition of such actions of which it is aware will not have a material effect on the change in financial position, or liquidity of the Water Authority. For further information, contact the General Counsel’s office, 4677 Overland Ave., San Diego, CA 92123, (858) 522-6790. However, here are the more significant current cases:

(1) MWD Litigation

The MWD rate cases are described in detail in the MWD Litigation section found in the Letter of Transmittal (see page 9).

(2) San Luis Rey Parties Arbitration

The Water Authority is in arbitration with the San Luis Rey Indian Water Authority, the City of Escondido, and the Vista Irrigation District regarding a contractual water delivery start date. The Water Authority asserts about \$2 million in damages, and that is disputed by the other parties. No claims are made against the Water Authority. The matter is being arbitrated by the American Arbitration Association and should be decided in 2018 or early 2019.

(3) Kimball Litigation

The Kimball litigation is a real property dispute filed in August 2018, over San Diego County APN numbers 327-110-07, 329-010-04, and 329-023-01. The Kimballs sued the Water Authority to try and reform recorded title documents to allow for a conservation easement over about 160 acres that were purchased as a buffer zone for San Vicente Reservoir. Basically, the core issue in the case is what party will hold mitigation credit rights tied to the property of about \$1 to \$2 million: the Kimballs or the Water Authority. The Water Authority is contesting the action.

(4) DWR Validation Action

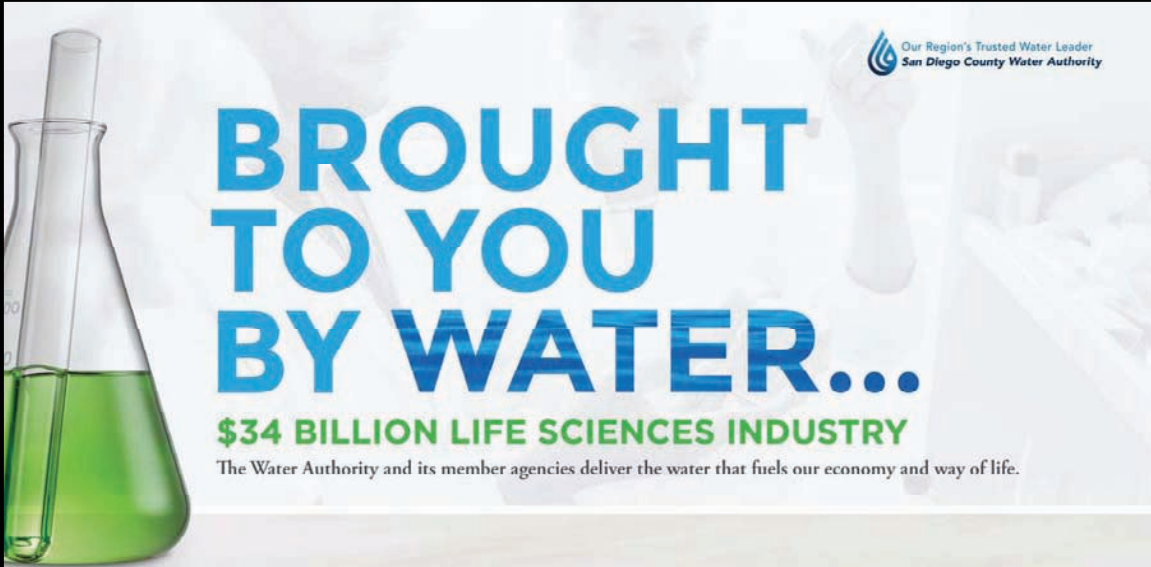
The Water Authority has answered a validation lawsuit brought in Sacramento Superior Court by the Department of Water Resources over its WaterFix bonds. The Water Authority’s Answer seeks to clarify whether WaterFix cost allocations and MWD cost decisions are being attempted to be validated or not. No direct monetary relief is sought by either side.

18. Restatement of Net Position

Net Position as of June 30, 2017 was restated by \$14,232,046 to properly amortize intangible assets for Storage Rights that were recategorized from a Non-Depreciable category to a Depreciable category. The resulting adjustment was a decrease in Non-Depreciable Capital Assets, an increase in Depreciable Capital Assets, an increase in accumulated amortization, and a decrease in Net Position.

Net Position as of June 30, 2017, as previously reported	\$ 1,570,548,148
Change in Estimate:	
Accumulated Amortization of Storage Rights	<u>(14,232,046)</u>
Net Position as of June 30, 2017, as restated	<u><u>\$ 1,556,316,102</u></u>

Supplemental Information



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A. Defined Benefit Pension Plan - California Public Employees' Retirement System

San Diego County Water Authority Miscellaneous Plan				
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS				
for the Measurement Periods Ended June 30				
<i>Measurement Period</i>	2017	2016	2015	2014
Total Pension Liability				
Service cost	\$ 5,050,914	4,578,555	4,706,004	4,921,587
Interest on the total pension liability	16,572,166	15,841,721	14,880,474	14,066,260
Actual and expected experience difference	(1,924,464)	527,455	(1,543,047)	-
Changes in assumptions	14,456,305	-	(3,864,680)	-
Changes in benefit terms	-	-	-	-
Benefit payments:				
including refunds of employee contributions	(8,936,136)	(8,045,995)	(6,923,794)	(6,089,127)
Net change in total pension liability	25,218,785	12,901,736	7,254,957	12,898,720
Total pension liability - beginning	221,189,315	208,287,579	201,032,622	188,133,902
Total pension liability - ending (a)	\$ 246,408,100	221,189,315	208,287,579	201,032,622
Plan Fiduciary Net Position				
Contribution - employer	16,165,772	6,198,142	5,766,812	5,273,604
Contribution - employee	2,040,297	2,017,385	2,079,502	2,680,225
Net investment income	17,199,107	829,361	3,400,388	21,444,232
Benefit payments:				
including refunds of employee contributions	(8,936,136)	(8,045,995)	(6,923,794)	(6,089,127)
Administrative expense	(221,545)	(90,897)	(167,895)	-
Net change in plan fiduciary net position	26,247,495	907,996	4,155,013	23,308,934
Plan fiduciary net position - beginning	150,054,288	149,146,292	144,991,279	121,682,345
Plan fiduciary net position - ending (b)	\$ 176,301,783	150,054,288	149,146,292	144,991,279
Net pension liability - ending (a)-(b)	\$ 70,106,317	71,135,027	59,141,287	56,041,343
Plan fiduciary net position as a percentage of the total pension liability	71.55%	67.84%	71.61%	72.12%
Covered payroll	\$ 26,809,523	26,692,446	26,977,782	26,830,872
Net pension liability as a percentage of covered payroll	261.50%	266.50%	219.22%	208.87%

Notes to Schedule:

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date.

Changes in assumptions. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

Future years' information will be displayed up to 10 years as information becomes available.

**A. Defined Benefit Pension Plan - California Public Employees' Retirement System
 (continued)**

San Diego County Water Authority Miscellaneous Plan SCHEDULE OF CONTRIBUTIONS Last Ten Fiscal Years*					
Fiscal Year End	2018	2017	2016	2015	2014
Actuarially Determined Contribution (ADC) \$	3,157,881	6,583,368	6,198,142	5,766,812	5,273,604
Contributions in relation to the ADC	(4,240,681)	(16,165,772)	(6,198,142)	(5,766,812)	(5,273,604)
Contribution (excess) \$	<u>(1,082,800)</u>	<u>(9,582,404)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	\$ 28,772,094	26,809,523	26,692,446	26,977,782	26,830,872
Contributions as a percentage of covered payroll	14.74%	60.30%	23.22%	21.38%	19.65%

Notes to Schedule:

*Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Years 2018, 2017, 2016, 2015 and 2014 were from the respective June 30, 2015, 2014, 2013, 2012 and 2011 funding valuation reports.

Methods and assumptions used to determine contribution rates:

San Diego County Water Authority, an agent multiple-employer defined benefit plan

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level percent of payroll over a closed 20-year period
Asset Valuation Method	Fiscal Years 2018 through 2015: Market value Fiscal Year 2014: 15-year smoothed market
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	Fiscal Year 2017: 7.15%; Prior Years: 7.65% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

Future years' information will be displayed up to 10 years as information becomes available.

B. Other Post-Employment Benefits

San Diego County Water Authority		
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS		
for the Measurement Periods Ended June 30		
<i>Measurement Period</i>	2017	2016
Total OPEB Liability		
Service cost	\$ 200,118	187,026
Interest on the total OPEB liability	321,724	314,699
Actual and expected experience difference	(209,656)	-
Changes in assumptions	(488,219)	81,287
Changes in benefit terms	-	-
Benefit payments	(324,982)	(279,009)
Net change in total OPEB liability	(501,015)	304,003
Total OPEB liability - beginning	4,579,269	4,275,266
Total OPEB liability - ending (a)	\$ 4,078,254	4,579,269
Plan Fiduciary Net Position		
Contributions - employer	324,982	279,009
Net investment income	467,344	43,839
Benefit payments	(324,982)	(279,009)
Administrative expense	(2,366)	(2,081)
Net change in plan fiduciary net position	464,978	41,758
Plan fiduciary net position - beginning	4,409,128	4,367,370
Plan fiduciary net position - ending (b)	\$ 4,874,106	4,409,128
Net OPEB liability - ending (a)-(b)	\$ (795,852)	170,141
Plan fiduciary net position as a percentage of the total OPEB liability	119.51%	96.28%
Covered-employee payroll	\$ 26,726,484	24,720,000
Net pension liability as a percentage of covered-employee payroll	2.98%	0.69%

Notes to Schedule:

Changes in assumptions. In 2016, the discount rate was changed from 7.28 percent (net of administrative expense) to 7.00 percent.

Historical information is required only for measurement periods for which GASB 75 is applicable.

Future years' information will be displayed up to 10 years as information becomes available.

B. Other Post-Employment Benefits (continued)

San Diego County Water Authority SCHEDULE OF CONTRIBUTIONS Last Ten Fiscal Years*				
Fiscal Year End	2018	2017	2016	2015
Actuarially Determined Contribution (ADC)	\$ 366,591	324,982	180,363	627,077
Contributions in relation to the ADC	(366,591)	(324,982)	(279,009)	(4,300,000)
Contribution deficiency (excess)	\$ -	-	(98,646)	(3,672,923)
Covered-employee payroll	\$ 28,772,094	26,726,484	24,720,000	26,977,782
Contributions as a percentage of covered-employee payroll	1.27%	1.22%	1.13%	15.94%

Notes to Schedule:

*Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 was from the June 30, 2017 actuarial valuation, Fiscal Years 2017 and 2016 were from the June 30, 2015 actuarial valuation and Fiscal Year 2015 was from the June 30, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level percent of payroll over a closed rolling 15-year period
Asset Valuation Method	Market value
Inflation	2.75%
Payroll Growth	3% per annum, in aggregate
Investment Rate of Return	7.00% per annum. Assumes investing in California Employers' Retiree Benefit Trust asset allocation Strategy 1 with a margin for adverse deviation of 28 bps.
Healthcare Cost-Trend Rates	6.0% HMO and 6.5% PPO initial, 1.0% - 2.0% near-term increase then decreasing 0.5% per year to trend rate that reflects medical price inflation.
Retirement Age	Tier 1 employees - 2.5% @55 and Tier 2 employees - 2.0% @62 The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 2007 to 2011.
Mortality	Pre-retirement mortality probability based on CalPERS 1997-2011 Experience Study covering CalPERS participants. Post-retirement mortality probability based on CalPERS Experience Study 2007-2011 covering participants in CalPERS.

Future years' information will be displayed up to 10 years as information becomes available.

C. San Diego County Water Authority Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2018 – Budgetary Basis

	Final Budget	Actual Amounts ⁽¹⁾	Variance with Final Budget Positive (Negative)
Net Water Sales Revenue			
Water Sales	\$ 635,069,193	\$ 591,809,280	\$ (43,259,913)
Water Purchases & Treatment	(495,079,731)	(442,369,171)	52,710,560
Total Net Water Sales Revenue	139,989,462	149,440,109	9,450,647
Revenues and Other Income			
Infrastructure Access Charges	32,477,000	32,482,290	5,290
Property Taxes and In-Lieu Charges	12,555,000	13,753,714	1,198,714
Investment Income	5,175,000	5,739,312	564,312
Hydroelectric Revenue	3,535,000	3,477,680	(57,320)
Grant Reimbursements	15,470,000	10,996,655	(4,473,345)
Build America Bonds Subsidy	11,303,000	10,545,661	(757,339)
Other Income	489,000	9,988,352	9,499,352
Capital Contributions:			
Capacity Charges	16,629,000	28,153,768	11,524,768
Water Standby Availability Charges	11,114,000	11,102,611	(11,389)
Contributions in Aid of Capital Improvement Program (CIP)	1,570,000	16,000	(1,554,000)
Total Revenues and Other Income	110,317,000	126,256,043	15,939,043
Total Revenues	250,306,462	275,696,152	25,389,690
Expenses			
Debt Service	138,577,000	147,674,606	(9,097,606)
QSA Mitigation	10,164,814	10,164,814	-
Equipment Replacement	2,292,000	1,415,579	876,421
Grant Expenses	15,720,000	13,295,199	2,424,801
Other Expenses	500,000	1,101,286	(601,286)
Operating Departments/Programs (Note 4)	51,375,915	52,875,344	(1,499,429)
Total Expenses	218,629,729	226,526,828	(7,897,099)
Net Revenues Before CIP Expenses	31,676,733	49,169,324	17,492,591
CIP Expenses	58,323,000	71,302,001	(12,979,001)
Change in Net Position - Budgetary Basis	(26,646,267)	(22,132,677)	4,513,590
Add Adjustments - Full Accrual (Note 5)	42,774,284	42,774,284	-
Change in Net Position - GAAP Basis	16,128,017	20,641,607	4,513,590
Net Position at Beginning of Year, as Restated	1,556,316,102	1,556,316,102	-
Net Position at End of Year	\$ 1,572,444,119	\$ 1,576,957,709	\$ 4,513,590

Note:

(1) Actual amounts have been adjusted to more accurately compare it to the adopted multi-year budget which is prepared on modified accrual basis.

1. General Manager’s Adopted Multi-Year Budget

In June 2017, the Board of Directors (Board) adopted a \$1.6 billion budget for the Fiscal Years 2018 and 2019. The Water Authority adheres to the budget policies and budgetary controls adopted by the Board for the Fiscal Years 2018 and 2019. The schedule on the previous page presents the final Adopted Multi-Year Budget amounts, as amended by the Board, and compares them to actual amounts as presented on a modified accrual basis, which are different from the amounts presented in the Statements of Revenues, Expenses, and Changes in Net Position for the Fiscal Year ended June 30, 2018.

2. Budgetary Controls

The Board, by resolution, has established budgetary controls and made a total appropriation for expenses consistent with the adopted budget. The total appropriation adopted by the Board establishes the legal spending limit for the Water Authority. The Board, by resolution, has delegated to the General Manager authority to make budget adjustments as necessary within a limit of \$150,000 subject to the total appropriation limit. Budget adjustments in excess of \$150,000 or increases in the total appropriation limit must be approved by the Board.

3. Budget Process

The Board adopts a multi-year operating and capital improvement program budget every other fiscal year. The Board approves total budgeted appropriations and any amendments to the appropriations throughout the two-year period. The General Manager views the budget as an essential tool for proper financial management and holds a series of budget hearings through the Administrative and Finance Committee. The budget process includes presentations of key assumptions in the budget development and provides mechanisms for questions and comments from the Board to the Water Authority staff. The Finance Department leads the effort in developing the budget and is responsible for monitoring and reporting to the Board.

4. Operating Departments/Programs

	Final Budget ⁽¹⁾	Actual Amounts	Variance with Final Budget Positive (Negative)
Operating Departments/Programs			
Administrative Services	\$ 5,848,546	\$ 5,464,987	\$ 383,559
Colorado River Program	1,669,583	1,238,291	431,292
Engineering	3,835,187	3,260,478	574,709
Finance	2,437,485	2,370,247	67,238
General Counsel	3,480,151	2,987,580	492,571
General Manager and Board of Directors	4,519,574	4,178,171	341,403
MWD Program	2,238,155	1,994,055	244,100
Operations and Maintenance	19,642,916	17,989,983	1,652,933
Public Outreach and Conservation	3,937,715	3,354,394	583,321
Water Resources	3,766,603	3,386,471	380,132
Additional Pension Expense	-	6,650,687	(6,650,687)
Total Operating Departments/Programs	\$ 51,375,915	\$ 52,875,344	\$ (1,499,429)

Note:

⁽¹⁾ Included in the budget is the annual pension contribution, however, pension expenses can vary significantly once the CalPERS actuarial report is received. The effect of those additional pension expense amounts is shown as additional pension expense.

5. Reconciliation of Adjustments

	Actual Budgetary Basis	Adjustments ⁽¹⁾	Actual GAAP Basis
Revenues and Other Income			
Investment Income	\$ 5,739,312	\$ (1,396,851)	\$ 4,342,461
Hydroelectric Revenue	3,477,680	(3,477,680)	-
Grant Reimbursements	10,996,655	(10,996,655)	-
Build America Bonds Subsidy	10,545,661	(10,545,661)	-
Other Income ⁽²⁾	9,988,352	24,115,428	34,103,780
Total Revenues and Other Income	40,747,660	(2,301,419)	38,446,241
Expenses			
Debt Service	147,674,606	(47,758,944)	99,915,662
QSA Mitigation	10,164,814	(10,164,814)	-
Equipment Replacement	1,415,579	(1,415,579)	-
Grant Expenses	13,295,199	(13,295,199)	-
Other Expenses	1,101,286	38,352,464	39,453,750
Operating Departments	52,875,344	(2,561,438)	50,313,906
Depreciation and Amortization	-	62,842,596	62,842,596
Bond Issuance Costs	-	227,212	227,212
Total Expenses	226,526,828	26,226,298	252,753,126
Net Revenues Before CIP Expenses	(185,779,168)	(28,527,717)	(214,306,885)
CIP Expenses	71,302,001	(71,302,001)	-
Change in Net Position	\$ (257,081,169)	\$ 42,774,284	\$ (214,306,885)

Notes:

(1) Only includes revenues and expenses with adjustments.

(2) Other Income includes operating revenues, other income, intergovernmental, and loss on sale/retirement of capital assets.

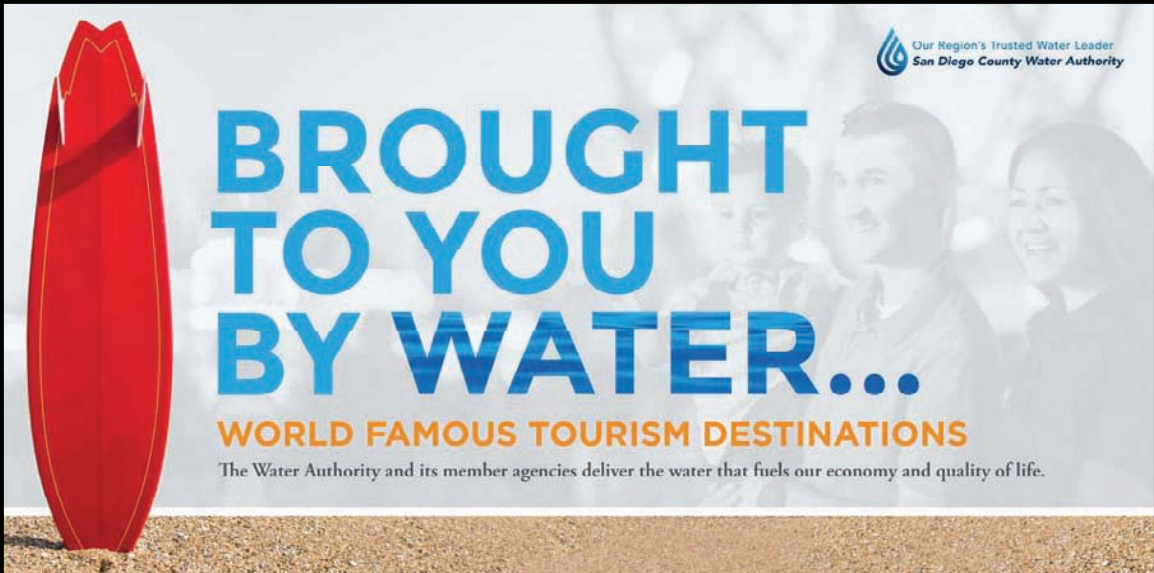
6. Monthly Financial Reporting

In accordance with best financial management practices, the Finance Department provides monthly financial reports to the Board that include the monitoring of Water Purchases and Water Sales in acre-feet and in dollars, and a narrative and variance analysis. In addition, a schedule prepared on a budgetary basis compares the final adopted budget, as amended by the Board, to actual expenses. These monthly financial reports are prepared to provide timely information on the financial progress of the Water Authority for the Board to consider in the decision-making process.

7. Annual Financial Reporting

The Water Authority elects to present the budgetary schedule, optional for Enterprise Funds, in accordance with best practices recommended by professional accounting organizations and in keeping with the Water Authority's commitment to transparency in financial reporting and disclosure. The schedule prepared on a budgetary basis compares the final two-year adopted budget, as amended by the Board, to actual expenses for the two-year period as presented on the initial schedule in Other Supplementary Information. In addition, a reconciliation of the budgetary schedule and the audited financial statements are presented in Note 5 Reconciliation of Adjustments.

Statistical Section



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Statistical Section

This section of the San Diego County Water Authority’s Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Water Authority’s overall financial health.

<u>CONTENTS</u>	<u>TABLES</u>
Financial Trends These tables contain trend information to help the reader understand how the Water Authority’s financial performance has changed over time.	1-5
Revenue Capacity These tables contain information to help the reader assess the Water Authority’s most significant revenue sources.	6-10
Debt Capacity These tables present information to help the reader assess the ability of the Water Authority to pay debt service on outstanding debt.	11-13
General Information These tables contain service and infrastructure data to help the reader understand how information in its financial report relates to Water Authority provided services and activities.	14-15
Demographic and Economic Information These tables offer demographic and economic indicators to help the reader understand the environment in which the Water Authority’s financial activities take place.	16-17

Note:

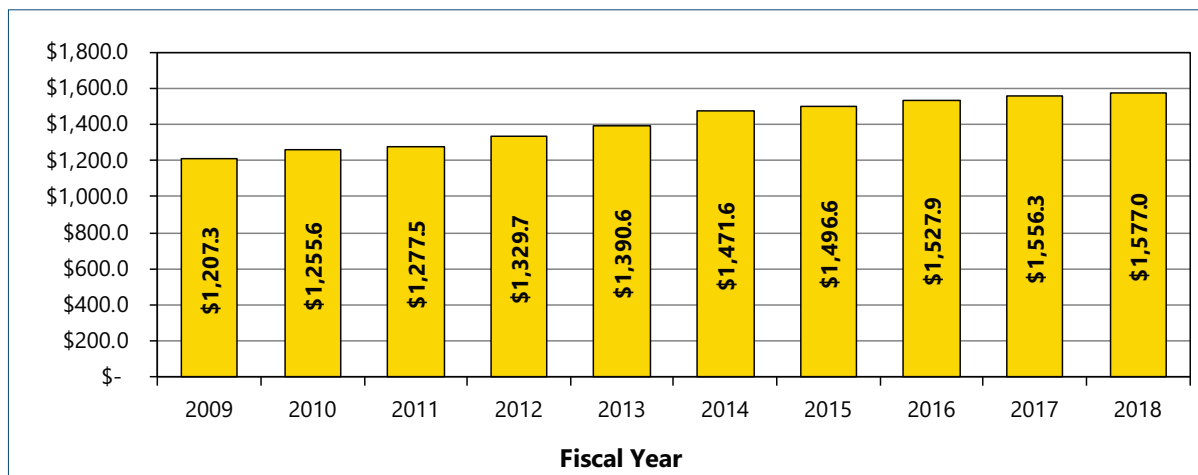
Unless otherwise noted, the information in these schedules is derived from the Water Authority’s comprehensive annual financial reports of the relevant year.

Net Position Last Ten Fiscal Years

Table 1

Fiscal Year	Net Investment in Capital Assets	Restricted for Construction Projects	Restricted for Debt Service	Unrestricted	TOTAL NET POSITION	Changes in Net Position
2018	\$ 1,154,718,703	\$ 119,984,952	\$ 377,929	\$ 301,876,125	\$ 1,576,957,709	\$20,641,607
2017	1,123,928,892	147,352,064	235,337	284,799,809	1,556,316,102	⁽¹⁾ 30,302,015
2016	1,138,995,458	156,718,296	158,377	232,035,734	1,527,907,865	⁽¹⁾ 35,965,133
2015	1,102,128,289	143,366,311	113,537	250,964,563	1,496,572,700	⁽²⁾ 86,143,313
2014	1,011,397,033	201,696,008	549,186	257,965,113	1,471,607,340	81,003,310
2013	980,446,318	151,728,963	540,932	257,887,817	1,390,604,030	60,895,729
2012	976,837,047	133,157,019	675,910	219,038,325	1,329,708,301	⁽³⁾ 52,228,329
2011	959,638,557	121,172,255	586,217	196,082,943	1,277,479,972	⁽³⁾ 39,160,773
2010	954,037,294	115,506,824	597,315	185,460,362	1,255,601,795	48,261,746
2009	964,225,706	79,790,128	614,622	162,709,593	1,207,340,049	⁽⁴⁾ 76,296,511

Total Net Position, in Millions (\$)



Notes:

- (1) Net position at June 30, 2017 and 2016 were restated to properly amortize intangible assets for Storage Rights. Beginning net position was restated by a decrease of \$1,893,778 pursuant to GASB Statement No. 75 implemented in Fiscal Year 2017.
- (2) Beginning net position was restated by a decrease of \$61,177,953 pursuant to GASB Statement Nos. 68 and 71 implemented in Fiscal Year 2015.
- (3) Net position at June 30, 2012 and 2011 was restated to reflect the bond issuance costs expensed in the period incurred.
- (4) Net position at June 30, 2009 was restated to reflect the capitalization of project costs.

Revenues and Capital Contributions by Source Last Ten Fiscal Years

Table 2.1

Fiscal Year	Water Sales ⁽¹⁾	Other Revenues	TOTAL OPERATING REVENUES
2018	\$ 591,809,280	\$ 4,053,221	\$ 595,862,501
2017	579,057,028	3,727,332	582,784,360
2016	524,934,642	3,240,007	528,174,649
2015	584,172,839	4,567,285	588,740,124
2014	593,695,290	3,935,305	597,630,595
2013	523,455,688	2,578,210	526,033,898
2012	443,347,502	1,519,525	444,867,027
2011	382,922,036	634,572	383,556,608
2010	387,871,218	4,965,060	392,836,278
2009	359,951,622	3,608,350	363,559,972

Table 2.2

Fiscal Year	Property Taxes	In-Lieu Charges ⁽²⁾	Infrastructure Access Charges	Investment Income	Other, net	TOTAL NONOPERATING REVENUES
2018	\$ 11,515,329	\$ 2,238,385	\$ 32,482,290	\$ 4,342,461	\$ 30,050,559	\$ 80,629,024
2017	10,816,635	2,096,678	31,144,704	2,237,947	22,860,940	69,156,904
2016	10,066,792	2,000,431	30,434,370	5,985,490	25,905,838	74,392,921
2015	9,577,280	1,898,327	29,895,726	2,905,952	18,967,088	63,244,373
2014	9,387,129	1,754,973	29,205,684	3,674,934	21,265,070	65,287,790
2013	9,202,932	1,593,549	28,675,422	2,936,474	13,546,781	55,955,158
2012	8,240,009	1,642,353	27,700,326	5,211,394	16,277,941	59,072,023
2011	8,071,041	1,583,467	24,507,570	6,960,755	19,250,470	60,373,303
2010	8,341,559 ⁽³⁾	1,630,065	21,241,060	5,217,031	7,100,636	43,530,351
2009	8,760,552	1,706,932	19,389,790	18,507,476	5,396,592	53,761,342

Notes:

⁽¹⁾ Includes readiness-to-serve and capacity charges assessed by the Metropolitan Water District (MWD).

⁽²⁾ The City of San Diego elects to pay in-lieu charges rather than the tax levy. This calculation is based on prior year assessed valuation.

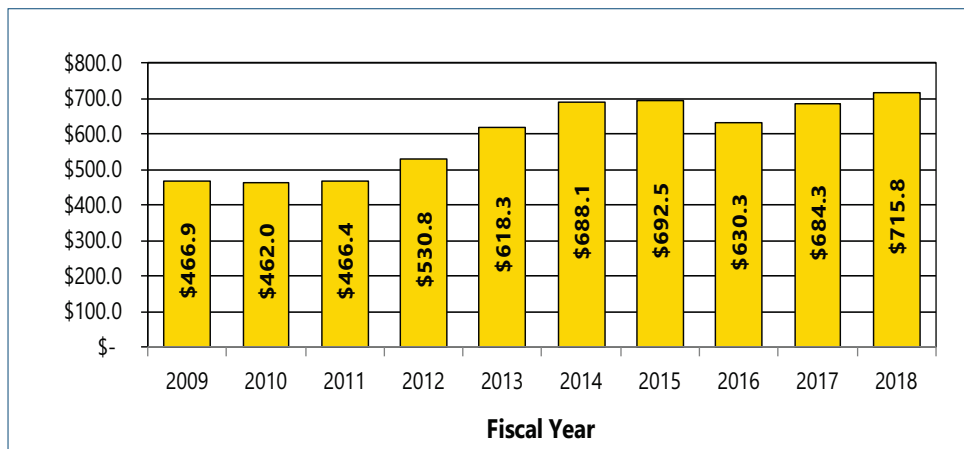
⁽³⁾ Proposition 1A Borrowing by the State of California of \$688,268 in Fiscal Year 2010 was recognized as tax revenues in the fiscal year for which they were levied.

**Revenues and Capital Contributions by Source (continued)
 Last Ten Fiscal Years**

Table 2.3

Fiscal Year	Capacity Charges	Water Standby Availability Charges	Contributions in Aid of Capital Assets	TOTAL CAPITAL CONTRIBUTIONS	GRAND TOTAL
2018	\$ 28,153,768	\$ 11,102,611	\$ 16,000	\$ 39,272,379	\$ 715,763,904
2017	21,080,540	11,091,285	219,325	32,391,150	684,332,414
2016	15,838,800	11,088,377	791,486	27,718,663	630,286,233
2015	22,559,844	11,106,743	6,897,528	40,564,115	692,548,612
2014	13,815,194	11,137,248	230,952	25,183,394	688,101,779
2013	17,709,796	11,147,488	7,409,404	36,266,688	618,255,744
2012	11,098,619	11,240,988	4,533,844	26,873,451	530,812,501
2011	10,321,076	11,255,132	913,097	22,489,305	466,419,216
2010	10,298,928	11,240,386	4,087,011	25,626,325	461,992,954
2009	13,265,608	11,311,384	25,027,314	49,604,306	466,925,620

Total Revenues by Source, in Millions (\$)



Expenses by Function Last Ten Fiscal Years

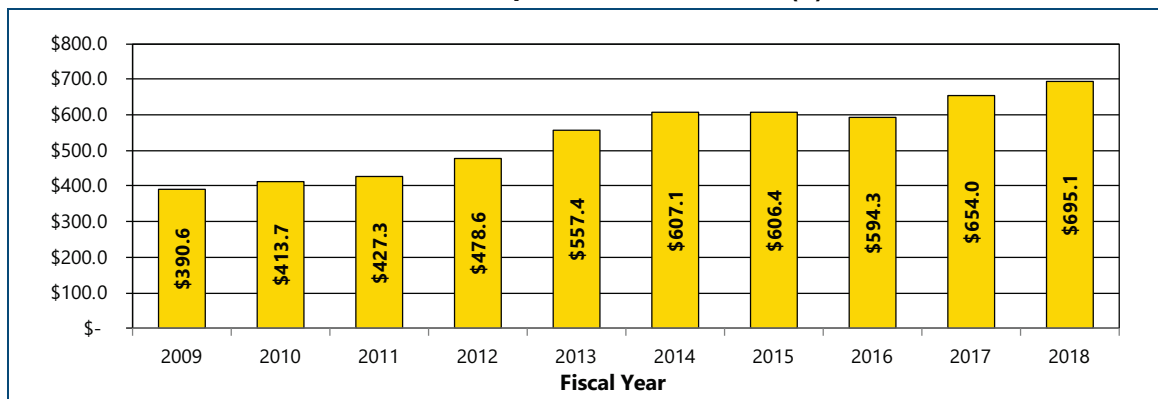
Table 3.1

Fiscal Year	Cost of Sales	Operations & Maintenance	Planning	General & Administrative	Depreciation & Amortization	TOTAL OPERATING EXPENSES
2018	\$ 442,369,171	\$ 24,219,304	\$ 9,179,960	\$ 16,914,642	\$ 62,842,596	\$ 555,525,673
2017	430,560,992	19,097,518	9,040,200	14,487,899	67,086,517	540,273,126
2016	387,123,145	18,212,388	8,651,233	14,259,469	64,023,664	492,269,899
2015	411,037,897	22,365,531	8,416,134	14,115,738	57,751,284	513,686,584
2014	422,699,658	18,780,808	6,851,384	13,670,808	56,589,618	518,592,276
2013	371,258,531	19,252,138	9,009,004	13,314,635	52,259,977	465,094,285
2012	312,446,563	16,800,991	7,163,795	13,545,177	51,705,749	401,662,275
2011	275,099,372	16,576,465	9,754,403	13,238,715	37,364,821	352,033,776
2010	291,385,187	15,482,609	8,642,260	15,270,175	30,657,250	361,437,481
2009	269,835,859	17,409,496	10,004,616	15,309,407	30,038,388	342,597,766

Table 3.2

Fiscal Year	Interest Expense ⁽¹⁾	Other, net	TOTAL NONOPERATING EXPENSES	GRAND TOTAL
2018	\$ 99,915,662 ⁽³⁾	\$ 39,680,962	\$ 139,596,624	\$ 695,122,297
2017	95,533,730	18,223,543	113,757,273	654,030,399
2016	85,112,986	16,938,215	102,051,201	594,321,100
2015	81,792,704	10,926,011	92,718,715	606,405,299
2014	77,791,397	10,714,796	88,506,193	607,098,469
2013	80,738,966	11,526,764	92,265,730	557,360,015
2012	69,076,153 ⁽²⁾	7,845,744 ⁽²⁾	76,921,897	478,584,172
2011	67,209,780 ⁽²⁾	8,014,887 ⁽²⁾	75,224,667	427,258,443
2010	38,982,442	13,311,285	52,293,727	413,731,208
2009	40,828,498	7,202,845	48,031,343	390,629,109

Total Expenses, in Millions (\$)



Notes:

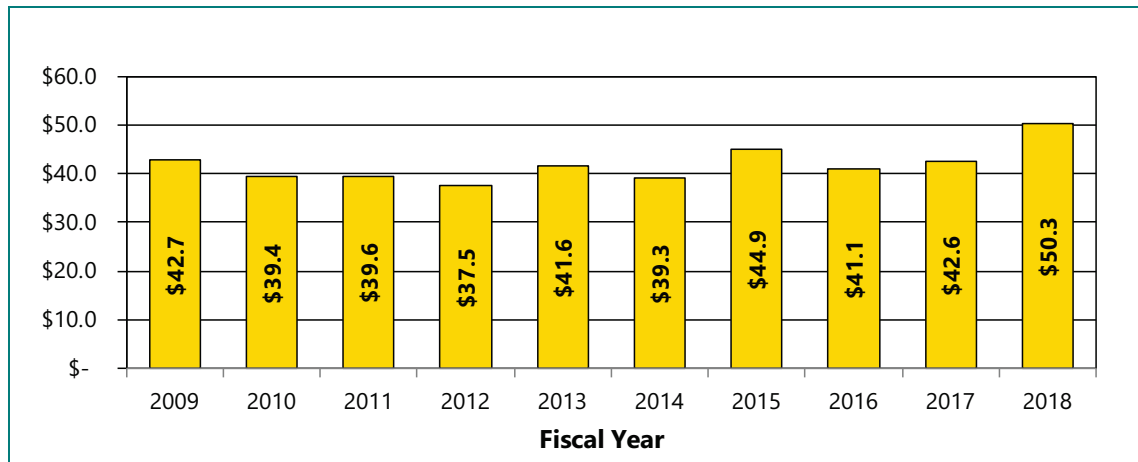
- (1) Net of interest expense incurred during construction, "capitalized interest" Fiscal Years 2009-2017.
- (2) Fiscal Years 2012 and 2011 expenses were restated for GASB 65 implementation.
- (3) With the adoption of GASB 89 in Fiscal Year 2018, interest expense is no longer capitalizable.

Operating Department/Program Expenses by Major Expense Category Last Ten Fiscal Years

Table 4

Fiscal Year	Labor & Benefits	Outside Services	Supplies, Utilities, Insurance	Other Expenses	Capitalized Overhead	TOTAL OPERATING DEPARTMENT EXPENSES ⁽¹⁾
2018	\$ 39,921,737 ⁽²⁾	\$ 10,153,682	\$ 4,171,046	\$ 1,842,991	\$ (5,775,550)	\$ 50,313,904
2017	30,203,216	13,163,995	3,809,016	2,012,274	(6,562,884)	42,625,617
2016	30,157,924	12,393,149	3,264,804	1,832,617	(6,525,404)	41,123,090
2015	33,547,387	13,244,296	3,324,270	1,713,115	(6,931,665)	44,897,403
2014	29,882,613	13,981,175	3,127,000	1,640,283	(9,328,071)	39,303,000
2013	30,592,860	13,555,169	3,151,622	1,576,776	(7,300,650)	41,575,777
2012	30,342,606	8,759,265	2,584,696	2,270,811	(6,447,415)	37,509,963
2011	30,972,738	9,928,970	3,078,911	1,491,077	(5,902,113)	39,569,583
2010	30,934,843	8,588,898	2,614,997	1,622,306	(4,366,000)	39,395,044
2009	30,579,263	11,880,022	3,491,169	3,733,747	(6,960,682)	42,723,519

Total Operating Department/Program Expenses, in Millions (\$)



Notes:

- (1) Excludes equipment purchases.
- (2) In Fiscal Year 2018, Labor and Benefits expense is higher than prior years due to \$9.6 million supplemental payment to CalPERS to reduce the Unfunded Pension Liability.

Capital Assets Last Ten Fiscal Years

Table 5.1

Fiscal Year	Land	Easements	Mitigation Banks	Construction in Progress	Total Non-Depreciable Capital Assets
2018	\$24,621,026	\$ 12,843,763	\$ 5,323,118	\$ 75,507,207	\$ 118,295,114
2017	24,490,954	11,915,888	5,329,998	110,208,603	151,945,443
2016	24,458,404	11,858,791	5,329,998	171,049,357	212,696,550
2015	24,053,307	11,858,791	5,329,998	187,115,515	228,357,611
2014	23,244,672	7,933,369	5,017,023	555,898,353	592,093,417
2013	22,333,982	7,610,124	5,017,023	451,716,143	486,677,272
2012	19,291,657	7,301,686	2,644,029	637,434,621	666,671,993
2011 ⁽¹⁾	16,833,637	7,301,686	2,644,029	520,058,635	546,837,987
2010 ⁽¹⁾	16,421,418	1,023,887	2,644,029	1,200,331,306	1,220,420,640

Table 5.2

Fiscal Year	Pipelines and Dams	Facilities	Equipment	Intangible Software & Mitigation	Participation and Capacity Rights	Storage Rights ⁽²⁾	Total Depreciable Capital Assets
2018	\$ 2,200,695,359	\$798,272,139	\$32,970,982	\$ 6,599,377	\$ 520,051,103	\$ 519,052,259	\$ 4,077,641,219
2017	2,160,923,351	789,443,884	32,025,782	5,306,323	517,686,553	489,681,404	3,995,067,297
2016	2,131,640,177	780,095,031	37,739,089	8,757,292	510,663,098	418,652,214	3,887,546,901
2015	1,871,305,792	739,777,239	36,341,572	7,917,720	507,821,415	415,862,959	3,579,026,697
2014	1,790,726,715	731,162,857	35,202,142	7,917,720	508,782,992	41,016,383	3,114,808,809
2013	1,786,130,985	744,832,423	34,751,465	7,644,109	503,001,729	41,016,383	3,117,377,094
2012	1,645,493,121	635,616,230	32,307,160	4,995,235	491,565,179	-	2,809,976,925
2011 ⁽¹⁾	1,629,816,278	622,504,085	31,694,365	3,253,579	482,042,703	-	2,769,311,010
2010 ⁽¹⁾	1,188,379,660	436,476,504	24,800,078	3,253,579	258,678,630	-	1,911,588,451

Table 5.3

Fiscal Year	Accumulated Depreciation/Amortization	Depreciable Capital Assets, Net	NET CAPITAL ASSETS
2018	\$ (731,356,845)	\$ 3,346,284,374	\$ 3,464,579,488
2017	(669,824,136)	3,325,243,161	3,477,188,604
2016	(618,428,521)	3,269,118,380	3,481,814,930
2015	(554,725,060)	3,024,301,637	3,252,659,248
2014	(493,889,000)	2,620,919,809	3,213,013,226
2013	(437,057,773)	2,680,319,321	3,166,996,593
2012	(384,901,910)	2,425,075,015	3,091,747,008
2011 ⁽¹⁾	(334,288,815)	2,435,022,195	2,981,860,182
2010 ⁽¹⁾	(296,923,994)	1,614,664,457	2,835,085,097

Notes:

- (1) In Fiscal Year 2012, the categorization of non-depreciable and depreciable capital assets was updated. For comparative purposes, Fiscal Years 2011 and 2010 have been updated.
- (2) Storage Rights were recategorized from non-depreciable to depreciable in Fiscal Year 2018.

**Capital Assets (continued)
 Last Ten Fiscal Years**

Table 5.4

Fiscal Year	Land	Construction in Progress	Work in Progress	Total Capital Assets Not Depreciated
2009	\$ 13,128,344	\$ 1,302,928,098	\$ 749,017	\$ 1,316,805,459

Table 5.5

Fiscal Year	Olivenhain Dam	Water Transportation Pipelines	Pumping Plants and Facilities	Treatment Plants and Facilities	Automobiles & Miscellaneous Equipment	Intangible Assets
2009	\$ 175,971,199	\$ 994,213,762	\$173,706,256	\$25,620,355	\$ 55,068,680	\$ 135,988,876

Table 5.6

Fiscal Year	Total Other Capital Assets	Accumulated Depreciation/ Amortization	Depreciable Capital Assets, Net	NET CAPITAL ASSETS
2009	\$1,560,569,128	\$ (272,182,244)	\$ 1,288,386,884	\$ 2,605,192,343

Schedule of Rates and Charges Last Ten Calendar Years⁽¹⁾

Table 6.1

Calendar Year	Metropolitan Water District Supply Charges									
	Full Service Tier 1		Full Service Tier 2		Interim Agricultural Water Program ⁽³⁾		Surface Storage Operating Agreement ⁽⁴⁾		Replenishment Water Rate ⁽⁵⁾	
	UTR	TR	UTR	TR	UTR	TR	UTR	TR	UTR	TR
2018	\$ 695	\$1,015	\$ 781	\$1,101	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2017	666	979	760	1,073	-	-	-	-	-	-
2016	594	942	728	1,076	-	-	-	-	-	-
2015	582	923	714	1,055	-	-	-	-	-	-
2014	593	890	735	1,032	-	-	-	-	-	-
2013	593	847	743	997	-	-	-	-	-	-
2012	560	794	686	920	537	765	-	-	442	651
2011	527	744	652	869	482	687	-	-	409	601
2010	484	701	594	811	416	615	-	-	366	558
2009 ⁽²⁾	484	701	564	781	394	587	-	-	366	558
2009	412	579	528	695	322	465	-	-	294	436

Notes:

- (1) All rates are calendar year except for the water standby charge, which is fiscal year and Surface Storage Operating Agreement (SSOA) rates, which apply from October 1 through April 30.
- (2) Reflects a mid-year rate increase effective September 1, 2009 to match MWD's mid-year rate increase.
- (3) Reflects MWD treated Interim Agricultural Water Program (IAWP) rate and Water Authority charges prior to January 1, 2003. The IAWP was discontinued after 2012.
- (4) This schedule represents the contractual seasonal storage rate. Noncontractual participants pay a higher rate. Effective January 1, 2003, MWD instituted a SSOA offering a discount of \$70/acre-foot for "scheduled" water placed into reservoirs by member agencies. An increased discount rate of \$105/acre-foot is offered for "call" water, which is withdrawn from reservoirs per MWD's usage needs. SSOA was not renewed in 2009.
- (5) MWD's Replenishment Rate is a discounted rate for surplus system supplies available for the purpose of replenishing local supplies.

UTR = untreated acre foot
 TR = treated acre foot

Schedule of Rates and Charges (continued)
Last Ten Calendar Years⁽¹⁾

Table 6.2

Calendar Year	San Diego County Water Authority										
	Melded Supply Rate ⁽³⁾		Special Agricultural Water Rate ⁽⁴⁾		Transportation Rate ⁽⁵⁾	Customer Service	Storage	Supply Reliability Charge ⁽⁶⁾	Standby Charge ⁽⁷⁾	Capacity Charge ⁽⁸⁾	Infrastructure Access Charge ⁽⁹⁾
	UTR	TR	UTR	TR							
2018	\$894	\$1,194	\$ 695	\$ 995	\$ 115	\$26,400,000	\$ 65,000,000	\$28,600,000	\$ 10	\$ 5,240	\$ 3.01
2017	855	1,145	666	956	110	26,400,000	65,000,000	24,800,000	10	5,157	2.87
2016	780	1,060	594	874	105	26,400,000	63,200,000	26,000,000	10	4,963	2.76
2015	764	1,042	582	860	101	26,400,000	63,200,000	-	10	4,800	2.76
2014	732	1,006	593	867	97	26,400,000	63,200,000	-	10	4,800	2.68
2013	714	970	593	849	93	26,400,000	60,200,000	-	10	4,492	2.65
2012	638	872	560	794	85	26,400,000	54,200,000	-	10	4,492	2.60
2011	597	812	527	742	75	23,200,000	44,300,000	-	10	4,492	2.49
2010	532	747	484	699	67	18,000,000	34,000,000	-	10	4,492	2.02
2009 ⁽²⁾	532	747	484	699	67	16,000,000	23,000,000	-	10	4,492	1.90
2009	463	631	412	580	64	16,000,000	23,000,000	-	10	4,492	1.90

Notes:

- (1) All rates are calendar year except for the water standby charge, which is fiscal year and Surface Storage Operating Agreement (SSOA) rates, which apply from October 1 through April 30.
- (2) Reflects a mid-year rate increase effective September 1, 2009 to match MWD's mid-year rate increase.
- (3) The Water Authority's Melded Supply Rate includes MWD's Full Service Tier 1 charge, as well as other supply and treatment charges.
- (4) A new transitional rate was adopted on December 10, 2008 for customers opting out of MWD's IAWP. Customers participating in the Special Agricultural Water Rate (SAWR) program are considered M&I customers by MWD.
- (5) Per acre-foot of water.
- (6) The Supply Reliability charge is a fixed charge that went into effect on January 1, 2016 and recovers costs associated with desalinated and transfer water.
- (7) Per parcel or acre, whichever is greater.
- (8) Per equivalent meter (less than one inch) and includes system and treatment capacity charges.
- (9) Per equivalent meter.

UTR = untreated acre foot
 TR = treated acre foot

Water Sales by Customer Fiscal Years Ended June 30, 2018 and 2009⁽¹⁾

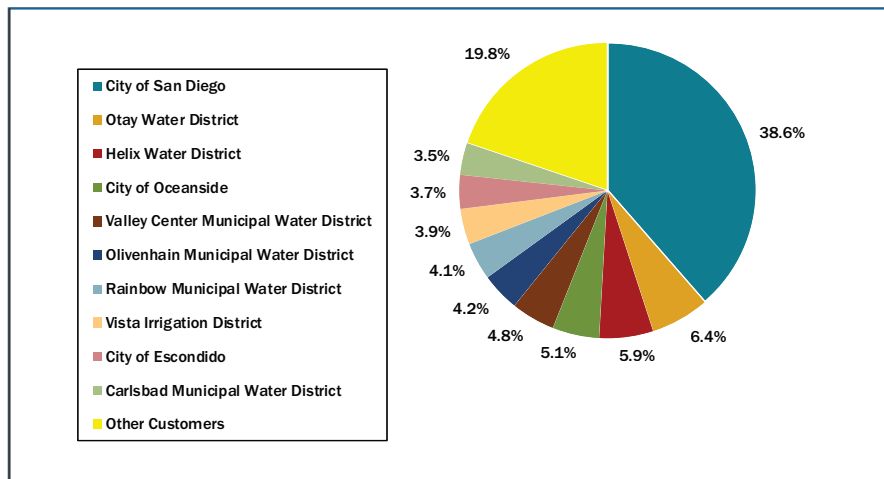
Table 7

Fiscal Year Ended June 30, 2018			Fiscal Year Ended June 30, 2009		
Member Agency	Sales (acre-feet)	Percent of Water Sold	Member Agency	Sales (acre-feet)	Percent of Water Sold
City of San Diego	155,923	39.0%	City of San Diego	202,232	36.3%
Otay Water District	29,638	7.4%	Helix Water District	37,485	6.7%
Helix Water District	25,913	6.5%	Otay Water District	34,971	6.3%
City of Oceanside	22,510	5.6%	Valley Center Municipal Water District	34,781	6.2%
Valley Center Municipal Water District	22,526	5.6%	City of Oceanside	30,397	5.5%
Olivenhain Municipal Water District	19,432	4.9%	Rainbow Municipal Water District	26,251	4.7%
Rainbow Municipal Water District	19,227	4.8%	Olivenhain Municipal Water District	23,056	4.1%
Vista Irrigation District	2,530	0.6%	City of Escondido	21,351	3.8%
City of Escondido	7,869	2.0%	Carlsbad Municipal Water District	19,867	3.6%
Carlsbad Municipal Water District	16,032	4.0%	Vallecitos Water District	19,107	3.4%
Total Top Ten Customers	321,600	80.4%	Total Top Ten Customers	449,498	80.6%
Vallecitos Water District	16,168	4.0%	Vista Irrigation District	15,668	2.8%
Sweetwater Authority ⁽²⁾	1,735	0.4%	Fallbrook Public Utilities District	15,367	2.8%
Padre Dam Municipal Water District	10,332	2.6%	Padre Dam Municipal Water District	14,653	2.6%
Fallbrook Public Utilities District	10,267	2.6%	City of Poway	14,382	2.6%
City of Poway	10,316	2.6%	Ramona Municipal Water District	8,233	1.5%
Santa Fe Irrigation District	5,818	1.5%	Sweetwater Authority ⁽²⁾	13,058	2.3%
Rincon del Diablo Municipal Water District	5,468	1.4%	Santa Fe Irrigation District	8,084	1.5%
Ramona Municipal Water District	5,379	1.4%	Rincon del Diablo Municipal Water District	7,471	1.3%
Yuima Municipal Water District	6,088	1.5%	Lakeside Water District	3,883	0.7%
San Dieguito Water District	2,660	0.7%	San Dieguito Water District	3,837	0.7%
Lakeside Water District	2,836	0.7%	Yuima Municipal Water District	2,345	0.4%
City of Del Mar	1,078	0.3%	City of Del Mar	1,200	0.2%
Camp Pendleton Marine Corps Base	84	0.0%	Camp Pendleton Marine Corps Base	83	0.0%
Other Customers	78,229	19.6%	Other Customers	108,264	19.4%
Total Water Sales	399,829	100%	Total Water Sales	557,762	100.0%

⁽¹⁾ Represents gross water delivery net of water exchanges.

⁽²⁾ Sweetwater Authority includes National City and South Bay Irrigation District.

Water Sales by Customer for Fiscal Year Ended June 30, 2018



Total Treated and Untreated Water Sales Last Ten Fiscal Years

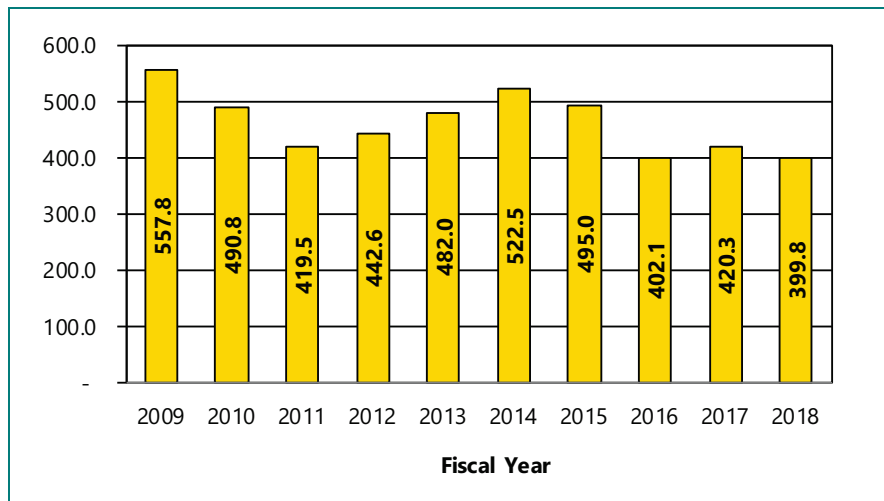
Table 8

Fiscal Year	Treated Water		Untreated Water		Total			
	Acre-Feet	Sales	Acre-Feet	Sales	Acre-Feet	Change in Acre-Feet	Sales ⁽¹⁾	Change in Sales
2018	164,636	\$ 209,395,264	235,190	\$ 238,530,680	399,826	(20,446)	\$ 447,925,944	\$ 14,248,821
2017	157,126	185,939,681	263,146	247,737,442	420,272	18,207	433,677,123	41,553,006
2016	146,112	159,173,709	255,953	232,950,408	402,065	(92,918)	392,124,117	(68,001,573)
2015	173,204	181,907,967	321,779	278,217,723	494,983	(27,470)	460,125,690	(13,560,973)
2014	198,397	199,785,961	324,056	273,900,702	522,453	40,440	473,686,663	64,636,999
2013	199,257	186,241,667	282,756	222,807,997	482,013	39,370	409,049,664	75,184,306
2012	181,445	150,884,055	261,198	182,981,303	442,643	23,132	333,865,358	38,485,802
2011	177,098	138,798,942	242,413	156,580,614	419,511	(71,318)	295,379,556	(23,150,056)
2010	195,937	147,719,098	294,892	170,810,514	490,829	(66,933)	318,529,612	16,455,644
2009	240,808	145,040,752	316,954	157,033,216	557,762	(55,333)	302,073,968	11,852,147

Notes:

⁽¹⁾ Total water sales do not include MWD's readiness-to-serve and capacity charges; and are CWA fixed charges, agriculture, and reclamation credits passed on to member agencies.

Total Treated and Untreated Water Sales Total Acre-Feet (in Thousands)



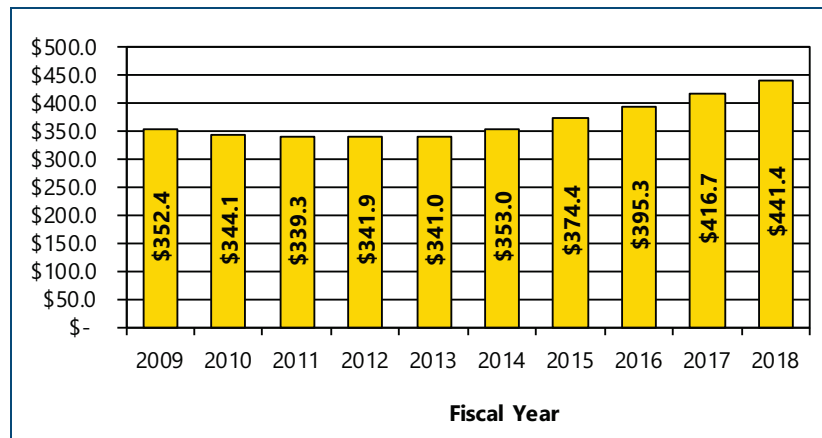
Assessed Valuation of Taxable Property Last Ten Fiscal Years

Table 9

Fiscal Year	Local Secured Property	State Secured Property	Redevelopment and Homeowners Exemptions	Net Secured Assessed Value	Net Unsecured Assessed Value	TOTAL ASSESSED VALUE
2018	\$479,613,217,379	\$1,046,310,773	\$ 53,266,338,749	\$427,393,189,403	\$ 13,988,486,909	\$441,381,676,312
2017	451,344,411,144	947,193,625	48,943,478,320	403,348,126,449	13,343,942,403	416,692,068,852
2016	427,427,915,780	798,410,621	45,982,840,513	382,243,485,888	13,084,323,381	395,327,809,269
2015	404,011,617,061	730,338,926	43,257,822,190	361,484,133,797	12,871,635,577	374,355,769,374
2014	380,636,482,118	808,778,971	40,786,610,505	340,658,650,584	12,314,446,187	352,973,096,771
2013	367,697,518,087	934,170,553	39,467,366,837	329,164,321,803	11,813,249,531	340,977,571,334
2012	368,513,444,797	948,639,459	39,371,348,044	330,090,736,212	11,762,281,838	341,853,018,050
2011	366,269,868,285	987,948,775	39,929,289,823	327,328,527,237	11,965,058,478	339,293,585,715
2010	371,808,214,146	747,943,167	40,999,711,071	331,556,446,242	12,538,322,810	344,094,769,052
2009	381,979,733,503	589,927,644	42,074,337,530	340,495,323,617	11,869,245,103	352,364,568,720

Source:
 County of San Diego's Office of the Auditor & Controller

Total Assessed Valuation in Billions (\$)



Levies and Collections Last Ten Fiscal Years

Table 10

Fiscal Year	Property Taxes	Special Assessments ⁽¹⁾	Total Levy	Total Collections	Net Delinquent	% of Delinquent/Total Levy
2018	\$ 11,188,782	\$ 11,867,058	\$ 23,055,840	\$ 22,231,133	\$ 824,707	3.58%
2017	10,602,193	11,912,245	22,514,438	21,531,426	983,012	4.37%
2016	10,057,779	11,913,896	21,971,675	20,939,584	1,032,091	4.70%
2015	9,642,868	12,045,616	21,688,484	20,644,160	1,044,324	4.82%
2014	9,175,527	12,260,070	21,435,597	20,236,442	1,199,155	5.59%
2013	8,831,152	12,319,533	21,150,685	19,747,352	1,403,333	6.63%
2012	8,769,573	12,331,193	21,100,766	19,603,936	1,496,830	7.09%
2011	8,885,757	12,443,203	21,328,960	19,878,227	1,450,733	6.80%
2010	9,103,831	12,370,600	21,474,431	19,788,939	1,685,492	7.85%
2009	9,445,331	12,261,787	21,707,118	20,046,360	1,660,758	7.65%
2008	9,186,799	12,014,079	21,200,878	19,674,672	1,526,206	7.20%

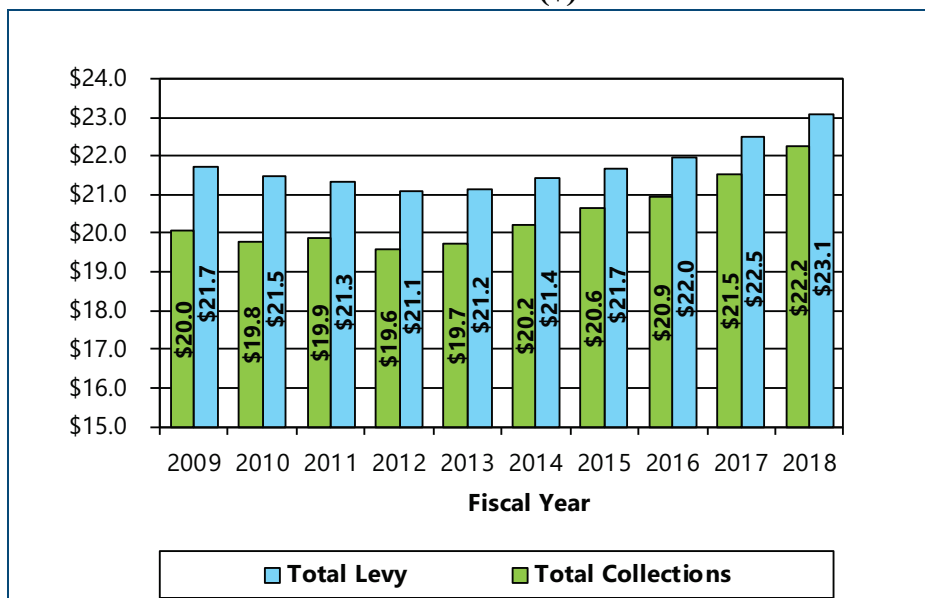
Notes:

(1) Represents the tax levy for the Water Authority's Water Standby Availability Charge.

Source:

County of San Diego's Office of the Auditor & Controller and the San Diego County Water Authority

Total Levy and Collections in Millions (\$)



Revenue Debt Service Coverage Last Ten Fiscal Years

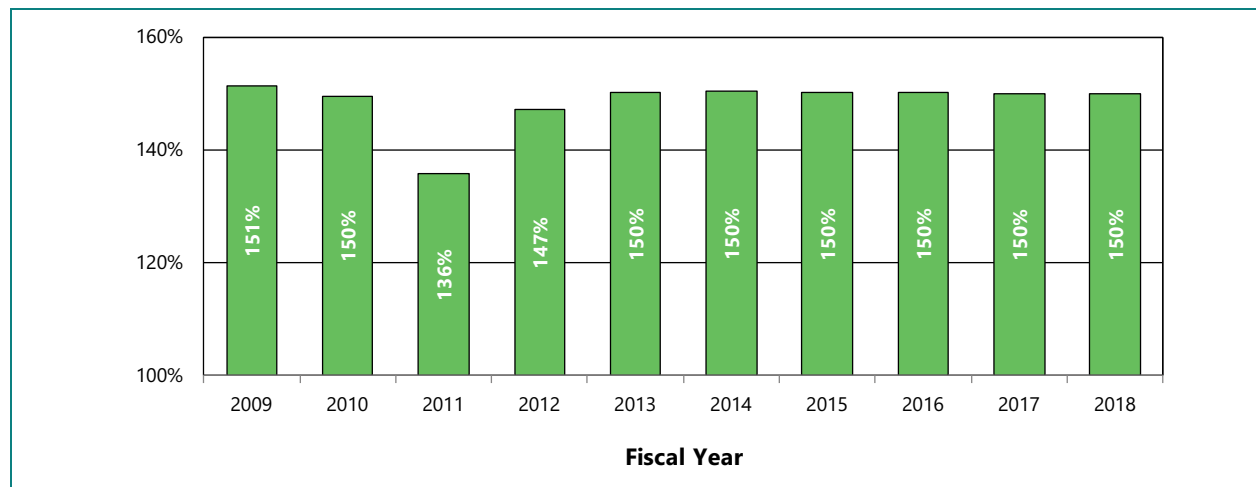
Table 11

Fiscal Year	Revenues for Purpose of Calculation ⁽¹⁾	Operating Expenses ⁽²⁾	Net Revenue Available for Debt Service	Senior Lien Debt Service ⁽³⁾			Coverage Factor
				Principal	Interest	Total	
2018	\$ 671,386,019	\$ 478,929,363	\$ 192,456,656	\$ 44,620,000	\$ 83,683,510	\$ 128,303,510	150%
2017	650,240,212	460,273,296	189,966,916	41,560,000	85,044,572	126,604,572	150%
2016	589,264,060	416,179,012	173,085,048	26,550,000	88,662,002	115,212,002	150%
2015	636,915,844	444,459,693	192,456,151	34,615,000	93,550,901	128,165,901	150%
2014	643,791,434	450,860,556	192,930,878	31,940,000	96,311,875	128,251,875	150%
2013	584,848,831	402,037,827	182,811,004	28,175,000	93,543,288	121,718,288	150%
2012	502,859,753	340,074,164	162,785,589	26,585,000	84,026,291	110,611,291	147%
2011	446,399,335	305,014,447	141,384,888	24,120,000	79,942,971	104,062,971	136%
2010	439,639,107	320,808,607	118,830,500	6,365,000 ⁽⁴⁾	73,067,368 ⁽⁵⁾	79,432,368	150%
2009	412,709,321	302,091,894	110,617,427	19,820,000	53,242,022 ⁽⁶⁾	73,062,022	151%

Notes:

- ⁽¹⁾ Includes amounts transferred to and from the Rate Stabilization Fund, and excludes interest on debt proceeds, property tax receipts, contributions in aid of capital assets, and Capital Improvement Program (CIP) grant reimbursements.
- ⁽²⁾ Excludes depreciation and amortization expenses; net of applicable property tax receipts.
- ⁽³⁾ Excludes commercial paper.
- ⁽⁴⁾ Excludes \$51,005,000 principal payment on the 1998A COPs which was paid from debt proceeds.
- ⁽⁵⁾ Excludes \$1,500,000 interest payment on the 2008A COPs and \$9,530,000 interest payment on the 2010A and B Bonds, which was paid from debt proceeds.
- ⁽⁶⁾ Excludes \$18,023,409 interest payment on the 2008A COPs which was paid from debt proceeds.

Senior Lien Debt Service Coverage in Percentages (%)



**Long-term Debt Outstanding
Last Ten Fiscal Years (in Thousands)**

Table 12.1

Fiscal Year	Certificates of Participation							
	1993A	1997A	1998A	2002A	2004A	2005A	2008A	Total
2018	\$ -	\$ -	\$ 11,685	\$ -	\$ -	\$ 13,800	\$ 17,140	\$ 42,625
2017	-	-	11,685	-	-	28,490	34,460	74,635
2016	-	-	11,685	-	-	43,495	48,965 ⁽⁶⁾	104,145
2015	-	-	11,685	-	- ⁽²⁾	57,375	512,650 ⁽⁷⁾	581,710
2014	-	-	11,685	-	43,925	70,885	536,110	662,605
2013	-	-	11,685	- ⁽¹⁾	43,925 ⁽³⁾	83,490	547,030	686,130
2012	-	-	11,685	17,510	388,710	95,730	556,150	1,069,785
2011	-	6,110	11,685	236,750	425,000	107,455	558,015	1,345,015
2010	-	23,610	11,685	243,370	425,000	107,455	558,015	1,369,135
2009	-	23,610	62,690	249,735	425,000	107,455	558,015	1,426,505
Original Par Amount	\$ 135,650	\$ 162,315	\$ 180,000	\$ 300,000	\$ 425,000	\$ 107,455	\$ 558,015	
Debt Service Reserve Funds	\$ -	\$ -	\$ 12,241	\$ -⁽¹⁾	\$ -⁽⁴⁾	\$ 10,746⁽⁵⁾	\$ 23,671⁽⁵⁾	\$ 46,658
Final Maturity	2009	2012	2028	2013	2015	2022	2020	

Notes:

- (1) \$18,385,750 of proceeds were released from the debt service reserve fund to defease the balance of \$17,510,000 on the 2002A COPs in February 2013.
- (2) \$43,925,000 was defeased on the 2004A COPs in February 2015.
- (3) \$344,785,000 of the 2004A COPs was refunded by the 2013A Bonds in March 2013.
- (4) \$4,052,362 of proceeds were released from the debt service reserve fund to defease part of the 2004A COPs in February 2015.
- (5) Balance satisfied with surety bond.
- (6) \$142,445,000 of the 2008A COPs was refunded by the 2015A Bonds in September 2015; \$114,895,000 and \$205,195,000 of the 2008A COPs was refunded by the 2016A and 2016B Bonds, respectively, in June 2016.
- (7) \$12,100,000 was defeased on the 2008A COPs in February 2015.
- (8) \$52,375,000 of the 2010A Bonds was refunded by the 2015A Bonds in September 2015; \$20,425,000 of the 2010A Bonds was refunded by the 2016B Bonds in June 2016.
- (9) \$86,630,000 of the 2011S-1 Bonds was refunded by the Series 9 Notes in May 2016.
- (10) See Table 16 for personal income and population data.

**Long-term Debt Outstanding (continued)
Last Ten Fiscal Years (in Thousands)**

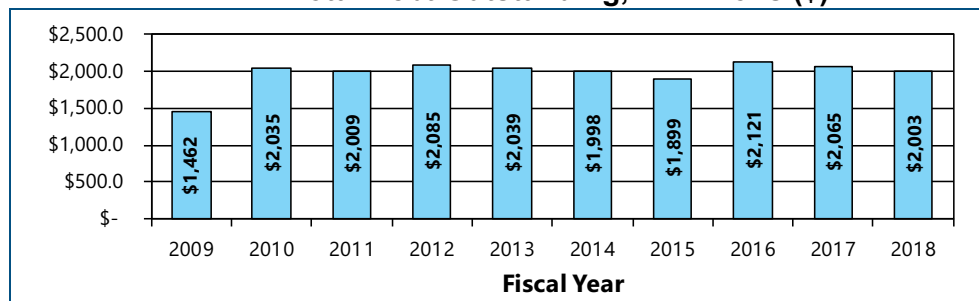
Table 12.2

Revenue Bonds											
2010A	2010B	2011S-1	2011A	2011B	2012	2013A	2015A	2016S-1	2016A	2016B	Total
\$ 9,165	\$ 526,135	\$ -	\$ 95,320	\$ 94,540	\$ 200,605	\$ 299,105	\$ 184,795	\$ 87,685	\$ 98,945	\$ 197,395	\$ 1,793,690
13,460	526,135	-	103,635	94,540	203,215	299,105	184,795	87,685	98,945	197,395	1,808,910
17,590 ⁽⁸⁾	526,135	- ⁽⁹⁾	111,555	94,540	203,215	299,105	184,795	87,685	98,945	197,395	1,820,960
94,365	526,135	86,630	119,100	94,540	-	299,105	-	-	-	-	1,219,875
96,925	526,135	86,630	126,285	94,540	-	299,105	-	-	-	-	1,229,620
98,495	526,135	86,630	133,130	94,540	-	299,105	-	-	-	-	1,238,035
98,495	526,135	86,630	139,945	94,540	-	-	-	-	-	-	945,745
98,495	526,135	-	-	-	-	-	-	-	-	-	624,630
98,495	526,135	-	-	-	-	-	-	-	-	-	624,630
-	-	-	-	-	-	-	-	-	-	-	-
\$ 98,495	\$ 526,135	\$ 86,630	\$ 139,945	\$ 94,540	\$ 203,215	\$ 299,105	\$ 184,795	\$ 87,685	\$ 98,945	\$ 197,395	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,208	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,208
2020	2049	2016	2027	2031	2046	2034	2029	2021	2033	2038	

Table 12.3

Fiscal Year	Unamortized Premiums and Discounts	TOTAL DEBT OUTSTANDING (in Thousands)	% of Personal Income ⁽¹⁰⁾	Debt Per Capita (in dollars) ⁽¹⁰⁾
2018	\$ 167,118	\$ 2,003,433	0.99%	\$ 598
2017	181,348	2,064,893	1.07%	621
2016	195,579	2,120,684	1.16%	639
2015	97,009	1,898,594	1.07%	577
2014	105,863	1,998,088	1.19%	613
2013	114,717	2,038,882	1.29%	634
2012	69,809	2,085,339	1.37%	655
2011	39,402	2,009,047	1.38%	640
2010	41,603	2,035,368	1.49%	656
2009	35,076	1,461,581	1.09%	477

Total Debt Outstanding, in Millions (\$)



**Direct and Overlapping Debt
June 30, 2018**

Table 13

2017-18 Assessed Valuation: \$479,685,194,457

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT

	Total Debt Outstanding June 30, 2018	% Applicable ⁽¹⁾	Estimated Share of Overlapping Debt as of June 30, 2018
Metropolitan Water District	60,600,000	17.508%	\$ 10,609,848
Community College Districts	2,730,345,676	79.823-99.954%	2,611,186,344
San Diego Unified School District	3,486,781,892	99.954%	3,485,177,972
Other Unified School Districts	1,087,952,940	Various	1,084,297,879
High School Districts	1,399,661,949	Various	1,364,364,684
School Districts	986,248,148	Various	954,992,291
City of Escondido	58,680,000	99.473%	58,370,756
City of La Mesa	20,760,000	99.983%	20,756,471
City of National City	3,635,000	99.879%	3,630,602
Grossmont Healthcare District	261,328,330	95.932%	250,697,494
Palomar Pomerado Hospital District	436,358,740	98.064%	427,910,835
Otay Water District, I.D. No. 27	3,390,000	100.000%	3,390,000
Community Facilities Districts	1,314,767,490	100.000%	1,314,767,490
1915 Act Bonds (Estimated)	85,657,776	100.000%	85,657,776
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 11,675,810,442
OVERLAPPING GENERAL FUND DEBT			
San Diego County General Fund Obligations	273,220,000	96.719%	\$ 264,255,652
San Diego County Pension Obligation Bonds	558,525,000	96.719%	540,199,795
San Diego Superintendent of Schools Certificates of Participation	10,785,000	96.719%	10,431,144
Community College District Certificates of Participation	4,680,000	79.823-99.954%	4,420,326
Unified School District General Fund Obligations	214,108,326	90.143-99.931%	211,213,754
High School and School District General Fund Obligations	400,890,885	89.666-99.990%	396,801,256
City of San Diego General Fund Obligations	550,774,651	99.948%	550,488,428
Other City General Fund Obligations	375,370,653	99.119-99.997%	374,493,775
San Miguel Consolidated Fire Protection District General Fund Obligations	4,275,000	99.530%	4,254,908
Lakeside Fire General Fund Obligations	5,050,000	95.846%	4,840,223
TOTAL OVERLAPPING GENERAL FUND DEBT			\$ 2,361,399,261
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies)	\$1,194,472,845	1.108-100.0%	\$ 1,155,425,899
TOTAL DIRECT DEBT			\$ 0
TOTAL OVERLAPPING DEBT			\$ 15,192,635,422
COMBINED TOTAL DEBT			\$ 15,192,635,422 ⁽²⁾
Ratios to 2017-18 Assessed Valuation			
Direct Debt		0.00%	
Total Direct and Overlapping Tax and Assessment Debt		2.43%	
Combined Total Debt		3.17%	
Ratios to Redevelopment Successor Agencies Incremental Valuation (\$52,361,213,537)			
Total Overlapping Tax Increment Debt		2.21%	

Notes:

⁽¹⁾ The percentage of overlapping debt applicable to the Water Authority is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the authority divided by the district's total taxable assessed value.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue bonds and non-bonded capital lease obligations.

**General Information
 June 30, 2018**

Table 14

Number of member agencies.....	24
Cities.....	6
Water districts.....	5
Irrigation districts.....	3
Municipal water districts.....	8
Public utility districts.....	1
Federal agency (military base).....	1

**Operating Indicators
 Last 10 Fiscal Years**

Table 15

Fiscal Year	Water System Service Area ⁽¹⁾	Number of Primary Pipelines	Miles of Pipeline	Miles of Patrol Road Maintained	Number of Service Connections	Treated Water Pipeline Capacity ⁽²⁾	Untreated Water Pipeline Capacity ⁽²⁾	Average Daily Deliveries ⁽²⁾	Total Regular Employees
2018	946,000	5	310	168	96	420	504	350	254.50
2017	946,000	5	310	168	96	420	504	375	247.40
2016	951,000	5	310	168	96	420	504	349	247.40
2015	951,000	5	300	168	96	420	504	442	253.65
2014	946,000	5	300	150	96	420	504	467	252.50
2013	951,000	5	300	150	96	420	504	430	253.00
2012	947,288	5	300	150	106	420	504	395	254.50
2011	951,000	5	300	150	106	420	504	375	267.50
2010	951,000	5	300	150	131	420	504	440	267.50
2009	951,000	5	300	168	121	420	504	496	267.50

Notes:

(1) Acres.

(2) Millions of gallons per day (mgd).

Demographic and Economic Statistics Last Ten Calendar Years

Table 16

Year	County Population	Personal Income (in thousands) ⁽¹⁾	Per Capita		Unemployment Rate ⁽²⁾
			Personal Income (in dollars) ⁽¹⁾	Unemployment Rate ⁽²⁾	
2018	3,352,564 ⁽³⁾	\$ 202,800,000 ⁽³⁾	\$ 57,473 ⁽³⁾	3.3%	⁽³⁾
2017	3,327,564 ⁽³⁾	192,500,000 ⁽³⁾	56,437 ⁽³⁾	4.0%	⁽³⁾
2016	3,317,749	183,032,418	55,168	4.7%	
2015	3,290,245	177,551,892	53,963	5.2%	
2014	3,258,856	167,633,842	51,439	6.4%	
2013	3,218,419	157,757,974	49,017	7.8%	
2012	3,181,513	152,723,990	48,004	9.1%	
2011	3,140,692	145,719,165	46,397	10.3%	
2010	3,104,346	136,576,305	43,995	10.8%	
2009	3,061,203	134,139,980	43,819	9.4%	

Notes:

- (1) U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data
- (2) CALMIS, Employment Development Department (EDD)
- (3) California Department of Transportation (estimates)

Largest Employers in San Diego Fiscal Year 2018 and 2009

Table 17

2018 ⁽¹⁾				2009 ⁽²⁾			
Industry Type	Rank	# of Employees	% of Total Employment	Industry Type	Rank	# of Employees	% of Total Employment
University of California, San Diego	1	34,448	2.32%	Federal Government	1	43,500	3.11%
United States Navy, San Diego	2	34,185	2.30%	United States Navy, San Diego	2	42,000	3.00%
Sharp Healthcare	3	18,364	1.24%	State of California	3	40,900	2.92%
County of San Diego	4	17,413	1.17%	University of California, San Diego	4	26,000	1.86%
Scripps Healthcare	5	14,941	1.01%	County of San Diego	5	20,500	1.46%
San Diego Unified School District	6	13,815	0.93%	City of San Diego	6	19,500	1.39%
Qualcomm	7	11,800	0.79%	San Diego Unified School District	7	15,881	1.13%
City of San Diego	8	11,462	0.77%	Sharp Healthcare	8	14,390	1.03%
Kaiser Foundation Hospital	9	9,606	0.65%	Scripps Health	9	12,700	0.91%
UC San Diego Health	10	8,932	0.60%	Scripps Mercy Hospital	10	11,000	0.79%
Total All Industries		174,966	11.78%	Total All Industries		246,371	17.60%
2018 Total Number employed in San Diego County ⁽³⁾ 1,486,300				2009 Total Number employed in San Diego County ⁽³⁾ 1,399,473			

Source:
⁽¹⁾ San Diego Business Journal
⁽²⁾ The Daily Transcript, Sourcebook 2008
⁽³⁾ California Employment Development Department

Continuing Disclosure



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October 26, 2018

Dear friends and interested parties:

MEMBER AGENCIES

- Carlsbad Municipal Water District
- City of Del Mar
- City of Escondido
- City of National City
- City of Oceanside
- City of Poway
- City of San Diego
- Fallbrook Public Utility District
- Helix Water District
- Lakeside Water District
- Olivenhain Municipal Water District
- Olney Water District
- Padre Dam Municipal Water District
- Camp Pendleton Marine Corps Base
- Rainbow Municipal Water District
- Ramona Municipal Water District
- Rincon del Diablo Municipal Water District
- San Dieguito Water District
- Santa Fe Irrigation District
- South Bay Irrigation District
- Vallecitos Water District
- Volley Center Municipal Water District
- Vista Irrigation District
- Yuma Municipal Water District

OTHER REPRESENTATIVE

- County of San Diego

We are pleased to present the Continuing Disclosure Report (Report) for fiscal year ended June 30, 2018 for the San Diego County Water Authority (Water Authority).

The information provided in this Report speaks only as of its date, October 26, 2018 and the financial and operating data included therein is accurate only as of the dates specified therein. The delivery of this Report may not, under any circumstances, create an implication that there has been no other change to the information provided in any final official statement of the Water Authority. Other than as set forth in its Continuing Disclosure Agreements, the Water Authority has not undertaken to disclose financial or operating data or to provide notice of changes to the information in this Report.

This Report is provided solely pursuant to the Water Authority’s Continuing Disclosure Agreements. The filing of this Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the Water Authority or the referenced securities, or (iii) that no changes, circumstances, or events have occurred since the end of the fiscal year to which this Report relates (other than as contained in this Report), or any other date specified with respect to any of the information contained in this Report, or that no other information exists, which may have a bearing on the security for the referenced securities, or an investor’s decision to buy, sell, or hold the referenced securities. The information contained in this Report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Report should be construed as a prediction or representation about future financial performance of the Water Authority. Any statements regarding the referenced securities, other than a statement made by the Water Authority in an official release or subsequent notice published in a financial newspaper of general circulation and/or filed with the Municipal Securities Rulemaking Board are not authorized by the Water Authority. The Water Authority shall not be responsible for the accuracy, completeness, or fairness of any such unauthorized statement.

If you have any questions regarding this Report, please contact Lisa Marie Harris, Director of Finance/Treasurer at (858) 522-6671, or by email at lharris@sdcwa.org.

Sincerely,



Lisa Marie Harris, Director of Finance/Treasurer

General Information

SAN DIEGO COUNTY WATER AUTHORITY MANAGEMENT

Maureen A. Stapleton	General Manager
Sandra L. Kerl	Deputy General Manager
Dennis A. Cushman	Assistant General Manager
Dan Denham	Assistant General Manager
Lisa Marie Harris	Director of Finance/Treasurer
Mark Hattam	General Counsel

The Water Authority was organized by nine member agencies in 1944 for the primary purpose of supplying water to San Diego County for distribution to the Water Authority’s member agencies. The Water Authority currently has 24 member agencies. A member of the San Diego County Board of Supervisors serves as a non-voting representative to the Water Authority Board of Directors. As a wholesale entity, the Water Authority serves only its member agencies and has no retail customers. The Water Authority has broad powers related to acquiring, developing, storing, transporting, selling, and delivering water both inside and outside its boundaries. The Water Authority is authorized to fix and collect rates or other charges for the purchase and delivery of water or the use of facilities for service. The Water Authority may borrow money, incur indebtedness, and issue bonds and other evidences of indebtedness.

The Water Authority currently receives a minor amount of revenue from hydroelectric power sales. Legislation enacted in September 2000 expands the Water Authority’s power generation authority to include the purchase, sale, and transmission of energy.

A Guide to the Continuing Disclosure

Selected Financial Highlights

Statement of Net Position as of June 30, 2018, and comparative data as of June 30, 2017 can be found in the Financial Statements Section.....31

Statement of Revenues, Expenses, and Changes in Net Position as of June 30, 2018 and comparative data as of June 30, 2017 can be found in the Financial Statements Section.....32

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Selected Financial Highlights

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are located in the Financial Section, under the Financial Statements tab, pages 31 and 32, respectively.

The Water Authority’s restricted and unrestricted cash and investments balances at June 30, 2018 were \$142.7 million and \$212.4 million respectively. Approximately 59.8 percent of total cash is unrestricted.

TABLE 1. CASH AND INVESTMENTS, JUNE 30, 2018 AND 2017

	2018	2017
As of June 30, 2018 and 2017, restricted cash and investments balances were as follows:		
Construction	\$ -	\$ 2,663,522
Debt Service Reserve ⁽¹⁾	22,665,917	22,523,325
Pay-As-You-Go	119,984,952	147,352,064
Total	\$ 142,650,869	\$ 172,538,911

As of June 30, 2018 and 2017, unrestricted cash and investments balances were as follows:

Operating	\$ 56,369,103	\$ 55,645,254
Designated for Rate Stabilization	155,139,512	135,072,833
Designated for Equipment Replacement	919,490	1,195,081
Total	\$ 212,428,105	\$ 191,913,168

(1) The Debt Service Reserve balance includes the California Pollution Control Financing Authority (CPCFA) issued 2012 Pipeline Bond reserves.

Summary of Outstanding Debt

The Water Authority continues to hold long-term senior lien credit ratings of AA+, and Aa2 from Fitch and Moody's, and AAA by Standard & Poor's. Long-term subordinate lien credit ratings are usually rated one level below the senior lien credit ratings of the same issuer. Accordingly, credit ratings of long-term Water Authority subordinate lien debt are inferred to be at AA+, AA, and Aa3 by Standard & Pooors, Fitch, and Moody's, respectively.

In January 2018 the Water Authority's Board of Directors adopted the Water Authority's updated Debt Management and Disclosure Policy. The newly added disclosure section of the previous Debt Management Policy is consistent with public finance industry practices and recent developments. Among other things, it includes guidelines involving public statements made by Water Authority officials, initial market disclosure involved with securities offerings, and compliance with continuing disclosure agreements, laws and regulations.

San Diego County Water Authority Bond Rating ¹

Rating Agency	Senior Lien Ratings ²	Subordinate Lien Ratings	Outlook
Standard & Poor's	AAA	AA+	Stable
Fitch	AA+	AA	Stable
Moody's	Aa2	Aa3	Stable

(1) This table accurate as of June 30, 2018.

(2) Senior Lien includes the Water Authority's Revenue Bonds and Certificates of Participation.

LONG-TERM SENIOR LIEN FIXED-RATE DEBT

The table below summarizes the Water Authority's outstanding long-term, fixed-rate debt as of June 30, 2018, which includes final maturities, original par amounts, amounts outstanding, and applicable debt service reserve fund requirements. All reserve requirements are fully funded by either reserves or surety bonds.

TABLE 2. LONG-TERM, FIXED-RATE DEBT OUTSTANDING, FISCAL YEAR JUNE 30, 2018 *

Issue Name	Final Maturity	Original Par Amount	Amount Outstanding	Debt Service Reserve Funds ⁽¹⁾
Water Revenue Certificates of Participation:				
Series 1998A	2028	\$ 180,000,000	\$ 11,685,000	\$ 12,240,862
Series 2005A	2022	107,455,000	13,800,000	10,745,500 ⁽²⁾
Series 2008A	2020	558,015,000	17,140,000	23,670,625 ⁽²⁾
Water Revenue Bonds:				
Series 2010A	2020	98,495,000	9,165,000	n/a
Series 2010B (Taxable Build America Bonds)	2049	526,135,000	526,135,000	n/a
Series 2011A	2027	139,945,000	95,320,000	n/a
Series 2011B	2031	94,540,000	94,540,000	n/a
Series 2013A	2034	299,105,000	299,105,000	n/a
Series 2015A	2029	184,795,000	184,795,000	n/a
Series 2016A	2033	98,945,000	98,945,000	n/a
Series 2016B	2038	197,395,000	197,395,000	n/a
Total		\$ 2,484,825,000	\$ 1,548,025,000	\$ 46,656,987

* The CPCFA issued 2012 Pipeline Bond is not shown as it is a super-subordinate bond and therefore not included in debt service coverage calculations.

(1) Amounts stated reflect the minimum balance required.

(2) Balance satisfied with surety bond.

SHORT-TERM AND SUBORDINATE LIEN FIXED-RATE DEBT

The Water Authority currently has three forms of short-term debt: five-year fixed-rate bonds, Tax-Exempt Commercial Paper (TECP) and Extendable Commercial Paper (ECP).

The Water Authority issued \$87,685,000 of Subordinate Lien Water Revenue Refunding Bonds, Series 2016S-1 in June 2016. These bonds mature May 1, 2021.

The Water Authority established its TECP Program in 1995. Commercial paper is a form of variable-rate debt, and is issued with maturities of 1 to 270 days. When the commercial paper matures, it is rolled over to new investors by the Water Authority’s commercial paper dealers. The Water Authority has authorized the issuance of up to \$460,000,000 of TECP, with \$245,000,000 issued and outstanding. The TECP has been issued in two series – Series 8 (\$110,000,000), and Series 9 (\$135,000,000). Series 8 was issued in 2014 and series 9 was issued in 2016. Each of these series is supported with a bank “revolving credit and term loan agreement”. As of June 30, 2018, no advances have been made under any of the revolving credit and term loan agreements.

The Water Authority has remarketing agreements with seven separate broker-dealers, all of which serve on all series for TECP: Bank of America Securities LLC/Merrill Lynch, Citigroup Global Markets Inc., Goldman Sachs and Co., JP Morgan Securities, LLC, Morgan Stanley and Co. LLC, LOOP Capital Markets, LLC, and RBC Capital Markets, LLC.

The Water Authority established an ECP Program in June 2014. ECP is considered a market access product and therefore does not require bank liquidity to back stop the notes. This allows the Water Authority to save on bank costs for revolving credit and term loan agreements which support the TECP program. ECP is issued with a final maturity between 1 and 120 days. If the notes cannot be remarketed at their maturity date, the notes will be automatically extended to 270 days from the initial issuance and bear interest at a penalty rate until the notes can be remarketed or redeemed. The product’s final maturity of 270 days assures that ECP complies with SEC Rule 2a-7, making the notes eligible investments for money market funds. The ECP has been issued as Series 1, for \$100,000,000 par amount.

The Water Authority has remarketing agreements with Bank of America Merrill Lynch, Morgan Stanley & Co. LLC, and JP Morgan Securities, LLC who serve as the dealers for ECP.

TABLE 3. SUBORDINATE LIEN FIXED-RATE DEBT, FISCAL YEAR JUNE 30, 2018

Issue Name	Final Maturity	Original Par Amount	Amount Outstanding
Water Revenue Refunding Bonds, Series 2016S-1	2021	\$ 87,685,000	\$ 87,685,000

TABLE 4. TECP AND ECP PROGRAM SUMMARY, FISCAL YEAR JUNE 30, 2018

Short-Term Active Debt Instruments	Size	Liquidity Provider	Liquidity Provider Agreement Expiration
Series 1 (ECP)	\$ 100,000,000	n/a	n/a
Series 8	110,000,000	Bank of Tokyo Mitsubishi, UFJ	June 26, 2019 ⁽¹⁾
Series 9	135,000,000	Bank of America, N.A.	July 17, 2020 ⁽²⁾
Total	\$ 345,000,000		

(1) The Series 8 Remarketing Agreement was amended in May of 2017 and extended to June 2019.

(2) The Series 9 Remarketing Agreement was amended in October of 2017 and extended to July 2020.

Member Agency Voting Entitlements

The 24 voting member agencies currently served by the Water Authority consist of six cities, seventeen special districts, and one federal agency. Under the County Water Authority Act (Act), California Statutes 1943, Chapter 545, a member agency’s vote is based on its “total financial contribution” to the Water Authority since the Water Authority was organized in 1944. Total financial contribution includes all amounts paid in taxes, assessments, fees, and charges to or on behalf of the Water Authority or the Metropolitan Water District of Southern California (MWD) excluding charges for water treatment. The Act authorizes each member agency to cast one vote for each \$5 million, or major fractional part thereof, of the total financial contribution paid by the member agency.

TABLE 5. MEMBER AGENCY VOTING ENTITLEMENTS, EFFECTIVE AS OF JANUARY 1, 2018 *

Member Agency	Total Financial Contribution ⁽¹⁾	Vote Entitlement	Percentage
Carlsbad Municipal Water District	\$458,237,841	91.648	3.58%
City of Del Mar	37,902,439	7.580	0.30%
City of Escondido	458,754,357	91.751	3.58%
Fallbrook Public Utility District	296,928,623	59.386	2.32%
Helix Water District	869,449,548	173.890	6.78%
Lakeside Water District	95,353,192	19.071	0.74%
City of National City	97,177,694	19.436	0.76%
City of Oceanside	656,986,846	131.397	5.13%
Olivenhain Municipal Water District	411,603,017	82.321	3.21%
Otay Water District	732,468,042	146.494	5.71%
Padre Dam Municipal Water District	344,526,951	68.905	2.69%
Camp Pendleton Marine Corps Base	12,161,262	2.432	0.09%
City of Poway	271,195,280	54.239	2.12%
Rainbow Municipal Water District	512,677,067	102.535	4.00%
Ramona Municipal Water District	192,701,244	38.540	1.50%
Rincon del Diablo Municipal Water District	186,760,530	37.352	1.46%
City of San Diego	5,101,362,929	1,020.273	39.81%
San Dieguito Water District	137,784,168	27.557	1.07%
Santa Fe Irrigation District	203,480,826	40.696	1.59%
South Bay Irrigation District	263,496,443	52.699	2.06%
Vallecitos Water District	351,400,333	70.280	2.74%
Valley Center Municipal Water District	674,077,947	134.816	5.26%
Vista Irrigation District	397,540,777	79.508	3.10%
Yuima Municipal Water District	51,658,824	10.332	0.40%
Total	\$12,815,686,182	2,563.137	100.00%

* Numbers may not total due to rounding.

(1) Total Financial Contribution is calculated by adding the total member agency financial contribution for the fiscal year ended June 30, 2017 to the cumulative total member agency financial contribution as of June 30, 2016.

Water Source and Use

TABLE 6. MEMBER AGENCY GROSS WATER SALES BY FISCAL YEAR, THOUSANDS OF DOLLARS * (1)

	2014	2015	2016 ⁽²⁾	2017	2018
Carlsbad Municipal Water District	\$ 23,942	\$ 23,192	\$ 20,929	\$ 26,133	\$ 29,386
City of Del Mar	1,198	1,140	1,133	1,212	1,393
City of Escondido	23,524	22,427	20,765	20,198	14,611
Fallbrook Public Utility District	15,971	15,480	12,665	12,657	15,093
Helix Water District	35,291	33,721	30,279	32,216	35,110
Lakeside Water District	4,948	4,124	3,758	4,197	4,607
City of Oceanside	29,460	28,676	27,204	29,432	32,012
Olivenhain Municipal Water District	22,755	22,376	20,483	22,868	25,657
Otay Water District	44,691	42,890	39,233	42,722	47,799
Padre Dam Municipal Water District	16,156	14,944	13,427	14,800	16,528
Camp Pendleton Marine Corps Base	72	76	86	82	125
City of Poway	13,851	12,295	10,980	11,179	13,641
Rainbow Municipal Water District	28,093	25,622	23,418	24,513	28,015
Ramona Municipal Water District	8,391	7,672	6,874	6,858	7,909
Rincon del Diablo Municipal Water District	9,132	8,046	7,249	7,870	8,775
City of San Diego	205,769	217,734	194,692	211,989	215,688
San Dieguito Water District	5,308	5,628	4,307	4,928	4,038
Santa Fe Irrigation District	10,691	10,173	7,524	9,512	8,559
Sweetwater Authority ⁽³⁾	13,400	14,117	13,085	15,512	6,274
Vallecitos Water District	23,598	21,639	20,912	25,754	28,925
Valley Center Municipal Water District	35,839	32,816	27,224	28,828	33,042
Vista Irrigation District	20,244	18,100	17,564	22,646	9,822
Yuima Municipal Water District	4,964	5,075	4,367	5,673	8,179
Total	\$ 597,289	\$ 587,964	\$ 528,157	\$ 581,779	\$ 595,188

* Numbers may not total due to rounding.

(1) Gross water sales represent total water sales invoiced less adjustments for certain items such as agricultural and reclaimed water, treatment credits, and infrastructure access charges. In addition to gross water sales revenues, in some years the Water Authority has also received a minor amount of revenues from adjacent water districts that provide water to customers within the Water Authority's service area under operating agreements. These revenues are not included in this chart.

(2) Numbers have been adjusted to account for the adjustments stated in Note 1.

(3) Represents sales to the city of National City and South Bay Irrigation District for which Sweetwater Authority acts as a purchasing agent.

In Fiscal Year 2018, the Water Authority member agencies' combined imported and local water use totaled 518,397 acre-feet. Imported supplies accounted for 392,871 acre-feet or 76 percent of the total water used, excluding estimated water savings from conservation programs. Approximately 357,175 acre-feet or 91 percent of imported water supplies was used for municipal and industrial (M&I) needs, with the balance going to meet agricultural demands.

TABLE 7. WATER SOURCE AND USE (IN ACRE-FEET), FISCAL YEARS 2014-2018

	2014	2015	2016	2017	2018	% of change from previous year
Water Use by Member Agency						
Carlsbad Municipal Water District	22,829	20,609	17,391	18,324	20,527	12.0%
City of Del Mar	1,197	1,097	1,016	1,061	1,195	12.6%
City of Escondido	25,523	22,265	18,518	18,672	22,021	17.9%
Fallbrook Public Utility District	14,125	12,331	10,175	9,863	10,830	9.8%
Helix Water District	35,067	31,145	27,118	28,717	30,258	5.4%
Lakeside Water District	4,311	3,739	3,185	3,380	3,650	8.0%
City of National City	6,692	5,676	5,014	5,210	5,251	0.8%
City of Oceanside	29,638	26,449	22,789	22,723	24,969	9.9%
Olivenhain Municipal Water District	25,020	22,222	18,167	20,007	22,271	11.3%
Otay Water District	38,158	34,485	29,128	30,734	33,794	10.0%
Padre Dam Municipal Water District	12,982	11,322	9,371	10,138	11,053	9.0%
Camp Pendleton Marine Corps Base ⁽¹⁾	9,038	8,026	6,277	6,206	7,580	22.1%
City of Poway	13,038	11,127	8,806	9,800	10,898	11.2%
Rainbow Municipal Water District	22,980	20,173	17,050	16,983	19,240	13.3%
Ramona Municipal Water District	6,827	6,142	4,867	5,042	5,580	10.7%
Rincon del Diablo Municipal Water District	9,873	8,882	7,488	7,572	8,212	8.5%
City of San Diego ⁽²⁾	209,876	191,674	164,228	171,883	181,661	5.7%
San Dieguito Water District	7,443	7,110	5,895	6,110	6,872	12.5%
Santa Fe Irrigation District	12,172	11,199	8,482	9,851	11,022	11.9%
South Bay Irrigation District	14,584	13,555	11,987	12,484	12,128	-2.9%
Vallecitos Water District	17,889	15,297	12,985	14,410	16,134	12.0%
Valley Center Municipal Water District	29,997	25,985	20,025	20,606	22,905	11.2%
Vista Irrigation District ⁽³⁾	20,134	17,833	15,812	17,190	18,031	4.9%
Yuima Municipal Water District ⁽⁴⁾	5,143	4,894	9,191	10,058	12,315	22.4%
Total	594,536	533,238	454,963	477,024	518,397	4.8%
Allocation of Water Use						
Residential	385,559	338,162	296,379	306,757	335,136	9.3%
Commercial & Industrial	83,482	80,311	74,049	80,668	85,553	6.1%
Agricultural ⁽⁵⁾	51,851	55,360	44,675	45,167	50,323	11.4%
Public & Other	73,644	65,528	39,860	44,432	47,385	6.7%
Total	594,536	539,361	454,963	477,024	518,397	4.9%

(1) Includes Water Authority deliveries via South Coast Water District System.

(2) Excludes City of San Diego local surface water use outside of Water Authority service area.

(3) Excludes land outside of Water Authority service area.

(4) Includes local supplies and demands developed beyond Yuima's master meters beginning in Fiscal Year 2015.

(5) Agricultural use based on member agencies' estimated sector weightings.

**TABLE 8. WATER SOURCE AND USE -
CURRENT YEAR BREAKOUT, FISCAL YEAR ENDED JUNE 30, 2018**

	Source of Water (Supply) (Acre-feet)			Type of Water Authority Supply (Acre-feet)		Gross Area (Acres)
	Local ⁽¹⁾	Water Authority (Imported) ⁽²⁾	Total	Agricultural Use ⁽³⁾	M & I Use	
Carlsbad Municipal Water District	6,747	13,780	20,527	-	13,780	20,682
City of Del Mar	117	1,078	1,195	-	1,078	1,442
City of Escondido	12,495	9,526	22,021	1,897	7,628	18,500
Fallbrook Public Utility District	824	10,006	10,830	2,971	7,035	27,988
Helix Water District	4,545	25,713	30,258	-	25,713	31,350
Lakeside Water District	812	2,838	3,650	-	2,838	11,488
City of National City	5,005	246	5,251	-	246	4,812
City of Oceanside	2,460	22,509	24,969	310	22,199	26,983
Olivenhain Municipal Water District	2,839	19,432	22,271	104	19,328	30,942
Otay Water District	4,156	29,638	33,794	-	29,638	80,320
Padre Dam Municipal Water District	732	10,321	11,053	159	10,162	54,402
Camp Pendleton Marine Corps Base ⁽⁴⁾	7,392	188	7,580	-	188	134,625
City of Poway	667	10,231	10,898	47	10,184	25,047
Rainbow Municipal Water District	-	19,240	19,240	8,807	10,433	47,670
Ramona Municipal Water District	708	4,872	5,580	1,034	3,838	45,868
Rincon del Diablo Municipal Water District	2,744	5,468	8,212	32	5,437	10,596
City of San Diego ⁽⁵⁾	29,468	152,193	181,661	152	152,041	213,121
San Dieguito Water District	4,212	2,660	6,872	-	2,660	5,660
Santa Fe Irrigation District	5,203	5,819	11,022	-	5,819	10,359
South Bay Irrigation District	10,418	1,709	12,128	-	1,709	13,837
Vallecitos Water District	3,500	12,634	16,134	901	11,733	28,363
Valley Center Municipal Water District	379	22,526	22,905	14,607	7,919	64,540
Vista Irrigation District	13,875	4,156	18,031	28	4,128	21,152
Yuima Municipal Water District	6,227	6,088	12,315	4,647	1,441	13,460
Total ⁽⁶⁾	125,525	392,872	518,397	35,696	357,175	943,207

(1) Includes surface, recycled, seawater desalination, and groundwater supplies; does not reflect conserved water.
 (2) Water use in a given year may differ from Water Authority sales due to utilization of storage.
 (3) Includes only amounts certified through the Transitional Special Agricultural Water Program (TSAWR).
 (4) Includes Water Authority deliveries via South Coast Water District System.
 (5) Excludes City of San Diego local surface water use outside of Water Authority service area.
 (6) Numbers may not total due to rounding.

Operating Results

TABLE 9. HISTORICAL OPERATING RESULTS BY FISCAL YEAR, THOUSANDS OF DOLLARS *

	2014	2015	2016	2017	2018
Operating Revenue					
Water Sales ⁽¹⁾	\$ 593,695	\$ 584,173	\$ 524,935	\$ 579,057	\$ 591,809
Standby Charges	11,137	11,107	11,088	11,091	11,103
Capacity Charges	13,815	22,560	15,839	21,081	28,154
Infrastructure Access Charges ⁽²⁾	29,206	29,896	30,434	31,145	32,482
Total Operating Revenue	\$ 647,853	\$ 647,736	\$ 582,296	\$ 642,374	\$ 663,548
Plus Withdrawals from or Minus Deposits to the Rate Stabilization Fund					
	(22,000)	(28,500)	(10,300)	(8,673)	(18,399)
BABs Interest Rate Subsidy ⁽³⁾	10,269	10,476	10,544	10,527	10,546
Nonoperating Revenue ⁽⁴⁾	7,670	7,204	6,724	6,013	15,691
Total Revenue⁽⁵⁾	\$ 643,792	\$ 636,916	\$ 589,264	\$ 650,240	\$ 671,386
Operating Expenses⁽⁶⁾					
Cost of Sales	422,700	411,038	387,123	430,561	442,369
Other Maintenance and Operations Costs ⁽⁷⁾	39,303	44,898	41,123	42,626	50,314
Total Operating Expense	\$ 462,003	\$ 455,936	\$ 428,246	\$ 473,187	\$ 492,683
Application of Net Tax Receipts	11,142	11,476	12,067	12,913	13,754
Net Operating Expense	\$ 450,861	\$ 444,460	\$ 416,179	\$ 460,273	\$ 478,929
Net Water Revenue Available for Debt Service	\$ 192,931	\$ 192,456	\$ 173,085	\$ 189,967	\$ 192,456

* Some amounts are prepared on a basis other than generally accepted accounting principles.

(1) Water sales represent accrued sales to member agencies, as well as revenues from treatment of raw water and certain miscellaneous income items.

(2) Infrastructure access charge was implemented January 1999 and is levied on retail water meters within the service area.

(3) Taxable Build America Bonds (BABs) receive a 35 percent subsidy of interest payable from the United States Treasury. In Fiscal Year 2014, due to Congressionally -mandated sequestration, the IRS reduced the subsidy payments to issuers of BABs. The first semi-annual payment was reduced by 8.7 percent and the second semi-annual payment was reduced by 7.2 percent. In Fiscal Year 2015, 2016, and 2017 both semi-annual payments were reduced by 6.8 percent.

(4) Nonoperating revenue consists of interest earnings on Water Authority funds (excluding interest earnings on bond proceeds and the Rate Stabilization Fund) and other revenues (hydroelectric sales, penalties, etc.).

(5) Total revenue includes amounts transferred to and from the Rate Stabilization Fund, and excludes property taxes, contributions in aid of capital assets, and CIP grant reimbursements.

(6) Operating expenses exclude depreciation and amortization expenses.

(7) Includes operations, maintenance, planning, and general and administrative costs; excludes capital equipment purchases.

(8) Includes only debt service on Water Authority indebtedness payable from net water revenues and excludes debt service paid from tax revenues. Senior lien debt service does not include trust fees.

(9) Total debt service excludes the CPCFA issued 2012 Pipeline Bonds.

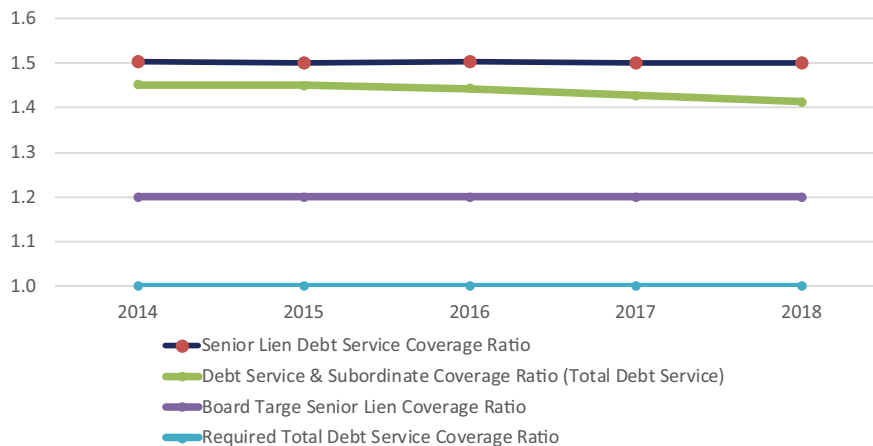
(10) Commercial paper (CP) costs include interest and related program fees.

(11) Coverage ratios do not include program fees.

TABLE 9. HISTORICAL OPERATING RESULTS BY FISCAL YEAR, THOUSANDS OF DOLLARS*, (CONTINUED)

	2014	2015	2016	2017	2018
Revenue Supported Debt Service⁽⁸⁾					
1998 Certificates	\$ 555	\$ 555	\$ 555	\$ 555	\$ 555
2004 Certificates	2,163	1,262	-	-	-
2005 Certificates	16,852	17,113	16,771	17,157	16,057
2008 Certificates	38,181	37,819	19,504	16,832	18,899
2010A&B Bond	38,576	39,497	38,505	37,145	37,143
2011A Bond	13,237	13,232	13,230	13,224	13,234
2011B Bond	4,707	4,707	4,707	4,707	4,707
2013A Bond	13,982	13,982	13,982	13,982	13,982
2015A Bond	-	-	6,905	8,910	8,910
2016A&B Bond	-	-	1,054	14,093	14,817
Total Debt Service⁽⁹⁾	\$ 28,253	\$ 128,167	\$ 115,213	\$ 126,605	\$ 128,304
Subordinate Obligation Payments					
Commercial Paper ⁽¹⁰⁾	2,480	1,708	1,925	3,853	4,944
2011S-1 Bond	4,272	4,272	3,916	-	-
2016S-1 Bond	-	-	290	3,885	4,084
Total Subordinate Obligation Payments	\$ 6,752	\$ 5,980	\$ 6,131	\$ 7,738	\$ 9,028
Balance Available after Debt Service and Subordinate Obligation Payments	\$ 57,926	\$ 58,311	\$ 51,741	\$ 55,625	\$ 55,124
Revenue Supported Debt Service Coverage Ratio	1.50X	1.50X	1.50X	1.50X	1.50X
Debt Service and Subordinate Obligation Coverage Ratio ⁽¹¹⁾	1.45X	1.45X	1.44X	1.43X	1.41X

Chart 1, Water Authority Debt Service Coverage Ratios by Fiscal Year



Summary of Water Rates

Water rates are established by the Board of Directors and are not subject to regulation by the California Public Utilities Commission or by any other local, state, or federal agency. Under the General Resolution, the Water Authority is required to fix rates that are reasonably fair and nondiscriminatory. The Water Authority assesses five different charges for the supply and delivery of water; the fixed Customer Service, Storage, and Supply Reliability Charges, and the variable Transportation Rate and Supply and Treatment Rates. The Customer Service Charge recovers operating and capital costs associated with the overall functioning of the Water Authority, the Storage Charge recovers costs associated with the Emergency and Carryover Storage Program, the Supply Reliability Charge recovers a portion of costs associated with desalinated water and IID transfer water, and the Transportation Rate recovers costs associated with the conveyance of water through the Water Authority’s aqueducts.

TABLE 10. SUMMARY OF WATER RATES, EFFECTIVE JANUARY 1 - DECEMBER 31

San Diego County Water Authority								Metropolitan Water District ⁽¹⁾								
Calendar Year	Melded Supply		TSAWR ⁽²⁾		Transportation Rate	Customer Service	Storage	Supply Reliability	Full Service Tier 2		Replenishment Water Rate ⁽⁴⁾		IAWP ⁽³⁾	UTR	TR	
	UTR	TR	UTR	TR					UTR	TR	UTR	TR				
2012	\$ 638	\$ 872	\$ 560	\$ 794	\$ 85	\$ 26,400,000	\$54,200,000	n/a	\$686	\$ 920	\$ 537	\$ 765	\$ 442	\$ 651		
2013	714	970	593	849	93	26,400,000	60,200,000	n/a	743	997	-	-	-	-		
2014	732	1,006	593	867	97	26,400,000	63,200,000	n/a	735	1,032	-	-	-	-		
2015	764	1,042	582	860	101	26,400,000	63,200,000	n/a	714	1,055	-	-	-	-		
2016	780	1,060	594	874	105	26,400,000	63,200,000	26,000,000	728	1,076	-	-	-	-		
2017	855	1,145	666	956	110	26,400,000	65,000,000	24,800,000	728	1,073	-	-	-	-		
2018	894	1,194	695	995	115	26,400,000	65,000,000	28,600,000	781	1,101	-	-	-	-		

UTR=Untreated Water
 TR=Treated Water
 IAWP=Interim Agricultural Water Program
 TSAWR=Transitional Special Agricultural Water Rate

(1) MWD rates are shown as the rates adopted by MWD.

(2) TSAWR was adopted on December 10, 2008 for customers opting out of MWD's IAWP, and continues through December 31, 2020. Customers that are participating in the TSAWR program are considered M&I customers by MWD.

(3) The IAWP was discontinued in 2013.

(4) Discussion on MWD’s Replenishment Rate Program is continuing with its member agencies.

Summary of Investments

TABLE 11. SUMMARY OF INVESTMENTS, FISCAL YEAR ENDED JUNE 30, 2018 ⁽¹⁾

Investment Type	Permitted by Board Policy	Maximum Maturity	Maximum Financial Institution Concentration	Actual Percentage	Actual Amount Book Value ⁽²⁾
Local Agency Investment Fund (LAIF)	\$65 Million	n/a	n/a	14.87%	\$ 48,459,400
Treasury Securities	40%	5 years	n/a	20.66%	67,302,152
Agency Securities	100%	5 years	no limit	29.88%	97,360,626
Supranational Securities	10%	5 years	5%	1.78%	5,793,340
Commercial Paper	25%	270 days	5%	3.95%	12,855,022
Medium Term Notes/Corporates	30%	5 years	5%	10.29%	33,528,488
JPA Pools (CAMP)	25%	n/a	n/a	17.06%	55,582,146
Money Market Funds	20%	n/a	n/a	1.51%	4,926,244
				100%	\$ 325,807,418
Accrued Interest (unavailable for investing)					43,708
Checking/Petty Cash/Available Funds (unavailable for investing)					4,119,587
Subtotal for Pooled Funds:					\$ 329,970,713
Debt Service Reserve (DSR) Funds Excluded from Portfolio Percentages ⁽³⁾:					
Trinity Plus - Reserve (GIC) - Series 1998A COPs					12,240,775
Subtotal for Debt Service Reserve Funds (unavailable for CIP expenditures):					\$ 12,240,775
Total Cash and Investments					\$ 342,211,488

Investment Policy

The Water Authority’s investment policy is defined and approved annually. The purpose is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy, and to organize and formalize investment-related activities. The Water Authority’s Board of Directors has delegated investment responsibility to the Water Authority’s Treasurer, who is primarily responsible for implementing the investment policy. The Board and the Treasurer adhere to the guidance provided by the “prudent investor rule.” The Treasurer presents an investment report to the Board monthly. The objectives of the investment policy are as follows:

A. Safety: Each investment transaction shall seek to avoid capital losses. Diversification of the portfolio will be used to reduce exposure to principal loss.

B. Liquidity: An adequate percentage of the portfolio will be maintained in liquid, short-term securities that can be converted to cash to meet disbursement requirements. Investment in securities with active secondary markets will be utilized. These securities will have a low sensitivity to market risk.

(1) Includes only investment types with balances at June 30, 2018.

(2) Book value of investments differs from fair market values contained in financial statements. Book value of investments represents cost.

(3) Debt Service Reserve does not include the CPCFA issued 2012 Pipeline Bond.

C. Yield: Yield should become a consideration only after the basic requirements of safety and liquidity have been met.

D. Public Trust: All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Portfolio diversification is employed as a way to control risk.

The Water Authority strives to maintain an efficient portfolio by providing for the lowest level of risk for a given level of return. This acceptable level of return has been quantified as a return that is consistent with the two-year U.S. Treasury constant maturity.

The Water Authority is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, investments are authorized for the Water Authority's operating and reserve funds as indicated in the Summary of Investments table.

The Water Authority does not invest in derivative instruments. Securities such as yield curve notes, interest only, principal only, range notes, and inverse floaters are prohibited. Callable bonds, step-up bonds, and floating rate securities (with a positive spread) are permitted investments. No security will be purchased that could result in a zero interest accrual if held to maturity. Investments such as common stocks, futures, and the writing of options are prohibited from use in the Water Authority's portfolio. The use of short positions is also prohibited.

Litigation

Quantification Settlement Agreement (QSA)

All state and federal court challenges to the validity of the QSA have been resolved and the validity of the QSA has been judicially confirmed. See *In re Quantification Settlement Agreement Cases (2011) 201 Cal. App. 4th 758*; *Quantification Settlement Agreement Cases (2015) 237 Cal. App. 4th 72*; and *California ex rel. Imperial County Air Pollution Control Dist. v. United States, 767 F. 3d 781 (9th Cir. 2014)*.

Construction Dispute

The Water Authority was involved in a construction dispute with Plaintiff Shimmick Construction Company, Inc./Obayashi Corporation, a Joint Venture. This dispute pertains to construction cost disputes for the San Vicente Dam Raise project. The Plaintiff alleged approximately \$60 million in unpaid costs and interest, while the Water Authority disputed all such claims. The Water Authority has also sued the Plaintiff entities for false claims. The trial in the case concluded with an award of approximately \$30 million (net) against the Water Authority of the roughly \$60 million sought. The parties negotiated a final settlement that is confidential (with some exceptions), and the case is now concluded. The matter settled within Water Authority budgeted parameters.

MWD Litigation

The Water Authority has sued MWD in various related cases, mainly pertaining to alleged rate overcharges by MWD. The Water Authority has been paying the disputed MWD rates over the years, so the cases generally relate to potential damages to be awarded to the Water Authority, not additional new payments or damages to MWD. The general status of these cases:

2010/2012 Rate Cases: The Water Authority won a trial court award of \$234,932,782 from MWD on rate overcharges, interest, and attorney's fees for years 2011-2014. On June 21, 2017, the First District Court of Appeal issued its decision in the MWD appeal of that trial award. The Court of Appeal decision may be found at 12 Cal. App.5th 1124. The Court of Appeal sided with the Water Authority on most issues, but allowed MWD to charge the Water Authority certain State Water Project costs for water being transported under an exchange agreement, thereby potentially significantly reducing the ultimate monetary award to the Water Authority. That Court of Appeal decision was subject to a Petition for Review to the California Supreme Court which was filed by the Water Authority on July 31, 2017. The Supreme Court, however, denied review on September 27, 2017. The Court of Appeal opinion therefore becomes final, and the case has returned to the trial court for further proceedings consistent with the Court of Appeal's ruling.

2014 Rate Case: This case challenges MWD's rates adopted in 2014 for 2015 and 2016, was transferred to San Francisco Superior Court, and currently remains stayed. However, the stay may be lifted in the future, given the above result in the 2010/2012 cases.

2016 Rate Case: This case challenges MWD's rates adopted in 2016 for 2017 and 2018, and was transferred to San Francisco Superior Court. The Water Authority, MWD, and the eight MWD member agencies who answered the 2016 complaint entered into a stipulation (1) allowing the Water Authority to amend the 2016 complaint to add claims under the Exchange Agreement and for monetary damages; and (2) staying the 2016 case pending the outcome of the appeal in the 2010 and 2012 cases. On November 14, 2016, the Water Authority filed its amended complaint, and the 2016 case remains stayed. However, the stay may be lifted in the future, given the above result in the 2010/2012 cases.

2017 Rate Case: This case challenges MWD's rates adopted in 2017 for 2018 and has been transferred to San Francisco Superior Court. It may be allowed to proceed, given the above result in the 2010/2012 cases.

2018 Rate Case: This case challenges MWD's rates adopted in 2018 for 2019/2020 and is currently in the process of being transferred to San Francisco Superior Court. It may be allowed to proceed, given the above result in the 2010/2012 cases.

For detailed information on the Water Authority's rate litigation, visit: <http://www.sdcwa.org/mwdrate-challenge>.

Kimball Litigation

The Kimball litigation is a real property dispute filed in August 2018, over San Diego County assessor parcel numbers 327-110-07-00, 329-010-04-00, and 329-023-01-00. The Kimballs' sued the Water Authority to try and reform recorded title documents to allow for a conservation easement over about 160 acres that were purchased as a buffer zone for San Vicente Reservoir. The core issue in the case is what party will hold mitigation credit rights tied to the property of about \$1 to \$2 million, the Kimballs' or the Water Authority. The Water Authority is contesting the action.

San Luis Rey Parties Arbitration

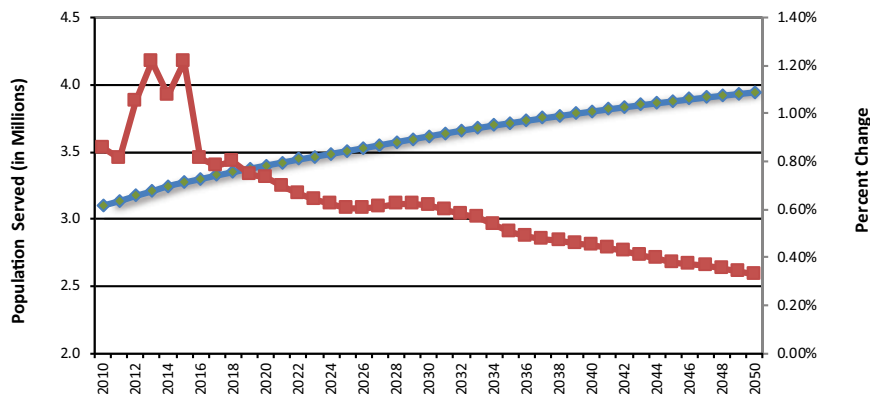
The Water Authority is in arbitration with the San Luis Rey Indian Water Authority, the City of Escondido, and the Vista Irrigation District regarding a contractual water delivery start date. The Water Authority asserts about \$2 million in damages, and that is disputed by the other parties. No claims are made against the Water Authority. The matter is being arbitrated by the American Arbitration Association, and should be decided in 2018 or early 2019.

For further information, contact the General Counsel’s office, 4677 Overland Ave., San Diego, CA 92123, (858) 522-6790.

Economy of San Diego County

Two of the San Diego region’s greatest assets are its geography and climate. The average annual rainfall is only ten inches, so the county is highly reliant on imported water. For these reasons, the health of the regional economy is inextricably linked to the long-term success of the San Diego County Water Authority.

Chart 2, San Diego County Estimated Population Growth and Change in Percentage ⁽¹⁾



San Diego County has an estimated population of just over 3.3 million people; the estimated average growth between 2018 and 2050 is approximately 0.53 percent; the 2017 per capita income is an estimated \$56,473, a 1.8 percent decrease from 2016 estimates; and the per capita income for 2018 is estimated at \$57,473.⁽¹⁾ Estimated unemployment for San Diego County as of July 2018 is averaging at 3.3 percent according to CALMIS.

The San Diego region continues to see employment growth in the professional and business services with two back to back year over year gains. One of the fastest growing sectors has been healthcare, indicating continued demand. Industries that continue to underperform are trade, transportation and utilities, and financial activities, including real estate, and rental and leasing. According to the Federal Reserve Bank of St. Louis, Gross Domestic Product (GDP) decreased by 1.3 percent in 2017.

(1) San Diego County Economic Forecast. http://www.dot.ca.gov/hq/tpp/offices/eab/socio_economic_files/2017/SanDiego.pdf (p.145-148)

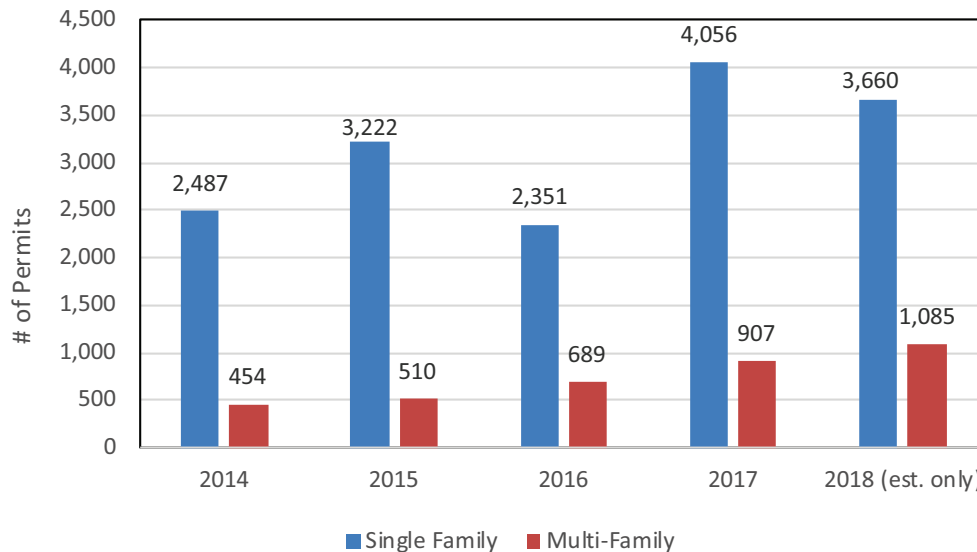
Housing prices continue to pose a problem as San Diego continues to remain one of the least affordable housing markets in the nation, second only to San Francisco. Building units authorized for construction have risen with an expectation of continued improvement; and home building is shifting from single family to multi-family housing of five or more units, growing by 21 percent.

TABLE 12. SAN DIEGO COUNTY ANNUAL BUILDING PERMIT ACTIVITY, CALENDAR YEAR ⁽¹⁾

	2014	2015	2016	2017	2018 (est)
Single Family	2,487	3,222	2,351	4,056	3,660
Multi-Family	454	510	689	907	1,085
Total	2,941	3,732	3,040	4,963	4,745

2018 year-to-date	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Single Family	421	209	305	263	508	260	245	246
Multi-Family	123	33	96	98	162	97	58	55

CHART 3. BUILDING PERMIT ACTIVITY, 2014-2018 (EST.), CALENDAR YEAR ⁽¹⁾



(1) Table 12 and Chart 3. Source: U.S. Census Bureau (based on building estimates).

TABLE 13. LABOR FORCE RATE TRENDS, CALENDAR YEAR

YEAR	AREA	CIVILIAN LABOR FORCE	EMPLOYMENT	UNEMPLOYMENT	PERCENTAGE of UNEMPLOYMENT
2014	San Diego County	1,544,300	1,445,100	99,200	6.4%
	California	18,758,400	17,351,300	1,407,100	7.5%
	United States	155,922,000	146,305,000	9,617,000	6.2%
2015	San Diego County	1,554,900	1,474,200	80,700	5.2%
	California	18,896,475	17,724,800	1,171,674	6.2%
	United States	157,130,000	148,834,000	8,296,000	5.3%
2016	San Diego County	1,570,300	1,496,200	74,200	4.7%
	California	19,093,600	18,048,800	1,044,800	5.5%
	United States	159,187,000	151,436,000	7,751,000	4.9%
2017	San Diego County	1,584,700	1,521,200	63,500	4.0%
	California	19,312,000	18,393,000	919,000	4.8%
	United States	160,320,000	153,337,000	6,983,000	4.4%
2018 Estimated	San Diego County	1,583,985	1,531,298	52,687	3.3%
	California	19,344,062	18,524,804	819,258	4.2%
	United States	161,771,978	155,355,371	6,416,607	4.0%

Source: State of California, Employment Development Department. United States Department of Labor, Bureau of Labor Statistics. Labor Force Statistics, <https://www.bls.gov/cps/tables.htm#annual>

TABLE 14. SAN DIEGO COUNTY EMPLOYMENT BY INDUSTRY, CALENDAR YEAR ⁽¹⁾

Industry	2014	2015	2016	2017	2018 ⁽²⁾
Farm Production	9,400	9,100	8,900	8,600	9,100
Mining and Logging	400	300	300	300	400
Construction	63,900	69,900	76,300	79,300	83,600
Manufacturing	102,200	106,200	108,000	109,000	113,900
Trade, Transportation, and Utilities	217,500	221,900	224,800	228,800	226,100
Information	24,800	24,200	24,100	24,400	24,500
Financial Activities	69,400	71,200	72,700	74,100	74,400
Professional and Business Services	221,400	227,200	231,200	233,500	248,600
Educational and Health Services	186,000	192,700	198,700	204,500	209,100
Leisure and Hospitality	177,000	183,900	191,900	196,400	197,500
Other Services	52,000	53,200	54,900	54,900	57,900
Federal Government	45,800	46,000	46,800	46,800	47,000
State and Local Government	186,200	190,200	195,500	201,200	194,200
Total	1,356,000	1,396,000	1,433,600	1,461,800	1,486,300

Notes:

(1) Table uses the North American Industry Classification System (NAICS).

(2) Current year is based on August statistics.

Source: CALMIS

APPENDIX D
BOOK-ENTRY SYSTEM

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The following description of the Depository Trust Company (“DTC”), the procedure and record keeping with respect to beneficial ownership interests in the Project Bonds, payment of principal, interest and other payments on the Project Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Project Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be. None of the Issuer, the Water Authority, the Water Authority Financing Agency or the Pipeline Trustee takes any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2019 Pipeline Bonds, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2019 Pipeline Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2019 Pipeline Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “rules” applicable to DTC are on file with the Securities Exchange Commission and the current “procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

General

Ownership interests in the Series 2019 Pipeline Bonds will be available to purchasers only through a book-entry system (the “**Book-Entry System**”) maintained by DTC, which will act as securities depository for the Series 2019 Pipeline Bonds. The Series 2019 Pipeline Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. Initially, one fully registered bond certificate will be issued for the Series 2019 Pipeline Bonds of each maturity and will be deposited with DTC. The following discussion will not apply to any Series 2019 Pipeline Bonds issued in certificated form following the discontinuance of the DTC Book-Entry System, as described below.

So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2019 Pipeline Bonds, the Beneficial Owners of the Series 2019 Pipeline Bonds will not receive or have the right to receive physical delivery of the Series 2019 Pipeline Bonds, and references herein to the Bondholders or Owners or registered owners of the Series 2019 Pipeline Bonds will mean Cede & Co. and will not mean the Beneficial Owners of the Series 2019 Pipeline Bonds.

DTC and its Participants

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers,

banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). DTC has a Standard & Poor’s rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests

Purchases of Series 2019 Pipeline Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2019 Pipeline Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2019 Pipeline Bond (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2019 Pipeline Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2019 Pipeline Bonds, except in the event that use of the book-entry system for the Series 2019 Pipeline Bonds is discontinued.

Transfers

To facilitate subsequent transfers, all Series 2019 Pipeline Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2019 Pipeline Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2019 Pipeline Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2019 Pipeline Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2019 Pipeline Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2019 Pipeline Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Plant Bond Documents or the Pipeline Bond Documents, as applicable. For example, Beneficial Owners of Series 2019 Pipeline Bonds may wish to ascertain that the nominee holding the Series 2019 Pipeline Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

Redemption

Redemption notices shall be sent to DTC. If less than all of the Series 2019 Pipeline Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2019 Pipeline Bonds to be redeemed.

Voting

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2019 Pipeline Bonds unless authorized by a Direct Participant in accordance with MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2019 Pipeline Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of Principal and Interest

The principal and redemption price of, and interest on, the Series 2019 Pipeline Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Collateral Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (or its nominee), the Plant Trustee, the Pipeline Trustee, the Water Authority, the Company or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of the principal and redemption price of, and interest on, the Series 2019 Pipeline Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer, Plant Trustee, the Pipeline Trustee, the Water Authority, the Company, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Discontinuation of Book-Entry System

The book-entry system for registration of the ownership of the Series 2019 Pipeline Bonds through DTC may be discontinued at any time that (i) DTC determines to resign as securities depository for the Series 2019 Pipeline Bonds and gives notice of such determination to the Issuer and the Registrar or (ii) the Issuer determines that continuation of the system of book-entry-only transfers through DTC is not in the best interests of the Issuer or the holders of the Series 2019 Pipeline Bonds and gives notice of such determination to the Registrar and DTC. In either of such events the Issuer may appoint a successor securities depository. In that event Series 2019 Pipeline Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but the Company, the Water Authority, the Issuer and the Underwriters take no responsibility for the accuracy thereof, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

None of the Plant Trustee, the Pipeline Trustee, the Water Authority, the Company or the Issuer will have any responsibility or obligations to any Direct Participants or Indirect Participants or the

persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or any such Direct Participant or Indirect Participant; (ii) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal and redemption price of, and interest on, the Series 2019 Pipeline Bonds; (iii) the delivery by any such Direct Participant or Indirect Participants of any notice to any Beneficial Owner that is required or permitted under the terms of the Bond Indenture to be given to Bondholders; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2019 Pipeline Bonds; or (v) any consent given or other action taken by DTC as Bondholder.

APPENDIX E

SUMMARIES OF CERTAIN COLLATERAL DOCUMENTS

- I. SUMMARY OF CERTAIN PROVISIONS OF THE COLLATERAL TRUST AGREEMENT
- II. SUMMARY OF CERTAIN PROVISIONS OF THE SECURITY AGREEMENT
- III. SUMMARY OF CERTAIN PROVISIONS OF THE DEED OF TRUST
- IV. SUMMARY OF CERTAIN PROVISIONS OF THE PLEDGE AGREEMENT

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I. SUMMARY OF CERTAIN PROVISIONS OF THE COLLATERAL TRUST AGREEMENT

General

The Plant Trustee and the Pipeline Trustee have appointed the Collateral Agent to hold the Collateral described below in trust as security for the Company's obligations under the Loan Agreement and its obligations to pay Contracted Shortfall Payments under the Pipeline Agreement to the Pipeline Trustee (as assignee of the Water Authority). Subject to the satisfaction of certain conditions, the Company is permitted to incur additional debt under the Loan Agreement or under other financing arrangements that, in either case, would be secured under the Collateral Trust Agreement and the other Collateral Documents on a parity with the Company's obligations under the Loan Agreement and its obligations to make Contracted Shortfall Payments ("**Additional Plant Senior Debt**"). If the Company incurs Additional Plant Senior Debt under such other financing arrangement, the lender or its agent or trustee (an "**Additional Plant Senior Lender**") will become a party to the Collateral Trust Agreement.

Senior Debt Majority

Each of the Plant Trustee and the lender of any Additional Plant Senior Debt (a) grants to the Senior Debt Majority (as defined below) the sole right to direct the exercise of remedies under the Plant Financing Documents to which it is a party, (b) grants to the Collateral Agent the sole right to enforce such remedies, including an acceleration of the Plant Senior Debt and (c) agrees that it will not pursue any remedy under any Plant Financing Document to which it is a party with respect to a Plant Financing Event of Default. The Pipeline Trustee (i) grants to the Senior Debt Majority the sole right to direct the exercise of remedies under the Pipeline Indenture if a Contracted Shortfall Payment Default occurs, (ii) grants to the Collateral Agent the sole right to enforce such remedies, including an acceleration of the Pipeline Bonds if a Contracted Shortfall Payment Default occurs and (iii) agrees that it will not pursue any remedy under the Pipeline Indenture with respect to a Contracted Shortfall Payment Default except as directed by the Senior Debt Majority. The Senior Debt Majority also has the right to give certain approvals under the Collateral Trust Agreement.

The "**Senior Debt Majority**", at any time, is a majority in interest of the Outstanding Senior Debt based on the outstanding principal amount of such Senior Debt, including for these purposes the outstanding principal amount of the Pipeline Bonds, acting by written notice to the Collateral Agent.

Pledge of Collateral

The Issuer has pledged its rights under the Loan Agreement (including the right to receive Plant Loan Repayments but excluding the Plant Retained Rights) to the Plant Trustee as part of the Plant Trust Estate pledged under the Plant Indenture. The Plant Trustee has pledged those rights to the Collateral Agent and any Additional Plant Senior Lender will pledge its rights under the Plant Financing Documents for the related Additional Plant Senior Debt (excluding any rights identified therein as reserved to the Additional Plant Senior Lender) to the Collateral Agent.

The Collateral Agent holds as trustee in trust for the Secured Parties all of the Company's and the Collateral Agent's right, title and interest in, to and under all of the following (collectively, the "**Collateral**"):

Trust Estate (as defined in the Plant Loan Agreement);

Plant Account Collateral;

Capital Proceeds;

the Security Agreement, the Plant Revenues and the other collateral subject to Liens granted to the Collateral Agent thereunder;

the Deed of Trust;

the Pledge Agreement, including the collateral subject to Liens granted to the Collateral Agent thereunder;

each Reserve Surety;

each Consent;

any other Collateral Documents to which it is a party and the collateral subject to Liens granted to the Collateral Agent under those documents;

the financing statements, registrations, filings, recording instruments or other appropriate instruments or documents covering all the collateral subject to Liens granted under the Collateral Documents; and

all proceeds and products of each of the foregoing.

However: the Plant Debt Service Reserve Fund established for the Series 2012 Plant Bonds and all Reserve Sureties, cash, investments and securities and any proceeds thereof at any time on deposit therein are held by the Collateral Agent secure solely the Series 2012 Bonds and any Plant Debt Service Reserve Fund established in connection with any Additional Plant Senior Debt will be secure solely such Additional Plant Senior Debt; In addition, to comply with California law requiring that an escrow account be established and funded to secure the Company's obligations to make timely payment of amounts due the Plant Contractor, an Account for the Plant Contractor will be established in the Plant Project Fund for that purpose (the "**Plant Contractor Security Account**") and, until the Contractor has been paid in full, amounts in the Plant Contractor Security Account will secure only those payment obligations.

Funds and Accounts.

The following funds and accounts will be established under the Collateral Trust Agreement:

Plant Project Fund and, within it, the Plant Contractor Security Account;

Plant Revenue Fund;

Operating Fund;

Plant Debt Service Reserve Fund;

Working Capital Reserve Fund and, within it, the Permanent Account and the Project Reserve Account;

Wetlands Mitigation Reserve Fund;

REC/VER Reserve Fund;

Ground Lease Restoration Reserve Fund;

Distribution and Stabilization Fund;

Plant Restoration Fund and, within it, the Pump Shutdown Account; and

Prepayment Fund.

Plant Project Fund

The Plant Project Fund has been closed out following achievement of Commercial Operation except for the Plant Contractor Security Account which has a retained balance of \$5,463,217.51.

On each monthly Construction Disbursement Date, the Collateral Agent disburses funds to pay Project Costs from the Plant Contractor Security Account in the amounts and to the Persons identified in a Construction Withdrawal Certificate, executed by the Company and approved by the Independent Engineer.

Deficiencies

If amounts on deposit in the Poseidon Project Account fall below the amount by which the estimated cost to achieve completion of the Plant exceeds the amount of the Available Construction Funds, the Company must deposit the amount of the deficiency into the Poseidon Project Account within 120 business days or such shorter period as will not cause an event of default under the Pipeline DBA or the Water Purchase Agreement.

“**Available Construction Funds**” means, in summary, as of any Construction Disbursement Date, the sum of amounts on deposit (a) in the Poseidon Project Account and (b) in the Plant Contractor Security Account. Available Construction Funds also include, among other things, any Net Capital Proceeds and proceeds of Additional Plant Senior Debt, in each case deposited in or reasonably anticipated to be deposited in the Plant Project Fund. See Appendix A – Certain Definitions for a complete definition of Available Construction Funds.

Plant Revenue Fund

The Consent to be delivered to the Collateral Agent by the Water Authority will require the Authority to pay directly to the Collateral Agent all amounts owing to the Company under the Water Purchase Agreement. If the Company does receive any Plant Revenues, it must deposit them into the Plant Revenue Fund. Following the Commercial Operation Date, on each Monthly Disbursement Date, all moneys on deposit in the Plant Revenue Fund will be applied as follows:

1. to the Plant Bond Trustee, such amount as it may request for deposit into the Rebate Fund held under the Plant Indenture;
2. to the Operating Account to pay O&M Costs for the following month in an amount designated in a Disbursement Request;
3. on a pro rata basis based on the proportion of each of the following amounts to the sum of such amounts:

- (A) (1) to each Fiduciary and the Issuer, an amount equal to all Fees and Expenses for its own account due and payable before the next Monthly Disbursement Date and (2) upon receipt of a Contracted Shortfall Payment Notice, executed by the Water Authority with respect to the previous month an amount equal to the product of (x) the Contracted Shortfall Payment set forth in such Contracted Shortfall Payment Notice and (y) the Pipeline Trustee Fee Factor;
 - (B) if Additional Plant Bonds are issued that bear interest at a variable rate, to each liquidity facility provider the amount of all its Fees and Expenses that will be due and payable before the next Monthly Disbursement Date; and
 - (C) to each Additional Plant Lender, the amount of its Fees and Expenses that will be due and payable before the next Monthly Disbursement Date;
 - (D) to the Bond Insurer, if any, an amount equal to all scheduled fees, expenses, indemnity payments and premiums, if any, due and payable under the related reimbursement agreement prior to the next Monthly Disbursement Date;
4. except as described below under “Insufficient Plant Revenues,” on a pro rata basis, based on the proportion of each of the following amounts to the sum of such amounts:
- (A) with respect to each Series of Plant Bonds, upon notice from the Plant Bond Trustee to the Collateral Agent, which notice may be given by standing instructions, to the Plant Bond Trustee, an amount equal to the unfunded portion of one-sixth of the semi-annual interest payments due and owing on such Plant Bonds on the next succeeding Interest Payment Date; provided that, with respect to any Additional Plant Bonds bearing interest at a variable rate, the amount to be transferred as described in this clause (A) will be an amount estimated by the Company, based on the actual interest rate or rates for that portion of the month for which interest has accrued or is estimated will accrue and, with respect to any Additional Plant Senior Debt bearing interest at a weekly, daily or flexible rate, the interest payable for such Additional Plant Senior Debt will also include any interest payable thereon on or before the next succeeding Monthly Disbursement Date;
 - (B) upon receipt of a Contracted Shortfall Payment Notice executed by the Water Authority, to the Pipeline Trustee, an amount equal to the product of (x) the Contracted Shortfall Payments as set forth in such Contracted Shortfall Payment Notice and (y) the Pipeline Interest Payment Factor;
 - (C) upon notice from an Additional Plant Lender to the Collateral Agent, which notice may be given by standing instructions, to such Additional Plant Lender, the amount required to be disbursed to such Additional Plant Lender in respect of debt service on the related Additional Plant Senior Debt payable on or before the next succeeding Monthly Disbursement Date; and
 - (D) to counterparties to Interest Hedging Arrangements entered into in connection with Additional Plant Bonds issued as variable rate bonds, any amounts required to be paid to such counterparties under their respective Interest Hedging Arrangements Debt payable on or before the next succeeding Monthly Disbursement Date;

5. on a pro rata basis, based on the proportion of each of the following amounts to the sum of such amounts:
 - (A) with respect to each Series of Plant Bonds, upon notice from the Plant Bond Trustee to the Collateral Agent, which notice may be given by standing instructions, to the Plant Bond Trustee an amount equal to one-twelfth of the annual principal payments and make-whole or spread premium, if any, due and owing on the next succeeding Bond Payment Date with respect to such Series;
 - (B) upon receipt of a Contracted Shortfall Payment Notice executed by the Water Authority, to the Pipeline Trustee, an amount equal to the product of (x) the Contracted Shortfall Payments set forth in such Contracted Shortfall Payment Notice and (y) the Pipeline Principal Payment Factor;
 - (C) upon notice from an Additional Plant Lender to the Collateral Agent, which notice may be given by standing instructions, to such Additional Plant Lender, the amount required to be disbursed to such Additional Plant Lender in respect of principal of the related Additional Plant Senior Debt;
 - (D) to a Bond Insurer, if any, an amount equal to all payments made by it under the related Bond Insurance Policy for which it was not reimbursed prior to such Monthly Disbursement Date; and
 - (E) to any Plant Letter of Credit Issuer, an amount equal to all payments made by such issuer under its Plant Letter of Credit for which it was not reimbursed prior to such Monthly Disbursement Date;
6. except as described below under “Insufficient Plant Revenues,” on a pro rata basis, based on the proportion of each of the following amounts to the sum of such amounts:
 - (A) to the Plant Debt Service Reserve Fund, the amount necessary, if any, to increase the balance therein to an amount equal to the related Debt Service Reserve Requirement;
 - (B) to any Additional Debt Service Reserve Fund, the amount necessary, if any, to increase the balance therein to an amount equal to the related Debt Service Reserve Requirement; and
 - (C) upon receipt of a Contracted Shortfall Payment Notice, executed by the Water Authority, to the Pipeline Trustee, an amount equal to the product of the Contracted Shortfall Payment set forth in such Contracted Shortfall Payment Notice and (y) the Pipeline Reserve Increase Factor; and
7. on a pro rata basis, based on the sum of the following amounts:
 - (A) to the Permanent Account of the Working Capital Reserve Fund, the amount necessary, if any, to increase the balance therein to an amount equal to the Working Capital Reserve Requirement; and
 - (B) to the Project Reserve Account of the Working Capital Reserve Fund, the amount, if any, necessary to increase the balance therein to \$11.5 million or,

following the first anniversary of the Commercial Operation Date, an amount equal to the greater of (1) \$11.5 million and (2) the aggregate Fixed O&M Costs for the immediately following six-month period as set forth in the then-current Operating Budget (the “**Required Project Reserve Account Balance**”);

8. if such Monthly Disbursement Date occurs in a Budget Year with respect to which the Company has delivered notice to the Collateral Agent that it has elected not to acquire RECs or VERs in accordance with the Greenhouse Gas Plan and the State Lands Commission Lease, to the REC/VER Reserve Fund, an amount equal to the REC/VER Reserve Requirement for such year;
9. following receipt by the Collateral Agent from the Company of a Shutdown Notice, to the Permanent Pump Shutdown Reserve Account, the Monthly Permanent Pump Shutdown Amount; provided that no transfer will be made after the aggregate amount transferred to the Permanent Pump Shutdown Reserve Accounts equals the Permanent Pump Shutdown Reserve Amount;
10. following the 17th anniversary of the Commercial Operation Date, to the Ground Lease Restoration Reserve Fund, the Monthly Ground Lease Restoration Amount, provided that no more transfers will be made after the aggregate amount transferred to such Account equals the Ground Lease Restoration Reserve Amount;
11. (A) beginning on the first Monthly Disbursement Date following the occurrence of a 10-Year Coverage Shortfall, to the Special Maintenance Reserve Fund until the balance therein equals \$10 million (Escalated), provided that no more than \$5 million (Escalated) will be transferred to the Maintenance Reserve Fund during any Fiscal Year following the occurrence of a 10-Year Shortfall; where “**10-Year Coverage Shortfall**” means, on the first January Calculation Date occurring on or after the 10th anniversary of the Commercial Operation Date (1) the Debt Service Coverage Ratio for each of the two immediately preceding Fiscal Years was less than 1.35 and (2) the Debt Service Coverage Ratio for four or more out of the six immediately preceding Fiscal Years (including the Fiscal Years described in clause (1)) was less than 1.35; and

(B) if:
 - (1) funds have been drawn from the Special Maintenance Reserve Fund prior to the Special Maintenance Reserve Release Date; and
 - (2) on the first January Calculation Date occurring on or after the first anniversary of the completion of the Capital Project or other work for such funds were expended, the Debt Service Coverage Ratio for the immediately preceding Fiscal Year is less than 1.35,to the Special Maintenance Reserve Fund, an amount sufficient (but not to exceed \$5 million in any Fiscal Year) to cause the balance in the Special Maintenance Reserve Fund to equal \$10 million (Escalated);
12. to the counterparty of any Interest Hedging Arrangements, any termination payment then owing to such counterparty; and
13. to the Distribution and Stabilization Account, all remaining Plant Revenues.

Insufficient Plant Revenues

If, on any Monthly Disbursement Date, moneys in the Plant Revenue Fund are insufficient to make the disbursements and transfers described in Items 1 through 3 above, the Collateral Agent will make up the deficiency by transferring funds to the Plant Revenue Fund (a) *first*, from the Distribution and Stabilization Fund, (b) *second*, from the Special Maintenance Reserve Fund, if any, (c) *third*, the Permanent Account of the Working Capital Reserve Fund and (d) *fourth*, from the Project Reserve Account of the Working Capital Reserve Fund.

If, on the Monthly Disbursement Date immediately preceding any Bond Payment Date, moneys in the Plant Revenue Fund (after giving effect to the foregoing transfers and the disbursements and transfers described in Items 1 through 3) are insufficient to make the disbursements required to be made on such date as described in Items 4 and 5 and a Contracted Shortfall Payment Notice has been delivered by the Water Authority with respect to the payments to be made on such Monthly Disbursement Date, then notwithstanding the provisions described in Items 4 and 5 above, the Collateral Agent will disburse amounts available in the Plant Revenue Fund, after giving effect to any transfer thereto as described in the preceding paragraph and making the transfers described in Items 1 through 3 above as follows:

to the payment of interest on the Plant Senior Debt until the proportion of interest payments made for the benefit of the holders of the Plant Senior Debt for such month is equal to the proportion of interest on the Pipeline Bonds paid by the Water Authority for such month;

pro rata in proportion to the total monthly Debt Related Payment due with respect to the Plant Senior Debt and Pipeline Bonds, to the remaining interest payments due on the Plant Senior Debt and the interest portion of the Contracted Shortfall Payment for such month;

to the payment of principal on the Plant Senior Debt until the proportion of principal payments made for the benefit of the holders of the Plant Senior Debt for such month is equal to the proportion of principal on the Pipeline Bonds paid by the Water Authority for such month; and

pro rata in proportion to the total monthly Debt Related Payments due with respect to the Plant Senior Debt and the Pipeline Bonds, to the remaining principal payments due on the Plant Senior Debt and the principal portion of the Contracted Shortfall Payment for such month.

If, on the Monthly Disbursement Date, amounts in the Plant Revenue Fund (after giving effect to the foregoing transfers and the transfers and disbursement described in Items 1 through 4 under “Plant Revenue Fund” above) are insufficient to make the transfers required to be made to the Plant Debt Service Reserve Fund, and a Contracted Shortfall Payment Notice has been delivered by the Water Authority with respect to the payments to be made on such Monthly Disbursement Date, then notwithstanding the provisions described in Item 6 under “Plant Revenue Fund” above, the Collateral Agent will disburse amounts available in the Plant Revenue Fund as follows:

to the payment of required increases in the Plant Debt Service Reserve Fund (but not replenishments) until the proportion of reserve increase payments for such month is equal to the proportion of required increases to the Pipeline Debt Service Reserve Fund paid by the Water Authority for such month; and

pro rata in proportion to the total monthly Debt Related Payments due with respect to the Plant Senior Debt and the Pipeline Bonds, to the remaining reserve increase payments due with respect to the Plant Senior Debt and the reserve increase portion of the Contracted Shortfall Payment for such month.

Operating Fund

On each Monthly Disbursement Date, the Operating Fund is to be funded with an amount sufficient to pay the estimated O&M Costs for the following month. Upon receipt by the Collateral Agent of a Disbursement Request signed by an Authorized Representative of the Company detailing the amounts and Persons to be paid, the Collateral Agent will disburse funds in the Operating Fund to any Person to whom a payment is due in respect of O&M Costs.

Plant Debt Service Reserve Fund

On the Series 2012 Closing Date, the Collateral Agent will deposit the Debt Service Reserve Surety into the Plant Debt Service Reserve Fund

If, on the last Monthly Disbursement Date preceding any principal or interest payment date with respect to any Plant Senior Debt, the moneys in the Plant Revenue Fund are insufficient to make the disbursements and transfers described in clauses 4 and 5 under “Plant Revenue Fund” above (after giving effect to any transfers thereto as described above under “Plant Revenue Fund – Insufficient Funds” and distributions and transfers of a higher priority), the Collateral Agent will disburse from the Plant Debt Service Reserve Fund or Additional Debt Service Reserve Fund, as applicable, and transfer to the Plant Trustee or the related Additional Senior Lender, the amount of the deficiency. The Collateral Agent will provide prompt notice to the Senior Debt Majority and the other Secured Parties of any such disbursement.

On each Monthly Disbursement Date, the Collateral Agent will transfer to the Plant Revenue Fund any amounts in the Plant Debt Service Reserve Fund in excess of the related Debt Service Reserve Requirement.

Working Capital Reserve Fund

Permanent Account

On and after the Commercial Operation Date, the Permanent Account is funded from Plant Revenues as described above under “Plant Revenue Fund.” The Collateral Agent will transfer amounts from the Permanent Account to the Plant Revenue Account if Plant Revenues therein are insufficient to make certain disbursements as described above under “Insufficient Plant Revenues.”

Project Reserve Account

On the Commercial Operation Date, the Collateral Agent shall (a) transfer from the Poseidon Project Account the balance of the Construction Contingency Amount and the amount of \$11.5 million to the Project Reserve Account and (b) transfer all amounts remaining in the Capitalized Interest Account to the Project Reserve Account. The Collateral Agent will transfer amounts from the Project Reserve Account to the Plant Revenue Fund if Plant Revenues therein are insufficient to make certain disbursements as described above under “Insufficient Plant Revenues.” Funds on deposit in the Project Reserve Account may also be used to pay the cost of a Capital Project, subject to the satisfaction of certain conditions.

On the first Monthly Disbursement Date following receipt of a certificate signed by an Authorized Representative of the Company, with the concurrence of the Independent Engineer, certifying that the Debt Service Coverage Ratio for the 12-month period preceding the month in which the certificate is delivered was at least 1.35 and the projected Debt Service Coverage Ratio for the 12-month period beginning with the month in which the certificate is delivered, is at least 1.35, the Collateral Agent will transfer all amounts in excess of the Required Project Reserve Account Balance then on deposit in the Project Reserve Account to the Plant Revenue Fund.

REC/VER Reserve Fund

The REC/VER Reserve Fund will be funded with Plant Revenues as described above under “Plant Revenue Fund.” Upon receipt of a Disbursement Request from the Company, the Collateral Agent will disburse from the REC/VER Reserve Fund to the Company, or such Persons as it may designate, the amount set forth in the Disbursement Request, to be used solely to pay costs incurred in connection with acquiring the carbon offsets or renewable energy certificates required to be acquired by the Company under the State Lands Commission Lease. On each Monthly Disbursement Date, the Collateral Agent will transfer to the Plant Revenue Fund any amounts of net interest or gain from investments held in the REC/VER Reserve Fund since the last preceding Monthly Disbursement Date.

If, on or before any Monthly Disbursement Date, the Collateral Agent receives a certificate signed by an Authorized Representative of the Company certifying, with the concurrence of the Independent Engineer, that the amounts then on deposit in the REC/VER Reserve Fund with respect to any Budget Year or Years exceed the total amounts which the Company could reasonably be expected in the future to incur in satisfying its obligations under the State Lands Commission Lease to acquire carbon offsets or renewable energy certificates with respect to such year or years, the Collateral Agent will transfer to the Plant Revenue Fund the amount of excess funds in the REC/VER Reserve Fund identified in such certificate. Upon receipt of a Disbursement Request in which the Company certifies that it has met its obligations under the offset requirements in the State Lands Commission Lease with respect to any year or years, any amounts then remaining in the REC/VER Reserve Fund with respect to such year(s) will be transferred to the Plant Revenue Fund.

Wetlands Mitigation Reserve Fund

On the Commercial Operation Date, the Collateral Agent transferred the amount of the Wetlands Mitigation Reserve Requirement, if any, to the Wetlands Mitigation Reserve Fund. Upon receipt by the Collateral Agent of a Disbursement Request signed by an Authorized Representative of the Company detailing the amounts and Persons to be paid, the Collateral Agent will disburse funds in the Wetlands Mitigation Reserve Fund to the Company, or such Persons as it may designate, to be used to pay costs and expenses of undertaking the wetlands restoration work which the Company is required to perform pursuant to its Coastal Development Permit by the California Coastal Commission in accordance with the terms of the State Lands Commission Lease. On each Monthly Disbursement Date, following any such transfer of funds, the Collateral Agent will transfer to the Plant Revenue Fund any amounts of net interest or gain from investments held in the Wetlands Mitigation Reserve Fund since the last preceding Monthly Disbursement Date.

On any Monthly Distribution Date next succeeding the delivery to the Collateral Agent of a certificate signed by an Authorized Representative of the Company, with the concurrence of the Independent Engineer, certifying that the amounts then on deposit in the Wetlands Mitigation Reserve Fund exceed the amounts which the Company could reasonably be expected in the future to incur in satisfying such wetlands restoration obligations under the State Lands Commission Lease and the Marine

Life Mitigation Plan, the Collateral Agent will transfer the excess funds in the Wetlands Mitigation Reserve Fund identified in such certificate to the Plant Revenue Fund.

Ground Lease Restoration Fund

The Ground Lease Restoration Fund will be funded with Plant Revenues as described above under “Plant Revenue Fund.” On the Monthly Disbursement Date next succeeding the delivery to the Collateral Agent of a certificate signed by an Authorized Representative of the Company and approved by the Independent Engineer certifying that the amounts then on deposit in the Ground Lease Restoration Fund exceed the cost of obtaining the Subsequent Restoration Security, the Collateral Agent will transfer the amount of excess funds identified in the certificate to the Plant Revenue Fund and not further Plant Revenues will be deposited into the Ground Lease Restoration Reserve Fund. On each Monthly Disbursement Date following the delivery of such certificate, the Collateral Agent will transfer to the Plant Revenue Fund any amounts of net interest or gain from investments held in the Ground Lease Restoration Reserve Fund since the last preceding Monthly Disbursement Date.

Upon receipt by the Collateral Agent of a Disbursement Request signed by an Authorized Representative of the Company, (a) the Collateral Agent will disburse funds in the Ground Lease Restoration Reserve Fund to the Company, or such Persons as it may designate, to be used to pay the cost of obtaining the Subsequent Restoration Security in the amount set forth in the Disbursement Request and (b) will transfer the remaining funds, if any, to the Plant Revenue Fund, and no further Plant Revenues will be deposited into the Ground Lease Restoration Reserve Fund.

Special Maintenance Reserve Fund

If a 10-Year Coverage Shortfall occurs, the Collateral Agent will establish an Account in the name of the Company designated the “Special Maintenance Reserve Fund” which will be funded from Plant Revenues as described above under “Plant Revenue Fund.” The Collateral Agent will transfer funds from the Special Maintenance Reserve Fund to the Plant Revenue Fund as described above under “Insufficient Plant Revenues.”

On the first January Calculation Date following the occurrence of a 10-Year Coverage Shortfall with respect to which (A) the Debt Service Coverage Ratio for the two immediately preceding Fiscal Years was at least 1.35, (B) the projected Debt Service Coverage Ratio for each Fiscal Year of the remaining term of the then Outstanding Senior Debt is at least 1.35 and (C) the Collateral Agent has received an opinion from the Independent Engineer stating that it believes that the technical problem or problems that resulted in the 10-Year Coverage Shortfall have been corrected and that the Debt Service Coverage Ratio will be at least 1.35 for each Fiscal Year of the remaining term of the Outstanding Senior Debt (the “Special Maintenance Reserve Release Date”), the Collateral Agent shall transfer the balance in the Special Maintenance Reserve Fund to the Plant Revenue Fund.

On any Monthly Disbursement Date on which funds on deposit in the Special Maintenance Reserve Fund exceed \$10 million (Escalated), the Collateral Agent shall transfer the amount of the excess to the Plant Revenue Fund.

Distribution and Stabilization Fund

The Distribution and Stabilization Fund is funded with Plant Revenues as described above under “Plant Revenue Fund.” On each Monthly Disbursement Date, the Collateral Agent will transfer funds on deposit in the Distribution and Stabilization fund as described above under “Plant Revenue Fund — Insufficient Revenues.”

On each Monthly Disbursement Date occurring in January and July (each, a “**Calculation Date**”), the Collateral Agent will make the following disbursements from the Distribution and Stabilization Fund, in the following priority:

first, to the Water Authority an amount equal to sum of all accrued obligations to pay certain subordinated annual true up charges to the Water Authority under the Water Purchase Agreement, together with interest thereon; and

second, to the Company, all remaining Funds Available for Distribution (as defined below), if any;

but, in each case, only if certain conditions are met, including the following:

no Plant Financing Default or Plant Financing Event of Default then exists;

the Debt Service Coverage Ratio for (x) the Fiscal Year (if the Calculation Date is in January) or (y) Budget Year (if the Calculation Date is in July) or, (z) in the case of the first Calculation Date, the period from the Commercial Operation Date to the earlier of the next June 30 or December 31 that is at least six months after the Commercial Operation Date that, in each case, ended on the last day of the calendar month prior to such Calculation Date, is at least 1.25;

the projected Debt Service Coverage Ratio for the Fiscal Year (if the Calculation Date is in January) or Budget Year (if the Calculation Date is in July) commencing on the first day of the calendar month in which such Calculation Date occurs is at least 1.25;

if Cabrillo has delivered a Shutdown Notice, the Permanent Pump Shutdown Reserve Account has been funded in an amount equal or greater than the Permanent Pump Shutdown Reserve Amount; and

in the case of the first disbursements described under clauses *first* and *second* above, (a) the Debt Service Coverage Ratios for purposes of Items 2 and 3 above are at least 1.35 and (b) for the period on which the condition in clause (a) is met, the Plant has achieved the Capacity and Availability Requirements; where “**Capacity and Availability Requirements**” means that, for any such period, the sum of the monthly unexcused water delivery shortfalls for such period does not exceed the sum of the monthly allowance for unscheduled outages for such period.

“**Funds Available for Distribution**” means (A) on any Calculation Date occurring in the month of January, an amount equal to (1) the amount then on deposit in the Distribution and Stabilization Fund minus (2) Semi-Annual Supply Commitment True-Up Accrual for the Semi-Annual Accrual Period ending on the last day of the month prior to the month in which the Calculation Date occurs, minus (3) the Semi-Annual Shortfall True-Up Accrual for the Semi-Annual Accrual Period ending on the last day of the month prior to the month in which the Calculation Date occurs, and (B) on any Calculation Date occurring in the month of July, the amount then on deposit in the Distribution and Stabilization Fund. Definitions for certain other capitalized terms used in this definition are set forth below and the italicized terms within such definitions are defined in Appendix G – Summary of the Water Purchase Agreement:

“**Adjusted Semi-Annual Supply Commitment**” means, for any Semi-Annual Accrual Period, the sum of the *Adjusted Monthly Supply Commitments* for such Semi-Annual Accrual Period.

“**Capacity and Availability Requirements**” means that, for the period described in clause (b) of Item 5 or the most recently concluded Fiscal Year or Budget Year, the sum of *Monthly Unexcused Supply Shortfall Units* for such period does not exceed the sum of the *Monthly Unscheduled Outage Units* for such period.

“**Semi-Annual Accrual Period**” means, for each January Calculation Date, the six-month period (or, if applicable, the shorter period from the Commercial Operation Date to the first January Calculation Date) ending on December 31 such January Calculation Date.

“**Semi-Annual Accrual Period Ratio**” means, for any Semi-Annual Accrual Period, (a) the aggregate *Monthly Delivered Water Units*, *Monthly Unexcused Demand Shortfall Units* and *Monthly Unscheduled Outage Units* for such Semi-Annual Accrual Period divided by (b) the Adjusted Semi-Annual Supply Commitment for such Semi-Annual Accrual Period.

“**Semi-Annual Operating Period Shortfall Payment Target Amount**” means, for any Semi-Annual Accrual Period, (a) one minus the Semi-Annual Accrual Period Ratio times (b) one-half of the Annual Pipeline Bond Costs as set forth in Table 1.3 of Appendix 10 of the Water Purchase Agreement for the year in which such Semi-Annual Accrual Period occurs.

“**Semi-Annual Shortfall True-Up Accrual**” means (a) the Semi-Annual Operating Period Shortfall Payment Target Amount minus (b) the sum of the *Operating Period Shortfall Payments* made by the Company during such Semi-Annual Accrual Period plus (c) the sum of the *Monthly Operating Period Shortfall Restoration Payments* for such Semi-Annual Accrual Period.

“**Semi-Annual Supply Commitment True-Up Accrual**” means, for any Semi-Annual Accrual Period, (a) the *Base Product Water Deliveries* for such Semi Annual Accrual Period, multiplied by the *Fixed Unit Price* minus (b) the Semi-Annual Accrual Period Ratio times one half of the *Fixed Annual Costs*.

Plant Restoration Fund; Capital Projects

Permanent Pump Shutdown Reserve Account

Unless a Reserve Surety in an amount equal to or greater than the Permanent Pump Shutdown Reserve Amount is on deposit in the Permanent Pump Shutdown Reserve Account, the Collateral Agent will make the deposits to the Permanent Pump Shutdown Reserve Account as described above under “Plant Revenue Fund.” Prior to its receipt of a copy of the Shutdown Notice, the Collateral Agent will transfer funds from the Permanent Pump Shutdown Reserve Account to the Company or any other Person designated by the Company in accordance with a Disbursement Request to reimburse the Company or pay for expenses incurred in connection with obtaining and maintaining the necessary Permits to construct and operate the Pump Relocation Project. After its receipt of a copy of the Shutdown Notice, the Collateral Agent will disburse funds on deposit in such Account as described below for a Capital Project below to pay the costs of a Capital Project undertaken in connection with a Permanent Pump Shutdown (the “**Pump Relocation Project**”).

The Collateral Agent will make the following transfers from the Permanent Pump Shutdown Reserve Account to the Plant Revenue Fund:

upon receipt of a Disbursement Request, approved by the Independent Engineer, the amount identified therein as being in excess of the amount needed to complete the Pump Relocation Project;

upon the deposit into such Account of proceeds of Additional Plant Senior Debt, the lesser of the amount then on deposit in such Account and the amount of such proceeds;

upon receipt of notice from the Company that the Ground Lessor has rescinded the Shutdown Notice, all funds then on deposit in such Account; and

following the completion of the Pump Relocation Project, all funds then on deposit in such Account.

Capital Projects

All Net Capital Proceeds (whether arising from Events of Loss, Events of Eminent Domain, payment of Performance Guarantee Payments, additional Company equity contributions or otherwise) that are received on or after the Commercial Operation Date will be deposited into the Plant Restoration Fund, provided that Net Capital Proceeds (other than Performance Guarantee Payments) received in connection with a single Event of Loss, Event of Eminent Domain or any other event or condition in an aggregate amount less than \$1,000,000 (Escalated), at the written direction of the Company, will be deposited in the Plant Revenue Fund instead of the Plant Restoration Fund.

The Company may undertake a Capital Project following the Commercial Operation Date and, except for any Capital Project to be funded with Net Capital Proceeds described in the proviso in the preceding paragraph (an “**Exempt Capital Project**”), such Capital Project will be subject to, and the related Net Capital Proceeds must be deposited to the Plant Restoration Fund and applied as described below. The Collateral Agent will establish and maintain a separate Account in the Plant Restoration Fund (which in the case of a Pump Relocation Project will be the Permanent Pump Shutdown Reserve Account) for each such Capital Project (with respect to any Capital Project, the “**Related Capital Project Account**”).

If, following an Event of Loss or Event of Eminent Domain after the Commercial Operation Date, the Company intends to restore, repair or replace the affected portion of the Plant or the Company Real Property to overcome the Event of Loss or Event of Eminent Domain and permit continued operation of the Plant, it may undertake a Capital Project and, except for any Exempt Capital Project, such Capital Project will be subject to the conditions described below and any related Net Capital Proceeds arising from such Event of Loss or Event of Eminent Domain will be retained in the Plant Restoration Fund and applied as described below. If, following receipt of any Performance Guarantee Payment, the Company desires to mitigate the deficiencies that gave rise to the EPC Contractor’s obligation to make such Performance Guarantee Payment, the Company may undertake a Capital Project subject to the conditions described below and such Performance Guarantee Payment will be retained in the Plant Restoration Fund and applied as described below.

If the Company determines that it will undertake a Capital Project (other than an Exempt Capital Project) following the Commercial Operation Date:

The Company must deliver to the Collateral Agent and the Secured Parties (a) a budget (as amended, modified or supplemented from time to time, the “**Capital Project Budget**”) identifying all categories and approximate amounts reasonably anticipated to be incurred in connection with such Capital Project, together with a statement of uses of uses of Net

Capital Proceeds to be deposited into the Related Capital Project Account and any other moneys necessary to complete such Capital Project; (b) an estimated progress payment schedule for the projected requisitions to be made from the related Account in the Plant Restoration Fund; (c) a Capital Project plan (as amended, modified or supplemented from time to time, the “**Capital Project Plan**”) prepared by the Company and describing in reasonable detail its plan for completing such Capital Project; (d) a certification by the Independent Engineer that such Capital Project would not (i) adversely affect the ability of the Plant to sustain its current performance levels or the operational integrity of the Plant or (ii) reasonably be expected to result in a Material Decrease in Coverage for the term of the then Outstanding Senior Debt; and (e) if the cost of a Capital Project is greater than \$2,000,000 (Escalated), (A) title insurance protection against Liens comparable to that provided in connection with the original construction, (B) if required by the Collateral Agent or the Senior Debt Majority, an opinion of Counsel that the Capital Project will comply with all Applicable Law, and (C) certificate of the Independent Engineer to the effect that all necessary Permits or Permit modifications for the Capital Project have been obtained;

14. The Company must deposit into the Related Capital Project Account sufficient Net Capital Proceeds to pay the costs set forth in the related Capital Project Budget, provided that that the Company may submit a Disbursement Request to the Collateral Agent requesting a transfer from the Project Reserve Account of the Working Capital Reserve Fund to such Account and the Collateral Agent shall make such transfer to the extent of available funds in the Project Reserve Account;
15. If the Capital Project Budget for such Capital Project exceeds \$5,000,000 (Escalated) or if the Capital Project is to be funded with Performance Guarantee Payments, the Company may not proceed with the Capital Project unless the Independent Engineer has reviewed the Capital Project Plan for such Capital Project and the Capital Project Budget and delivered to the Collateral Agent a certificate a certificate (a “**Capital Project Review Certificate**”) in which it certifies that, among other things:
 - the budget is reasonable and the Capital Project can be completed within the budget and on the proposed schedule;
 - following completion of the Capital Project, the Plant will meet its required performance levels and there will be no Material Decrease in Coverage, taking into account any extension of the expiration date of the Water Purchase Agreement;
 - the Capital Project will not cause any adverse impact on the integrity, durability or reliability of the Plant;
 - if the Capital Project results from a Compensation Adjustment Event or a Directed Capital Modification, the Company has complied with the applicable provisions of the Water Purchase Agreement; and
 - if the Capital Project is not the result of Uncontrollable Circumstances or a Directed Capital Modification, the Capital Project will materially improve the performance, operation and/or maintenance of the Plant;
16. Before any withdrawal and transfer will be made from the Related Capital Project Account, the Company must deliver to the Collateral Agent at least three Business Days

prior to a Monthly Disbursement Date a requisition from the Company in the form prescribed by the Collateral Trust Agreement (a “**Capital Project Requisition**”), signed by an Authorized Representative of the Company;

17. On the Monthly Disbursement Date following receipt of a Capital Project Requisition, the Collateral Agent will withdraw and transfer to the Related Capital Project Account and pay to the Persons directed by it in writing the amounts set forth in such Capital Project Requisition;
18. To the extent that the Company enters into any Additional Project Contract or any modification or amendment to any Project Contract in connection with the undertaking of a Capital Project, the Company must have complied with the requirements described below under “Project Contracts” below with respect to such Additional Project Contract, modification or amendment; and
19. Unless (i) the Capital Project is required as a result of one or more Uncontrollable Circumstances and is funded, if debt funding is used, with Permitted Plant Debt or is a Directed Capital Modification or (ii) the cost of the Capital Project is less than \$20 million dollars, the Senior Debt Majority has approved the Capital Project.

Upon completion of any Capital Project (other than an Exempt Capital Project), the Company must deliver to the Collateral Agent a certificate signed by an Authorized Representative of the Company and approved by the Independent Engineer certifying that the completion of the Capital Project has been performed in all material respects in accordance with the Capital Project Plan and that the Plant is capable of operating in all material respects in accordance with the terms of the Plant Financing Documents. Upon receipt of such certificate, the balance in the Related Capital Project Account will be applied by the Collateral Agent in accordance with the written order of any Authorized Representative of the Company in one or more of the ways set forth below:

to the Prepayment Fund;

to the Plant Restoration Fund, to be applied to any Capital Project, subject to (a) compliance with the requirements for undertaking a Capital Project described above and (b) if such funds derive from transfers to the Plant Restoration Fund from the Construction Fund as described above under “Plant Project Fund – Commercial Operation Date; Completion,” such Capital Project is not part of the Plant as it was authorized by the Issuer in its resolution authorizing the issuance of the Series 2012 Plant Bonds or any subsequent resolution of the Issuer, approval by the Issuer; and

the Plant Revenue Fund;

except that, if a Capital Project is funded with Performance Guarantee Payments, any balance in the Related Capital Project Account after the completion thereof will be deposited into the Prepayment Fund.

If either (a) the Company notifies the Collateral Agent and the Secured Parties that (i) it will not rebuild, repair or restore the Plant following an Event of Loss in which all or substantially all of the Plant was damaged or destroyed, (ii) an Event of Eminent Domain or a legal curtailment of the Company’s use and occupancy with respect to all or substantially all of the Plant or Company Real Property for any reason renders continued operation of the Plant uneconomic, or (c) it is either not practical or not desirable to apply the Net Capital Proceeds received by the Company as a result of another event or condition (including a loss of title, the Plant Contractor’s failure to achieve the Guaranteed Performance

Levels, a breach of warranty or a sale of assets) to a Capital Project for the purpose of mitigating the consequences of such event or condition, or (b) the Independent Engineer provides notice to the Collateral Agent (which notice may not, without the Company's consent, be delivered prior to the 60th day after a Capital Project Plan and Capital Project Budget have been delivered to the Independent Engineer) stating that the Independent Engineer will not deliver the Capital Project Review Certificate, the Collateral Agent will transfer the Net Capital Proceeds related to such Event of Loss, Event of Eminent Domain or other event or condition that were deposited in the Plant Restoration Fund to the Prepayment Fund.

Prepayment Fund

Except as described below, amounts deposited into the Prepayment Fund will be promptly (and, in any event, within two Business Days) transferred by the Collateral Agent (upon receipt of written instruction from the Company or, if the Company fails to provide such notice within five Business Days of the date such funds are deposited in the Prepayment Fund, the Senior Debt Majority) as follows:

except in the case of a mandatory redemption under the Plant Indenture, on a pro rata basis, based on the amounts of Outstanding Plant Senior Debt then subject to repayment under the terms of the related Plant Financing Documents, to the Plant Trustee for prepayment or defeasance of Plant Bonds in accordance with the Plant Indenture and to any Additional Plant Lender for prepayment of Additional Plant Senior Debt that is not Plant Bonds; and

in the case of a mandatory redemption under the Plant Indenture, such funds will be transferred, on a pro rata basis based on the aggregate principal amounts of Outstanding Plant Senior Debt, to the Plant Trustee and to any Additional Senior Lenders.

If the Company incurs any Additional Plant Senior Debt that is not Plant Bonds, the Company may prepay such Debt without the need to prepay any or all of the other Plant Senior Debt, except that any such voluntary prepayment of Debt that is not Completion Debt, Water Connection Debt or Compliance Debt may only be made from disbursements from the Distribution and Stabilization Fund or from equity contributions to the Company.

Investment of Accounts

Amounts deposited in the Accounts shall, at the Company's written request and direction, be invested by the Collateral Agent in Eligible Investments as specifically directed. Such investments must mature or be subject to repurchase, withdrawal without penalty or redemption, at the option of the Collateral Agent, on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes of those accounts, provided that Eligible Investments held in the Plant Debt Service Reserve Fund shall either (i) have a final term not longer than five years or (ii) be subject to redemption or tender for the purchase by the obligor at the direction of the Collateral Agent at a price of not less than par with a term longer than five years for application for the purposes of the Plant Debt Service Reserve Fund. Except as otherwise provided in the Collateral Trust Agreement with respect to the Plant Debt Service Reserve Fund, the Permanent Account of the Working Capital Reserve Fund, the REC/VER Reserve Fund, the Special Maintenance Reserve Fund and, following the date on which the Ground Lease Restoration Reserve Amount has been deposited into such Fund, the Ground Lease Restoration Fund, net interest or gain, if any, from such investments shall be deposited into or charged to (as applicable) the applicable Account.

Absent written instructions from the Company, the Collateral Agent will invest the amounts held in the Accounts in certain Eligible Investments described in a schedule to the Collateral Trust Agreement.

The Company may amend such schedule at any time without the consent of any other party hereto. If, on any Business Day, amounts are deposited into an Account after 11:00 a.m. New York City time, the Collateral Agent will have no obligation to invest or reinvest such amounts on the date on which such amounts are funded. Instructions with respect to the investment of amounts received into an Account after 11:00 a.m. New York City time will be deemed to apply for the following Business Day.

If and when cash is required for the making of any transfer, disbursement or withdrawal in accordance with the Collateral Trust Agreement, the Company will cause Eligible Investments to be sold or otherwise liquidated into cash (without regard to maturity) as and to the extent necessary in order to make such transfers, disbursements or withdrawals. The Collateral Agent will comply with any instruction from the Company with respect to the liquidation of such Eligible Investments. If any such investments are so redeemed prior to the maturity thereof, the Collateral Agent will not be liable for any loss or penalties relating thereto.

For purposes of determining responsibility for any income tax payable on account of any income or gain on any Eligible Investment, such income or gain will be for the account of the Company.

Reserve Sureties

The Company may deliver to the Collateral Agent a Reserve Surety in lieu of all or a portion of the amounts required to be on deposit in the Plant Debt Service Reserve Account, an Account in Working Capital Reserve Fund, the Ground Lease Restoration Reserve Fund or the Permanent Pump Shutdown Reserve Account. If, at any time, the provider of such Reserve Surety is no longer an Acceptable Credit Provider, the Company must, within ten Business Days thereafter, deposit with the Collateral Agent (i) cash in the amount then required to be on deposit in the related Account or (ii) a replacement Reserve Surety in such amount. An opinion of counsel to the provider of the Reserve Surety (other than a Debt Service Reserve Surety) that the Reserve Surety is a valid, legal, binding and enforceable obligation of such provider must be delivered to the Collateral Agent at the time such Reserve Surety is delivered.

Each Reserve Surety (i) must be in effect for an initial period of not less than one year, (ii) may provide that it will be automatically renewed for successive periods of at least one year, subject to the provider's nonrenewal rights described in the immediately succeeding sentence, without any action whatsoever on the part of the Collateral Agent, and (iii) may provide for an outside termination date, subject to draw rights for non-renewal or replacement. A Reserve Surety provider will have the right to elect not to renew a Reserve Surety only by giving written notice to the Collateral Agent at least 30 days prior to the then-current expiration date thereof; provided that the privilege of the Reserve Surety provider to elect not to renew such Reserve Surety will not diminish the obligation of the Company to maintain such Reserve Surety in accordance with the terms of the Collateral Trust Agreement or to deposit immediately available funds in the requisite amount. In addition, each Reserve Surety must expressly provide that (A) the Collateral Agent has the right to draw down up to the face amount of the Reserve Surety (and in multiple partial draws) at any time upon presentation to the provider thereof of the original of such Reserve Surety and the Collateral Agent's certified statement that the Collateral Agent is entitled to draw such amount under the provisions of Collateral Trust Agreement and any related draw certificate attached to the Reserve Surety (and without any other condition or qualification as to any such draw) and (B) the Reserve Surety provider will honor such draw request by the Collateral Agent immediately upon such presentation and without inquiry as to the accuracy of the statement and regardless of whether the Company or other account party contests the draw.

If a Reserve Surety provider notifies the Collateral Agent that it will not renew any then-current Reserve Surety it has issued or a Reserve Surety that will otherwise expire, the Collateral Agent will accept a replacement thereof (to be in effect not later than 10 days prior to the expiration of the then-

expiring Reserve Surety), on the terms and conditions described above. If, on the 10th day prior to the expiration of a Reserve Surety, such Reserve Surety has not been renewed or replaced with another Reserve Surety or with cash and the Company has not delivered to the Collateral Agent cash or immediately available funds in an amount equal to the face amount of such Reserve Surety for deposit into the applicable Account, then on the next succeeding Business Day the Collateral Agent will immediately and regardless of any contest or protest by the Company draw on such existing Reserve Surety prior to its expiration and deposit the proceeds therefrom to the applicable reserve Account. Upon the delivery of a substitute Reserve Surety or cash, the Collateral Agent will promptly return the current Reserve Surety to the provider thereof for cancellation.

The Collateral Agent will (immediately and regardless of any contest or protest by the Company) draw upon a Reserve Surety (i) to the extent there are insufficient moneys in the Account for which such Reserve Surety was delivered to fund any disbursement required from such Account and (ii) in the full face amount thereof if it is not extended or replaced as provided above at least 10 days prior to its expiration. The proceeds of any draw by the Collateral Agent under any Reserve Surety will be deposited into the Account for which it was delivered. In the event that there is a Reserve Surety deposited into an Account and there is an excess amount in such Account that is permitted to be transferred by the Collateral Agent in accordance with the terms hereof, the Collateral Agent shall first transfer such excess from cash on deposit in such Account and second, to the extent of any remaining excess, issue a reduction certificate to the issuer of such Reserve Security reducing the maximum amount available for drawing under such Reserve Security by the amount of such remaining excess. In the event that there is more than one Reserve Surety deposited in an applicable Account, any draws on any date on such Reserve Sureties shall be allocated as directed by the Company, provided that in the absence of any such directions, such draws shall be allocated on a pro rata basis among such Reserve Sureties based on the amount to be drawn on such date.

Remedies

Notices; Directions to the Collateral Agent

The Collateral Agent will give each Secured Party notice of the occurrence of a Plant Financing Default (a “**Plant Financing Default Notice**”) or of a Plant Financing Event of Default (an “**Plant Financing Event of Default Notice**”) promptly upon becoming aware thereof. Each Secured Party will promptly give the Collateral Agent a Plant Financing Default Notice and a Plant Financing Event of Default Notice with respect to any Plant Financing Default and any Plant Financing Event of Default of which such Secured Party has knowledge.

If the Collateral Agent delivers or receives a Financing Default Notice, it will consult with, and follow the instructions of, the Senior Debt Majority as to the giving of notice to the Company and the taking of such other action as may be available under the related Plant Financing Document. If the Collateral Agent has received a Plant Financing Event of Default Notice, the Senior Debt Majority will, by direction contained in the Plant Financing Event of Default Notice or by a separate instrument in writing executed and delivered to the Collateral Agent (with copies simultaneously delivered to the other Secured Parties), as the Senior Debt Majority may elect:

to direct the Collateral Agent to exercise, or to refrain from exercising, any right, remedy, trust or power available to or conferred on the Collateral Agent under Collateral Trust Agreement or under the other Collateral Documents; and

to direct the time, method and place:

of conducting any proceeding for any right or remedy available to the Collateral Agent;
of exercising any trust or power conferred on the Collateral Agent;
for the appointment of a receiver; or
for the taking of any other action authorized under the Collateral Trust Agreement.

If the Collateral Agent has delivered or received a Plant Financing Event of Default Notice and has not received written notice from the Senior Debt Majority stating that the underlying Plant Financing Event of Default is no longer continuing or written directions from the Senior Debt Majority as to the pursuit of remedies with respect to such Plant Financing Event of Default, the Collateral Agent will be obligated to exercise the rights and remedies provided in the Collateral Trust Agreement and in the other Collateral Documents pursuant to and in accordance with Applicable Law and the Plant Financing Documents, except that the Collateral Agent may only accelerate the Plant Senior Debt and the Pipeline Bonds at the direction of the Senior Debt Majority.

Any exercise of remedies by the Collateral Agent will be for the benefit of all holders of Senior Debt, and the Collateral Agent must accelerate all Plant Senior Debt if it accelerates any Plant Senior Debt.

Appointment of a Receiver

If a receiver of the Collateral is appointed in judicial proceedings, the Collateral Agent may be appointed as such receiver. Notwithstanding the appointment of a receiver, the Collateral Agent will be entitled to retain possession and control of all cash held by, or deposited with, it or a Supplemental Collateral Agent pursuant to any provision of the Collateral Trust Agreement or any other Collateral Document.

Enforcement of Liens

At all times prior to the Discharge Date, the Collateral Agent, in accordance with a direction of the Senior Debt Majority, will have all rights to take action under any of the Collateral Documents with respect to the Collateral (other than as expressly provided for in the Collateral Trust Agreement), including the exclusive right to enforce, collect or realize on any Collateral or exercise any other right or remedy with respect to the Collateral in accordance with the Collateral Documents. In exercising any such rights or remedies (other than with respect to the Plant Contractor Security Account) after the occurrence and during the continuance of any Plant Financing Event of Default, the Senior Debt Majority may instruct the Collateral Agent to enforce (or to refrain from enforcing) the provisions of the Collateral Documents in respect of the Secured Obligations and exercise (or refrain from exercising) any such rights and remedies, all in such order and in such manner as the Collateral Agent may determine, unless otherwise directed by the Senior Debt Majority, including:

- the exercise or forbearance from exercise of all rights and remedies in respect of the Collateral and/or the Secured Obligations;
- the enforcement or forbearance from enforcement of any Lien in respect of the Collateral;
- the exercise or forbearance from exercise of rights and powers of a holder of equity interests in the Company or any other form of securities or membership interests included in the Collateral to the extent provided in the Collateral Documents;

the acceptance of the Collateral in full or partial satisfaction of the Secured Obligations;

the exercise or forbearance from exercise of all rights and remedies of a secured lender under the UCC or any similar law of any applicable jurisdiction or in equity; and

the drawing in full in accordance with Section 3.21 of the Collateral Trust Agreement or in part of any available amounts under any Reserve Surety.

Secured Parties May Not Exercise Remedies

Each Secured Party (other than the Pipeline Trustee) (i) grants to the Senior Debt Majority the sole right to direct the exercise of remedies under the Financing Documents to which such Secured Party is a party, (ii) grants to the Collateral Agent the sole right to enforce such remedies, including an acceleration of the Plant Senior Debt, in accordance with the terms of the Collateral Trust Agreement and (iii) agrees that it will not pursue any remedy under any Plant Financing Document with respect to an Event of Default. The Pipeline Trustee (A) grants to the Senior Debt Majority the sole right to direct the exercise of remedies under the Pipeline Indenture if a Contracted Shortfall Payment Default occurs, (B) grants to the Collateral Agent the sole right to enforce such remedies, including an acceleration of the Pipeline Bonds, in accordance with the terms of the Collateral Trust Agreement if a Contracted Shortfall Payment Default occurs and (C) agrees that it will not pursue any remedy under the Pipeline Indenture with respect to a Contracted Shortfall Payment Default except as directed by the Senior Debt Majority.

Payments

The Collateral or any proceeds thereof received in connection with the sale or other disposition of, or collection on, the Collateral upon the exercise of remedies in accordance with the Collateral Trust Agreement and any amounts intended to be paid to any of the Secured Parties during the pendency of any Insolvency or Liquidation Proceeding will, in each case, be applied in the following order:

- on a pro rata basis based on amounts then owed each such Person, to (A) the payment of all amounts (expenses and indemnity payments) due to the Issuer, the Collateral Agent, the Plant Trustee or any other agent under any of the Plant Financing Documents and (B) to the payment of all fees, expenses, indemnity payments and premiums, if any, due to any other agent or Fiduciary for a Secured Party;
20. on a pro rata basis based on amounts of interest then due on the Plant Senior Debt, the amount of Contracted Shortfall Payments due for application to interest on the Pipeline Bonds and amounts payable by the Company under Interest Hedging Arrangements to (A) the payment of all interest, fees and other amounts (other than principal or other amounts described in Item 3 below) due to any of the Secured Parties under any Plant Financing Documents, (B) to the payment of all Contracted Shortfall Payments for application to interest on the Pipeline Bonds then due and (C) to the payment of any Company Interest Hedging Payment due to an Interest Hedging Counterparty;
21. on a pro rata basis based on amounts of principal, premium and reimbursement payments then due, to (A) the payment of all principal (and any applicable premium) due to any of the Secured Parties with respect to Plant Senior Debt, (B) to the payment of all Contracted Shortfall Payments then due for application to principal payments on the Pipeline Bonds, (C) the payment of any other payments made by the Bond Insurer under the Bond Insurance Policy for which it was not reimbursed and (D) the payment of any

other payments made by a Facility Letter of Credit Issuer under its Facility Letter of Credit for which it was not reimbursed;

22. on a pro rata basis based on amounts then owed each Interest Hedging Counterparty, to each Interest Hedging Counterparty, any termination payment owing to such Interest Hedging Counterparty under the related Interest Hedging Arrangement; and
23. the balance, if any, after the Secured Obligations have been paid in full in cash, to the Company or as otherwise required by applicable law.

Notwithstanding the foregoing, (A) all amounts on deposit in the Plant Contractor Security Account will remain therein until final settlement is made under the Plant EPC Contract and (B) any amount in any other Account that secures particular Plant Senior Debt or the Company's obligation to pay the Plant EPC Contractor will be disbursed to the related Secured Party.

Promptly following receipt of any of the moneys referred to above, the Collateral Agent will provide notice to each Secured Party of the receipt of such moneys. Within 10 Business Days of the receipt of such notice, each Secured Party will give the Collateral Agent written certification of the aggregate amount of the Secured Obligations then outstanding owed by the Company to such Secured Party under the applicable Plant Financing Documents and, upon receipt thereof, the Collateral Agent will provide a copy of each such certification to each other Secured Party. Unless otherwise directed by a court of competent jurisdiction or each Secured Party, the Collateral Agent will use the information provided for in such notices as the basis for applying such moneys as described above.

No remedy conferred upon or reserved to the Collateral Agent in the Collateral Trust Agreement or any other Collateral Documents is intended to be exclusive of any other remedy or remedies, but every such remedy will be cumulative and will be in addition to every other remedy conferred in the Collateral Trust Agreement or in the other Collateral Documents or existing at law or in equity or by statute. No delay or omission of the Collateral Agent or the Senior Debt Majority to exercise any right, remedy or power accruing upon any Plant Financing Event of Default will impair any such right, remedy or power or may be construed to be a waiver of or acquiescence in any Plant Financing Event of Default. Every right, power and remedy given by the Collateral Trust Agreement or any other Collateral Document to the Collateral Agent or the Senior Debt Majority may be exercised from time to time and as often as may be deemed expedient by the Collateral Agent.

If the Collateral Agent proceeds to enforce any right, remedy or power under the Collateral Trust Agreement or any other Collateral Document and such proceeding is discontinued or abandoned for any reason or is determined adversely to the Collateral Agent, then, and in every such case, the Company, the Collateral Agent and the Secured Parties will, subject to any effect of, or determination in, such proceeding, severally and respectively be restored to their former positions and rights under the Collateral Trust Agreement and such other Collateral Document with respect to the Collateral and in all other respects. Thereafter, all rights, remedies and powers of the Collateral Agent will continue as though no such proceeding had been taken.

The Company, to the fullest extent it may lawfully do so, on behalf of itself and all who may claim through or under it, including, without limitation, any and all subsequent creditors, vendees, assignees and lienors, expressly waives and releases any, every and all rights to demand any marshaling of the Collateral upon any sale, whether made under any power of sale granted under the Collateral Documents, or pursuant to judicial proceedings or upon any foreclosure or any enforcement of the Collateral Trust Agreement or the other Collateral Documents and consents and agrees that all the Collateral may at any such sale be offered and sold as an entirety or in parts.

Amendments to Collateral Trust Agreement

The Collateral Agent and the Senior Debt Majority may, with the consent of the Company but without the consent of (but with notice to) the other Secured Parties, amend the Collateral Trust Agreement for any one or more of the following purposes:

- to grant to or confer or impose upon the Collateral Agent for the benefit of the Secured Parties any additional rights, remedies, powers, authority or duties that may lawfully be granted, conferred or imposed and that are not contrary to or inconsistent with the Collateral Trust Agreement as then in effect;
- to cure any ambiguity or omission or to cure, correct or supplement any defective provision of the Collateral Trust Agreement, in each case, in such manner as does not adversely affect the Secured Parties;
- to evidence the succession of a new collateral agent;
- to modify, alter, amend or supplement the Collateral Trust Agreement in any other respect that does not involve a change that is materially adverse to the Secured Parties; and
- to (A) effectuate the issuance of Additional Plant Bonds in accordance with the terms of the Collateral Trust Agreement (B) cause the Liens granted in the Collateral Trust Agreement to be in favor of the new Secured Parties and (C) cause the new Secured Parties to be treated in the same manner as the other Secured Parties under the Collateral Trust Agreement and the other Collateral Documents (other than as expressly provided hereby).

The Collateral Agent may receive and rely on an opinion of Counsel from the Company to the effect that any amendment to the Collateral Trust Agreement complies with the foregoing.

Project Contracts

Additional Project Contracts

The Company may not enter into any Additional Project Contract without the consent of the Senior Debt Majority unless:

- such Additional Project Contract is entered into to implement the relocation of or modification to the pumping, intake and outfall equipment and facilities used by the Plant following or in anticipation of a Permanent Pump Shutdown, the Company has complied with the requirements for undertaking a Capital Project following the Commercial Operation Date described above under “Capital Projects” with respect to the Pump Relocation Project, and the Company has provided a certificate to the Collateral Agent (with a copy to the Senior Debt Majority) executed by an Authorized Representative of the Company (and the Independent Engineer has concurred in such certification) stating that such proposed Additional Project Contract is consistent with the Capital Project Budget and the Capital Project Plan for the Pump Relocation Project and would not reasonably be expected to impair in any material respect the Company’s ability to perform its obligations under the Principal Project Contracts or otherwise result in any non-economic impact that would have a Material Adverse Effect; or

the Company has complied with the requirements therefor in the Loan Agreement with respect to the related Separate Project Modification and such Additional Project Contract described under “Loan Agreement” in Appendix G – Summary of the Water Purchase Agreement;

such Additional Project Contract is not described above and the Company has provided a certificate to the Collateral Agent (with a copy to the Senior Debt Majority) executed by an Authorized Representative of the Company and certifying (with the concurrence of the Independent Engineer) that such Additional Project Contract would not reasonably be expected to (A) result in a Material Decrease in Coverage or (B) otherwise result in any non-economic impact that would have a Material Adverse Effect, and the Independent Engineer has concurred in the Company’s certification; or

such Additional Project Contract has been approved by the Senior Debt Majority.

Amendments; Change Orders

The Company may not cause, consent to, or permit, any amendment, modification, variance or waiver of timely compliance with any terms or conditions of any Principal Project Contract, including any exhibit thereto, except:

1. amendments or modifications to cure any defective provisions contained therein or to permit other minor deviations from the terms thereof, if, in each case, such amendment, modification or waiver is in the best interests of the Project and is not inconsistent with the Project Construction Budget or the then effective Operating Budget, as applicable, and so long as a copy of any such amendment, modification or waiver is delivered to the Collateral Agent and the Senior Debt Majority not less than three Business Days after the execution thereof;
2. amendments, modifications, variances or waivers as may be necessary in connection with the relocation of or modification to the pumping, intake and outfall equipment and facilities used by the Project following or in anticipation of a Permanent Pump Shutdown, if the Company has delivered a certificate to the Collateral Agent executed by an Authorized Representative of the Company and certifying that the proposed amendment, modification, variance or waiver would not reasonably be expected to impair in any material respect the Company’s ability to perform its obligations under the other Principal Project Contracts or otherwise result in any non-economic impact that would have a Material Adverse Effect, and the Independent Engineer has concurred in such certification;
4. amendments, modifications, variances or waivers (including any thereof as may be necessary in connection with the implementation of any permitted Capital Project, but excluding any thereof described in Items 1 through 4 above), if the Company has delivered a certificate to the Collateral Agent executed by an Authorized Representative of the Company and certifying, with the concurrence of the Independent Engineer, that the proposed amendment, modification, variance or waiver would not reasonably be expected to result in a Material Decrease in Coverage;
5. any work by the EPC Contractor that would entitle it to a Repair Credit so long as the Company delivers to the Collateral Agent a certificate signed by an Authorized Representative of the Company (and the Independent Engineer must concur with such

certificate) to the effect that the proposed actions by the EPC Contractor under the Plant EPC Contract are technically feasible and reasonably expected to remedy the Deficiency proposed to be remedied; and

6. any other amendments, modifications, variances or waivers approved by the Senior Debt Majority.

Cancellation; Termination; Assignment

The Company may not cancel or terminate any Principal Project Contract to which it is a party or consent to or accept any cancellation or termination thereof or the termination or suspension in the performance of any obligations thereunder, except the termination of a Principal Project Contract at the end of the stated term thereof or upon the full and complete performance by each party thereto of all obligations thereunder unless (A) the Company has delivered to the Collateral Agent a certificate executed by an Authorized Representative of the Company certifying that the proposed cancellation or termination would not reasonably be expected to result in a Material Decrease in Coverage or otherwise have a non-economic impact that would have a Material Adverse Effect and the Independent Engineer has concurred in such certificate, (B) the Company is terminating the O&M Agreement for convenience or (C) such cancellation or termination is otherwise approved by the Senior Debt Majority.

The Company may not grant any consent to the assignment of any Principal Project Contract by the counterparty thereto to the extent that the Company has the right to consent or to withhold consent thereunder without the prior consent of the Senior Debt Majority.

Financial Projections

Whenever the Debt Service Coverage Ratio is required to be taken into account under the Collateral Trust Agreement, the Company will deliver to the Senior Debt Majority (with copies provided contemporaneously to the other Secured Parties) a certificate executed by an Authorized Representative of the Company setting forth the complete calculation of the required Debt Service Coverage Ratio and, if the calculation includes the projected Debt Service Coverage Ratio, the Current Case Financial Projections, together with a statement of any material updated information included in the Current Case Financial Projections since the most recently delivered Financial Projections and the Company's certification that such Current Case Financial Projections have been prepared in good faith on the basis of the assumptions stated therein, which assumptions are believed by the Company to be reasonable as of the date of delivery. The Company must in any event deliver such a certificate at the following times:

30 days prior to each Calculation Date;

in connection with any proposed issuance of Additional Plant Senior Debt requiring satisfaction of specified Debt Service Coverage Ratio criteria; and

in connection with any proposed Capital Project requiring the consent of the Senior Debt Majority.

The Senior Debt Majority may, in its discretion, request that the Independent Engineer review and confirm the calculation of the Debt Service Coverage Ratio and other information contained in the Company's certificate. The Company will provide to the Senior Debt Majority such documentation and information in support of the calculation of the Debt Service Coverage Ratio and any proposed update of the Financial Projections as the Senior Debt Majority (or the Independent Engineer) may reasonably request.

The Senior Debt Majority will have the right to object to the use of the Current Case Financial Projections proposed by the Company if it reasonably believes that the information used to prepare a proposed update to the Financial Projections is inaccurate in any material respect or that any material assumption stated therein is not reasonable. If the Senior Debt Majority does not provide written notice to the Company of such objection to a certificate delivered by the Company within 15 days of its delivery, the Current Case Financial Projections contained therein will be deemed effective. If the Senior Debt Majority notifies the Company of an objection to a certificate within such time period, and the Company and the Senior Debt Majority are unable to resolve such objection within the 15-day period following the Senior Debt Majority's notice to the Company, the dispute will be referred to the Independent, Engineer who will review (at the Company's cost) the proposed update to the Financial Projections and render its opinion as to the accuracy of the information and reasonableness of the assumptions used therein.

The Company may not revise the Financial Model without the consent of the Senior Debt Majority unless the Independent Engineer has audited (at the Company's cost) the proposed Financial Model and delivered an opinion, addressed to the Senior Debt Majority, that, based on customary assumptions and qualifications, (i) the logic and integrity of the proposed Financial Model are sound, (ii) the mathematical computations therein are accurate and (iii) the logic embodied therein is materially consistent with the Plant Financing Documents and the Project Contracts and, if the proposed revised Financial Model is delivered in connection with a proposed issuance of Additional Plant Senior Debt, the terms of such proposed Additional Plant Senior Debt.

Additional Plant Senior Debt

The Company may not incur Additional Plant Senior Debt except as described under this heading. Subject to the provisions of the Collateral Trust Agreement described in second and third paragraph under this heading and so long as no Plant Financing Event of Default exists, the Company may incur Additional Plant Senior Debt if the proceeds thereof are to be used to:

finance the Project Costs to be incurred in completing the Plant or costs constituting Poseidon Pipeline Costs ("Completion Debt");

1. refund all or a portion of Plant Senior Debt, Pipeline Bonds that have been accelerated, or subordinated indebtedness of the Company ("**Refunding Debt**");
2. finance the costs of the development, design engineering, permitting, construction, financing, start-up and testing of a Capital Project (A) consisting of a relocation of water connections and other equipment and facilities in connection with a Permanent Pump Shutdown ("**Water Connection Debt**") or (B) required to comply with Applicable Law or any Principal Project Contract, including the performance of any obligations of the Company under the Water Purchase Agreement ("**Compliance Debt**");
3. finance the costs of the development, design engineering, permitting, construction, financing, start-up and testing of other Capital Projects undertaken by the Company in compliance with the provisions of the Collateral Trust Agreement;
4. finance the short-term cash flow requirements of the Company for payment of O&M Costs pursuant to any bank or other working capital credit facility; provided that the total amount of Debt permitted to be incurred under any such working capital credit facility, together with the total amount of reimbursement obligations of the Company under any letter of credit and reimbursement facility described in Item 6 below, may not exceed the sum of (A) \$15 million (Escalated) in the aggregate plus (B) if a Facility Letter of Credit

Issuer agrees that its Facility Letter of Credit can be drawn on to pay the Company's obligations under Project Contracts, the amount available to be drawn thereon;

5. finance letters of credit to secure the Company's obligations under Project Contracts pursuant to any bank or other letter of credit and reimbursement facility; provided that the total amount of reimbursement obligations of the Company permitted to be incurred under any such letter of credit and reimbursement facility, together with the total amount of Debt under any working capital credit facility described in Item 5 above, may not exceed the sum of (A) \$15,000,000 (Escalated) in the aggregate plus (B) if a Facility Letter of Credit Issuer agrees that its Facility Letter of Credit can be drawn on to pay the Company's obligations under Project Contracts, the amount available to be drawn thereon; or
6. with a Favorable Opinion of Bond Counsel, finance facilities ancillary to the operation of the Plant.

The Company may incur Debt under Interest Hedging Arrangements entered into in connection with any Additional Plant Senior Debt as required by the terms of the Plant Financing Documents for such Additional Plant Senior Debt. The Company may also incur:

Completion Debt in an aggregate amount not to exceed \$50 million (Escalated);

Water Connection Debt in an aggregate amount not to exceed \$25 million (Escalated – currently \$26,964,771.27, calculated as of January 16, 2019) and;

Compliance Debt in an aggregate amount not to exceed \$25 million (Escalated – currently \$26,964,771.27, calculated as of January 16, 2019);

so long as, in each case, (A) the Company has delivered to the Collateral Agent updated Current Case Financial Projections that (1) give effect to the issuance of such Debt and (2) show a minimum projected Debt Service Coverage Ratio for each Fiscal Year of the remaining term of the then Outstanding Plant Senior Debt of not less than 1.00 and (B) if the Debt Service Reserve Requirement for any such Additional Plant Senior Debt is different than the Debt Service Reserve Requirement for any then Outstanding Plant Senior Debt, the condition set forth in Item 4 below is satisfied.

Except as provided above with respect to debt under Interest Hedging Arrangements, Water Connection Debt and Compliance Debt, the Company may incur Additional Plant Senior Debt only if the following conditions have been satisfied:

1. the balance of each Plant Debt Service Reserve Fund (other than, in the case of Refunding Debt, the Plant Debt Service Reserve Fund in respect of the Plant Senior Debt that is to be refunded) is at least equal to the related Debt Service Reserve Requirement and the balances of the Permanent Account and the Project Reserve Account of the Working Capital Reserve Fund are at least equal to the Working Capital Reserve Requirement and the Required Project Reserve Account Balance after giving effect to the issuance of such debt;
2. the Debt Service Coverage Ratio for the last completed Budget Year or Fiscal Year preceding the issuance of Additional Plant Senior Debt was at least 1.35;

3. the Company delivers Current Case Financial Projections that (A) give effect to the proposed issuance of such Debt and (B) show a projected Debt Service Coverage Ratio for each Fiscal Year of the remaining term of the then Outstanding Senior Facility Debt of not less than 1.35 after giving effect to the issuance of such Additional Plant Senior Debt;
4. the Company delivers a confirmation from at least two rating agencies that initially rated the Series 2012 Plant Bonds that the issuance of such Additional Plant Senior Debt will not result in the lowering of their then-current respective ratings, and in any event not lower than a rating of BBB- by S&P or its equivalent, on the Series 2012 Plant Bonds and any previously issued Additional Plant Senior Debt;
5. if such Additional Plant Senior Debt is to be issued for the purpose of refunding any Plant Senior Debt then Outstanding, conditions described in Items 2, 3 and 4 above will not apply so long as the Company delivers Current Case Financial Projections showing Debt Service for the current and each succeeding Budget Year that, after giving effect to the issuance of the Additional Plant Senior Debt, is not greater than the Debt Service for the remaining term of the refunded Plant Senior Debt; and
6. the terms of the Plant Financing Documents regarding Additional Plant Senior Debt, except for Refunding Debt that will refinance all Plant Senior Debt then Outstanding, are reasonably satisfactory to the Senior Debt Majority and contain no right of acceleration in conflict with the Collateral Trust Agreement and impose no other covenants or events of default which would conflict with any other provision of the Collateral Trust Agreement.

The Issuer has no obligation to issue Additional Plant Bonds.

Additional Senior Lenders

Subject to the limitations set forth in the Plant Financing Documents, each Secured Party acknowledges and agrees in the Collateral Trust Agreement that the Collateral subject to Liens granted by the Company and the Partners may secure Additional Plant Senior Debt and any obligations to a Bond Insurer. Upon execution and delivery to the Collateral Agent, the Secured Parties and the Company of an Accession Agreement, in the form prescribed by the Collateral Trust Agreement, by the joining party, such joining party will become "Secured Parties" under the Collateral Trust Agreement, and the Company obligations to such Persons will become "Secured Obligations."

Subordinated Debt

The Company may incur Debt, secured by a subordinated pledge of all or any portion of the Collateral subject to Liens granted by the Company and the Partners, only if the following conditions are satisfied:

- the Company provides to the Senior Debt Majority Current Case Financial projections, reviewed by the Independent Engineer, that show an average annual Projected Debt Service Coverage Ratio of at least 1.35 for each Fiscal Year of the remaining life of then Outstanding Plant Senior Debt, treating for purposes of the calculation the proposed subordinated Debt and any outstanding subordinated Debt as Plant Senior Debt;
- the Company delivers a letter to the Collateral Agent and the Senior Debt Majority from at least two Rating Agencies then rating any Outstanding Plant Bonds confirming that each

such Rating Agency will not lower, suspend or withdraw its then-current rating of such Plant Bonds if such proposed subordinated Debt is issued; and

the terms of the subordination provisions contained in the documents pursuant to which such proposed Debt is to be issued conform to the requirements of the Collateral Trust Agreement Exhibit L.

Resignation and Removal of the Collateral Agent; Appointment of Successor Collateral Agent

MUFG Union Bank, N.A., successor-in-interest to Union Bank, N.A., in its individual capacity (“**MUFG Bank**”) may resign as Collateral Agent following 30 days’ notice to each other Secured Party and the Company. In addition, in accordance with a direction of the Senior Debt Majority, Union Bank (or any successor thereto) may be removed as Collateral Agent. If Union Bank. (or any successor thereto) resigns or is removed as Collateral Agent, the Senior Debt Majority will appoint a successor agent (in consultation with the Company). No resignation or removal of the Collateral Agent will be effective until (i) a successor Collateral Agent has been appointed, (ii) the resigning or removed Collateral Agent has transferred to its successor all of its rights and obligations in its capacity as the Collateral Agent under the Collateral Trust Agreement and the other Plant Financing Documents and (iii) the successor Collateral Agent has executed and delivered an agreement to be bound by the terms of Collateral Trust Agreement and perform all duties required of the Collateral Agent.

If no successor Collateral Agent has been appointed by the Senior Debt Majority and has accepted such appointment within 30 days after the retiring Collateral Agent’s giving of notice of resignation or the removal of the retiring Collateral Agent or if a Plant Financing Event of Default has occurred and is continuing, then the retiring Collateral Agent may apply to a court of competent jurisdiction to appoint a successor Collateral Agent, which must be a bank or trust company which has an office in New York, New York and that has a combined capital surplus of at least \$500,000,000 or at least \$100,000,000 and is a wholly owned subsidiary of a bank or trust company that has a combined capital surplus of at least \$500,000,000 and is reasonably acceptable to the Senior Debt Majority; provided that if the Senior Debt Majority does not confirm such acceptance or reject such appointee in writing within 30 days following selection of such successor by the retiring Collateral Agent, then it will be deemed to have given acceptance thereof and such successor will be deemed appointed as the Collateral Agent.

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II. SUMMARY OF CERTAIN PROVISIONS OF THE SECURITY AGREEMENT

Under the Security Agreement, dated as of December 24, 2012 (the “**Agreement**”), between Poseidon Resources (Channelside) LP, a Delaware limited partnership (“**Grantor**”), and MUFG Union Bank, N.A., successor-in-interest to Union Bank, N.A., as collateral agent (“**Collateral Agent**”), Grantor assigns, grants and pledges, subject to a continuing security interest in favor of Collateral Agent, all of Grantor’s estate, right, title and interest in Grantor’s assets (collectively, the “**Collateral**”) in order to secure for the benefit of the Secured Parties payment in full and performance of the Secured Obligations, subject to the terms of the Collateral Trust Agreement.

So long as Collateral Agent has not exercised remedies with respect to the Collateral upon the occurrence of Plant Financing Default, Grantor reserves all rights with respect to the Collateral, including the right to use, apply, modify, dispose of or otherwise deal with the Collateral (except, in each case, as limited by the Plant Financing Documents). Upon the occurrence of a Plant Financing Default, the Collateral Agent shall have the following rights, among others: (a) to enforce the rights vested in it by the Agreement and the UCC; (b) to institute and prosecute any action or other proceeding to collect or enforce any obligation or right under the Agreement, including specific enforcement, foreclosure or sale under a judgment or decree in any judicial proceeding; (c) in connection with any acceleration and foreclosure, to take possession of the Collateral and all books and records of Grantor relating thereto; (d) to secure the appointment of a receiver for Pledgor without prior notice to the Company or Pledgor; or (e) to take any other action that Collateral Agent deems necessary or desirable to protect or realize upon its security interest in the Collateral or any part thereof. The Collateral Agent may also, to the extent permitted by applicable Legal Requirements, arrange for and conduct a sale of the Collateral at a private or public sale. In addition, subject to the terms of the Financing Documents, the Collateral Agent may, but is not obligated to, (i) cure any event of default under the Project Contracts and certain permits, and (ii) upon the occurrence of an event of default under the Plant Loan Agreement between the Grantor and the Issuer, if Grantor fails to timely perform any agreement contained in the Agreement, Collateral Agent may itself perform, or cause performance of, such agreement, and the reasonable expenses of Collateral Agent incurred in connection therewith shall be part of the Secured Obligations.

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III. SUMMARY OF CERTAIN PROVISIONS OF THE DEED OF TRUST

Under the Leasehold Deed of Trust, Assignment of Rents and Security Agreement, dated as of December 24, 2012 (the “**Deed of Trust**”), Poseidon Resources (Channelside) LP (“**Trustor**”) granted and assigned to Fidelity National Title Company (“**Trustee**”) for the benefit of the Collateral Agent for the benefit of the Secured Parties (collectively, “**Beneficiary**”) as security for payment in full and performance of the Secured Obligations, subject to the terms of the Collateral Trust Agreement, all of Trustor’s right, title and interest, whether now owned or hereafter acquired, in or to the following (collectively the “**Property**”):

- all estate, right, title and interest of Trustor in, to, under or derived from the Site, including, all estate, right, title and interest of Trustor in, to, under or derived from the Ground Lease), together with all amendments, modifications, extensions, and renewals thereof, all credits, deposits, options, privileges, and rights thereunder or thereto, and all other, further, additional or greater estate, right, title or interest of Trustor in, to, under or derived from the Site or the Ground Lease covering the Site (the “**Leasehold Estate**” and, together with the Site, the “**Land**”);
- all buildings, structures, fixtures, additions, enlargements, extensions, modifications, repairs, replacements and improvements located on the Land (the “**Improvements**”); and to the extent permitted by law, the name or names, if any, used for each Improvement, and the goodwill associated therewith;
- all easements, rights-of-way, strips and gores of land, streets, ways, alleys, passages, sewer rights, water, water courses, water rights and powers, air rights and development rights, liberties, tenements, hereditaments and appurtenances of any nature whatsoever, in any way belonging, relating or pertaining to the Land or the Improvements and the reversions, remainders, and all land lying in the bed of any street, road or avenue, opened or proposed, in front of or adjoining the Land to the center line thereof and all the estates, rights, titles, interests, property, possession, claim and demand whatsoever, both in law and in equity, of Trustor of, in and to the Land and the Improvements and every part and parcel thereof, with the appurtenances thereto;
- all machinery, equipment, fixtures (including, but not limited to, all heating, air conditioning, plumbing, lighting, communications and elevator fixtures), inventory and articles of personal property and accessions thereof and renewals, replacements thereof and substitutions therefor, and other tangible property of every kind and nature whatsoever owned by Trustor, or in which Trustor has or shall have an interest, now or hereafter located upon the Land or the Improvements, or appurtenances thereto, or used in connection with the present or future operation and occupancy of the Land or the Improvements;
- all awards of payments, including interest thereon, which may heretofore and hereafter be made with respect to the Property to the extent actually received by Trustor, whether from the exercise of the right of eminent domain (including, but not limited to, any transfer of the Property or part thereof made in lieu of or in anticipation of the exercise of said right), or for any other injury to or decrease in the value of the Property;
- all present and future leases of the Property or any portion thereof, all licenses and agreements relating to the management, leasing or operation of the Property or any portion thereof, and all other agreements of any kind relating to the use or occupancy of the Property or any

portion thereof, whether such leases, licenses and agreements are now existing or entered into after the date hereof (collectively, the “**Leases**”), and all oil and gas or other mineral royalties, bonuses and rents, revenues, security deposits, issues and profits from the Property, including, without limitation, all amounts payable and all rights and benefits accruing to Trustor under the Leases (collectively, the “**Rents**”), and all proceeds from the sale or other disposition of the Leases and the right to receive and apply the Rents to the payment of the obligations secured by the Deed of Trust;

all proceeds of and any unearned premiums on any insurance policies covering the Property including, without limitation, the right to receive and apply the proceeds of any insurance, judgments (including with respect to a casualty thereto or condemnation thereof), or settlements made in lieu thereof, for damage to the Property;

the right, in the name and on behalf of Trustor, to appear in and defend any action or proceeding brought with respect to the Property and to commence any action or proceeding to protect the interest of Beneficiary in the Property; and

all right, title and interest of every nature of Trustor in all receivables and other accounts of Trustor relating to the Property and in all monies deposited or to be deposited in any funds or account maintained or deposited with Beneficiary, or its assigns, in connection herewith, if any.

Trustor also irrevocably assigned to Beneficiary all of Trustor’s right, title and interest in, to and under all leases and the rents produced by the Property, if any, upon the terms and conditions set forth in the Deed of Trust, and granted a security interest in certain of Trustor’s assets, including goods, fixtures, equipment, inventory, accounts, intangible assets and contractual rights in which the Trustor has an interest in connection with the Property. Such assignment and grant are intended to secure the payment or performance of obligations to pay or perform arising under the Plant Loan Agreement between Trustor and the Issuer, for the benefit of Beneficiary. The Property comprises, among other things, the Site, and all improvements now or hereafter located on such land.

Beneficiary granted to Trustor a revocable license to collect and receive any such rents, unless and until an event of default occurs under the Plant Loan Agreement. Upon such a default, Beneficiary is immediately entitled to all rent due and unpaid with regard to the Property. All rent collected by the Trustor after the occurrence of such an event of default will be held by Trustor in a constructive trust for the benefit of Beneficiary only. Trustor represented that it lawfully holds and possesses an unencumbered leasehold estate in the Site, and has good and marketable title to all of the other Property, free and clear of all liens, encumbrances and other exceptions, other than as permitted under the Plant Loan Agreement. In doing so Trustor also represented that the Ground Lease relating to the Site is in full force and effect and that there have been no events of default under such Ground Lease. Trustor will pay and discharge or cause to be paid and discharged all taxes, assessments and other charges that may become a lien upon the property, and agrees to keep and perform each and every material covenant agreement and obligation of the lessee set forth in the Ground Lease, provided that the Beneficiary may, at its option but without any obligation to do so, cure any default of the Trustor under the Ground Lease following the expiration of any cure period thereunder.

If the Trustor is prohibited from paying or is released from one or more of these obligations, all sums and obligations secured by the Deed of Trust may be accelerated at the sole option of the Beneficiary.

Notwithstanding anything to the contrary described under this heading, "Deed of Trust," the Senior Debt Majority (if applicable) have the right to control and direct the enforcement of all rights and remedies granted to the Beneficiary under the Deed of Trust pursuant to the terms of the Collateral Trust Agreement.

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IV. SUMMARY OF CERTAIN PROVISIONS OF THE PLEDGE AGREEMENTS

Poseidon Resources (Channelside) LP, a Delaware limited partnership (“**Company**”) has one general partner, Poseidon Resources Channelside GP, Inc., a Delaware corporation (the “**General Partner**”), and one limited partner, Poseidon Channelside Holdings LLC, a Delaware limited liability company (the “**Limited Partner**”). The General Partner and the Limited Partner (collectively, the “**Pledgors**”) hold 0.1% and 99.9% equity interests in the Company, respectively. Under the Pledge and Security Agreements, dated as of December 24, 2012, as amended (the “**Agreements**”), Pledgors granted to the Collateral Agent a continuing security interest in their respective estates, rights, titles and interests in the Company and all of the equity interests of the Company related thereto (such respective estates, rights, titles and interests referred to herein individually and collectively, as applicable, as the “**Pledged Collateral**”) in order to secure for the benefit of the Secured Parties payment in full in cash and performance in full of the Secured Obligations, subject to

the reservation by each Pledgor of certain voting and other rights, including the right to receive all income, dividends and other distributions from its respective Pledged Collateral (except, in each case, as expressly limited by the Financing Documents) until such time, if any, that such Pledgor receives a copy of a notice of default from the Collateral Agent, and

reduction of each Pledgor’s liability if and to the extent enforcement in full of the liability of such Pledgor under its Agreement would be an unlawful or voidable transfer under any applicable fraudulent conveyance or fraudulent transfer law or any comparable law.

Each Pledgor covenanted, until the payment in full in cash of all Secured Obligations (other than any unasserted contingent indemnity obligations) and the termination of all other obligations of the Company and such Pledgor under the Plant Financing Documents (other than any unasserted contingent indemnity obligations), to defend its respective title to the respective Pledged Collateral and the interest of Collateral Agent in the Pledged Collateral pledged under the applicable Agreement against the claims and demands of all persons (other than any Permitted Encumbrances). Upon the occurrence of a Plant Financing Default, the Collateral Agent shall have the following rights, among others: (a) to vote or exercise any and all of Pledgors’ rights or powers incident to their ownership of the Pledged Collateral, including management and control of the Company; (b) to institute and prosecute any action or other proceeding to collect or enforce any obligation or right under the Agreements, including specific enforcement or foreclosure or enforcement of the security interest in the Pledged Collateral; (c) to perform any obligation of Pledgors under the Agreements; (d) to secure the appointment of a receiver for Pledgors without prior notice to the Company or Pledgors; or (e) to take any other action that Collateral Agent deems necessary or desirable to protect or realize upon its security interest in the Pledged Collateral or any part thereof. The Collateral Agent may also, to the extent permitted by applicable Legal Requirements and the terms of the other Plant Financing Documents, arrange for and conduct a sale of the Pledged Collateral at a private or public sale. In addition, the Collateral Agent may, but is not obligated to, cure any event of default and incur reasonable fees, costs and expenses in doing so, in which event the Company shall reimburse Collateral Agent for such fees, costs and expenses, together with interest thereon at the maximum rate permitted by applicable Legal Requirements.

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APPENDIX F

**SUMMARIES OF CERTAIN PROVISIONS OF THE PIPELINE INSTALLMENT SALE AND
ASSIGNMENT AGREEMENT, PIPELINE TRUST INDENTURE AND PIPELINE LOAN
AGREEMENT**

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**SUMMARY OF CERTAIN PROVISIONS OF THE
PIPELINE INSTALLMENT SALE AND ASSIGNMENT AGREEMENT**

The following summarizes certain provisions of the Pipeline Installment Sale and Assignment Agreement dated December 24, 2012, as amended (the “**Installment Agreement**”), by and between the San Diego County Water Authority Financing Agency (the “**Agency**”) and the San Diego County Water Authority, a county water authority duly organized and existing under and by virtue of the laws of the State of California (the “**Water Authority**”)

CERTAIN DEFINITIONS

Additional Bonds or **Additional Pipeline Bonds** means any bonds issued under the Pipeline Indenture other than the Series 2019 Pipeline Bonds.

Available Revenues means amounts constituting Net Water Revenues on deposit in the General Reserve Fund established under the General Resolution.

Bond Fund or **Pipeline Bond Fund** means the account of that name created by the Pipeline Indenture.

Borrower means the San Diego County Water Authority Financing Agency, a public entity and agency duly organized and existing pursuant to the California Joint Exercise of Powers Act.

Beneficial Owners means the owners of beneficial interest in the Pipeline Bonds.

Business Day means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in Los Angeles, California or New York, New York close, or in the city where the Payment Office or Principal Office of the Pipeline Trustee is located are authorized or obligated by law or executive order to close, or The New York Stock Exchange is authorized or obligated by law or executive order to close or is actually closed.

Capitalized Interest Account means the account of that name established by the 2012 Pipeline Indenture.

2012 Closing Date Pipeline Payments means the amounts payable by the Water Authority to other Persons on the 2012 Closing Date for the Series 2012 Pipeline Bonds (excluding 2012 Costs of Issuance).

Collateral Agent means MUFG Union Bank, N.A., in its capacity as collateral agent under the Collateral Trust Agreement, and any successor collateral agent or co-agent thereunder.

Collateral Trust Agreement means the Collateral Trust Agreement, dated as of December 24, 2012, as amended, among the Pipeline Trustee, Poseidon and the Collateral Agent.

Contracted Shortfall Payment Notice means the notice that Contracted Shortfall Payments are due, delivered to the Collateral Agent pursuant to the Collateral Trust Agreement.

Contracted Shortfall Payments means certain contracted shortfall payments that Poseidon is obligated to make to the Water Authority for Poseidon’s failure to perform certain obligations as provided in the Water Purchase Agreement.

Contractor Security Account means the account of that name established by the 2012 Pipeline Indenture.

Construction Account means the account of that name established by the 2012 Pipeline Indenture.

2012 Costs of Issuance means all items of expense directly or indirectly payable by or reimbursable to the Issuer or the Water Authority and related to the authorization, issuance, sale and delivery of the Series 2012 Pipeline Bonds, including costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the 2012 Pipeline Trustee, and legal fees and charges, fees and disbursements of consultants

and professionals, rating agency fees, fees and charges for preparation, execution and safekeeping of the Series 2012 Pipeline Bonds and any other cost, charge or fee in connection with the issuance of the Series 2012 Pipeline Bonds.

Debt Service Reserve Fund or **Pipeline Debt Service Reserve Fund** means the account of that name established by the Pipeline Indenture.

Debt Service Reserve Requirement or **Pipeline Debt Service Reserve Requirement** means, on any Monthly Disbursement Date, (a) for the Series 2019 Pipeline Bonds, an amount equal to the principal and interest due with respect to the Series 2019 Pipeline Bonds during the 12-month period succeeding such Monthly Disbursement Date, provided that such amount shall not exceed the lesser of the following, calculated as of the Closing Date, (i) 10% of the stated principal amount of the Series 2019 Pipeline Bonds, if the original issue discount does not exceed 2% times the stated redemption price of the Series 2019 Pipeline Bonds, or 10% of the issue price, if the original issue discount does exceed 2% times the stated redemption price of the Series 2019 Pipeline Bonds, (ii) the maximum annual principal and interest requirements on the Series 2019 Pipeline Bonds, based on a 12-month period ending July 1, or (iii) 125% of the average annual principal and interest requirements on the Series 2019 Pipeline Bonds, which amount is \$16,861,045.10, and (b) for any Additional Pipeline Bonds, the amount set forth in the related supplemental indenture.

Defeasance Obligations means the obligations described in clauses (i) and (ii) of the definition of “Eligible Investments” under the section captioned “CERTAIN DEFINITIONS” in “SUMMARY OF CERTAIN PROVISIONS OF THE PIPELINE TRUST INDENTURE” and any other direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by the United States of America, including the interest portion of obligations of the Resolution Funding Corporation to the extent so guaranteed.

Event of Default is defined in the section captioned “DEFAULTS AND REMEDIES – Events of Default”.

General Resolution means Resolution No. 89-21 of the Board of Directors of the San Diego County Water Authority Providing for the Allocation of Water System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Revenues, adopted by the Board of Directors of the Water Authority on May 11, 1989 and supplemented on December 11, 1997 and on December 17, 2009, as it may be from time to time modified, amended or supplemented.

Installment Sale Payments means the payments described in the section captioned “REFUNDED PURCHASE PRICE; INSTALLMENT SALE PAYMENTS – Installment Sale Payments”.

Interest Payment Date means a date on which the interest component of an Installment Sale Payment is due and payable, being January 1 and July 1 of each year to which reference is made, commencing on July 1, 2019.

Issuer means the California Pollution Control Financing Authority, a political subdivision and public instrumentality of the State of California.

Monthly Disbursement Date means the 5th day of any month or, if such day is not a Business Day, the next succeeding Business Day.

Omnibus Refunding Amendment Agreement means the Omnibus Refunding Amendment Agreement, among the Issuer, the Borrower, the Water Authority, Poseidon, the Pipeline Trustee, MUFG Union Bank, N.A., in its capacity as Plant Trustee, and the Collateral Agent.

Outstanding means, as of the time in question, all Pipeline Bonds authenticated and delivered under the Pipeline Indenture, except:

- (A) Pipeline Bonds theretofore canceled or required to be canceled under the Pipeline Indenture;

(B) Pipeline Bonds which are deemed to have been paid in accordance with the defeasance provisions of the Pipeline Indenture; and

(C) Pipeline Bonds in substitution for which other Pipeline Bonds have been authenticated and delivered pursuant to the Indenture.

In determining whether the Holders of a requisite aggregate principal amount of Outstanding Pipeline Bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of this Pipeline Indenture, Pipeline Bonds that are owned of record by the Water Authority or held by the Pipeline Trustee for the account of the Water Authority shall be disregarded and deemed not to be Outstanding hereunder for the purpose of any such determination (except that, in determining whether the Pipeline Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Pipeline Bonds which the Pipeline Trustee knows to be so owned or held shall be disregarded) unless all Pipeline Bonds are owned by the Water Authority and/or held by the Pipeline Trustee for the account of the Water Authority, in which case, such Pipeline Bonds shall be considered Outstanding for the purpose of such determination.

Person means any natural person, corporation, trust, business trust, joint venture, joint stock company, association, company, limited liability company, partnership, governmental authority or other entity.

Pipeline means, collectively, the pipelines, pumps, connectors and related equipment and structures required to deliver product water from the outlet flange of the product water pump station at the Plant Site to Water Authority's aqueduct.

Pipeline Bonds means the Series 2019 Pipeline Bonds and any Additional Bonds that are issued in accordance with the terms of the Pipeline Indenture.

Pipeline Costs means, without duplication, costs and expenses incurred by or for the Water Authority on or prior to Pipeline Project Completion in connection with the development, design, engineering, permitting, construction, financing, management, installation, equipping, assembly, inspection, start-up, testing and initial operations of the Pipeline and preparation of the Pipeline Route (as defined in the Pipeline DBA), which costs and expenses shall include: (i) the Design-Build Price (as defined in the Pipeline DBA) payable under the Pipeline DBA (including an early completion bonus, any state sales taxes on equipment or other goods or services, amounts payable for chemicals, supplies, power and other utilities and services relating to construction of the Pipeline and all project development expenses and fees incurred by the Water Authority constituting 2012 Closing Date Pipeline Payments; (ii) all amounts payable from the Capitalized Interest Account, (iii) fees and expenses and other reimbursement of the Pipeline Trustee and (iv) legal, accounting, consulting, financial advisory and other transaction fees and expenses relating to the Pipeline incurred by the Water Authority prior to Pipeline Project Completion. ***Pipeline Project Completion occurred on August 17, 2017.***

Pipeline DBA means the Design-Build Agreement for the Product Water Pipeline Improvements Relating to the Carlsbad Seawater Desalination Project, dated December 20, 2012, between the Water Authority and Poseidon.

Pipeline Indenture means the Trust Indenture between the Issuer and the Pipeline Trustee in connection with the Series 2019 Pipeline Bonds.

2012 Pipeline Indenture means the Trust Indenture, dated December 24, 2012, between the Issuer and the 2012 Pipeline Trustee in connection with the Series 2012 Pipeline Bonds.

Pipeline Loan Repayments has the meaning set forth under the section captioned "LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Repayment and Payment of Other Amounts Payable" in "SUMMARY OF CERTAIN PROVISIONS OF THE PIPELINE LOAN AGREEMENT".

Pipeline Project Completion has the meaning set forth in the Pipeline DBA. (***Pipeline Project Completion occurred on August 17, 2017.***)

Pipeline Project Fund means the account of that name established by the 2012 Pipeline Indenture.

Pipeline Trustee means MUFG Union Bank, N.A. acting as trustee pursuant to the Pipeline Indenture.

2012 Pipeline Trustee means MUFG Union Bank, N.A. acting as trustee pursuant to the 2012 Pipeline Indenture.

Pipeline Trustee Fees and Expenses means (i) the annual fee of the Pipeline Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the Pipeline Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses (including reasonable legal fees and expenses) of the Pipeline Trustee, as bond registrar and paying agent, the reasonable fees of any other paying agent on the Pipeline Bonds as provided in the Pipeline Indenture, as and when the same become due, or (iii) the reasonable fees, charges and expenses of the Pipeline Trustee for the necessary extraordinary services rendered by it and extraordinary expenses (including, but not limited to reasonable attorneys' fees and expenses) incurred by it under the Pipeline Indenture, as and when the same become due.

Plant means a reverse osmosis seawater desalination plant, together with related pumps, pipelines, connectors and other equipment, facilities and structures, constructed, operated and maintained by Poseidon, in the City of Carlsbad, California.

Poseidon means Poseidon Resources (Channelside) LP, a Delaware limited partnership.

Poseidon Pipeline Costs means Pipeline Costs that Poseidon is obligated to pay under the Pipeline DBA (other than amounts payable from the proceeds of Pipeline Bonds) and Contracted Shortfall Payments.

Prepayment Premium shall mean any prepayment premium specified with respect to the Pipeline Bonds in any amendment or supplement to the Pipeline Indenture authorized pursuant to the terms thereof.

Principal Payment Date means a date on which a principal installment of the Installment Sale Payments is due and payable.

Refunded Purchase Price means the principal amount plus the interest thereon owed by the Water Authority to the Issuer under the conditions and terms of the Installment Agreement as provided in the section captioned "REFUNDED PURCHASE PRICE; INSTALLMENT SALE PAYMENTS – Refunded Purchase Price".

Registered Owner means the Person or Persons in whose name or names a Pipeline Bond is registered on books of the Issuer kept by the Registrar for that purpose in accordance with the terms of the Pipeline Indenture.

Revenue Fund or **Pipeline Revenue Fund** means the account of such name established by the Pipeline Indenture.

Series 2012 Pipeline Bonds means the California Pollution Control Financing Authority Water Furnishing Revenue Bonds, Series 2012 (San Diego County Water Authority Desalination Project Pipeline).

Series 2019 Pipeline Bonds means the California Pollution Control Financing Authority Water Furnishing Revenue Refunding Bonds, Series 2019 (San Diego County Water Authority Desalination Project Pipeline).

Tax Certificate means the Tax Certificate and Agreement by and between the Issuer, the Water Authority and the Borrower, dated the Closing Date, as supplemented.

Trust Estate or **Pipeline Trust Estate** means the property interests conveyed to the Pipeline Trustee pursuant to the granting clauses of the Pipeline Indenture.

Water Purchase Agreement means the Water Purchase Agreement, dated as of December 20, 2012, as amended, between the Water Authority and Poseidon.

Water System means the Water Authority's water system.

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THE PIPELINE

Design, Engineering, Acquisition, Construction and Sale of the Pipeline

The Agency agrees to design, engineer, acquire and construct the Pipeline for, and to sell the Pipeline to, the Water Authority. In order to implement this provision, the Agency appoints the Water Authority as its agent for the purpose of such design, engineering, acquisition and construction, and the Water Authority agrees to enter into the Pipeline DBA, as agent for the Agency, to provide for the complete design, engineering, acquisition and construction of the Pipeline. The Water Authority agrees that, subject to the payment by Poseidon of any Poseidon Pipeline Costs that may become due, the Water Authority will cause the design, engineering, acquisition and construction of the Pipeline to be diligently completed after the deposit of funds in the Construction Account for such purpose pursuant to the Pipeline Indenture.

The Agency agrees to sell the Pipeline to the Water Authority. The Water Authority agrees to purchase the Pipeline from the Agency. Title to each component of the Pipeline shall vest in the Water Authority immediately, without further action, upon the acquisition or construction of such component by the Water Authority (as agent of the Agency). Notwithstanding the foregoing, it is expressly understood and agreed that the Agency will have no liability of any kind or character whatsoever for the payment of any costs or expenses incurred by the Water Authority (whether as agent for the Agency or otherwise) for the development, design, engineering, acquisition, financing or construction of the Pipeline and any incidental costs and expenses related thereto (“**Pipeline Costs**”) except as provided in the Installment Agreement and in the Pipeline Indenture, regardless of whether funds deposited in the Construction Account are sufficient to pay all Pipeline Costs.

Construction Account

The Agency represents that it has previously caused, pursuant to the Pipeline Loan Agreement, the Issuer to deposit a portion of the proceeds of the Series 2012 Pipeline Bonds, into the Construction Account established by the 2012 Pipeline Indenture, and has made amounts on deposit in the Construction Account available for application by the Water Authority for the payments of Poseidon Pipeline Costs and the incidental costs and expenses related thereto (including reimbursement to the Water Authority for any such costs paid by it, but excluding 2012 Costs of Issuance). The Agency further agrees, in consideration for and upon the effectiveness of the Omnibus Refunding Amendment Agreement, to cause the Issuer to deposit a portion of the proceeds of the Series 2019 Pipeline Bonds with the 2012 Pipeline Trustee and apply such amount as provided in the 2012 Pipeline Indenture, including the application of a portion thereof to redeem all outstanding Series 2012 Pipeline Bonds.

Pipeline Project Completion

Pipeline Project Completion occurred on August 17, 2017, as evidenced by certificates delivered by the Agency to the 2012 Pipeline Trustee pursuant to the Pipeline Loan Agreement and the 2012 Pipeline Indenture. As a result of the occurrence of the Pipeline Project Completion, the obligation of the Agency to design, engineer, acquire and construct the Pipeline for, and to sell the Pipeline to, the Water Authority, and the obligation of the Water Authority to cause the design, engineering, acquisition and construction of the Pipeline to be diligently completed, pursuant to the first paragraph under the section captioned “Design, Engineering, Acquisition, Construction and Sale of the Pipeline”, have been satisfied. Furthermore, on December 18, 2017, the Pipeline Trustee transferred funds remaining in the Pipeline Project Fund, including the Construction Account established within it pursuant to the 2012 Pipeline Indenture, in the aggregate amount of \$2,668,968.08, to the Revenue Fund and subsequently closed the Pipeline Project Fund together with the Construction Account established within it.

REFUNDED PURCHASE PRICE; INSTALLMENT SALE PAYMENTS

Refunded Purchase Price

As consideration for the design, engineering, acquisition, construction and sale of the Pipeline, and the execution and delivery of the Omnibus Refunding Amendment Agreement and the refunding of the outstanding Series 2012 Pipeline Bonds, the Water Authority shall without offset or deduction of any kind, but subject to the sections

captioned “Reduction of Water Authority’s Obligation” and “Limitation on Liability of Water Authority”, pay to the Agency the Refunded Purchase Price as provided herein:

(a) The Refunded Purchase Price to be paid by the Water Authority to the Agency under the Installment Agreement (and the loan amount to be paid by the Agency to the Issuer under the Pipeline Loan Agreement) is the sum of the principal amount of the Water Authority’s obligation under the Installment Agreement plus the interest to accrue on the unpaid balance of such principal amount from the Closing Date, over the term of the Installment Agreement, subject to prepayment as provided in the section captioned “Prepayment”.

(b) The principal amount of the Refunded Purchase Price to be paid by the Water Authority to the Agency is set forth under the Installment Agreement and payable on the dates and in the amounts set forth in the Installment Agreement.

(c) The interest to accrue on the unpaid balance of the principal amount of the Refunded Purchase Price shall be paid by the Water Authority and shall constitute interest paid on the principal amount of the Water Authority’s Refunded Purchase Price obligation under the Installment Agreement.

(d) Interest on the unpaid balance of the principal amount of the Refunded Purchase Price shall accrue from and including the Closing Date, on the remaining aggregate principal component of the Installment Sale Payments at a rate set forth in the Installment Agreement. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

Installment Sale Payments

(a) The Water Authority shall, subject to prepayment as provided in the section captioned “Prepayment” and subject to the sections captioned “Reduction of Water Authority’s Obligation” and “Limitation on Liability of Water Authority”, pay to the Agency the Refunded Purchase Price in installments in the principal amounts set forth in the Installment Agreement, together with interest thereon, by depositing with the Pipeline Trustee:

(i) on or before the Business Day immediately preceding each Principal Payment Date, an amount equal to the principal installments of the Installment Sale Payment due on such Principal Payment Date;

(ii) on or before the Business Day immediately preceding each Interest Payment Date, an amount equal to the interest installments of the Installment Sale Payment due on such Interest Payment Date;

(iii) on or before the Business Day preceding each Interest Payment Date, an amount as shall be necessary to increase the amount on deposit in the Debt Service Reserve Fund to the Debt Service Reserve Requirement;

(iv) no later than thirty days after the date on which the Pipeline Trustee Fees and Expenses become due and payable, an amount equal to the Pipeline Trustee Fees and Expenses, provided the Water Authority has received written notice of such Pipeline Trustee Fees and Expenses; and

(v) on or before the Business Day on which the Borrower is obligated to prepay in whole pursuant to the Pipeline Loan Agreement the Pipeline Loan Repayments due under, and as defined in the Pipeline Loan Agreement, the amount determined to be required for such prepayment pursuant to the Pipeline Loan Agreement.

Any amounts on deposit in the Bond Fund on any such Business Day will be credited against the Water Authority’s obligation to make the deposits specified in (a)(i) and (a)(ii) above on such Business Day.

(b) In accordance with the Pipeline Indenture, amounts so deposited pursuant to (a)(i), (a)(ii) or (a)(iii) above shall, until such Interest Payment Date or Principal Payment Date, as the case may be, be invested for the benefit of the Water Authority and all earnings on such investment shall be transferred to the Bond Fund.

(c) Amounts on deposit in the Debt Service Reserve Fund shall be applied to make the final payment on the Pipeline Bonds and such payment shall be credited against the Water Authority's obligation to make Installment Sale Payments.

(d) Subject to the sections captioned "Reduction of Water Authority's Obligation" and "Limitation on Liability of Water Authority", the obligation of the Water Authority to pay the Refunded Purchase Price and interest thereon by paying the Installment Sale Payments is absolute and unconditional and, until such time as the Refunded Purchase Price and interest thereon have been paid in full (or provision for the payment thereof has been made pursuant to the section captioned "Discharge of Obligations"), the Water Authority will not discontinue or suspend any Installment Sale Payments, whether or not the Water System, the Pipeline or the Plant or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such payments will not be subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

(f) The Agency will irrevocably assign to the Issuer the right to receive all Installment Sale Payments under this section captioned "Installment Sale Payments".

Fees and Expenses

In addition to the Refunded Purchase Price and subject to the sections captioned "Reduction of Water Authority's Obligation" and "Limitation on Liability of Water Authority", the Water Authority shall pay to the Issuer as follows:

All taxes and assessments of any type or character charged to the Issuer affecting the amount available to the Agency from payments in any way arising due to the transactions contemplated by the Installment Agreement (including taxes and assessments assessed or levied by any governmental authority of whatsoever character having power to levy taxes or assessments); provided, however, that the Water Authority shall have the right to protest any such taxes or assessments and to require the Issuer, at the Water Authority's expense, to protest and contest any such taxes or assessments levied upon it and that the Water Authority shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Issuer;

The reasonable fees and expenses of the Issuer or any agent or attorney selected by the Issuer to act on its behalf in connection with the Installment Agreement, the Series 2019 Pipeline Bonds, the Pipeline Loan Agreement or the Pipeline Indenture, including, without limitation, any and all reasonable expenses incurred in connection with the authorization, issuance, sale and delivery of any such Series 2019 Pipeline Bonds or in connection with any litigation, investigation or other proceeding which may at any time be instituted involving the Installment Agreement, the Series 2019 Pipeline Bonds, the Pipeline Loan Agreement or the Pipeline Indenture or any of the other documents contemplated thereby, or in connection with the reasonable supervision or inspection of Poseidon or the Water Authority, or their respective properties, assets or operations or otherwise in connection with the administration of the Installment Agreement, the Series 2019 Pipeline Bonds, the Pipeline Loan Agreement or the Pipeline Indenture; and

All additional amounts, if any, due and payable by the Agency pursuant to the Pipeline Loan Agreement (including any interest required to be paid by the Borrower on such payments pursuant to the Pipeline Loan Agreement).

Reduction of Water Authority's Obligation

If the Water Authority delivers a Contracted Shortfall Payment Notice with respect to any month then the Water Authority's obligation to pay any Installment Sale Payment will be reduced by the Contracted Shortfall Payment for such month whether or not paid by Poseidon.

Limitation on Liability of Water Authority

Notwithstanding anything in the Installment Agreement, the Water Authority will not be required to advance any moneys derived from any source of income other than Available Revenues for the payment of the Installment Sale Payments or for the performance of any agreements or covenants required to be performed by it under the Installment Agreement. The Water Authority may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the Water Authority for such purpose. The obligation of the Water Authority to make the Installment Sale Payments is a special obligation of the Water Authority payable solely from Available Revenues as provided in the Installment Agreement, and does not constitute a debt of the Water Authority or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Prepayment

The Water Authority shall have the option to prepay amounts payable under the section captioned “Installment Sale Payments” by paying to the Agency, for payment to the Pipeline Trustee pursuant to the Loan Agreement, at the times and in the amounts set forth in the Pipeline Indenture, the principal component of the unpaid Installment Sale Payments relating to all or any portion of Series 2019 Pipeline Bonds subject to optional redemption pursuant to the Pipeline Indenture, in such order of prepayment as the Water Authority may determine upon written direction to the Issuer and the Pipeline Trustee, at a prepayment price equal to the principal amount of Installment Sale Payments to be prepaid, plus the Prepayment Premium, if any, plus accrued interest to the date of prepayment.

Before making any prepayment pursuant to this section captioned “Prepayment”, the Water Authority shall give written notice to the Agency, the Issuer and the Pipeline Trustee, specifying the date on which the prepayment will be paid and the order thereof, which date may not be less than 40 days from the date such notice is given; provided that notwithstanding any such prepayment, the Water Authority will not be relieved of its obligations under the Installment Agreement, including specifically its obligations under the Installment Agreement, until the Refunded Purchase Price and interest thereon have been fully paid (or provision for payment thereof shall have been made pursuant to the section captioned “DISCHARGE OF OBLIGATIONS – Discharge of Obligations”).

Additional Bonds

So long as the Water Authority is not in default under the Installment Agreement, the Pipeline DBA or the Water Purchase Agreement, it may request that the Issuer issue Additional Bonds to the extent permitted by and subject to the provisions of the Pipeline Indenture, though the Issuer will be under no obligation to issue such Additional Bonds pursuant to the Pipeline Indenture.

ASSIGNMENT OF CONTRACTED SHORTFALL PAYMENTS AND NET INSURANCE PROCEEDS

Assignment of Contracted Shortfall Payments

As further consideration for the design, engineering, acquisition, construction and sale of the Pipeline, the Water Authority irrevocably assigns to the Agency and the Agency will irrevocably assign to the Issuer the right to receive all of the Contracted Shortfall Payments, together with all of its rights under the Pipeline DBA and the Water Purchase Agreement necessary to enforce Poseidon’s obligations thereunder to make the Contracted Shortfall Payments. Such assignment shall remain in effect so long as any Pipeline Bonds are Outstanding and until no further amounts are due under the Pipeline Indenture or the Pipeline Loan Agreement.

Assignment of Net Insurance Proceeds

As further consideration for the design, engineering, acquisition, construction and sale of the Pipeline, the Water Authority irrevocably assigns to the Agency and the Agency will irrevocably assign to the Issuer the right to receive all of proceeds of any policy of insurance or surety bond, net of proceeds expended to replace or repair the Pipeline, together with all of its rights under any policy of insurance or surety bond agreement or right, claim, action or suit relating to such proceeds, necessary to enforce the Water Authority’s claims thereunder to receive the proceeds.

The Water Authority further assigns to the Agency and the Agency will irrevocably assign to the Issuer the right to receive all of the proceeds from actual or threatened condemnation or eminent domain actions with respect to all or any portion of the Pipeline. Such assignments shall remain in effect so long as any Pipeline Bonds are Outstanding.

COVENANTS OF THE WATER AUTHORITY

Benefit of General Resolution

The Installment Sale Payments are obligations payable from amounts constituting *Net Water Revenues* on deposit in the *General Reserve Fund* established under the General Resolution, subordinate to the pledge of *Net Water Revenues* for the payment of *Bonds, Contracts, Reimbursement Obligations and Subordinate Obligations*. The Agency and the Issuer shall be beneficiaries of all of the obligations assumed by the Water Authority and the covenants made by the Water Authority in the General Resolution. The Water Authority shall perform all the obligations assumed by the Water Authority under, and shall comply with all the covenants made by the Water Authority in, the General Resolution. The Water Authority shall not modify, amend or supplement the General Resolution in any manner that would materially adversely affect the interests of the holders of the Pipeline Bonds except with the written consent of the Pipeline Trustee as provided in the Pipeline Indenture. Italicized, underlined terms are used as defined in the General Resolution.

Reimbursement for Costs

The Water Authority shall reimburse the Issuer for any costs incurred by the Issuer in connection with the Series 2019 Pipeline Bonds, including costs incurred by the Issuer pursuant to the Pipeline Indenture.

Compliance with the Installment Agreement, the Pipeline Loan Agreement and the Pipeline Indenture

The Water Authority shall punctually pay the Installment Sale Payments in strict conformity with the terms of the Installment Agreement, and shall faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Agreement required to be observed and performed by it, and shall not terminate the Installment Agreement for any cause including any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Pipeline, the Water System or the Plant, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either, or any failure of the Issuer to observe or perform any agreement, condition, covenant or term contained in the Installment Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Installment Agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Issuer or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The Water Authority shall faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Pipeline Loan Agreement and the Pipeline Indenture required to be observed and performed by it, including as required of it by the Agency pursuant to the Borrower's obligations thereunder, and it is expressly understood and agreed by and among the parties to the Installment Agreement, the Pipeline Loan Agreement and the Pipeline Indenture that each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the obligation of the Water Authority to make the Installment Sale Payments pursuant to, and in accordance with, and as authorized under law and the Installment Agreement.

Use of Proceeds of the Series 2019 Pipeline Bonds

The Agency and the Water Authority agree that the net proceeds of the Series 2019 Pipeline Bonds will be used for the purposes and in the amounts set forth in the Pipeline Indenture, including to refund the outstanding Series 2012 Pipeline Bonds.

Protection of Security and Rights of the Issuer and the Trustee

The Water Authority shall preserve and protect the security of the Installment Agreement and the rights of the Issuer and the Trustee to the Installment Sale Payments and the Contracted Shortfall Payments and will warrant and defend such rights against all claims and demands of all Persons.

Further Assurances

The Water Authority shall adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Installment Agreement and for the better assuring and confirming unto the Issuer of the rights and benefits provided to it in the Installment Agreement.

Continuing Disclosure

The Water Authority shall comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Installment Agreement, failure of the Water Authority to comply with the Continuing Disclosure Agreement will not be considered an Event of Default; however, the Pipeline Trustee shall, at the written request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or of the Registered Owners of at least 25% in aggregate principal amount of Outstanding Pipeline Bonds (but only to the extent funds in an amount satisfactory to the Pipeline Trustee have been provided to it or the Pipeline Trustee has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Pipeline Trustee whatsoever, including reasonable fees and expenses of its attorneys), or any Registered Owner or Beneficial Owner of any Pipeline Bond may, take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Water Authority or the Pipeline Trustee, as the case may be, to comply with its obligations under this section captioned "Continuing Disclosure". For purposes of this section captioned "Continuing Disclosure", "Beneficial Owner" means any Person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Pipeline Bond (including Persons holding Pipeline Bonds through nominees, depositories or other intermediaries).

Tax Covenants

The Water Authority covenants and agrees that it will at all times do and perform all acts and things permitted by applicable law and the Installment Agreement and necessary in order to assure that interest paid on any Pipeline Bonds will be excluded from gross income for federal income tax purposes, and will take no action that would result in such interest not being so excluded and will take any action necessary to preserve and defend such exclusion. Without limiting the generality of the foregoing, the Water Authority agrees to comply with the provisions of the Tax Certificate relating to the Pipeline Bonds. This covenant shall survive payment in full or defeasance of the Pipeline Bonds.

The Water Authority shall calculate, or cause to be calculated, its rebate liability at such times as are required by Section 148(f) of the Code and any temporary, proposed or final Regulations as may be applicable to the Pipeline Bonds from time to time. The Water Authority shall provide to the Pipeline Trustee a copy of each calculation of rebate liability prepared by or on behalf of the Water Authority, which documentation shall be made available to the Issuer upon request.

Changes to the Pipeline; Restrictions on Sales, Transfers, Leases and Disposition

The Water Authority shall not make any changes to the Pipeline or to the operation thereof which would affect the qualification of the Pipeline under the Act or impair the exemption from federal income taxation of the interest on the Pipeline Bonds.

The Water Authority covenants to comply with the obligations imposed on the Borrower pursuant to the Pipeline Loan Agreement as if such obligations were obligations of the Water Authority (provided that the Water Authority shall maintain its existence as a county water authority duly organized and existing under and by virtue of

the laws of the State of California), and the Water Authority shall not sell, transfer, lease or otherwise dispose of (including operating arrangements), or permit the sale, transfer, lease or disposal (including operating arrangements) of the Pipeline or any portion of the Pipeline other than equipment that has reached the end of its useful life, except in the manner in which the Agency, as Borrower under the Pipeline Loan Agreement, is so authorized to do under the Pipeline Loan Agreement and in accordance with all the terms thereof.

Insurance

The Water Authority agrees to insure the Pipeline or cause the Pipeline to be insured during the term of the Pipeline Loan Agreement for such amounts and for such occurrences as are customary for similar facilities within the State of California, by means of policies issued by reputable insurance companies qualified to do business in the State of California or through self-insurance. The Water Authority agrees to deliver, upon request, to the Agency, the Issuer and the Pipeline Trustee memorandum copies of the insurance policies or certificates of insurance covering the Pipeline and certification by an insurance consultant that the insurance on the Pipeline meets the above requirements.

DEFAULTS AND REMEDIES

Events of Default

Each of the following events will be an Event of Default under the Installment Agreement:

- (a) the Water Authority fails to make any Installment Sale Payment when and as the same becomes due and payable;
- (b) the Water Authority defaults in the performance of any other agreement or covenant contained in the Installment Agreement or in the Pipeline Indenture required to be performed by it, and such default has continued for a period of 60 days after the Water Authority has been given notice in writing of such default by the Issuer or the Pipeline Trustee; and
- (c) the Water Authority files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction approves a petition filed with or without the consent of the Water Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction assumes custody or control of the Water Authority or of the whole or any substantial part of its property.

For the avoidance of doubt, an event of default occurring under the Pipeline Indenture as a result of Poseidon's failure to make a Contracted Shortfall Payment will not be an Event of Default under the Installment Agreement.

Remedies

Upon the occurrence of an Event of Default, the Issuer as assignee of the Agency, or the Pipeline Trustee, as assignee of the Issuer, will have the right:

- (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Water Authority or any member of the Board of Directors, officer or employee thereof, and to compel the Water Authority or any such member of the Board of Directors, officer or employee to perform and carry out such Person's duties under law and the agreements and covenants required to be performed by such Person contained in the Installment Agreement; and/or
- (b) by suit in equity to enjoin any acts or things that are unlawful or violate the rights of the Issuer or the Pipeline Trustee.

Non-Waiver

Nothing in the Installment Agreement will affect or impair the obligation of the Water Authority, which is absolute and unconditional, to pay the Installment Sale Payments to the Pipeline Trustee at their respective due dates or upon prepayment, or will affect or impair the right of the Pipeline Trustee, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Agreement.

A waiver of any default or breach of duty or contract by the Pipeline Trustee will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Pipeline Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Pipeline Trustee by law or by the Installment Agreement may be enforced and exercised from time to time and as often as deemed expedient by the Pipeline Trustee.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Pipeline Trustee, the Issuer and the Water Authority and the Pipeline Trustee will be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive

No remedy in the Installment Agreement conferred upon or reserved to the Pipeline Trustee is intended to be exclusive of any other remedy, and each such remedy will be cumulative and in addition to every other remedy given under the Installment Agreement or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

DISCHARGE OF OBLIGATIONS

Discharge of Obligations

(a) If the Water Authority pays or causes to be paid all Installment Sale Payments at the times and in the manner provided in the Installment Agreement, the right, title and interest of the Issuer in the Installment Agreement and the obligations of the Water Authority under the Installment Agreement will thereupon cease, terminate, become void and be completely discharged and satisfied, except as provided in subsection (c) below.

(b) Any unpaid principal installment of the Installment Sale Payments will, on its payment date or date of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) above if the Water Authority makes payment of such Installment Sale Payments and the Prepayment Premium, if applicable, in the manner provided in the Installment Agreement.

(c) (i) All or any portion of unpaid principal installments of the Installment Sale Payments will, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) above (except that the Water Authority will remain liable for such Installment Sale Payments, but only out of such money or securities deposited with the Pipeline Trustee for such payment), if (i) notice is provided by the Water Authority to the Pipeline Trustee as required by the Pipeline Indenture, and (ii) there has been deposited with the Pipeline Trustee either money in an amount that will be sufficient, or Defeasance Obligations, the interest on and principal of which, when paid, will provide money that, together with money, if any, deposited with the Pipeline Trustee, will be sufficient to pay when due the principal and interest components of such Installment Sale Payments or such portions thereof on and prior to their payment dates or their dates of prepayment, as the case may be, and the Prepayment Premium, if any, applicable thereto; and

(ii) All or any portion of unpaid Contracted Shortfall Payments Poseidon has become obligated to make will, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) above, except that notwithstanding anything to the contrary the assignment of the right to receive such Contracted Shortfall Payments to the Agency by the Water Authority, and the assignment of

all rights necessary to the enforcement of such obligation, will remain in effect for such Contracted Shortfall Payments and will survive the termination or expiration of the Installment Agreement pursuant to the terms of the Installment Agreement.

(d) After the payment of all Installment Sale Payments and Prepayment Premiums, if any, as provided in this section captioned “Discharge of Obligations”, and payment of all fees and expenses of the Pipeline Trustee, the Pipeline Trustee, upon request of the Water Authority, shall cause an accounting for such period or periods as may be requested by the Water Authority to be prepared and filed with the Water Authority and the Issuer and shall execute and deliver to the Water Authority and the Issuer all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the Installment Agreement, and the Pipeline Trustee shall pay over and deliver to the Water Authority, as an overpayment of Installment Sale Payments, all such money or investments held by it pursuant to the Installment Agreement other than such money and such investments as are required for the payment or prepayment of the Installment Sale Payments, which money and investments will continue to be held by the Pipeline Trustee in trust for the payment of the Installment Sale Payments and shall be applied by the Pipeline Trustee pursuant to the Pipeline Indenture.

(e) If, as a result of a failure by Poseidon to pay any Contracted Shortfall Payment when due, a default is declared under the Pipeline Indenture, and the Collateral Agent accelerates the principal and interest of the Pipeline Bonds then, if an Event of Default does not then exist, (i) the obligations of the Water Authority under the Installment Agreement to make Installment Sale Payments will thereupon cease, terminate and become void and be completely discharged and satisfied, (ii) notwithstanding anything to the contrary, the assignment of the right to receive Contracted Shortfall Payments to the Agency by the Water Authority, and the assignment of all rights necessary to the enforcement of such obligation, will remain in effect for such Contracted Shortfall Payments, and (iii) the Beneficial Owners and the Registered Owners will look solely to the Trust Estate (as defined in the Pipeline Indenture) and the Collateral (as defined in the Collateral Trust Agreement) held by the Collateral Agent.

MISCELLANEOUS

Amendment

The Installment Agreement may be amended only in accordance with the Pipeline Indenture.

Non-Liability of Agency or Issuer

Neither the Agency nor the Issuer shall be obligated to pay the principal of, or premium, if any, or interest on the Pipeline Bonds, except from the Trust Estate. The Water Authority acknowledges that the Agency’s sole source of money to repay the loan amount pursuant to the Pipeline Loan Agreement and the Issuer’s sole source of moneys to repay the Pipeline Bonds will be provided by the payments made by the Water Authority pursuant to the Installment Agreement, together with other portions of the Trust Estate, including investment income on certain funds and accounts held by the Pipeline Trustee under the Pipeline Indenture, and agrees that if the payments to be made under the Installment Agreement shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Pipeline Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Pipeline Trustee, the Water Authority shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Pipeline Trustee, the Water Authority, the Agency, the Issuer or any third party.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OR ANY LOCAL AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE PIPELINE BONDS.

Neither the Agency nor the Issuer shall be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with the Installment Agreement, the Pipeline Bonds, the Pipeline Loan Agreement or the Pipeline Indenture, except only to the extent

amounts are received for the payment thereof from the Water Authority under the Installment Agreement or from Poseidon as Contracted Shortfall Payments.

The Water Authority acknowledges that it has received and reviewed the Pipeline Loan Agreement and reviewed the provisions applicable to it thereunder. The Issuer shall be considered a third party beneficiary for the purposes of enforcing the rights of the Issuer under the Installment Agreement.

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SUMMARY OF CERTAIN PROVISIONS OF THE
PIPELINE TRUST INDENTURE

The following summarizes certain provisions of the Trust Indenture (the “**Pipeline Indenture**”), by and between the California Pollution Control Financing Authority, a political subdivision and public instrumentality of the State of California (the “**Issuer**”), and MUFG Union Bank, N.A., as trustee (the “**Trustee**”).

CERTAIN DEFINITIONS

Additional Pipeline Bonds means any bonds issued under the Pipeline Indenture other than the Series 2019 Pipeline Bonds.

Authorized Denominations means \$250,000 and any integral multiple of \$5,000 in excess of \$250,000.

Authorized Representative means (i) with respect to the Issuer, the Chair, a deputy to the Chair, the Executive Director, or such other individual as may be designated by the Executive Director; (ii) with respect to the Borrower, the President, the Treasurer or any other person designated and authorized by the President in a written certificate; (iii) with respect to the Water Authority, the General Manager, the Deputy General Manager or any other person designated and authorized by the General Manager in a written certificate; (iv) with respect to the Pipeline Trustee, an officer in the Corporate Trust Department of the Pipeline Trustee (or successor department) having direct responsibility for administration of the Pipeline Indenture; and (v) with respect to Poseidon, the President, the Treasurer, a Vice President, the Secretary, or any other person designated and authorized by the President in a written certificate.

Beneficial Owners means the owners of beneficial interest in the Pipeline Bonds.

Bond Fund or **Pipeline Bond Fund** means the account of that name created by the Pipeline Indenture.

Bondholder or **Holder** means a Registered Owner.

Borrower means the San Diego County Water Authority Financing Agency, a public entity and agency duly organized and existing pursuant to the California Joint Exercise of Powers Act.

Business Day means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in Los Angeles, California or New York, New York close, or in the city where the Payment Office or Principal Office of the Pipeline Trustee is located are authorized or obligated by law or executive order to close, or The New York Stock Exchange is authorized or obligated by law or executive order to close or is actually closed.

Closing Date means the date of issuance and delivery of the Series 2019 Pipeline Bonds.

Code means the Internal Revenue Code of 1986, as amended from time to time.

Collateral Agent means MUFG Union Bank, N.A., in its capacity as collateral agent under the Collateral Trust Agreement, and any successor collateral agent or co-agent thereunder.

Collateral Trust Agreement means the Collateral Trust Agreement, dated as of December 24, 2012, as amended, among the Pipeline Trustee, Poseidon and the Collateral Agent.

Contracted Shortfall Payments means certain contracted shortfall payments that Poseidon is obligated to make to the Water Authority for Poseidon’s failure to perform certain obligations as provided in the Water Purchase Agreement.

Costs of Issuance means all items of expense directly or indirectly payable by or reimbursable to the Issuer or the Water Authority and related to the authorization, issuance, sale and delivery of the Pipeline Bonds, including costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and

charges of the Pipeline Trustee, and legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution and safekeeping of the Pipeline Bonds and any other cost, charge or fee in connection with the issuance of the Pipeline Bonds.

Costs of Issuance Fund means the fund by that name established pursuant to the Pipeline Indenture.

Debt Service Reserve Fund or **Pipeline Debt Service Reserve Fund** means the account of that name established by the Pipeline Indenture.

Debt Service Reserve Requirement or **Pipeline Debt Service Reserve Requirement** means, on any Monthly Disbursement Date, (a) for the Series 2019 Pipeline Bonds, an amount equal to the principal and interest due with respect to the Series 2019 Pipeline Bonds during the 12-month period succeeding such Monthly Disbursement Date, provided that such amount shall not exceed the lesser of the following, calculated as of the Closing Date, (i) 10% of the stated principal amount of the Series 2019 Pipeline Bonds, if the original issue discount does not exceed 2% times the stated redemption price of the Series 2019 Pipeline Bonds, or 10% of the issue price, if the original issue discount does exceed 2% times the stated redemption price of the Series 2019 Pipeline Bonds, (ii) the maximum annual principal and interest requirements on the Series 2019 Pipeline Bonds, based on a 12-month period ending July 1, or (iii) 125% of the average annual principal and interest requirements on the Series 2019 Pipeline Bonds, which amount is \$16,861,045.10, and (b) for any Additional Pipeline Bonds, the amount set forth in the related supplemental indenture.

Defeasance Obligations means the obligations described in clauses (i) and (ii) of the definition of “Eligible Investments” and any other direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by the United States of America, including the interest portion of obligations of the Resolution Funding Corporation to the extent so guaranteed.

DTC means The Depository Trust Company acting as the securities depository as set forth in the Pipeline Indenture or any successor securities depository under the Pipeline Indenture.

Eligible Investments means any investment set forth below that matures (or is redeemable at the option of the owner thereof or is marketable prior to maturity) at such time or times as to enable disbursements to be made from the account in which such investment is held in accordance with the terms of the Pipeline Indenture:

- (i) Government Obligations;
- (ii) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies or such other like governmental or government-sponsored agencies which may be hereinafter created: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Federal Home Loan Bank System; Export Import Bank of the United States; Farmers Home Administration; Small Business Administration; Inter-American Development Bank; International Bank for Reconstruction and Development; Federal Land Banks; the Federal National Mortgage Association; the Government National Mortgage Association; or the Tennessee Valley Authority;
- (iii) Debt obligations of any state of the United States or any political subdivision of any state, or of any agency or instrumentality of any state or of any political subdivision thereof, if at the time of their purchase such obligations are rated at the time of investment in any of the three highest Rating Categories by any Rating Agency;
- (iv) Negotiable or non-negotiable certificates of deposit, time deposits, demand deposits, including interest bearing money market accounts, trust funds, trust accounts, bankers acceptances or other similar banking arrangements, issued by any bank or trust company (including the Pipeline Trustee and its affiliates) the deposits of which, to the extent not insured by the Federal Deposit Insurance Corporation, are to be secured as to principal by the securities listed in subsections (i), (ii), or (iii) above;
- (v) Repurchase agreements or similar arrangements (x) with any banking institutions or other financial services company, including the Pipeline Trustee and its affiliates if applicable, having or the parent company of which shall be rated at the time of investment in any of the three highest Rating Categories by any Rating Agency, pursuant

to which has been delivered to the Pipeline Trustee or its designee, Qualified Investments of the types set forth in subsections (i) and/or (ii) above having at all times a fair market value of at least 100% of the value of such agreement; or (y) with any banking institutions or other financial services company, including the Pipeline Trustee and its affiliates if applicable, not meeting the rating requirements of (x) above pursuant to which there shall have been delivered to the Pipeline Trustee or its designee, Qualified Investments of the types set forth in subsections (i) and/or (ii) above and at all times having a fair market value of at least 102% of the value of such agreement;

(vi) Shares of an open-end, diversified investment company that is qualified under Rule 2a-7 promulgated under the Investment Company Act of 1940, the shares of which are registered under the Securities Act of 1933 and having aggregate net assets of not less than \$50,000,000 on the date of purchase (including any such mutual fund for which the Pipeline Trustee or its affiliate serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian but excluding funds with a floating net asset value, notwithstanding that (A) the Pipeline Trustee or its affiliate receives fees from such funds for services rendered, (B) the Pipeline Trustee charges and collects fees for services rendered pursuant to the Pipeline Indenture which fees are separate from the fees received from such funds, and (C) services performed for such funds and pursuant to the Pipeline Indenture may at times duplicate those provided to such funds by the Pipeline Trustee or its affiliate;

(vii) Redeemable securities of a “unit investment trust” as defined in the Investment Company Act of 1940, each of which represents an undivided interest in a unit of specified Qualified Investments of the types set forth in subsections (i), (ii) or (iii) above;

(viii) Commercial paper rated at the time of investment in the highest Rating Category by any Rating Agency, and having a maturity at the time of purchase not to exceed nine months;

(ix) guaranteed investment contracts with any bank or investment banking firm or other financial services company the long-term debt of which is rated at the time of investment in any of the three highest Rating Categories by any Rating Agency;

(x) Shares in the California Asset Management Program (CAMP); and

(xi) The Local Agency Investment Fund administered by the State of California.

Fees and Expenses has the meaning set forth in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Interest Payment Date means each July 1 and January 1 beginning July 1, 2019.

Issuer means the California Pollution Control Financing Authority, a political subdivision and public instrumentality of the State of California.

Monthly Disbursement Date means the 5th day of any month or, if such day is not a Business Day, the next succeeding Business Day.

Outstanding means, as of the time in question, all Pipeline Bonds authenticated and delivered under the Pipeline Indenture, except:

(A) Pipeline Bonds theretofore canceled or required to be canceled under the Pipeline Indenture;

(B) Pipeline Bonds which are deemed to have been paid in accordance with the defeasance provisions of the Pipeline Indenture; and

(C) Pipeline Bonds in substitution for which other Pipeline Bonds have been authenticated and delivered pursuant to the Indenture.

In determining whether the Holders of a requisite aggregate principal amount of Outstanding Pipeline Bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of this Pipeline Indenture, Pipeline Bonds that are owned of record by the Water Authority or held by the Pipeline Trustee for the account of the Water Authority shall be disregarded and deemed not to be Outstanding hereunder for the purpose of any such determination (except that, in determining whether the Pipeline Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Pipeline Bonds which the Pipeline Trustee knows to be so owned or held shall be disregarded) unless all Pipeline Bonds are owned by the Water Authority and/or held by the Pipeline Trustee for the account of the Water Authority, in which case, such Pipeline Bonds shall be considered Outstanding for the purpose of such determination.

Payment Office means the corporate trust office of the Pipeline Trustee where payment of principal, premium, if any, and interest on the Pipeline Bonds is made, as designated by the Pipeline Trustee from time to time. The initial Payment Office shall be the office of the Pipeline Trustee in Los Angeles, California.

Person means any natural person, corporation, trust, business trust, joint venture, joint stock company, association, company, limited liability company, partnership, governmental authority or other entity.

Pipeline Bonds means the Series 2019 Pipeline Bonds and any Additional Pipeline Bonds.

Pipeline Trustee means MUFG Union Bank, N.A. acting as trustee pursuant to the Pipeline Indenture.

Pipeline Trustee Fees and Expenses means (i) the annual fee of the Pipeline Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the Pipeline Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses (including reasonable legal fees and expenses) of the Pipeline Trustee, as bond registrar and paying agent, the reasonable fees of any other paying agent on the Pipeline Bonds as provided in the Pipeline Indenture, as and when the same become due, or (iii) the reasonable fees, charges and expenses of the Pipeline Trustee for the necessary extraordinary services rendered by it and extraordinary expenses (including, but not limited to reasonable attorneys' fees and expenses) incurred by it under the Pipeline Indenture, as and when the same become due.

Pipeline Indenture means the Trust Indenture between the Issuer and the Pipeline Trustee in connection with the Series 2019 Pipeline Bonds.

Pipeline Loan Repayments has the meaning set forth under the section captioned "LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Repayment and Payment of Other Amounts Payable" in "SUMMARY OF CERTAIN PROVISIONS OF THE PIPELINE LOAN AGREEMENT".

Poseidon means Poseidon Resources (Channelside) LP, a Delaware limited partnership.

Rating Agency means each of the following: (a) Moody's Investor Service, Inc.; (b) S&P Global Ratings, a Standard & Poor's Financial Services LLC business; (c) Fitch Ratings, Inc.; and (d) if any of the foregoing are not providing rating services, any nationally recognized rating agency designated in writing by the Water Authority and acceptable to the Pipeline Trustee.

Rating Category means any of the principal rating categories assigned to investment securities or credit facilities by any Rating Agency, without regard to any gradation or distinction within any Rating Category (such as may be identified by numerical symbols or the symbols "+" or "-").

Rebate Fund means the account of that name created pursuant to the Pipeline Indenture.

Rebate Requirement means the Rebate Requirement defined in the Tax Certificate.

Registered Owner means the Person or Persons in whose name or names a Pipeline Bond is registered on books of the Issuer kept by the Registrar for that purpose in accordance with the terms of the Pipeline Indenture.

Registrar means the Pipeline Trustee.

Revenue Fund or **Pipeline Revenue Fund** means the account of such name established by the Pipeline Indenture.

Securities Depository means initially The Depository Trust Company, New York, New York, and its successors and assigns, or a successor clearing agency designated pursuant to the Pipeline Indenture.

Senior Debt Majority is defined in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Series 2019 Pipeline Bonds means the California Pollution Control Financing Authority Water Furnishing Revenue Refunding Bonds, Series 2019 (San Diego County Water Authority Desalination Project Pipeline).

Stated Maturity means as to any Pipeline Bond the date specified in such Pipeline Bond as the fixed date on which the principal is due and payable.

Tax Certificate means the Tax Certificate and Agreement by and between the Issuer, the Water Authority and the Borrower, dated the Closing Date, as supplemented.

Tax Exempt means, with respect to interest on any obligations of a state or local government, including the Pipeline Bonds, that such interest is excluded from gross income of the Holders or Beneficial Owners thereof for federal income tax purposes whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax or environmental tax, under the Code.

Trust Estate or **Pipeline Trust Estate** means the property interests conveyed to the Pipeline Trustee pursuant to the granting clauses of this Pipeline Indenture.

Water Authority means the San Diego County Water Authority, a county water authority duly organized and existing under and by virtue of the laws of the State of California.

Water Purchase Agreement means the Water Purchase Agreement, dated as of December 20, 2012, as amended, between the Water Authority and Poseidon.

Written Order of the Issuer or Written Request of the Issuer means a written consent, order, request or requisition signed by or on behalf of the Issuer by its Chair, Executive Director or Deputy Executive Director or such other individual as may be designated and authorized to sign for the Issuer.

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THE PIPELINE BONDS

Additional Pipeline Bonds

(a) Subject to the satisfaction of the provisions of this section captioned “Additional Pipeline Bonds”, the Issuer may, but shall not be required to, issue one or more series of Additional Pipeline Bonds from time to time.

(b) Subject to the additional limitations set forth in subsection (c) below, the Pipeline Trustee shall authenticate and deliver such Additional Pipeline Bonds at the request of the Issuer, but only upon delivery to the Pipeline Trustee of the following:

(i) A supplemental indenture executed by the Issuer and the Pipeline Trustee creating such Additional Pipeline Bonds and specifying the terms and the disposition of the proceeds thereof;

(ii) A supplement to the Pipeline Loan Agreement, executed by the Issuer and the Borrower, and a supplement to the Installment Agreement, executed by the Borrower and the Water Authority, whereby the Borrower and the Water Authority acknowledge the issuance of such Additional Pipeline Bonds and agree to make Pipeline Loan Repayments and Installment Sale Payments, respectively, that are sufficient to provide for the payment of the principal and premium, if any, and interest on, such Additional Pipeline Bonds and any related amendment to the Water Purchase Agreement to make adjustments to the Contracted Shortfall Payments;

(iii) An Opinion or Opinions of Counsel to the effect that:

(A) the Additional Pipeline Bonds have been duly issued for a permitted purpose under this section captioned “Additional Pipeline Bonds”;

(B) all consents or approvals required to be obtained from any governmental authority for the issuance of the Additional Pipeline Bonds have been obtained;

(C) the issuance of the Additional Pipeline Bonds and execution and delivery of related documents will not constitute a breach or default on the part of the Issuer, the Borrower or the Water Authority under their respective organizational documents or under any applicable law or any agreements to which the Issuer, the Borrower or the Water Authority is a party or to which their respective properties are subject, including the Pipeline Loan Agreement and the Installment Agreement;

(D) all documents delivered by the Issuer, the Borrower and the Water Authority in connection with the issuance of the Additional Pipeline Bonds have been duly and validly authorized, executed and delivered and such execution and delivery and all other actions taken by the Issuer, the Borrower and the Water Authority in connection with the issuance of the Additional Pipeline Bonds have been duly authorized by all necessary corporate actions;

(E) the supplement to the Pipeline Loan Agreement and the Additional Pipeline Bonds are valid and binding obligations of the Issuer; and

(F) all conditions precedent to the issuance of the Additional Pipeline Bonds pursuant to the Pipeline Indenture have been satisfied.

(iv) To the extent that the issuance of Additional Pipeline Bonds would increase the amounts that could become payable in any year by Poseidon as Contracted Shortfall Payments, the consent of Poseidon.

(c) The Issuer may issue Additional Pipeline Bonds only if the following conditions are satisfied:

(i) the conditions to Poseidon's incurrence of additional debt set forth in the Collateral Trust Agreement have been satisfied;

(ii) the terms of the supplemental indenture regarding such Additional Pipeline Bonds are reasonably satisfactory to the Senior Debt Majority and contain no right of acceleration in conflict with the Collateral Trust Agreement and impose no other covenants or events of default which would conflict with any other provision of the Pipeline Indenture; and

(iii) the Issuer has delivered to the Pipeline Trustee a certificate certifying that (i) and (ii) above have been satisfied.

Ownership, Transfer, Exchange and Registration of Pipeline Bonds

The Pipeline Trustee is constituted and appointed the Registrar and transfer agent for the Pipeline Bonds and the Pipeline Trustee shall keep books for the registration and for the transfer of the Pipeline Bonds as provided in the Pipeline Indenture. If the Pipeline Bonds are not in the book-entry registration system, the Issuer shall prepare and deliver to the Pipeline Trustee, and the Pipeline Trustee shall keep custody of, a supply of unauthenticated Pipeline Bonds duly executed by the Issuer, as provided in the Pipeline Indenture for use in the transfer and exchange of Pipeline Bonds. The Pipeline Trustee is authorized and directed to complete such forms of Pipeline Bonds as to principal amounts and Registered Owners, in accordance with the provisions hereof, in effecting transfers and exchanges of Pipeline Bonds as provided in the Pipeline Indenture.

Upon surrender for transfer of any Pipeline Bond at the Payment Office of the Pipeline Trustee duly endorsed for transfer or accompanied by a written instrument or instruments of transfer in form satisfactory to the Pipeline Trustee duly executed by the registered Holder or such Holder's attorney duly authorized in writing, at the Issuer's written request, the Pipeline Trustee shall date and execute the certificate of authentication on and deliver in the name of the transferee or transferees a new Pipeline Bond or Pipeline Bonds duly executed by the Issuer of Authorized Denominations and for a like aggregate principal amount.

Any Pipeline Bond or Pipeline Bonds may be exchanged at the Payment Office of the Pipeline Trustee for a new Pipeline Bond or Pipeline Bonds of like Series and aggregate principal amount of other Authorized Denominations. Upon surrender of any Pipeline Bond or Pipeline Bonds for exchange, at the Issuer's written request, the Pipeline Trustee shall date and execute the certificate of authentication on and deliver a new Pipeline Bond or Pipeline Bonds duly executed by the Issuer which the Bondholder making the exchange is entitled to receive.

The Pipeline Trustee shall not be required to transfer or exchange any Pipeline Bond after the mailing of notice calling such Pipeline Bond or portion thereof for redemption, nor during the period of ten days next preceding the mailing of such notice of redemption with respect to the Pipeline Bonds.

The Person in whose name any Pipeline Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of the principal of, premium, if any, or interest on any Pipeline Bond shall be made only to or upon the written order of the Registered Owner thereof or such owner's legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effective to satisfy and discharge the liability upon such Pipeline Bond to the extent of the sum or sums so paid.

The Issuer and the Pipeline Trustee shall require the payment by the Bondholder requesting exchange or transfer (other than an exchange upon a partial redemption of a Pipeline Bond) of any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, but otherwise no charge shall be made to the Bondholder for such exchange or transfer.

Refunding Pipeline Bonds

The Issuer may issue, and expressly reserves the right to issue, to the extent permitted by law and the Pipeline Indenture, refunding bonds under another indenture to refund all or any principal amount of the Pipeline Bonds; provided, however, that the net proceeds of any such bonds used to refund all or any principal amount of the Pipeline

Bonds shall be paid directly to the Pipeline Trustee for the Bondholders and shall not come into the possession or control of the Water Authority.

Use of Certain Moneys in the Bond Fund Upon Refunding

In the event that refunding bonds shall be issued by the Issuer to pay the principal of or premium, if any, on all or any portion of the Pipeline Bonds, the net proceeds of the refunding bonds remaining after payment of expenses incident to the refunding shall be deposited by the Issuer into the Bond Fund as provided in the section captioned "ACCOUNTS; APPLICATION OF PROCEEDS – Bond Fund". All moneys remaining in the Bond Fund on the date of the refunding to be used to pay interest on the Pipeline Bonds to be refunded shall be held, as collateral for the payment of the Pipeline Bonds to be refunded, by the Pipeline Trustee, in trust for and on behalf of the Holders of the Pipeline Bonds to be refunded, together with the portion of the proceeds of the sale of the refunding bonds so deposited and any investments or reinvestments of such proceeds, in one or more separate subaccounts in the Bond Fund irrevocably in trust for the respective Holders of Pipeline Bonds to be refunded, and upon defeasance of the Pipeline Bonds to be refunded as provided in the Pipeline Indenture shall be held, invested and used as provided in the Pipeline Indenture. Investment income or profit on any such investments or reinvestments shall remain in the Bond Fund.

Delivery of Additional Bonds

Prior to the delivery by the Pipeline Trustee of any Series of Additional Pipeline Bonds there shall be filed with the Pipeline Trustee the following:

- (i) A certified copy of the supplemental indenture authorizing the issuance of such Additional Pipeline Bonds;
- (ii) A Written Request of the Issuer as to the delivery of such Additional Pipeline Bonds;
- (iii) An opinion of Bond Counsel to the effect that such supplemental indenture and Additional Pipeline Bonds have been duly executed and delivered by the Issuer, and are valid and binding obligations of the Issuer (except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against instrumentalities and agencies in the State of California);
- (iv) Such further documents, money or securities as are required by the provisions of the supplemental indenture providing for the issuance of such Additional Pipeline Bonds.

ACCOUNTS; APPLICATION OF PROCEEDS

Revenue Fund

(a) Unless all the Pipeline Bonds have been accelerated and such acceleration has not been rescinded, the Pipeline Trustee shall deposit all Pipeline Loan Repayments and Contracted Shortfall Payments received by it into the Revenue Fund. On each Monthly Disbursement Date, all moneys in the Revenue Fund shall be paid or transferred from the Revenue Fund by the Pipeline Trustee in the following order of priority:

- (i) to the Pipeline Trustee, an amount equal to all Pipeline Trustee Fees and Expenses due and payable before the next Monthly Disbursement Date;
- (ii) to the Issuer, an amount equal to all Fees and Expenses of the Issuer due and payable before the next Monthly Disbursement Date;
- (iii) to the Bond Fund, an amount equal to one-sixth of the interest payment due and owing on the next succeeding Interest Payment Date;

(iv) to the Bond Fund, an amount equal to one-twelfth of the principal payment due and owing on the next succeeding Interest Payment Date on which a principal payment is due; and

(v) to the Debt Service Reserve Fund, the amount necessary, if any, to increase the balance therein to an amount equal to the Debt Service Reserve Requirement.

(b) Any remaining funds in the Revenue Fund shall be transferred to the Bond Fund.

Bond Fund

There shall be deposited into the Bond Fund from time to time the following:

(i) moneys transferred pursuant to subsection (a)(iii) or (iv) or subsection (b) of the section captioned “Revenue Fund”;

(ii) all accrued interest, if any, paid by the Beneficial Owners of the Pipeline Bonds; and

(iii) all other moneys received by the Pipeline Trustee pursuant to the provisions of the section captioned “THE PIPELINE BONDS – Use of Certain Moneys in the Bond Fund Upon Refunding” or by any of the provisions of the Pipeline Loan Agreement or the Installment Agreement, when accompanied by directions from the Person depositing such moneys that such moneys are to be paid into the Bond Fund.

Except as provided in the sections captioned “Non-Presentation of Pipeline Bonds” and “DEFEASANCE – Defeasance”, moneys in the Bond Fund shall be used solely for the payment of the principal of and premium, if any, and interest on the Pipeline Bonds as the same shall become due and payable at maturity, upon redemption or otherwise when due.

Debt Service Reserve Fund

There shall be deposited into the Debt Service Reserve Fund (i) a portion of the proceeds of the Series 2019 Pipeline Bonds as set forth in the Pipeline Indenture, (ii) moneys transferred from the Revenue Fund pursuant to subsection (a)(v) of the section captioned “Revenue Fund” and (iii) moneys transferred by the Collateral Agent for deposit into the Debt Service Reserve Fund pursuant to the Collateral Trust Agreement. The Pipeline Trustee shall calculate the Debt Service Reserve Requirement on each Monthly Disbursement Date for the succeeding 12-month period.

If, on the last Monthly Disbursement Date before any Interest Payment Date, moneys in the Bond Fund are insufficient to make the interest payment and principal payment due and owing on such Interest Payment Date, the Pipeline Trustee shall transfer the amount of the deficiency from the Debt Service Reserve Fund to the Bond Fund.

On each Monthly Disbursement Date, commencing after August 1, 2019, the Pipeline Trustee shall transfer to the Revenue Fund any moneys in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement.

On November 21, 2045, the Pipeline Trustee shall apply moneys in the Debt Service Reserve Fund to pay the principal of and interest on the Series 2019 Pipeline Bonds due on and owing on such date.

Rebate Fund

(a) The Pipeline Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Pipeline Indenture designated as the “Rebate Fund”, such fund to be established when needed. Within the Rebate Fund, the Pipeline Trustee shall maintain such other accounts as it is instructed by the Borrower as shall be necessary in order to comply with the terms and requirements of the Tax Certificate. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund shall be held by the Pipeline Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax

Certificate), for payment to the federal government of the United States of America, and no other Person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this section captioned “Rebate Fund”, by the Pipeline Indenture and by the Tax Certificate. The Pipeline Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Borrower, including supplying all necessary information in the manner provided in the Tax Certificate, shall not be required to take any actions thereunder in the absence of written directions by the Borrower and shall have no liability or responsibility to enforce compliance by the Borrower or the Issuer with the terms of the Tax Certificate.

(b) Upon the Borrower’s written direction, an amount shall be deposited to the Rebate Fund by the Pipeline Trustee from deposits by the Borrower, or from available investment earnings on amounts (other than moneys held for the payment of particular Pipeline Bonds (including moneys held for non presented Pipeline Bonds or held under the section captioned “DEFEASANCE – Defeasance”)) held in the Revenue Fund, if and to the extent required, so that the balance of the amount on deposit thereto shall be equal to the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the Borrower in accordance with the Tax Certificate. The Pipeline Trustee may rely conclusively upon the Borrower’s determinations, calculations and certifications required by this subsection (b). The Pipeline Trustee shall have no responsibility to make any independent calculations or determinations or to review the Borrower’s calculations under the Pipeline Indenture.

(c) The Pipeline Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this section captioned “Rebate Fund” other than from moneys held in the funds and accounts created under the Pipeline Indenture (other than moneys held for the payment of particular Pipeline Bonds (including moneys held for non presented Pipeline Bonds or held under the section captioned “DEFEASANCE – Defeasance”)) or from other moneys provided to it by or on behalf of the Borrower.

(d) The Pipeline Trustee shall invest all amounts held in the Rebate Fund in Eligible Investments as instructed in writing by the Borrower, and the Borrower shall be responsible for such rebate instructions complying with the Tax Certificate. Money shall not be transferred from the Rebate Fund except as provided in paragraph (e) below.

(e) Upon receipt of the Borrower’s written directions, the Pipeline Trustee shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the Borrower so directs, the Pipeline Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds (other than moneys held for the payment of particular Pipeline Bonds (including moneys held for non presented Pipeline Bonds or held under the section captioned “DEFEASANCE – Defeasance”)) as directed by the Borrower’s written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Pipeline Bonds and payment and satisfaction of any Rebate Requirement or provision made therefor shall be withdrawn and remitted to the Borrower upon the Borrower’s written request.

(f) Notwithstanding any other provision of the Pipeline Indenture, including in particular the section captioned “DEFEASANCE – Defeasance”, the obligation to remit the Rebate Requirements to the United States and to comply with all other requirements of this section captioned “Rebate Fund”, the Pipeline Indenture and the Tax Certificate shall apply only to any Tax Exempt Pipeline Bonds issued under the Pipeline Indenture and shall survive the defeasance or payment in full of such Pipeline Bonds.

Costs of Issuance Fund

The Pipeline Trustee shall establish the Costs of Issuance Fund. The moneys in the Costs of Issuance Fund shall be held by the Pipeline Trustee in trust and applied to the payment of Costs of Issuance for the Pipeline Bonds, upon a sequentially numbered Requisition of the Borrower filed with the Pipeline Trustee, together with invoices evidencing each item requested for payment and, in the case of reimbursements to the Water Authority for costs previously paid, original invoices and other documentation to describe the original expenditures which were made, in each case signed by an Authorized Representative of the Borrower. All payments from the Costs of Issuance Fund shall be reflected in the Pipeline Trustee’s regular accounting statements. Any amounts remaining in the Costs of Issuance Fund three months following the date of delivery of the Pipeline Bonds shall be transferred to the Bond Fund. Upon such transfer, the Pipeline Trustee shall close the Costs of Issuance Fund.

Non-Presentation of Pipeline Bonds

If any Pipeline Bonds, or portions thereof, shall not be presented for payment when the principal thereof becomes due, either at Stated Maturity or otherwise, or at the date fixed for redemption thereof, all liability of the Issuer to the Holders thereof for the payment of such Pipeline Bonds or portions thereof shall forthwith cease, terminate and be completely discharged whenever funds sufficient to pay such Pipeline Bonds or portions thereof shall be held by the Pipeline Trustee, and such funds shall be segregated by the Pipeline Trustee and held in trust for the benefit of the Holders of such Pipeline Bonds or portions thereof who shall thereafter be restricted exclusively to such funds for the satisfaction of any claim of whatever nature on their part relating to such Pipeline Bonds or portions thereof. Such segregated funds shall not be subject to investment and shall thereafter no longer be considered part of the Trust Estate and any such Pipeline Bond shall no longer be deemed Outstanding under the Pipeline Indenture. To the extent such provisions do not require the transfer of such amounts to the State, the Pipeline Trustee shall return such amounts to the Water Authority upon the written request of its Authorized Representative. Thereafter the Holder of such Pipeline Bond shall look only to the Person to whom such amounts have been transferred for payment without any interest thereon, and the Pipeline Trustee shall have no further responsibility with respect to such moneys. In the absence of a written request from an Authorized Representative of the Water Authority to return unclaimed funds to the Water Authority, the Pipeline Trustee shall from time to time deliver all unclaimed funds to or as directed by applicable escheat authorities, as determined by the Pipeline Trustee in its sole discretion, in accordance with the customary practices and procedures of the Pipeline Trustee. Any unclaimed funds held by the Pipeline Trustee pursuant to this subsection shall be held uninvested and without any liability for interest.

INVESTMENT OF MONEYS

Investment of Moneys in Accounts

The Pipeline Trustee shall invest and reinvest any moneys held in an Account only in Eligible Investments and at the written direction of an Authorized Representative of the Water Authority filed with the Pipeline Trustee at least two Business Days in advance of the making of such investments. In the absence of any such directions from the Water Authority, the Pipeline Trustee shall hold any such moneys uninvested in cash, without liability for interest. In making any such investments, the Pipeline Trustee may rely on directions delivered to it pursuant to this section captioned "Investment of Moneys in Accounts", and the Pipeline Trustee shall be relieved of all liability with respect to making such investments in accordance with such directions. Any such investments shall be held by or under the control of the Pipeline Trustee and shall be deemed at all times a part of the Account for which they were made. The interest accruing thereon, any profit realized from such investments and any loss resulting from such investments shall be credited or charged to the Account in which the investment is held until transferred therefrom in accordance with the Pipeline Indenture.

DEFEASANCE

Defeasance

If the Issuer shall pay or cause to be paid, or there shall be otherwise paid or provision for payment made to or for the Holders of the Pipeline Bonds of the principal, premium, if any, and interest due or to become due thereon at the times and in the manner stipulated therein, and if the Issuer shall keep, perform and observe all of the covenants and promises in the Pipeline Bonds and in the Pipeline Indenture expressed as to be kept, performed and observed by it or on its part, and shall pay or cause to be paid to the Pipeline Trustee all sums of money due or to become due according to the provisions hereof, then the Pipeline Indenture and the lien, rights and interests created by the Pipeline Indenture shall cease, terminate and become null and void (except as to any surviving rights of payment, registration, transfer or exchange of Pipeline Bonds provided in the Pipeline Indenture), whereupon the Pipeline Trustee upon Written Request of the Issuer shall cancel and discharge the Pipeline Indenture, and, at the Water Authority's expense, execute and deliver to the Issuer such instruments in writing as shall be requested by the Issuer and requisite to discharge the Pipeline Indenture, and release, assign and deliver unto the Issuer any and all of the estate, right, title and interest in and to any and all rights assigned or pledged to the Pipeline Trustee or otherwise subject to the Pipeline Indenture, except amounts in the Bond Fund required to be paid to the Water Authority under the section captioned "ACCOUNTS; APPLICATION OF PROCEEDS – Non-Presentation of Pipeline Bonds" and except moneys or

securities held by the Pipeline Trustee for the payment of the principal of and premium, if any, and interest on, and purchase prices of, the Pipeline Bonds.

Any Pipeline Bond or Authorized Denomination thereof shall be deemed to be paid within the meaning of the Pipeline Indenture when (a) payment of the principal of and premium, if any, on such Pipeline Bond or Authorized Denomination thereof, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided in the Pipeline Indenture) either (i) shall have been made or caused to be made in accordance with the terms thereof or (ii) shall have been provided for by depositing sufficient moneys for such payment with the Pipeline Trustee and the due date of such principal, interest and premium, if any, has occurred, (1) moneys sufficient to make such payment and/or (2) non-callable Defeasance Obligations maturing as to principal and interest in such amount and at such time as will ensure the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Pipeline Trustee due under the Pipeline Indenture or under the Pipeline Loan Agreement or the Installment Agreement shall have been paid or the payment thereof provided for to the satisfaction of the Pipeline Trustee. At such times as a Pipeline Bond or Authorized Denomination thereof shall be deemed to be paid under the Pipeline Indenture, as aforesaid, such Pipeline Bond or Authorized Denomination thereof shall no longer be secured by or entitled to the benefits of the Pipeline Indenture (other than the section captioned “THE PIPELINE BONDS – Ownership, Transfer, Exchange and Registration of Pipeline Bonds”), except for the purposes of any such payment from such moneys or Defeasance Obligations. In determining the sufficiency of the moneys and Defeasance Obligations deposited pursuant to this paragraph, the Pipeline Trustee shall receive a verification report, at the Water Authority’s expense, prepared by a firm of nationally recognized independent certified public accountants or other qualified financial advisory firm reasonably acceptable to the Issuer, the Water Authority and the Pipeline Trustee.

Notwithstanding any provision of the Pipeline Indenture which may be contrary to the provisions of this section captioned “DEFEASANCE – Defeasance”, all moneys or Defeasance Obligations set aside and held in trust pursuant to the provisions of the Pipeline Indenture for the payment of Pipeline Bonds or Authorized Denominations thereof (including interest and premium thereon, if any) shall be applied to and used solely for the payment of the particular Pipeline Bonds or Authorized Denominations thereof (including interest and premium thereon, if any) with respect to which such moneys and Defeasance Obligations have been so set aside in trust.

Anything in Pipeline Indenture to the contrary notwithstanding, if moneys or Defeasance Obligations have been deposited or set aside with the Pipeline Trustee pursuant to the Pipeline Indenture for the payment of Pipeline Bonds or Authorized Denominations thereof and the interest and premium, if any, thereon and such Pipeline Bonds or Authorized Denominations thereof and the interest and premium, if any, thereon shall not have in fact been actually paid in full, no amendment to the provisions of this section “Defeasance” shall be made without the consent of the Holder of each of the Pipeline Bonds affected thereby.

DEFAULT PROVISIONS AND REMEDIES OF PIPELINE TRUSTEE AND BONDHOLDERS

Defaults; Events of Default

The occurrence of any of the following events is an Event of Default under the Pipeline Indenture:

- (a) Failure to make payment of any installment of interest upon any Pipeline Bond after such payment has become due and payable which failure is not solely the result of a Contracted Shortfall Payment Default;
- (b) Failure to make payment of the principal of or premium, if any, on any Pipeline Bond at the Stated Maturity thereof or upon the unconditional redemption thereof which failure is not solely the result of a Contracted Shortfall Payment Default;
- (c) The occurrence of an Event of Default under the Installment Agreement;
- (d) The occurrence of a Loan Default Event (together with the Events of Default described in subsections (a), (b) and (c) above, a “Water Authority Event of Default”); and

(e) (i) Failure to make payment of (A) any installment of interest upon any Pipeline Bond after such payment has become due and payable or (B) the principal of or premium, if any, on any Pipeline Bond at the Stated Maturity thereof or upon redemption thereof that, in the case of either (A) or (B), is solely the result of a Contracted Shortfall Payment Default or (ii) the occurrence and continuance of an Event of Default as defined in the Collateral Trust Agreement that leads to the acceleration of the Senior Debt as defined in the Collateral Trust Agreement (a “**Contracted Shortfall Payment Event of Default**”).

For the avoidance of doubt, payment in full of any installment of interest upon any Pipeline Bond after such payment has become due and payable or the principal of or premium, if any, on any Pipeline Bond at the Stated Maturity thereof or upon redemption thereof from any source of funds available therefor, including without limitation from amounts on deposit in the Debt Service Reserve Fund, shall not constitute an event of default under subsections (a), (b) or (e) above.

Acceleration

Upon the occurrence and continuance of a Contracted Shortfall Payment Event of Default, the Pipeline Trustee may, by notice in writing delivered to the Water Authority, with a copy to the Issuer, declare the principal of all Pipeline Bonds then Outstanding and the interest accrued thereon to the date of such declaration immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable. The above provisions are subject to waiver, rescission and annulment as provided in the sections captioned “Waivers of Events of Default” and “Collateral Agent; Senior Debt Majority”. In no event shall a Water Authority Event of Default give rise to an acceleration of amounts due and owing with respect to the Pipeline Bonds.

Remedies; Rights of Bondholders

Upon the occurrence and continuation of an Event of Default, but subject to the sections captioned “Acceleration” and “Collateral Agent; Senior Debt Majority”, the Pipeline Trustee may pursue any available remedy at law or in equity by suit, action, mandamus or other proceeding, including the appointment of a receiver, to enforce the payment of the principal of and premium, if any, and interest on the Pipeline Bonds then Outstanding and to enforce and compel the performance of the duties and obligations of the Issuer as set forth in the Pipeline Indenture.

If a Water Authority Event of Default shall have occurred and be continuing and if requested so to do by the Holders of not less than a majority in aggregate principal amount of Pipeline Bonds then Outstanding and indemnified as provided in the Pipeline Indenture, the Pipeline Trustee shall be obliged to exercise such one or more of the rights and powers conferred by this section captioned “Remedies; Rights of Bondholders” as the Pipeline Trustee being advised by Counsel shall deem most expedient in the interests of the Bondholders.

No remedy by the terms of the Pipeline Indenture conferred upon or reserved to the Pipeline Trustee (or to the Bondholders) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Pipeline Trustee or to the Bondholders under the Pipeline Indenture or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right, power or remedy accruing upon any Event of Default shall impair any such right, power or remedy or shall be construed to be a waiver of any such Event of Default or acquiescence therein; and every such right, power or remedy may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Event of Default under the Pipeline Indenture, whether by the Pipeline Trustee or by the Bondholders, shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

Right of Bondholders to Direct Proceedings

Anything in the Pipeline Indenture to the contrary notwithstanding, but subject to the section captioned “Collateral Agent; Senior Debt Majority”, the Holders of not less than a majority in aggregate principal amount of

Pipeline Bonds then Outstanding shall have the right, with respect to a Water Authority Event of Default only, at any time, by an instrument or instruments in writing executed by the Holders of not less than a majority in aggregate principal amount of Pipeline Bonds then Outstanding and delivered to the Pipeline Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Pipeline Indenture, or for the appointment of a receiver or any other proceedings under the Pipeline Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Pipeline Indenture and could not involve the Pipeline Trustee in personal liability.

Application of Moneys

All moneys and funds held by the Pipeline Trustee under the Pipeline Indenture (except moneys held in the Rebate Fund or the Costs of Issuance Fund or that were previously set aside for the redemption of particular Pipeline Bonds) and all moneys received by the Pipeline Trustee pursuant to the Collateral Trust Agreement shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Pipeline Trustee and its Counsel, be deposited in the Bond Fund and all such moneys in the Bond Fund shall be applied in the following order of priority:

(i) To the payment of all fees, expenses then owing to the Pipeline Trustee, including fees, costs, expenses and liabilities reasonably incurred by the Pipeline Trustee (including reasonable compensation to the Pipeline Trustee, its agents, attorneys and counsel) and to the repayment of all advances made by the Pipeline Trustee;

(ii) To the payment of the reasonable costs of the Issuer, including counsel fees and expenses, any disbursements of the Issuer with interest thereon and its reasonable compensation;

(iii) Unless the principal of all the Pipeline Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

(A) To the payment of any overdue installments of interest on the Outstanding Pipeline Bonds in the order of the expressed maturity of the installments of such interest, with interest on overdue installments of interest (to the extent that the payment of such interest is enforceable under applicable law) at the respective rates provided in the Pipeline Bonds and, if the amount to be applied to the payment of any installment of interest shall not be sufficient to pay such installment in full, then to the payment thereof ratably, according to the amounts due on such installment, to the Persons entitled thereto without any discrimination or preference;

(B) After the payment of all such overdue installments of interest with the interest thereon, to the payment of the principal of all of Pipeline Bonds which shall have become due by their express terms, not including Pipeline Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Pipeline Indenture, with interest on such Pipeline Bonds at the rate or rates provided for in such Pipeline Bonds from the respective dates upon which they became due in the order of maturity dates expressed in the Pipeline Bonds and, if the amount to be distributed at any particular time shall not be sufficient to pay in full all of the Pipeline Bonds due on any particular date, to the payment thereof ratably according to the amounts due thereon;

(C) After all payments required by clauses (A) and (B) shall have been made, then to the payment of the principal of and the interest on the Pipeline Bonds in accordance with the provisions of the Pipeline Indenture.

(iv) If the principal of all the Pipeline Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Pipeline Bonds (other than Pipeline Bonds matured or called for redemption or interest due on Pipeline Bonds for the payment of which moneys are held pursuant to the provisions of the Pipeline Indenture), without preference or priority of principal, over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Pipeline Bond over any other Pipeline Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this section captioned “Application of Moneys”, such moneys shall be applied at such times, and from time to time, as the Pipeline Trustee shall determine. Whenever the Pipeline Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Pipeline Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date.

In the event the Pipeline Trustee incurs expenses or renders services in any proceedings which result from the occurrence or continuance of an Event of Default, or from the occurrence of any event which, by virtue of the passage of time, would become such Event of Default, the expenses so incurred and compensation for services so rendered are intended to constitute expenses of administration under the United States Bankruptcy Code or equivalent law.

Whenever all principal of and premium, if any, and interest on all Pipeline Bonds have been paid under the provisions of this section captioned “Application of Moneys” and all expenses and charges of the Pipeline Trustee have been paid, any balance remaining in the Bond Fund shall be paid to the Water Authority.

Remedies Vested in Pipeline Trustee

All rights of action (including the right to file proofs of claims) under the Pipeline Indenture or under any of the Pipeline Bonds may be enforced by the Pipeline Trustee without the possession of any of the Pipeline Bonds or the production thereof in any trial or other proceedings relating thereto and any such suit or proceeding instituted by the Pipeline Trustee shall be brought in its name as Pipeline Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Pipeline Bonds, and any recovery of judgment shall be for the equal and ratable benefit of the Holders of the Outstanding Pipeline Bonds. No provision of the Pipeline Indenture empowers the Pipeline Trustee to authorize or consent to or accept or adopt on behalf of any Holders of the Pipeline Bonds any plan of reorganization, arrangement, adjustment or composition affecting any of the Pipeline Bonds or the rights of any Holder thereof, or to authorize the Pipeline Trustee to vote in respect of the claim of any Holder in any bankruptcy, insolvency or reorganization proceeding described in the Pipeline Loan Agreement.

Rights and Remedies of Bondholders

No Holder or Beneficial Owner of any Pipeline Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Pipeline Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy under the Pipeline Indenture, unless (i) a default has occurred of which the Pipeline Trustee is deemed to have notice or has been notified as provided in the Pipeline Indenture, (ii) such default shall have become an Event of Default and be continuing, the Holders of not less than a majority in aggregate principal amount of Pipeline Bonds then Outstanding shall have made written request to the Pipeline Trustee, either to proceed to exercise the powers granted in the Pipeline Indenture or to institute such action, suit or proceeding in its own name, and shall have offered to the Pipeline Trustee indemnity as provided in the Pipeline Indenture, and (iii) the Pipeline Trustee shall for 60 days after such notice, request and offer of indemnity, fail or refuse to exercise the powers granted in the Pipeline Indenture, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are declared in every case at the sole option of the Pipeline Trustee to be conditions precedent to the execution of the powers and trusts of the Pipeline Indenture, and to any action or cause of action for the enforcement of the Pipeline Indenture, or for the appointment of a receiver or for any other remedy under the Pipeline Indenture. No one or more Holders of the Pipeline Bonds shall have any right in any manner whatsoever to enforce any right under the Pipeline Indenture except in the manner provided in the Pipeline Indenture, and all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Pipeline Indenture and for the equal and ratable benefit of the Holders of all Pipeline Bonds then Outstanding. Nothing in the Pipeline Indenture shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of and premium, if any, and interest on any Pipeline Bond at and after the maturity thereof.

Waivers of Events of Default

Subject to the next paragraph and the section captioned “Collateral Agent; Senior Debt Majority”, the Pipeline Trustee may waive any Event of Default under the Pipeline Indenture and rescind its consequences and shall

do so upon the written request of the Holders of not less than a majority in aggregate principal amount of Pipeline Bonds then Outstanding; provided, however, that there shall not be waived any Event of Default in the payment of the principal of, or premium, if any, on, any outstanding Pipeline Bonds when due (whether at Stated Maturity or by redemption), or any Event of Default in the payment when due of the interest on any such Pipeline Bonds, unless prior to such waiver and rescission, all arrears of principal of and interest upon such Pipeline Bonds, and interest on overdue principal at the rate borne by the Pipeline Bonds on the date on which such principal became due and payable, and all arrears of premium, if any, when due, together with the reasonable expenses of the Pipeline Trustee and of the Holders of such Pipeline Bonds, including reasonable attorneys' fees paid or incurred, shall have been paid or provided for. In the case of any such waiver and rescission, or in case any proceeding taken by the Pipeline Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Water Authority, the Borrower, the Issuer, the Pipeline Trustee, the Collateral Agent, Poseidon and the Bondholders shall be restored to their respective former positions and rights under the Pipeline Indenture, respectively, but no such waiver and rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

The provisions of the sections captioned "Defaults; Events of Default" and "Acceleration" are subject to the condition that if, after the principal of all Pipeline Bonds then Outstanding shall have been accelerated, all arrears of principal of and interest upon such Pipeline Bonds, and the premium, if any, on all Pipeline Bonds then Outstanding which shall have become due and payable otherwise than by acceleration, and all other sums payable under the Pipeline Indenture, except the principal of, and interest on, the Pipeline Bonds which by such declaration shall have become due and payable, shall have been paid by or on behalf of the Issuer, together with the reasonable expenses of the Pipeline Trustee and of the Holders of such Pipeline Bonds, including reasonable attorneys' fees paid or incurred, and if all other Events of Default, other than any arising as a result of such acceleration, have been cured or waived, then and in every such case, the Pipeline Trustee shall annul such declaration of acceleration of Stated Maturity and its consequences, which waiver and annulment shall be binding upon all Bondholders. No such waiver, rescission and annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon. In the case of any such annulment, the Water Authority, the Borrower, the Issuer, the Pipeline Trustee, the Bondholders and, as applicable, the Company and the Collateral Agent, shall be restored to their respective former positions and rights under the Pipeline Indenture.

All waivers and annulments under the Pipeline Indenture shall be confirmed by the Pipeline Trustee in writing and a copy thereof shall be delivered to the Issuer and the Water Authority.

Collateral Agent; Senior Debt Majority

The Pipeline Trustee has granted to the Collateral Agent all of the Pipeline Trustee's rights under the Pipeline Indenture with respect to a Contracted Shortfall Payment Event of Default pursuant to the Collateral Trust Agreement. Accordingly and notwithstanding the foregoing provisions of the Pipeline Indenture to the contrary, (a) the Pipeline Trustee will not have any right to take any action under the Pipeline Indenture with respect to a Contracted Shortfall Payment Event Default and (b) the Bondholders will not have any right to take any action, or direct the Pipeline Trustee to take any action, under the Pipeline Indenture with respect to a Contracted Shortfall Payment Default for so long as the Collateral Trust Agreement is in effect. In addition, during the continuance of a Contracted Shortfall Payment Event of Default the Senior Debt Majority shall exercise the rights of Bondholders under the Pipeline Indenture.

SUPPLEMENTAL INDENTURES

Supplemental Indentures Not Requiring Consent of Bondholders (But Requiring Consent of the Water Authority, the Collateral Agent or Poseidon)

The Issuer and the Pipeline Trustee may, without the consent of, or notice to, any of the Bondholders or the Beneficial Owners, but with the consent of the Water Authority, Poseidon and the Collateral Agent pursuant to the section captioned "Consent of Water Authority, Poseidon and the Collateral Agent", enter into an indenture or indentures supplemental to the Pipeline Indenture for any one or more of the following purposes:

- (a) to add to the covenants and agreements of, and limitations and restrictions upon, the Issuer in the Pipeline Indenture, other covenants, agreements, limitations and restrictions to be observed by the Issuer which are not contrary to or inconsistent with the Pipeline Indenture as theretofore in effect;
- (b) to grant to or confer or impose upon the Pipeline Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with the Pipeline Indenture as heretofore in effect;
- (c) to cure any ambiguity or omission or to cure, correct or supplement any defective provision of the Pipeline Indenture in each case in such manner as shall not adversely affect the Bondholders;
- (d) to evidence the appointment of a separate trustee or a co-trustee or to evidence the succession of a new trustee or a new co-trustee under the Pipeline Indenture;
- (e) to comply with the applicable requirements of the Trust Indenture Act of 1939, as from time to time amended;
- (f) to subject to the Pipeline Indenture additional revenues, properties or collateral;
- (g) to discontinue or provide for the use of a securities depository or for a change from a book-entry system without Pipeline Bond certificates to a system with bond certificates or vice versa;
- (h) to authorize different Authorized Denominations of the Pipeline Bonds and to make correlative amendments and modifications to the Pipeline Indenture regarding exchangeability of Pipeline Bonds of different Authorized Denominations, redemptions of portions of Pipeline Bonds of particular Authorized Denominations and similar amendments and modifications of a technical nature;
- (i) to modify, alter, amend or supplement the Pipeline Indenture in any other respect which, is not materially adverse to the Bondholders;
- (j) in connection with any mandatory purchase of all of the Pipeline Bonds, to modify the Pipeline Indenture in any respect (even such modification is adverse to the interests of the Bondholders) provided that such amendment shall not be effective until after such mandatory purchase or purchase in lieu of redemption and the payment of the purchase price in connection therewith; or
- (k) to provide for issuance of a Series of Additional Pipeline Bonds.

The Pipeline Trustee is authorized to join the execution of any such Pipeline Indenture supplement, to make any further appropriate agreements and stipulations that may be therein contained and to accept the conveyance, transfer, assignment, mortgage or pledge of any property thereunder. If at any time the Issuer shall request the Pipeline Trustee to enter into any such supplemental indenture for any of the purposes allowed by this section captioned “Supplemental Indentures Not Requiring Consent of Bondholders (But Requiring Consent of the Water Authority, the Collateral Agent or Poseidon)”, the Pipeline Trustee shall, at the request of the Issuer and upon receiving satisfactory payment with respect to related expenses and upon receiving from the Water Authority forms of notices and any other related solicitation materials, cause notice of the proposed execution of such supplemental indenture to be mailed to the Holders of the Pipeline Bonds. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the Principal Office of the Pipeline Trustee for inspection by all Bondholders.

Supplemental Indentures Requiring Consent of Bondholders and Water Authority

Except for supplemental indentures covered by the section captioned “Supplemental Indentures Not Requiring Consent of Bondholders (But Requiring Consent of the Water Authority, the Collateral Agent or Poseidon)” and subject to the terms and provisions contained in this section captioned “Supplemental Indentures Requiring Consent of Bondholders and Water Authority”, and not otherwise, the Holders of not less than a majority in aggregate

principal amount of Pipeline Bonds then Outstanding shall have the right, from time to time, anything contained in the Pipeline Indenture to the contrary notwithstanding, to consent to and approve the execution by the Issuer and the Pipeline Trustee of such other indenture or indentures supplemental to the Pipeline Indenture for the purpose of modifying, amending, adding to or rescinding any of the terms or provisions contained in the Pipeline Indenture; provided, however, that nothing in this section captioned "Supplemental Indentures Requiring Consent of Bondholders and Water Authority" contained shall permit or be construed as permitting, without the consent of the Holders of 100% of the Pipeline Bonds then Outstanding, (a) an extension of the Stated Maturity of the principal of or the interest on any Pipeline Bond issued under the Pipeline Indenture, or (b) a reduction in the principal amount of, premium, if any, on any Pipeline Bond or the rate of interest thereon, or (c) a privilege or priority of any Pipeline Bond or Pipeline Bonds over any other Pipeline Bond or Pipeline Bonds, or (d) a reduction in the aggregate principal amount of the Pipeline Bonds required for consent to such supplemental indenture, except in each case in connection with a refunding of any Pipeline Bonds.

If at any time the Issuer shall request the Pipeline Trustee to enter into any such supplemental indenture for any of the purposes allowed by this section captioned "Supplemental Indentures Requiring Consent of Bondholders and Water Authority", the Pipeline Trustee shall, at the request of the Issuer and upon receiving satisfactory payment with respect to related expenses and upon receiving from the Water Authority forms of notices and any other related solicitation materials, cause notice of the proposed execution of such supplemental indenture to be mailed to the Holders of the Pipeline Bonds. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the Principal Office of the Pipeline Trustee for inspection by all Bondholders. If, within 60 days or such longer period of time as shall be prescribed by the Issuer following the mailing of such notice, the Holders of not less than a majority in aggregate principal amount of Pipeline Bonds then Outstanding, as the case may be, in aggregate principal amount of the Pipeline Bonds Outstanding at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as provided in the Pipeline Indenture, no Holder of any Pipeline Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Pipeline Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. The Issuer shall have the right to (and upon request of the Water Authority shall) extend from time to time the period within which such consent and approval may be obtained from Bondholders. Upon the execution of any such supplemental indenture as in this section captioned "Supplemental Indentures Requiring Consent of Bondholders and Water Authority" permitted and provided, the Pipeline Indenture shall be and be deemed to be modified and amended in accordance therewith.

Consent of Water Authority, Poseidon and the Collateral Agent

Anything in the Pipeline Indenture directly to the contrary notwithstanding, a supplemental indenture under the Pipeline Indenture that adversely affects any rights of the Water Authority shall not become effective unless and until the Water Authority shall have consented to the execution and delivery of such supplemental indenture.

Anything in the Pipeline Indenture directly to the contrary notwithstanding, a supplemental indenture under the Pipeline Indenture that adversely affects any rights of the Borrower shall not become effective unless and until the Borrower shall have consented to the execution and delivery of such supplemental indenture.

Anything in the Pipeline Indenture directly to the contrary notwithstanding, a supplemental indenture under the Pipeline Indenture that adversely affects any rights of Poseidon or the Collateral Agent shall not become effective unless and until the Collateral Agent or Poseidon, as applicable, shall have consented to the execution and delivery of such supplemental indenture.

AMENDMENT OF PIPELINE LOAN AGREEMENT, INSTALLMENT AGREEMENT AND COLLATERAL TRUST AGREEMENT

Amendments to Pipeline Loan Agreement and Installment Agreement Not Requiring Consent of Bondholders

The Issuer or the Pipeline Trustee, as appropriate, and the Water Authority may without the consent of or notice to any of the Bondholders or the Beneficial Owners, enter into any amendment, change or modification of the Installment Agreement or the Pipeline Loan Agreement (a) as may be required by the provisions of the Installment

Agreement, the Pipeline Loan Agreement or the Pipeline Indenture, (b) for the purpose of curing any ambiguity or formal defect or omission, (c) so as to add additional rights acquired in accordance with the provisions of the Installment Agreement or the Pipeline Loan Agreement, (d) to obtain or preserve the Tax Exempt status of interest on the Pipeline Bonds, or any portion of the Pipeline Bonds, (e) which, if the conditions for the issuance of Additional Pipeline Bonds are otherwise satisfied, makes such changes as may be necessary in connection with the issuance of Additional Pipeline Bonds, or (f) which is not materially adverse to the Bondholders and which does not involve a change described in clause (a) or (b) of the section captioned "Amendments to Pipeline Loan Agreement and Installment Agreement Requiring Consent of Bondholders".

Amendments to Pipeline Loan Agreement and Installment Agreement Requiring Consent of Bondholders

Except for the amendments, changes or modifications as provided in the section captioned "Amendments to Pipeline Loan Agreement and Installment Agreement Not Requiring Consent of Bondholders" of the Pipeline Indenture, none of the Issuer, the Borrower, the Water Authority or the Pipeline Trustee shall enter into any other amendment, change or modification of the Pipeline Loan Agreement or the Installment Agreement without mailing of notice and the written approval or consent of the Holders of not less than a majority in aggregate principal amount of Pipeline Bonds then Outstanding given and procured as provided in this section captioned "Amendments to Pipeline Loan Agreement and Installment Agreement Requiring Consent of Bondholders"; provided, however, that nothing in this sections captioned "Amendments to Pipeline Loan Agreement and Installment Agreement Requiring Consent of Bondholders" or the section captioned "Amendments to Pipeline Loan Agreement and Installment Agreement Not Requiring Consent of Bondholders" shall permit or be construed as permitting, without the consent of the Holders of 100% in aggregate principal amount of the Pipeline Bonds then Outstanding, (a) an extension of the time of the payment of any amounts payable by the Borrower under the Pipeline Loan Agreement with respect to the principal of or the interest on any Pipeline Bond issued under the Pipeline Indenture or the Water Authority under the Installment Agreement with respect to any Pipeline Loan Repayment, or (b) a reduction in the amount of any payment or in the total amount due from the Borrower under the Pipeline Loan Agreement with respect to the principal amount of, premium, if any, on any Pipeline Bond or the rate of interest thereon or from the Water Authority under the Installment Agreement with respect to any Pipeline Loan Repayment, except in each case in connection with a refunding of any Pipeline Bonds.

If at any time the Issuer and the Water Authority shall request the consent of the Pipeline Trustee to any such proposed amendment, change or modification of the Pipeline Loan Agreement or Installment Agreement in accordance with this section captioned "Amendments to Pipeline Loan Agreement and Installment Agreement Requiring Consent of Bondholders", the Pipeline Trustee shall, at the request of the Issuer and upon being satisfactorily indemnified with respect to expenses and upon receiving from the Water Authority forms of notices and any other related solicitation materials, cause notice of such proposed amendment, change or modification to be mailed to the Holders of Pipeline Bonds in the same manner as provided by the Pipeline Indenture with respect to redemption of Pipeline Bonds. Such notice shall briefly set forth the nature of such proposed amendment change or modification and shall state that copies of the instrument embodying the same are on file with the Pipeline Trustee for inspection by all Bondholders. If, within 60 days, or such longer period as shall be prescribed by the Issuer, following the mailing of such notice, the Holders of not less than a majority in aggregate principal amount of Pipeline Bonds then Outstanding in aggregate principal amount of the Pipeline Bonds Outstanding at the time of the execution of any such amendment, change or modification, as the case may be, shall have consented to and approved the execution thereof as provided in the Pipeline Indenture, no Holder of any Pipeline Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Water Authority or the Issuer from executing the same or from taking any action pursuant to the provisions thereof, or the Pipeline Trustee from consenting thereto. The Issuer shall have the right to extend from time to time the period within which such consent and approval may be obtained from Bondholders. Upon the execution of any such amendment, change or modification as in this section captioned "Amendments to Pipeline Loan Agreement and Installment Agreement Requiring Consent of Bondholders" permitted and provided, the Pipeline Loan Agreement and the Installment Agreement shall be and be deemed to be modified, changed and amended in accordance therewith.

Amendments to Collateral Trust Agreement

The Pipeline Trustee may, without the consent of or notice to any of the Bondholders or the Beneficial Owners, enter into any amendment, change or modification of the Collateral Trust Agreement that is permitted to be made thereunder without the consent of the Senior Debt Majority.

With respect to any amendment, change or modification of the Collateral Trust Agreement that requires the consent of the Senior Debt Majority, the Pipeline Trustee may participate in the appointment of the Senior Debt Majority.

Notwithstanding the foregoing, the Pipeline Trustee may not enter into any amendment, change or modification of the Collateral Trust Agreement that would cause any Senior Debt (as defined in the Collateral Trust Agreement) to have any privilege or priority over the Contracted Shortfall Payments without the consent of the Holders of 100% of the Pipeline Bonds then Outstanding.

MISCELLANEOUS

Liability of Issuer Limited to the Trust Estate

Notwithstanding anything in the Pipeline Indenture or in the Pipeline Bonds contained, the Issuer shall not be required to advance any moneys derived from any source other than the Trust Estate, whether for the payment of the principal of or interest on the Pipeline Bonds or for any other purpose of the Pipeline Indenture. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OR ANY LOCAL AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE PIPELINE BONDS. THE ISSUER HAS NO TAXING POWERS. The Issuer shall not be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with the Pipeline Loan Agreement, the Pipeline Bonds or the Pipeline Indenture, except only to the extent amounts are received for the payment thereof from the Borrower under the Pipeline Loan Agreement.

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**SUMMARY OF CERTAIN PROVISIONS OF THE
PIPELINE LOAN AGREEMENT**

The following summarizes certain provisions of the Pipeline Loan Agreement dated December 24, 2012, as amended (the “**Pipeline Loan Agreement**”), by and between the California Pollution Control Financing Authority, a political subdivision and public instrumentality of the State of California (the “**Issuer**”), and San Diego County Water Authority Financing Agency, as borrower (the “**Borrower**”).

CERTAIN DEFINITIONS

Act means the California Pollution Control Financing Authority Act (Chapter 1 (commencing with Section 44500) of Division 27 of the California Health and Safety Code), as now in effect and as it may from time to time hereafter be amended or supplemented.

Additional Payments means the payments required to be made by the Borrower pursuant to certain sections of the Pipeline Loan Agreement (including any interest required to be paid by the Borrower on such payments pursuant to the Pipeline Loan Agreement).

Additional Pipeline Bonds means any bonds issued under the Pipeline Indenture other than the Series 2019 Pipeline Bonds.

Approving Opinion means an opinion of Bond Counsel (addressed and delivered to the Issuer and the Pipeline Trustee) that an action being taken (i) is authorized by the Act and the Pipeline Indenture and complies with the terms of the Pipeline Loan Agreement, if applicable, and (ii) will not, in and of itself, adversely affect the Tax Exempt status of the Pipeline Bonds.

Authorized Representative means (i) with respect to the Issuer, the Chair, a deputy to the Chair, the Executive Director, or such other individual as may be designated by the Executive Director; (ii) with respect to the Borrower, the President, the Treasurer or any other person designated and authorized by the President in a written certificate; (iii) with respect to the Water Authority, the General Manager, the Deputy General Manager or any other person designated and authorized by the General Manager in a written certificate; (iv) with respect to the Pipeline Trustee, an officer in the Corporate Trust Department of the Pipeline Trustee (or successor department) having direct responsibility for administration of the Pipeline Indenture; and (v) with respect to Poseidon, the President, the Treasurer, a Vice President, the Secretary, or any other person designated and authorized by the President in a written certificate.

Beneficial Owners means the owners of beneficial interest in the Pipeline Bonds.

Bond Counsel means Orrick, Herrington & Sutcliffe LLP or such other firm of attorneys of nationally recognized standing in the field of law relating to municipal bond law and the excludability of interest on state or local bonds from gross income of the owners of the Pipeline Bonds for purposes of federal income taxation, selected by the Issuer and acceptable to the Pipeline Trustee, the Borrower and the Water Authority.

Bondholder or Holder means a Registered Owner.

Borrower Payments means all amounts received by the Issuer or the Pipeline Trustee for the account of the Issuer pursuant or with respect to the Pipeline Loan Agreement, including, without limiting the generality of the foregoing, Loan Repayments, but not including Contracted Shortfall Payments or Additional Payments.

Business Day means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in Los Angeles, California or New York, New York close, or in the city where the Payment Office or Principal Office of the Pipeline Trustee is located are authorized or obligated by law or executive order to close, or The New York Stock Exchange is authorized or obligated by law or executive order to close or is actually closed.

Capitalized Interest Account means the account of that name established by the 2012 Pipeline Indenture.

Closing Date means the date of issuance and delivery of the Series 2019 Pipeline Bonds.

2012 Closing Date means the date of issuance and delivery of the Series 2012 Pipeline Bonds.

2012 Closing Date Pipeline Payments means the amounts payable by the Water Authority to other Persons on the 2012 Closing Date for the Series 2012 Pipeline Bonds (excluding 2012 Costs of Issuance).

Contracted Shortfall Payments means certain contracted shortfall payments that Poseidon is obligated to make to the Water Authority for Poseidon's failure to perform certain obligations as provided in the Water Purchase Agreement.

Contractor Security Account means the account of that name established by the 2012 Pipeline Indenture.

Construction Account means the account of that name established by the 2012 Pipeline Indenture.

Costs of Issuance means all items of expense directly or indirectly payable by or reimbursable to the Issuer or the Water Authority and related to the authorization, issuance, sale and delivery of the Pipeline Bonds, including costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Pipeline Trustee, and legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution and safekeeping of the Pipeline Bonds and any other cost, charge or fee in connection with the issuance of the Pipeline Bonds.

2012 Costs of Issuance means all items of expense directly or indirectly payable by or reimbursable to the Issuer or the Water Authority and related to the authorization, issuance, sale and delivery of the Series 2012 Pipeline Bonds, including costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the 2012 Pipeline Trustee, and legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution and safekeeping of the Series 2012 Pipeline Bonds and any other cost, charge or fee in connection with the issuance of the Series 2012 Pipeline Bonds.

Costs of Issuance Fund means the fund by that name established pursuant to the Pipeline Indenture.

2012 Costs of Issuance Fund means the fund by that name established pursuant to the 2012 Pipeline Indenture.

Debt Service Reserve Fund or **Pipeline Debt Service Reserve Fund** means the account of that name established by the Pipeline Indenture.

Debt Service Reserve Requirement or **Pipeline Debt Service Reserve Requirement** means, on any Monthly Disbursement Date, (a) for the Series 2019 Pipeline Bonds, an amount equal to the principal and interest due with respect to the Series 2019 Pipeline Bonds during the 12-month period succeeding such Monthly Disbursement Date, provided that such amount shall not exceed the lesser of the following, calculated as of the Closing Date, (i) 10% of the stated principal amount of the Series 2019 Pipeline Bonds, if the original issue discount does not exceed 2% times the stated redemption price of the Series 2019 Pipeline Bonds, or 10% of the issue price, if the original issue discount does exceed 2% times the stated redemption price of the Series 2019 Pipeline Bonds, (ii) the maximum annual principal and interest requirements on the Series 2019 Pipeline Bonds, based on a 12-month period ending July 1, or (iii) 125% of the average annual principal and interest requirements on the Series 2019 Pipeline Bonds, which amount is \$16,861,045.10, and (b) for any Additional Pipeline Bonds, the amount set forth in the related supplemental indenture.

Independent Engineer means Black & Veatch and any successor consulting engineering firm engaged by the Water Authority and Poseidon, and reasonably acceptable to the Senior Debt Majority, to perform the duties of the Independent Engineer under the Pipeline Financing Documents and under the financing documents relating to the Plant Bonds; provided that any successor Independent Engineer shall be a nationally recognized consulting

engineering firm in the field of reverse osmosis and independent of and not under the direct or indirect control of the Water Authority or Poseidon or any Person secured by the collateral pledged under the Collateral Trust Agreement.

Installment Agreement means the Pipeline Installment Sale and Assignment Agreement, dated as of December 24, 2012, as amended, including as amended by the Omnibus Refunding Amendment Agreement, by and between the Water Authority and the Borrower.

Installment Sale Payments has the meaning set forth under the section captioned “CERTAIN DEFINITIONS” in “SUMMARY OF CERTAIN PROVISIONS OF THE PIPELINE INSTALLMENT SALE AND ASSIGNMENT AGREEMENT”.

JPA Act means the agreement entitled “Joint Exercise of Powers Agreement by and between the San Diego County Water Authority and the California Municipal Finance Authority creating the San Diego County Water Authority Financing Agency, dated December 17, 2009.

Loan Default Event means any one or more of the events specified in the section captioned “LOAN DEFAULT EVENTS AND REMEDIES – Loan Default Events”.

Loan Repayments or Pipeline Loan Repayments means the payments so designated and required to be made by the Borrower pursuant to the section captioned “LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Repayment and Payment of Other Amounts Payable”.

Monthly Disbursement Date means the 5th day of any month or, if such day is not a Business Day, the next succeeding Business Day.

Opinion of Counsel means a written opinion (addressed and delivered to the Issuer and the Pipeline Trustee) of counsel (who may be counsel for the Issuer) selected by the Issuer.

Outstanding means, as of the time in question, all Pipeline Bonds authenticated and delivered under the Pipeline Indenture, except:

- (A) Pipeline Bonds theretofore canceled or required to be canceled under the Pipeline Indenture;
- (B) Pipeline Bonds which are deemed to have been paid in accordance with the defeasance provisions of the Pipeline Indenture; and
- (C) Pipeline Bonds in substitution for which other Pipeline Bonds have been authenticated and delivered pursuant to the Pipeline Indenture.

In determining whether the Holders of a requisite aggregate principal amount of Outstanding Pipeline Bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of the Pipeline Indenture, Pipeline Bonds that are owned of record by the Water Authority or held by the Pipeline Trustee for the account of the Water Authority shall be disregarded and deemed not to be Outstanding under the Pipeline Indenture for the purpose of any such determination (except that, in determining whether the Pipeline Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Pipeline Bonds which the Pipeline Trustee knows to be so owned or held shall be disregarded) unless all Pipeline Bonds are owned by the Water Authority and/or held by the Pipeline Trustee for the account of the Water Authority, in which case, such Pipeline Bonds shall be considered Outstanding for the purpose of such determination.

Payment Office means the corporate trust office of the Pipeline Trustee where payment of principal, premium, if any, and interest on the Pipeline Bonds is made, as designated by the Pipeline Trustee from time to time. The initial Payment Office shall be the office of the Pipeline Trustee in Los Angeles, California.

Person means any natural person, corporation, trust, business trust, joint venture, joint stock company, association, company, limited liability company, partnership, governmental authority or other entity.

Pipeline means, collectively, the pipelines, pumps, connectors and related equipment and structures required to deliver product water from the outlet flange of the product water pump station at the Plant Site to Water Authority's aqueduct.

Pipeline Bond Payment Date has the meaning set forth under the section captioned "LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Repayment and Payment of Other Amounts Payable".

Pipeline Bond Purchase Contract has the meaning set forth under the section captioned "LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Repayment and Payment of Other Amounts Payable".

Pipeline Bonds means the Series 2019 Pipeline Bonds and any Additional Pipeline Bonds.

Pipeline Costs means, without duplication, costs and expenses incurred by or for the Water Authority on or prior to Pipeline Project Completion in connection with the development, design, engineering, permitting, construction, financing, management, installation, equipping, assembly, inspection, start-up, testing and initial operations of the Pipeline and preparation of the Pipeline Route (as defined in the Pipeline DBA), which costs and expenses shall include: (i) the Design-Build Price (as defined in the Pipeline DBA) payable under the Pipeline DBA (including an early completion bonus, any state sales taxes on equipment or other goods or services, amounts payable for chemicals, supplies, power and other utilities and services relating to construction of the Pipeline and all project development expenses and fees incurred by the Water Authority constituting 2012 Closing Date Pipeline Payments; (ii) all amounts payable from the Capitalized Interest Account; (iii) fees and expenses and other reimbursement of the Pipeline Trustee and (iv) legal, accounting, consulting, financial advisory and other transaction fees and expenses relating to the Pipeline incurred by the Water Authority prior to Pipeline Project Completion. *Pipeline Project Completion occurred on August 17, 2017.*

Pipeline DBA means the Design-Build Agreement for the Product Water Pipeline Improvements Relating to the Carlsbad Seawater Desalination Project, dated December 20, 2012, between the Water Authority and Poseidon.

Pipeline Financing Documents means, collectively, the Pipeline Indenture, the Pipeline Loan Agreement, the Pipeline Bonds, the Installment Agreement, the Collateral Trust Agreement and any financing statements filed or recorded or delivered in connection with the foregoing.

Pipeline Indenture means the Trust Indenture between the Issuer and the Pipeline Trustee in connection with the Series 2019 Pipeline Bonds.

2012 Pipeline Indenture means the Trust Indenture, dated December 24, 2012, between the Issuer and the 2012 Pipeline Trustee in connection with the Series 2012 Pipeline Bonds.

Pipeline Loan Repayments has the meaning set forth under the section captioned "LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Repayment and Payment of Other Amounts Payable".

Pipeline Project Completion has the meaning set forth in the Pipeline DBA. *(Pipeline Project Completion occurred on August 17, 2017.)*

Pipeline Project Fund means the account of that name established by the 2012 Pipeline Indenture.

Pipeline Trustee means MUFU Union Bank, N.A. acting as trustee pursuant to the Pipeline Indenture.

2012 Pipeline Trustee means MUFU Union Bank, N.A. acting as trustee pursuant to the 2012 Pipeline Indenture.

Pipeline Trustee Fees and Expenses means (i) the annual fee of the Pipeline Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the Pipeline Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses (including reasonable legal fees and expenses) of the Pipeline Trustee, as bond registrar and paying agent, the reasonable fees of any other paying agent on the Pipeline Bonds as

provided in the Pipeline Indenture, as and when the same become due, or (iii) the reasonable fees, charges and expenses of the Pipeline Trustee for the necessary extraordinary services rendered by it and extraordinary expenses (including, but not limited to reasonable attorneys' fees and expenses) incurred by it under the Pipeline Indenture, as and when the same become due.

Plant Bonds means the California Pollution Control Financing Authority Water Furnishing Revenue Bonds, Series 2012 (Poseidon Resources (Channelside) LP Desalination Project) (AMT).

Poseidon means Poseidon Resources (Channelside) LP, a Delaware limited partnership.

Principal Office means the corporate trust office of the Pipeline Trustee located in Los Angeles, California, which office at the time of the issuance of the Series 2019 Pipeline Bonds was located at the address specified in the Pipeline Indenture, or any other corporate trust office of the Pipeline Trustee identified in a notice sent in accordance with the Pipeline Indenture.

Rating Agency means each of the following: (a) Moody's Investor Service, Inc.; (b) S&P Global Ratings, a Standard & Poor's Financial Services LLC business; (c) Fitch Ratings, Inc.; and (d) if any of the foregoing are not providing rating services, any nationally recognized rating agency designated in writing by the Water Authority and acceptable to the Pipeline Trustee.

Rebate Fund means the account of that name created pursuant to the Pipeline Indenture.

Registered Owner means the Person or Persons in whose name or names a Pipeline Bond is registered on books of the Issuer kept by the Registrar for that purpose in accordance with the terms of the Pipeline Indenture.

Registrar means the Pipeline Trustee.

Retained Rights or **Pipeline Retained Rights** means the right of the Issuer to receive certain payments, if any, with respect to fees, expenses and indemnification under the Pipeline Loan Agreement, or to enforce its rights under certain sections of the Pipeline Loan Agreement and the rights expressly granted to the Issuer under the Pipeline Loan Agreement to indemnification, inspection, consent and receipt of certificates, notices and opinions.

Revenue Fund or **Pipeline Revenue Fund** means the account of such name established by the Pipeline Indenture.

Senior Debt Majority has the meaning set forth in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Series 2012 Pipeline Bonds means the California Pollution Control Financing Authority Water Furnishing Revenue Bonds, Series 2012 (San Diego County Water Authority Desalination Project Pipeline).

Series 2019 Pipeline Bonds means the California Pollution Control Financing Authority Water Furnishing Revenue Refunding Bonds, Series 2019 (San Diego County Water Authority Desalination Project Pipeline).

Tax Certificate means the Tax Certificate and Agreement by and between the Issuer, the Water Authority and the Borrower, dated the Closing Date, as supplemented, relating to the Series 2019 Pipeline Bonds.

2012 Tax Certificate means the Tax Certificate and Agreement, by and between the Issuer, the Water Authority and the Borrower, dated the 2012 Closing Date, as supplemented, relating to the Series 2012 Pipeline Bonds.

Tax Exempt means, with respect to interest on any obligations of a state or local government, including the Pipeline Bonds, that such interest is excluded from gross income of the Holders or Beneficial Owners thereof for federal income tax purposes whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax or environmental tax, under the Code.

Water Authority means the San Diego County Water Authority, a county water authority duly organized and existing under and by virtue of the laws of the State of California.

Water Authority Event of Default has the meaning set forth under the section captioned “DEFAULT PROVISIONS AND REMEDIES OF PIPELINE TRUSTEE AND BONDHOLDERS – Defaults; Events of Default” in “SUMMARY OF CERTAIN PROVISIONS OF THE PIPELINE TRUST INDENTURE”.

Water Purchase Agreement means the Water Purchase Agreement, dated as of December 20, 2012, as amended, between the Water Authority and Poseidon.

Written Order of the Issuer or Written Request of the Issuer means a written consent, order, request or requisition signed by or on behalf of the Issuer by its Chair, Executive Director or Deputy Executive Director or such other individual as may be designated and authorized to sign for the Issuer.

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CONSTRUCTION OF THE PIPELINE; ISSUANCE OF THE SERIES 2012 PIPELINE BONDS

Agreement to Construct the Pipeline; Modifications of the Pipeline; Disbursements From the Pipeline Fund; Disbursements From the 2012 Costs of Issuance Fund

(a) To provide funds to finance the Pipeline, the Issuer agrees that it will issue under the 2012 Pipeline Indenture, sell and cause to be delivered to the purchasers thereof, the Series 2012 Pipeline Bonds. The Issuer will thereupon apply the proceeds received from the sale of the Series 2012 Pipeline Bonds as provided in the Series 2012 Pipeline Indenture. The Borrower agrees that it or the Water Authority and its successors or their agents has or will develop, design, engineer, acquire and construct, or complete the development, design, engineering, acquisition and construction of, the Pipeline, and will acquire, construct, improve, renovate, rehabilitate, install and equip all other facilities and real and personal property deemed necessary for the operation of the Pipeline, in accordance with the description of the Pipeline provided by the Water Authority and approved by the Issuer, including any and all supplements, amendments and additions or deletions thereto or therefrom. The Borrower further agrees to proceed with due diligence to complete the Pipeline or cause the Pipeline to be completed, and reasonably expects to do so within three years. Except as otherwise permitted pursuant to this section captioned "Agreement to Construct the Pipeline; Modifications of the Pipeline; Disbursements From the Pipeline Fund; Disbursements From the 2012 Costs of Issuance Fund" or (a)(iv), (d) or (e) under the section captioned "CERTAIN SPECIAL COVENANTS AND AGREEMENTS – The Borrower's Maintenance of Its Existence; Assignments; Permitted Transfers of the Pipeline", the Borrower also agrees that it or the Water Authority and its successors will own the Pipeline during the term of the Pipeline Loan Agreement or, if shorter, the useful life of any component of the Pipeline. The Borrower also agrees that it or the Water Authority and its successors will operate the Pipeline (except such portion that is transferred to a Person other than the Water Authority and its successors in accordance with the section captioned "CERTAIN SPECIAL COVENANTS AND AGREEMENTS – The Borrower's Maintenance of Its Existence; Assignments; Permitted Transfers of the Pipeline") during the term of the Pipeline Loan Agreement or, if shorter, the useful life of any component of the Pipeline.

In the event that the Borrower desires to alter or change the Pipeline described in the Pipeline Loan Agreement, the Borrower must first obtain the consent of the Issuer (which consent shall not be unreasonably withheld) to such changes. If the Issuer consents to the proposed amendment or supplement, it will instruct the Pipeline Trustee in writing to consent to such amendment or supplement to the description of the Pipeline in the Pipeline Loan Agreement as shall be required to reflect such alteration or change to the Pipeline upon receipt of:

- (i) a certificate of the Borrower describing in detail the proposed changes and stating that they will not have the effect of disqualifying the Pipeline as facilities that may be financed pursuant to the Act;
- (ii) a copy of the form of amended or supplemented description of the Pipeline in the Pipeline Loan Agreement approved by the Issuer; and
- (iii) an Approving Opinion with respect to such proposed changes.

(b) The Borrower will authorize and direct the Pipeline Trustee, upon compliance with the Series 2012 Pipeline Indenture, to disburse the moneys in the Construction Account within the Pipeline Project Fund to or on behalf of the Borrower only for the following purposes (and not for 2012 Costs of Issuance), subject to the provisions of the section captioned "Investment of Moneys in Fund":

- (i) Payment to the Borrower or the Water Authority of such amounts, if any, as shall be necessary to reimburse the Borrower or the Water Authority in full for all advances and payments made by it, at any time prior to or after the delivery of the Series 2012 Pipeline Bonds, in connection with (A) the preparation of plans and specifications for the Pipeline (including any preliminary study or planning of the Pipeline or any aspect thereof) and (B) subject to any limitation imposed by subsection (vi) below, the development, design, engineering, acquisition and construction of the Pipeline.
- (ii) If the Pipeline includes the construction or rehabilitation of a building, payment for labor, services, materials and supplies used by or furnished to the Borrower or the Water Authority and its

successors to improve the site and to develop, design, engineer, acquire and construct the Pipeline, as provided in the plans, specifications and work orders therefor; payment of the costs of developing, designing, engineering, acquiring and constructing utility services or other related facilities; payment of the costs of acquiring all real and personal property deemed necessary to construct the Pipeline; insurance during the construction period; and payment of the miscellaneous expenses incidental to any of the foregoing items.

(iii) Payment of the fees, if any, of architects, engineers, legal counsel and supervisors expended in connection with the development, design, engineering, acquisition and construction of the Pipeline.

(iv) If the Pipeline includes the construction or rehabilitation of a building, payment of taxes including property taxes, assessments and other charges, if any, that may become payable during the construction period with respect to the Pipeline, or reimbursement thereof, if paid by the Borrower or the Water Authority.

(v) Payment of expenses incurred in seeking to enforce any remedy against any contractor or subcontractor in respect of any default under a contract relating to the development, design, engineering, acquisition and construction of the Pipeline.

(vi) Payment of any other Pipeline Costs permitted by the 2012 Tax Certificate and the Act (including, without limitation, interest accruing on the Series 2012 Pipeline Bonds during the construction period of the Pipeline and reimbursement to the Borrower or the Water Authority of costs of financing the Pipeline Costs, but not including any 2012 Costs of Issuance).

All moneys remaining in the Pipeline Project Fund after Pipeline Project Completion and after payment or provision for payment of all other items provided for in the preceding subsections (i) to (vi), inclusive, of this section captioned "Agreement to Construct the Pipeline; Modifications of the Pipeline; Disbursements From the Pipeline Fund; Disbursements From the 2012 Costs of Issuance Fund", shall be used in accordance with the Series 2012 Pipeline Indenture.

Each of the payments referred to in this subsection (b) shall be made upon receipt by the Pipeline Trustee of a written requisition in the form prescribed by the Pipeline Indenture, signed by an Authorized Representative of the Borrower or the Water Authority and its successors.

(c) The Borrower acknowledges that it shall not submit any requisitions to the Pipeline Trustee for the payment of Pipeline Costs from the Construction Account within the Pipeline Project Fund or any subaccount therein, unless it attaches to such requisition invoices evidencing each item requested for payment therein. In any instance where the requisition is for payment to the Borrower or the Water Authority for reimbursement of costs previously paid, the Borrower shall attach the original invoices and other documentation to describe the original expenditures which were paid.

(d) The Borrower will authorize and direct the Pipeline Trustee, upon compliance with the Series 2012 Pipeline Indenture, to disburse the moneys in the 2012 Costs of Issuance Fund to or on behalf of the Borrower. Each of the payments referred to in this subsection (d) shall be made upon receipt by the Pipeline Trustee of a written requisition pursuant to and in the form prescribed by the Pipeline Indenture, signed by an Authorized Representative of the Borrower.

(e) Prior to Pipeline Project Completion, the Borrower may deliver a Written Request to the Issuer to consent to the removal of a component of the Pipeline that is no longer necessary for inclusion within the Pipeline and the reasons therefore. If the Issuer does not act within 30 days after such request is received, such consent shall be deemed to have been given, after which the Borrower shall instruct the Pipeline Trustee to apply a proportionate amount of moneys in the Construction Account within the Pipeline Project Fund as provided in the Series 2012 Pipeline Indenture.

Establishment of Pipeline Project Completion; Obligation of Borrower to Complete

Upon the final disbursement from the Pipeline Project Fund, an Authorized Representative of the Borrower, on behalf of the Borrower, shall evidence Pipeline Project Completion by providing a Final Project Fund Disbursement Certificate, substantially in the form attached to the Pipeline Loan Agreement, to the Pipeline Trustee and the Issuer.

At the time such certificate is delivered to the Pipeline Trustee, moneys remaining in the Pipeline Project Fund, including any earnings resulting from the investment of such moneys, shall be used as provided in the Pipeline Indenture.

The Issuer makes no express or implied warranty that the moneys deposited in the Pipeline Project Fund and available for payment of the Pipeline Costs, under the provisions of the Pipeline Loan Agreement, will be sufficient to pay all the amounts which may be incurred for such Pipeline Costs. The Borrower agrees that if, after exhaustion of the moneys in the Construction Account within the Pipeline Project Fund, the Borrower or any other party should pay, or deposit moneys in the Construction Account within the Pipeline Project Fund for the payment of, any portion of the Pipeline Costs pursuant to the provisions of this section captioned "Establishment of Pipeline Project Completion; Obligation of Borrower to Complete", the Borrower shall not be entitled to any reimbursement therefor from the Issuer, the Pipeline Trustee, or the Holders of any of the Pipeline Bonds, nor shall it be entitled to any diminution of the amounts payable under the section captioned "LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Repayment and Payment of Other Amounts Payable", except to the extent that such amounts represent Contracted Shortfall Payments as provided in the section captioned "LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Repayment and Payment of Other Amounts Payable".

Investment of Moneys in Fund

Any moneys in any fund or account held by the Pipeline Trustee shall, at the written request of an Authorized Representative of the Borrower, be invested or reinvested by the Pipeline Trustee as provided in the Pipeline Indenture. Such investments shall be held by the Pipeline Trustee and shall be deemed at all times a part of the fund or account from which such investments were made, and the interest accruing thereon, and any profit or loss realized therefrom, shall be credited or charged to such fund or account.

Pipeline Project Completion in 2017

Pipeline Project Completion occurred on August 17, 2017, as evidenced by (i) the Borrower's filing with the Pipeline Trustee and Issuer of that certain Final Project Fund Disbursement Certificate, pursuant to the section captioned "Establishment of Pipeline Project Completion; Obligation of Borrower to Complete", and (ii) the Borrower's filing with the 2012 Pipeline Trustee of that certain certificate of an Authorized Representative of the Water Authority, confirmed by the Independent Engineer, certifying that Pipeline Project Completion has occurred, pursuant to the 2012 Pipeline Indenture. Such certificates evidence the satisfaction of the Borrower's obligation to complete the development, design, engineering, acquisition and construction of, the Pipeline, and to acquire, construct, improve, renovate, rehabilitate, install and equip all other facilities and real and personal property deemed necessary for the operation of the Pipeline, in accordance with the description of the Pipeline provided by the Water Authority and approved by the Issuer, including any and all supplements, amendments and additions or deletions thereto or therefrom, pursuant to the section captioned "Agreement to Construct the Pipeline; Modifications of the Pipeline; Disbursements From the Pipeline Fund; Disbursements From the 2012 Costs of Issuance Fund". Furthermore, on December 18, 2017, the Pipeline Trustee transferred funds remaining in the Pipeline Project Fund, including the Construction Account established within it, in the aggregate amount of \$2,668,968.08, to the Revenue Fund and subsequently closed the Pipeline Project Fund together with the Construction Account established within it.

LOAN OF PROCEEDS; REPAYMENT PROVISIONS

Loan of Pipeline Bond Proceeds; Issuance of Pipeline Bonds

The Issuer covenants and agrees, upon the terms and conditions in the Pipeline Loan Agreement, to make a loan to the Borrower of the proceeds of the Pipeline Bonds conditioned on the receipt thereof by the Issuer for the purpose of refunding the outstanding Series 2012 Pipeline Bonds and financing Costs of Issuance.

Repayment and Payment of Other Amounts Payable

(a) On or before each Pipeline Bond Payment Date, until the principal of, premium, if any, and interest on, the Pipeline Bonds shall have been fully paid or provision for such payment shall have been made as provided in the Pipeline Indenture, the Borrower covenants and agrees to pay to the Pipeline Trustee as a repayment on the loan made to the Borrower from Pipeline Bond proceeds pursuant to the section captioned “Loan of Pipeline Bond Proceeds; Issuance of Pipeline Bonds”, a sum equal to the amount payable on the next Pipeline Bond Payment Date as principal of and premium, if any, and interest on, the Pipeline Bonds as provided in the Pipeline Indenture, together with any such amount as shall be necessary to increase the amount on deposit in the Debt Service Reserve Fund to the Debt Service Reserve Requirement and Pipeline Trustee Fees and Expenses (collectively, the “Pipeline Loan Repayments”); provided that the amount of any Pipeline Loan Repayment coming due and payable shall be reduced by the amount of any Contracted Shortfall Payment Poseidon becomes obligated to pay on such date (whether or not payment of such Contracted Shortfall Payment is made on such date). Such Pipeline Loan Repayments shall be made in federal funds or other funds immediately available at the Corporate Trust Office of the Pipeline Trustee. The term “Pipeline Bond Payment Date” as used in this section captioned “Repayment and Payment of Other Amounts Payable” shall mean any date upon which any amounts payable with respect to the Pipeline Bonds shall become due, whether upon redemption (including without limitation sinking fund redemption), acceleration, maturity, or otherwise; and, with respect to the payment of Pipeline Trustee Fees and Expenses only, any date that is no later than thirty (30) days following the date on which Pipeline Trustee Fees and Expenses become due and payable. The Pipeline Trustee’s compensation shall not be limited by any provision of law regarding the compensation of a Pipeline Trustee of an express trust.

Each Pipeline Loan Repayment shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) and premium, if any, becoming due and payable on the Pipeline Bonds on each Pipeline Bond Payment Date, subject to reduction in connection with Contracted Shortfall Payments as set forth in the prior paragraph; provided that once per year, on the third Business Day following the Pipeline Bond Payment Date of each July, any amount held by the Pipeline Trustee in the Revenue Fund on the due date for a Pipeline Loan Repayment under the Pipeline Loan Agreement shall be credited against the installment due on the next Pipeline Bond Payment Date to the extent available for such purpose under the terms of the Pipeline Indenture; and provided further that if at any time the amounts held by the Pipeline Trustee in the Revenue Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Pipeline Bonds as such payments become due, the Borrower shall be relieved of any obligation to make any further payments under the provisions of this section captioned “Repayment and Payment of Other Amounts Payable”. Notwithstanding the foregoing, if on any date the amount held by the Pipeline Trustee in the Revenue Fund is insufficient to make any required payments of principal of (whether at maturity or upon redemption (including without limitation sinking fund redemption) or acceleration) and interest and premium, if any, on the Pipeline Bonds as such payments become due, the Borrower shall forthwith pay such deficiency as a Pipeline Loan Repayment under the Pipeline Loan Agreement.

(b) The Borrower also agrees to pay (i) the Issuer’s administrative fee either at the Closing Date or from time to time thereafter, as set forth in the Tax Certificate, (ii) the cost of printing any Pipeline Bonds required to be furnished by the Issuer at the expense of the Issuer, and (iii) any amounts required to be deposited in the Rebate Fund to comply with the provisions of the Pipeline Indenture and the payment of any rebate analyst.

(c) The Borrower also agrees to pay, (i) as soon as practicable after receipt of request for payment thereof, all expenses required to be paid by the Borrower under the terms of the Pipeline Bond Purchase Contract relating to the sale of the Pipeline Bonds, executed by the Treasurer of the State, the Issuer, J.P. Morgan Securities LLC, as underwriter of the Pipeline Bonds, and the Borrower (the “Pipeline Bond Purchase Contract”), which shall include all Costs of Issuance of the Pipeline Bonds; and (ii) all reasonable expenses of the Issuer related to the Pipeline

which are not otherwise required to be paid by the Borrower under the terms of the Pipeline Loan Agreement; including, but not limited to, all Costs of Issuance, provided that the Issuer shall have obtained the prior written approval of an Authorized Representative of the Borrower for any expenditures other than those provided for in the Pipeline Loan Agreement or in the Pipeline Bond Purchase Contract.

(d) The Borrower also agrees to pay fees and expenses of independent certified public accountants necessary for the preparation of annual or other audits, reports or summaries thereof required by the Pipeline Indenture or by the Issuer, including a report of an independent certified public accountant with respect to any fund established under the Pipeline Indenture; and reasonable expenses of the Issuer pursuant to Sections 44525 and 44548 of the California Health and Safety Code, and any agency of the State of California or any other counsel selected by the Issuer to act on its behalf in connection with the Pipeline Bonds.

(e) In the event the Borrower should fail to make any of the payments required by (a) through (d), such payments shall continue as obligations of the Borrower (except as and to the extent such payments are payable from Contracted Shortfall Payments) until such amounts shall have been fully paid. The Borrower agrees to pay such amounts, together with interest thereon, following a delinquency of 30 days until such amount and all interest thereon have been paid in full. Interest thereon shall be at the rate of four percent (4%) per annum or, if four percent (4%) is greater than the rate then permitted by law, at the maximum rate so permitted. Interest on overdue payments required under subsection (a) above shall be applied as provided in the Pipeline Indenture.

Unconditional Obligation

Subject to the section captioned “Limitation on Liability of Borrower”, the obligations of the Borrower to make the payments required by the section captioned “Repayment and Payment of Other Amounts Payable” and to perform and observe the other agreements on its part contained in the Pipeline Loan Agreement shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Issuer, and during the term of the Pipeline Loan Agreement, the Borrower shall pay all payments required to be made on account of the loan (which payments shall be net of any other obligations of the Borrower) as prescribed in the section captioned “Repayment and Payment of Other Amounts Payable” and all other payments required under the Pipeline Loan Agreement, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of, premium, if any, sinking fund installments, if any, and interest on the Pipeline Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Pipeline Indenture, the Borrower (i) will not suspend or discontinue any payments provided for in the section captioned “Repayment and Payment of Other Amounts Payable”; (ii) will perform and observe all of its other covenants contained in the Pipeline Loan Agreement; and (iii) except as provided in the Pipeline Loan Agreement, will not terminate the Pipeline Loan Agreement for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to all or a portion of those facilities or equipment comprising the Pipeline, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either of these, or any failure of the Issuer or the Pipeline Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the Pipeline Loan Agreement or the Pipeline Indenture, except to the extent permitted by the Pipeline Loan Agreement.

Assignment of Issuer’s Rights

As security for the payment of the Pipeline Bonds, the Issuer will assign to the Pipeline Trustee the Issuer’s rights under the Pipeline Loan Agreement, including the right to receive payments under the Pipeline Loan Agreement (except the Retained Rights), and the Issuer directs the Borrower to make the payments required under the Pipeline Loan Agreement (except such payments for expenses and indemnification) directly to the Pipeline Trustee. The Borrower assents to such assignment and agrees to make payments directly to the Pipeline Trustee without defense or set-off by reason of any dispute between the Borrower and the Issuer or the Pipeline Trustee. Without limiting the foregoing, to the extent there are benefits afforded to the Pipeline Trustee under the Installment Agreement, the Issuer will assign such rights to the Pipeline Trustee. The Borrower expressly acknowledges and consents to such assignment.

Assignment of Installment Sale Payments, Contracted Shortfall Payments and Other Rights

The Borrower irrevocably assigns to the Issuer its rights to receive all Installment Sale Payments and all Contracted Shortfall Payments as assigned to the Borrower by the Water Authority pursuant to the Installment Agreement. The Borrower assigns all of its rights under the Installment Agreement as are necessary to enforce the Water Authority's obligations thereunder to make Installment Sale Payments and all additional payments due thereunder, and to enforce the assignment by the Water Authority of its rights under the Pipeline DBA and Water Purchase Agreement, to the Issuer. The Borrower further assigns all of its rights, as assigned to it by the Water Authority pursuant to the Installment Agreement, under the Pipeline DBA and the Water Purchase Agreement as are necessary to enforce Poseidon's obligations thereunder to make the Contracted Shortfall Payments, to the Issuer. Such assignments shall remain in effect so long as any Pipeline Bonds are Outstanding and until no further amounts are due under the Pipeline Indenture or the Pipeline Loan Agreement. Without limiting the foregoing, to the extent there are benefits afforded to the Pipeline Trustee under the Installment Agreement, such rights are irrevocably assigned by the Borrower to the Issuer, and the Issuer will assign such rights to the Pipeline Trustee as described in the section captioned "Assignment of Issuer's Rights". The Borrower expressly acknowledges and consents to such assignment.

Limitation on Liability of Borrower

Notwithstanding anything to the contrary in the Pipeline Loan Agreement, the Borrower will not be required to (i) advance any moneys derived from any source of income other than Installment Sale Payments or, as applicable, Contracted Shortfall Payments the Borrower may have received, for the payment of the Loan Repayments, or (ii) advance any moneys derived from any source of income other than any additional amounts paid to it by the Water Authority pursuant to Installment Agreement for the performance of any agreements or covenants required to be performed by it under the Pipeline Loan Agreement.

CERTAIN SPECIAL COVENANTS AND AGREEMENTS

Right of Access to the Pipeline

The Borrower and the Water Authority and its successors agree that during the term of the Pipeline Loan Agreement, the Issuer, the Pipeline Trustee and the duly authorized agents of any of them shall have the right at all reasonable times during normal business hours to enter upon the site of the Pipeline to examine and inspect the Pipeline in conformance with industry practice; provided, however, that reasonable notice shall be given to the Borrower prior to such examination or inspection and, except in cases of emergency, risk of personal injury or death, catastrophic property loss, or imminent risk of other property damage, any examination or inspection which would materially impair the performance of the Pipeline shall be limited to scheduled maintenance periods as determined by the Water Authority in order to minimize impacts on water deliveries. The rights of access reserved to the Issuer and the Pipeline Trustee may be exercised only after such agent shall have executed release of liability and secrecy agreements if requested by the Borrower or the Water Authority and its successors in the form then currently used by the Borrower or the Water Authority and its successors, and nothing contained in this section captioned "Right of Access to the Pipeline" or in any other provision of the Pipeline Loan Agreement shall be construed to entitle the Issuer or the Pipeline Trustee to any information or inspection involving the confidential trade or proprietary knowledge, expertise or know-how of the Borrower or the Water Authority and its successors.

The Borrower's Maintenance of Its Existence; Assignments; Permitted Transfers of the Pipeline

(a) To the extent permitted by law, the Borrower covenants and agrees that during the term of the Pipeline Loan Agreement it shall:

(i) maintain its existence as a public entity and agency, duly organized and existing pursuant to the Act and the JPA Agreement,

(ii) maintain and update filings in accordance with California Government Code section 53051,

(iii) not dissolve, sell or otherwise dispose of all or substantially all of its assets, combine or consolidate with or merge into another entity, or permit one or more other entities to consolidate with or merge into it so that the Borrower is not the resulting or surviving entity, except if:

(A) (1) such resulting or surviving entity or transferee, as the case may be, is the Water Authority and its successors or (2) five years shall have elapsed since the issuance of the Pipeline Bonds;

(B) such resulting or surviving entity or transferee, as the case may be, has executed and delivered to the Issuer and the Pipeline Trustee an assignment and assumption agreement which provides: (1) certifications and evidence that such resulting or surviving entity or transferee qualifies to do business in the State of California and is in good legal standing, (2) an agreement by the surviving or resulting entity to pay and perform all of the obligations of the Borrower under the Pipeline Loan Agreement and under the Installment Agreement and the Tax Certificate, and (3) representations by the surviving or resulting entity identical to the representations set forth in the section regarding representations and warranties of the Borrower in the Pipeline Loan Agreement;

(C) (1) the credit rating on the Pipeline Bonds, as determined by any Rating Agency then rating the Pipeline Bonds, shall be no lower than the rating level of the Pipeline Bonds immediately prior to the effective date of such dissolution, sale, disposition, combination, merger or consolidation or (2) if the foregoing clause (1) is not satisfied, any reduction in rating occurs simultaneously with a mandatory tender for purchase of all the Pipeline Bonds; and

(D) the Issuer shall have received an Approving Opinion with respect to such dissolution, sale, disposition, combination, merger or consolidation and an Opinion of Counsel to the effect that the surviving, resulting, or transferee Person is a “participating party” as defined in the Act.

(iv) not sell, transfer, lease or otherwise dispose of (including operating arrangements), or permit the sale, transfer, lease or disposal (including operating arrangements), of the Pipeline or portion of the Pipeline other than equipment that has reached the end of its useful life, except in accordance with any of the following subsections:

(A) The Borrower may sell, transfer, lease or otherwise dispose of (including operating arrangements) any portion of the Pipeline to the Water Authority and its successors if the purchaser, transferee, lessee, operator or other recipient, as the case may be, has covenanted in a written instrument for the benefit of the Issuer and the Borrower to comply with the instructions of the Borrower issued for the purpose of assuring that the Pipeline be operated in conformance with the Pipeline Loan Agreement, the Act, the Tax Certificate and federal tax law; provided that nothing in the foregoing shall diminish the Borrower’s obligation to cause the Pipeline to be operated in conformance with the Pipeline Loan Agreement, the Act, the Tax Certificate and federal tax law, including without limitation, the operation of the sold, transferred, disposed or leased portion of the Pipeline. Any lease pursuant to the foregoing shall not permit sublease or assignment by the lessee unless such sublease or assignment would otherwise satisfy the requirements of this subsection.

(B) The Borrower may sell, transfer or otherwise dispose of any portion of the Pipeline that constitutes equipment if (1) such equipment has reached the end of its useful life or (2) such equipment is replaced by the Borrower or the Water Authority and its successors with equipment of equal or greater value and utility that is used in the same manner and for the same purposes as the equipment so sold, transferred or otherwise disposed of, has a useful life at least equal to the remaining useful life of the equipment so sold, transferred or otherwise disposed of and is in the same location as the equipment so sold, transferred or disposed of, to the extent identified in the Pipeline Loan Agreement and the Issuer shall have received an Approving Opinion with respect to such replacement.

(C) The Borrower may sell, transfer, lease or otherwise dispose of (including operating arrangements) any portion of the Pipeline to a Person other than the Water Authority and its successors, if,

(1) the purchaser, transferee, lessee, operator or other recipient, as the case may be, has covenanted in a written instrument for the benefit of the Issuer and the Borrower to comply with the instructions of the Borrower issued for the purpose of assuring that the Pipeline be completed and operated in conformance with the Pipeline Loan Agreement, the Act, the Tax Certificate and federal tax law; provided that nothing in the foregoing shall diminish the Borrower's obligation to cause the Pipeline to be completed and operated in conformance with the Pipeline Loan Agreement, the Act, the Tax Certificate and federal tax law;

(2) (I) the credit rating on the Pipeline Bonds, as determined by any Rating Agency then rating the Pipeline Bonds, shall be no lower than the rating level of the Pipeline Bonds immediately prior to the effective date of such sale, transfer, lease, disposition or (operating arrangement) or (II) if the foregoing clause (I) is not satisfied, any reduction in rating occurs concurrently with a mandatory tender for purchase of all the Pipeline Bonds; and

(3) the Issuer shall have received a certificate of good standing of the purchaser, transferee, lessee or operator, as the case may be, from the California Secretary of State and Franchise Tax Board, a copy of the document evidencing such sale, transfer, lease, disposition or (operating arrangement), an Approving Opinion with respect to such sale, transfer, lease, disposition or (operating arrangement) and an Opinion of Counsel to the effect that the surviving, resulting, or transferee Person is a "participating party" as defined in the Act.

(b) Within 10 days after the consummation of the merger or other transaction described in subsection (a)(iii) or (a)(iv) above, the Borrower shall provide the Issuer and the Pipeline Trustee with (i) counterpart copies of the documents constituting the transaction, (ii) if required to be delivered under the Pipeline Loan Agreement, the items set forth in subsection (a)(iii) or (a)(iv) above, as the case may be, and (iii) a certificate of the Borrower stating that the such transaction complies with the provisions of subsection (a)(iii) or (a)(iv) above, as the case may be. The Borrower shall give the Issuer at least 30 days written notice prior to the effective date of any merger or other transaction described above, together with drafts of the documents of assumption and such other instruments (other than good standing certificates) as would be required to be delivered in connection therewith. The Borrower agrees to provide such other information as the Issuer may reasonably request in order to assure compliance with this subsection (b).

(c) Notwithstanding any other provisions of subsection (a) above, the Borrower need not comply with any of the provisions of subsection (a) above if, at the time of such merger, combination, sale or transfer of assets, dissolution or reorganization, the Pipeline Bonds will be defeased as provided in the Pipeline Indenture or in the case of a sale of less than all of the assets acquired or constructed with proceeds of the Pipeline Bonds, the Pipeline Bonds will be defeased or retired in an amount proportional to the percentage of the original cost of such assets to the original net proceeds of the Pipeline Bonds. The Borrower shall provide to the Issuer a certificate of the Borrower setting forth the calculations evidencing that the amount of Pipeline Bonds defeased or retired is proportional to the percentage of the original cost of such assets to the original net proceeds of the Pipeline Bonds.

(d) The rights and obligations of the Borrower under the Pipeline Loan Agreement may be assigned by the Borrower to any Person in whole or in part, subject, however, to each of the following conditions:

(i) No assignment other than pursuant to subsection (a) above shall relieve the Borrower from primary liability for any of its obligations under the Pipeline Loan Agreement and, in the event of any assignment not pursuant to subsection (a) above, the Borrower shall continue to remain primarily liable for the payments specified in the section captioned "LOAN OF PROCEEDS; REPAYMENT PROVISIONS –

Repayment and Payment of Other Amounts Payable” and for performance and observance of the other agreements provided in the Pipeline Loan Agreement to be performed and observed by it.

(ii) Any assignment from the Borrower under this subsection (d) shall retain for the Borrower such rights and interests as will permit it to perform its obligations under the Pipeline Loan Agreement, if applicable, and any assignee from the Borrower shall assume in writing the obligations of the Borrower under the Pipeline Loan Agreement to the extent of the interest assigned.

(iii) The Borrower shall give the Issuer 30 days prior written notice of any assignment under this subsection (d), and shall, within 30 days after delivery thereof, furnish or cause to be furnished to the Issuer and the Pipeline Trustee a true and complete copy of each such assignment together with an instrument of assumption and an Opinion of Counsel satisfactory to the Issuer that the provisions of this subsection (d) have been complied with.

Notwithstanding the foregoing, the Borrower may assign (without the consent of the Issuer) its entire interest in the Pipeline Loan Agreement without recourse and have no further liability for any obligations under the Pipeline Loan Agreement if the consent of the Pipeline Bondholders has been obtained directly or constructively pursuant to the terms of the Pipeline Loan Agreement or the Pipeline Indenture and the conditions of the foregoing subsection (d)(iii) are satisfied.

(e) The Borrower may undertake any transaction not expressly permitted by subsections (a) or (d) above if the Issuer consents to such transaction in writing. The Borrower must request any such written consent prior to undertaking any such transaction and provide to the Issuer such information, reports and documents relating to the transaction as the Issuer may reasonably request. The Issuer may respond to such request of the Borrower at any time within 45 days of such request. If the Issuer has not responded to such request within the 45-day period, the Issuer will be deemed to have consented to such transaction.

(f) If a merger, consolidation, sale or other transfer is effected as provided in this section captioned “The Borrower’s Maintenance of Its Existence; Assignments; Permitted Transfers of the Pipeline”, all provisions of this section shall continue in full force and effect and no further merger, consolidation, sale or transfer shall be effected except in accordance with the provisions of this section.

Notwithstanding anything to the contrary contained in the Pipeline Loan Agreement, the Borrower may sell the Pipeline to the Water Authority pursuant to the terms of the Installment Agreement; provided that the Borrower covenants to cause the Water Authority to comply with all of the obligations imposed on the Borrower in this section captioned “The Borrower’s Maintenance of Its Existence; Assignments; Permitted Transfers of the Pipeline” as if such the obligations were obligations of the Water Authority (provided that the Water Authority shall maintain its existence as a county water authority duly organized and existing under and by virtue of the laws of the State of California), and to enforce the covenants and obligations of the Water Authority under the Installment Agreement, including without limitation the covenants of the Water Authority in the Installment Agreement.

Insurance; Assignment of Net Insurance Proceeds

The Borrower agrees to insure the Pipeline or to cause the Water Authority to insure the Pipeline during the term of the Pipeline Loan Agreement for such amounts and for such occurrences as are customary for similar facilities within the State of California, by means of policies issued by reputable insurance companies qualified to do business in the State of California or through self-insurance. The Borrower agrees to deliver, upon request, to the Issuer and the Pipeline Trustee memorandum copies of the insurance policies or certificates of insurance covering the Pipeline and certification by an insurance consultant that the insurance on the Pipeline meets the above requirements. The Borrower assigns to the Issuer and the Issuer will irrevocably assign to the Pipeline Trustee the right to receive all of the proceeds of any policy of insurance or surety bond, net of proceeds expended to replace or repair the Pipeline, together with all of its rights under any policy of insurance or surety bond agreement or right, claim, action or suit relating to such proceeds, necessary to enforce the Borrower’s or the Water Authority’s claims, as applicable, thereunder to receive the proceeds, including all such rights as have been assigned to the Borrower pursuant to the Installment Agreement. The Borrower further assigns to the Issuer and the Issuer will irrevocably assign to the Pipeline Trustee the right to receive all of the proceeds from actual or threatened condemnation or eminent domain

actions with respect to all or any portion of the Pipeline, including such rights as have been assigned to the Borrower pursuant to the Installment Agreement. Such assignments shall remain in effect so long as any Pipeline Bonds are Outstanding.

Maintenance and Repair; Taxes; Utility and Other Charges

The Borrower agrees to maintain the Pipeline, or cause the Water Authority to maintain, or cause the Pipeline to be maintained, during the term of the Pipeline Loan Agreement (i) in as reasonably safe condition as its operations shall permit, (ii) in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof and (iii) in a manner consistent with State law, including, without limitation, the Act and all environmental laws.

The Borrower agrees to pay, or cause the Water Authority to pay, or cause to be paid during the term of the Pipeline Loan Agreement all taxes, governmental charges of any kind lawfully assessed or levied upon the Pipeline or any part thereof, including any taxes levied against any portion of the Pipeline which, if not paid, will become a charge on the receipts from the Pipeline prior to or on a parity with the charge thereon and the pledge or assignment thereof to be created therefrom or under the Pipeline Loan Agreement, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of any portion of the Pipeline and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Pipeline; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Borrower shall be obligated to pay only such installments as are required to be paid during the term of the Pipeline Loan Agreement. The Borrower may, at the Borrower's expense and in the Borrower's name, in good faith, contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during that period of such contest and any appeal therefrom unless by such nonpayment the Pipeline or any part thereof will be subject to loss or forfeiture.

The Borrower agrees to maintain all certificates, approvals, permits and authorizations described in the section regarding representations and warranties of the Borrower in the Pipeline Loan Agreement necessary for the construction, as applicable, use or operation of the Pipeline.

General Tax Covenants

It is the intention of the parties to the Pipeline Loan Agreement that interest on the Pipeline Bonds shall be and remain Tax Exempt and, to that end, the Borrower and the Issuer covenant to comply with all of their respective requirements in the Tax Certificate in this section captioned "General Tax Covenants" and in the section captioned "Special Arbitrage Certifications; Rebate" which are for the benefit of the Pipeline Trustee and each and every Holder of the Pipeline Bonds. The Borrower further covenants to cause the Water Authority to comply with the covenants of the Water Authority in the Installment Agreement and the requirements of the Water Authority in the Tax Certificate.

Special Arbitrage Certifications; Rebate

The Borrower acknowledges that it has read the sections regarding arbitrage covenants and the Rebate Fund in the Pipeline Indenture and that it will comply with the requirements of those sections as if they were set forth in full in the Pipeline Loan Agreement. The Borrower shall calculate, or cause to be calculated, its rebate liability at such times as are required by Section 148(f) of the Code and any temporary, proposed or final Regulations as may be applicable to the Pipeline Bonds from time to time. The Borrower shall provide to the Pipeline Trustee a copy of each calculation of rebate liability prepared by or on behalf of the Borrower, which documentation shall be made available to the Issuer upon request.

Changes to the Pipeline

The Borrower shall not make or permit to be made any changes to the Pipeline or to the operation thereof which would affect the qualification of the Pipeline under the Act or impair the exemption from federal income taxation of the interest on the Pipeline Bonds.

Continuing Disclosure

The Borrower covenants and agrees to comply or cause the Water Authority to comply with the continuing disclosure requirements promulgated under S.E.C. Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, including without limitation complying with all of its obligations under the Continuing Disclosure Certificate. Notwithstanding any other provision of the Pipeline Loan Agreement, failure of the Borrower to comply with the requirements of S.E.C. Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, shall not be considered a Loan Default Event; provided, however, that the Pipeline Trustee, at the written request of the Holders of at least 25% aggregate principal amount of Outstanding Pipeline Bonds, shall, but only to the extent indemnified to its satisfaction from and against any cost, liability or expense of any kind whatsoever related thereto, including, without limitation, fees and expenses of its attorneys and advisors and additional fees and expenses of the Pipeline Trustee, or any Pipeline Bondholder or beneficial owner of the Pipeline Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations pursuant to this section captioned "Continuing Disclosure". The Borrower acknowledges and agrees that the Issuer shall have no liability with respect to these obligations.

LOAN DEFAULT EVENTS AND REMEDIES

Loan Default Events

Any one of the following which occurs and continues shall constitute a Loan Default Event:

- (a) failure of the Borrower to make any payment required by the first paragraph of the section captioned "LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Repayment and Payment of Other Amounts Payable" when due; or
- (b) failure of the Borrower to observe and perform any covenant, condition or agreement on its part required to be observed or performed by the Pipeline Loan Agreement, other than as provided in subsection (a) above, which continues for a period of 30 days after written notice delivered to the Borrower by the Issuer or the Pipeline Trustee and which notice shall specify such failure and request that it be remedied, unless the Issuer and the Pipeline Trustee shall agree in writing to an extension of such time; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Issuer and the Pipeline Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within such period and diligently pursued until the default is corrected; or
- (c) existence of a Water Authority Event of Default under and as defined in the Pipeline Indenture; or
- (d) any representation or warranty of the Borrower set forth in section regarding representations and warranties of the Borrower in the Pipeline Loan Agreement at the time made or deemed made is false in any material respect.

The provisions of subsection (b) are subject to the limitation that the Borrower shall not be deemed in default if, and so long as, the Borrower is unable to carry out its agreements under the Pipeline Loan Agreement by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of California or any of their departments, agencies, or officials, or any civil or military authority; insurrections, riots, epidemics, landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; wars; acts of terrorism; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Borrower; it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Borrower and the Borrower shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Borrower, unfavorable to the Borrower. This limitation shall not apply to any default under subsections (a), (c) or (d) of this section captioned "Loan Default Events".

Remedies on Default

Subject to the section captioned “Loan Default Events”, whenever any Loan Default Event shall have occurred and shall be continuing,

(a) The Pipeline Trustee, by written notice to the Issuer and the Borrower, shall declare the unpaid balance of the Pipeline Loan Repayments payable under subsection (a) of the section captioned “LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Repayment and Payment of Other Amounts Payable” to be due and payable immediately, provided that concurrently with or prior to such notice the unpaid principal amount of the Pipeline Bonds shall have been declared to be due and payable under the Pipeline Indenture. Upon any such declaration, such amount shall become and shall be immediately due and payable as determined in accordance with the Pipeline Indenture.

(b) The Pipeline Trustee may have access to and may inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Borrower; provided that the Pipeline Trustee shall be obligated to protect the confidentiality of such information to the extent provided by State and federal law and prevent its disclosure to the public, except the Issuer.

(c) The Issuer or the Pipeline Trustee may take whatever other action at law or in equity as may be necessary or desirable to collect the payments and other amounts then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Borrower under the Pipeline Loan Agreement or any right assigned by the Borrower to the Issuer under the Pipeline Loan Agreement; provided, however, that acceleration of the unpaid balance of the loan payments is not a remedy available to the Issuer.

In case the Pipeline Trustee or the Issuer shall have proceeded to enforce its rights under the Pipeline Loan Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Pipeline Trustee or the Issuer, then, and in every such case, the Borrower, the Pipeline Trustee and the Issuer shall be restored respectively to their several positions and rights under the Pipeline Loan Agreement, and all rights, remedies and powers of the Borrower, the Pipeline Trustee and the Issuer shall continue as though no such action had been taken.

The Borrower covenants that, in case a Loan Default Event shall occur with respect to the payment of any Pipeline Loan Repayment payable under subsection (a) of the section captioned “LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Repayment and Payment of Other Amounts Payable”, then, upon demand of the Pipeline Trustee, the Borrower will pay to the Pipeline Trustee the whole amount that then shall have become due and payable under said Section, with interest on the amount then overdue at the rate of four percent (4%) per annum, or if four percent (4%) is greater than the rate then permitted by law, at the greatest rate then permitted; provided that the Borrower shall be obligated to make such payments solely from the proceeds of Installment Sale Payments the Borrower receives from the Water Authority. Such overdue rate shall be in effect following a delinquency of 30 days and shall remain in effect until such overdue amount has been paid.

In case the Borrower shall fail forthwith to pay such amounts upon such demand, the Pipeline Trustee shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Borrower and collect in the manner provided by law the moneys adjudged or decreed to be payable.

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Borrower or the Water Authority under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Borrower or the Water Authority or in the case of any other similar judicial proceedings relative to the Borrower or the Water Authority, the creditors or property of the Borrower or the Water Authority, then the Pipeline Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to the Pipeline Loan Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Pipeline Trustee allowed in such judicial proceedings relative to the Borrower or the Water Authority, its creditors or its property, and to collect and receive any moneys or other property

payable or deliverable on any such claims, and to distribute such amounts as provided in the Pipeline Indenture after the deduction of its reasonable charges and expenses to the extent permitted by the Pipeline Indenture. Any receiver, assignee or trustee in bankruptcy or reorganization is authorized to make such payments to the Pipeline Trustee and to pay to the Pipeline Trustee any amount due for reasonable compensation and expenses, including reasonable expenses and fees of counsel incurred by the Pipeline Trustee up to the date of such distribution.

PREPAYMENT

Redemption of Pipeline Bonds With Prepayment Moneys

By virtue of the assignment of the rights of the Issuer under the Pipeline Loan Agreement to the Pipeline Trustee as is provided in the section captioned “LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Assignment of Issuer’s Rights”, the Borrower agrees to and shall pay directly to the Pipeline Trustee any amount permitted or required to be paid by it under this section captioned “PREPAYMENT”, provided that such payments shall be made solely from the proceeds of Installment Sale Payments the Borrower receives from the Water Authority. The Pipeline Trustee shall use the moneys so paid to it by the Borrower to redeem the Pipeline Bonds on the date set for such redemption pursuant to the Pipeline Loan Agreement. The Issuer shall call Pipeline Bonds for redemption as required by the Pipeline Indenture or as requested by the Borrower pursuant to the Pipeline Indenture or the Pipeline Loan Agreement.

Options to Prepay Installments

The Borrower shall have the option to prepay the amounts payable under the section captioned “LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Repayment and Payment of Other Amounts Payable” by paying to the Pipeline Trustee, for deposit in the Revenue Fund, the amount set forth in the section captioned “Amount of Prepayment”, as follows: the Borrower may prepay all or any part of the Pipeline Loan Repayments and cause all or any part of the Pipeline Bonds to be redeemed at the times and at the prices set forth in the Pipeline Indenture.

Mandatory Prepayment

The Borrower shall have and accepts the obligation to prepay in whole the Pipeline Loan Repayments required by the section captioned “LOAN OF PROCEEDS; REPAYMENT PROVISIONS – Repayment and Payment of Other Amounts Payable”, together with interest accrued, but unpaid, thereon, to be used to redeem all or a part of the Outstanding Pipeline Bonds under any of the following circumstances (provided that such payments shall be required to be made solely from the proceeds of Installment Sale Payments the Borrower receives from the Water Authority):

(g) As a result of any changes in the Constitution of the State or in the Constitution of the United States of America or of legislative or administrative action (whether state or federal), or by final, nonappealable decree, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by the Water Authority in good faith, the Pipeline Loan Agreement or the Installment Agreement shall have become impossible to perform in accordance with the intent and purposes of the parties as expressed in the Pipeline Loan Agreement or the Installment Agreement, as applicable; or

(h) if mandatory redemption is required by the Pipeline Indenture.

The amount payable by the Borrower in the event of a prepayment required by this section captioned “Mandatory Prepayment” shall be determined as set forth in the section captioned “Amount of Prepayment” and shall be deposited in the Revenue Fund.

Amount of Prepayment

In the case of a prepayment of the entire amount due under the Pipeline Loan Agreement pursuant to the sections captioned “Options to Prepay Installments” or “Mandatory Prepayment”, the amount to be paid shall be a sum sufficient, together with other funds and the yield on any securities deposited with the Pipeline Trustee and

available for such purpose, to pay (1) the principal of all Pipeline Bonds Outstanding on the redemption date specified in the notice of redemption, plus interest accrued and to accrue to the payment or redemption date of the Pipeline Bonds, plus premium, if any, pursuant to the Pipeline Indenture, (2) all reasonable and necessary fees and expenses of the Issuer, the Pipeline Trustee and any paying agent accrued and to accrue through final payment of the Pipeline Bonds and (3) all other liabilities of the Borrower accrued and to accrue under the Pipeline Loan Agreement.

In the case of partial prepayment of the Pipeline Loan Repayments, the amount payable shall be a sum sufficient, together with other funds deposited with the Pipeline Trustee and available for such purpose, to pay the principal amount of and premium, if any, and accrued interest on the Pipeline Bonds to be redeemed, as provided in the Pipeline Indenture, and to pay expenses of redemption of such Pipeline Bonds. All partial prepayments of the Pipeline Loan Repayments shall be applied in inverse order of the due dates thereof.

NON-LIABILITY OF THE ISSUER

Non-Liability of Issuer

The Issuer shall not be obligated to pay the principal of, or premium, if any, or interest on the Pipeline Bonds, except from Borrower Payments. The Borrower acknowledges that the Issuer's sole source of moneys to repay the Pipeline Bonds will be provided by the payments made by the Borrower pursuant to the Pipeline Loan Agreement, together with other Borrower Payments, including investment income on certain funds and accounts held by the Pipeline Trustee under the Pipeline Indenture, and Contracted Shortfall Payments, and agrees that if the payments to be made under the Pipeline Loan Agreement shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Pipeline Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Pipeline Trustee, the Borrower shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Pipeline Trustee, the Borrower, the Issuer or any third party; provided that the Borrower shall be obligated to make such payments solely from the proceeds of Installment Sale Payments the Borrower receives from the Water Authority.

MISCELLANEOUS

Amendments, Changes and Modifications

Except as otherwise provided in the Pipeline Loan Agreement or the Pipeline Indenture, subsequent to the initial issuance of Pipeline Bonds and prior to their payment in full, or provision for such payment having been made as provided in the Pipeline Indenture, the Pipeline Loan Agreement may not be effectively amended, changed, modified, altered or terminated except in accordance with the Pipeline Indenture.

Liability of Issuer Limited to Borrower Payments

Notwithstanding anything in the Pipeline Loan Agreement or in the Pipeline Bonds contained, the Issuer shall not be required to advance any moneys derived from any source other than the Borrower Payments and other assets pledged under the Pipeline Indenture for any of the purposes mentioned in the Pipeline Indenture, whether for the payment of the principal of or interest on the Pipeline Bonds or for any other purpose of the Pipeline Indenture. Nevertheless, the Issuer may, but shall not be required to, advance for any of the purposes hereof any funds of the Issuer which may be made available to it for such purposes. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OR ANY LOCAL AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE PIPELINE BONDS. The Issuer shall not be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with the Pipeline Loan Agreement, the Pipeline Bonds or the Pipeline Indenture, except only to the extent amounts are received for the payment thereof from the Borrower under the Pipeline Loan Agreement; provided, however, that the Borrower shall not be required to pay the fees and expenses of the Issuer's counsel incurred in connection with the issuance of the Pipeline Bonds.

The Borrower acknowledges that the Issuer's sole source of moneys to repay the Pipeline Bonds will be provided by the payments made by the Borrower to the Pipeline Trustee pursuant to the Pipeline Loan Agreement, together with investment income on certain funds and accounts held by the Pipeline Trustee under the Pipeline Indenture, and agrees that if the payments to be made under the Pipeline Loan Agreement shall ever prove insufficient to pay all principal (or redemption price) and interest on the Pipeline Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Pipeline Trustee, the Borrower shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal (or redemption price) or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Pipeline Trustee, the Borrower, the Issuer or any third party, subject to any right of reimbursement from the Pipeline Trustee, the Issuer or any such third party, as the case may be, therefor.

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APPENDIX G

SUMMARY OF CERTAIN PROVISIONS OF THE WATER PURCHASE AGREEMENT

The following summarizes certain provisions of the Water Purchase Agreement, dated as of December 20, 2012 (the “Effective Date”), by and between the San Diego County Water Authority (the “Water Authority”) and Poseidon Resources (Channelside) LP (the “Company”), including certain provisions of Contract Administration Memoranda and amendments to the Water Purchase Agreement that have been entered into between the parties subsequent to the Effective Date. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Water Purchase Agreement.

DEFINITIONS

The following capitalized terms are certain of the defined terms in the Water Purchase Agreement.

“**Acre Foot**” means 43,560 cubic feet, which is equal to 325,851.42 U.S. gallons.

“**Additional Pipeline Bonds**” means one or more series of additional bonds issued, executed, authenticated and delivered under the Pipeline Indenture or pursuant to a trust indenture by and between the CPCFA and the Pipeline Trustee. 'Additional Pipeline Bonds' include bonds issued to refund some or all of the then-outstanding Pipeline Bonds.

“**Additional Plant Bonds**” means any Plant Bonds other than the Initial Plant Bonds.

“**Affiliate**”, in respect of a person means any other person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first person, where “control” means, with respect to the relationship between or among two or more persons, the possession, directly or indirectly or as trustee, personal representative or executor, of the power to direct or cause the direction of the affairs or management of a person, whether through the ownership of voting securities, as trustee, personal representative or executor, by statute, contract, credit arrangement or otherwise, including the ownership, directly or indirectly, of securities having the power to elect a majority of the board of directors or similar body governing the affairs of such person. Affiliates of the Project Company include Poseidon Water LLC.

“**Agua Hedionda Lagoon**” means the approximately 230 acre lagoon in the City of Carlsbad, California extending 1.7 miles to Highway 101/Carlsbad Boulevard and the State coast, and discharging into the Pacific Ocean.

“**Annual Equity Return Target Amounts**” means the amounts for each Contract Year set forth in Table 1.2 (Equity Return Charge) of the Water Purchase Agreement.

“**Annual Unexcused Supply Shortfall Units**” means, for any Contract Year, the sum of any Monthly Unexcused Supply Shortfall Units occurring in such Contract Year.

“**Annual Unscheduled Outage Units Allowance**” means, for any Contract Year, 1,630 Units, multiplied by the Supply Commitment Reduction Percentage.

“**Appendix**” means any of the Appendices and, as applicable, any schedules and attachments thereto, that are appended to the Water Purchase Agreement.

“**Applicable Law**” means:

- (1) Any federal, State or local law, statute, code or regulation;
- (2) Any formally adopted and generally applicable rule, requirement, determination, standard, policy, implementation schedule, or other order of any Governmental Body having appropriate jurisdiction; and
- (3) Any Governmental Approval,

in each case having the force of law and applicable from time to time to the Project.

“Avoidable Costs”, when used in relation to an event or circumstance, means all costs and expenditures which:

- (1) Are saved or avoided as a result of, or in responding to, the event or circumstance or its effects; or
- (2) If the Project Company acted reasonably and in accordance with the Water Purchase Agreement, would have been saved or avoided as a result of, or in responding to, the event or circumstance or its effects.

“Bankruptcy Law” means the United States Bankruptcy Code, 11 U.S.C. 101 et seq., as amended from time to time, and any successor statute thereto. “Bankruptcy Law” also includes any similar state law relating to bankruptcy, insolvency, the rights and remedies of creditors, the appointment of receivers or the liquidation of companies and estates that are unable to pay their debts when due.

“Billing Period” means each month of a Contract Year, except that:

- (1) The first Billing Period of the first Contract Year shall begin on the Commercial Operation Date and shall continue to the last day of the month in which the Commercial Operation Date occurs, and
- (2) The last Billing Period of the last Contract Year shall end on the last day of the Term.

Any computation made on the basis of a Billing Period shall be adjusted on a pro rata basis to take into account any Billing Period of less than the actual number of days in the month to which such Billing Period relates.

“Blended Water” means Product Water and the TOVWTP Treated Water, as blended together in the TOVWTP Clearwell.

“Board of Directors” means the board of directors of the Water Authority.

“Bond Purchase Agreement” means the Bond Purchase Agreement, dated December 14, 2012, between the CPCFA, the Project Company, J.P. Morgan Securities LLC, the Treasurer of the State of California, and the Water Authority, relating to the Initial Plant Bonds.

“Business Day” means a day other than a Saturday, Sunday or an official Water Authority holiday.

“Cabrillo” means Cabrillo Power I, LLC, a limited liability organized and existing under the laws of the State of Delaware, and a subsidiary of NRG Energy, Inc., a corporation organized and existing under the laws of the State of Delaware.

“Cabrillo Entities” means Cabrillo, its Affiliates, any of their respective successors or assigns, and any subsequent owner of the Cabrillo Generating Facility or Cabrillo Generating Facility Site, and their respective successors and assigns.

“Cabrillo Generating Facility” means the existing electric power generating facility owned and operated by Cabrillo and located at the Cabrillo Generating Facility Site.

“Cabrillo Generating Facility Site” means the real property described in the Water Purchase Agreement located in the City of Carlsbad, California on which the Cabrillo Generating Facility is located.

“Cabrillo Ground Lease” means the Second Amended and Restated Ground Lease and Easement Agreement, dated as of April 7, 2010, between Cabrillo and the Project Company, as amended pursuant to the First Amendment, dated as of October 5, 2010; the Second Amendment, dated as of December 14, 2011; the Third Amendment, dated as of February 10, 2012; the Fourth Amendment, dated as of March 23, 2012; the Fifth Amendment, dated as of April 24, 2012; the Sixth Amendment, dated as of May 15, 2012; the Seventh Amendment, dated as of June 19, 2012; the Eighth Amendment, dated as of July 31, 2012; the Ninth Amendment, dated as of August 9, 2012; the Tenth Amendment, dated as of December 11, 2012 and the Eleventh Amendment dated as of February 16, 2018.

“Cabrillo Raw Seawater Intake Structure” means the existing structure currently used for the intake of seawater for the Cabrillo Generating Facility.

“Cabrillo Raw Seawater Intake System” means the Cabrillo Raw Seawater Intake Structure, and the system of pipes, pumps, equipment, improvements and other assets at the Cabrillo Generating Facility required for the conveyance of Raw Seawater from the Cabrillo Raw Seawater Intake Structure to the Raw Seawater Delivery Point.

“Cabrillo Raw Seawater Intake System Improvements” means the seawater intake system improvements contemplated to be constructed by the Project Company upon a closure of the once-through cooling system of the Cabrillo Generating Facility.

“California Public Records Act” means the California Public Records Act (California Government Code Section 6250 and following).

“Capital Charge” means the sum of the Debt Service Charge and the Equity Return Charge.

“CDPH” means the California Department of Public Health, or any predecessor or successor agency.

“CEQA” means the California Environmental Quality Act, California Public Resources Code Section 21000 et seq., and applicable regulations and guidelines promulgated thereunder, each as amended from time to time.

“CERCLA” means the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. 9601 et seq., and applicable regulations promulgated thereunder, each as amended from time to time.

“CFS” means cubic feet per second.

“Change in Law Event” means the following:

- (1) Inclusions . The coming into effect of:

(a) Any Applicable Law enacted after the Contract Date; or

(b) Any modification (including repeal) of any Applicable Law existing on the Contract Date that comes into effect after the Contract Date;

(in either case, that is generally applicable to water treatment facilities, treated water quality or wastewater discharges and compliance with which, in accordance with the Contract Standards, materially expands the scope or materially interferes with, delays or increases the cost of performing the Contract Obligations); or

(c) Any (i) Applicable Law enacted after the Contract Date or any modification (including repeal) of any Applicable Law existing on the Contract Date that comes into effect after the Contract Date requiring the closure of the once-through cooling facilities at the Cabrillo Generating Facility, or (ii) demand or delay by any Governmental Body in issuing a required Governmental Approval for the Cabrillo Raw Seawater Intake System Improvements, in either case as and to the extent provided in “—Cabrillo Raw Seawater Intake System Improvements”; or

(d) A CDPH permitting delay, as and to the extent provided in “Extension of the Scheduled Commercial Operation Date for Certain CDPH Permitting Delays”; or

(e) A delay in the issuance of, or the imposition of terms or conditions in, any Governmental Approval that results directly from any Change in Law Event described in items (a) or (b) above with respect to Applicable Law described in items (1) or (2) of the definition of Applicable Law.

(2) Relief Limitations. The relief to which the Project Company is entitled upon a Change-in-Law Event described in items (c) and (d) above is limited as provided respectively in “—Cabrillo Raw Seawater Intake System Improvements” and “—Extension of the Scheduled Commercial Operation Date for Certain CDPH Permitting Delays”. Except as provided in “—Obligation to Construct Cabrillo Raw Seawater Intake System Improvements Constitutes a Change in Law; Limitations”, the Project Company shall not be entitled to an adjustment of the Unit Price or any other compensation relief upon the occurrence of any of the events referred to in this Relief Limitations Section.

(3) Exclusions . It is specifically understood that none of the following shall constitute a “Change in Law Event”:

(a) Any law, statute, code or regulation that has been enacted or adopted on or before the Contract Date to take effect after the Contract Date;

(b) The denial, delay in issuance of, or imposition of any term or condition in connection with, any Governmental Approval required for the Contract Obligations, except as provided in items (1)(c), (d) or (e) above;

(c) A change in the nature or severity of the actions typically taken by a Governmental Body to enforce compliance with Applicable Law which was in effect as of the Contract Date;

(d) Changes in or denials of Governmental Approvals in consequence of the enforcement, lapse or invalidation of an existing Governmental Approval, unless due to an act, event or circumstance described in items 1(a) or (b) above;

(e) Any increase in any fines or penalties provided for under Applicable Law in effect as of the Contract Date;

(f) Any act, event or circumstance that would otherwise constitute a Change in Law Event but that does not change the requirements imposed on the Project Company by the Contract Standards in effect as of the Contract Date;

(g) Any change in Tax Law (except that the Project Company shall be entitled to relief on account of a Discriminatory Change in Tax Law or a Specified Change in Tax Law as and to the extent provided in the “—Discriminatory or Specified Changes in Tax Law”); or

(h) Any Applicable Law enacted after the Contract Date or any modification (including repeal) of any Applicable Law existing on the Contract Date that comes into effect after the Contract Date affecting the Cabrillo Generating Facility other than a Change in Law Event described in item (1)(c) of the Change in Law Event inclusions described above.

“**Charge**” means the Debt Service Charge, the Equity Return Charge, the Fixed Operating Charge, the Variable Operating Charge, the Fixed Electricity Charge and the Variable Electricity Charge, as applicable.

“**City**” means The City of Carlsbad, California.

“**Collateral Agent**” means Union Bank, N.A. or any successor fiduciary institution serving as collateral agent from time to time under the Collateral Trust Agreement.

“**Collateral Agent’s Remedies Agreement**” means the Collateral Agent’s Remedies Agreement, dated December 20, 2012, between the Water Authority, the Collateral Agent and the Project Company.

“**Collateral Trust Agreement**” means the Collateral Trust Agreement, dated December 20, 2012, to be entered into between the Project Company, the Collateral Agent, the Plant Trustee and the Pipeline Trustee.

“**Compensation Adjustment Event**” (**EVENTS**) means the occurrence of an Uncontrollable Circumstance described in “Inclusions-Performance, Schedule and Compensation Relief” of the definition Section.

“**Compensation Adjustment Event Capital Costs**” means the permitting, design, construction and related administration costs of modifying or reinstating the Plant that directly result from the occurrence of a Compensation Adjustment Event.

“**Compensation Adjustment Event Financing**” means a financing by the Project Company of Compensation Adjustment Event Capital Costs effected pursuant to “Compensation Adjustment Event Capital Costs”.

“**Concentrate Discharge**” means any process wastewater produced at the Plant.

“**Confidential Project Company Information**” means any information that the Water Authority may not disclose or make public under “Project Company’s Confidentiality Obligations”.

“**Confidential Water Authority Information**” means any information that the Project Company may not disclose or make public under “Water Authority’s Confidentiality Obligations”.

“Construction Governmental Approvals” means all Governmental Approvals required from time to time during the Construction Period for the commencement and continuance of the Construction Work, excluding the Project Company New Domestic Water Supply Permit.

“Construction Period” means the period from and including the Contract Date through the Commercial Operation Date.

“Construction Quality Management Plan” means the Project Company’s plan for quality assurance and quality control in implementing the Construction Work to be developed in accordance with the requirements set forth in “Construction Quality Management Plan” of the Water Purchase Agreement.

“Construction Work” means everything required to be furnished and done for and relating to the design, construction and commissioning of the Project by the Project Company pursuant to the Water Purchase Agreement prior to the date of Project Completion.

“Contract Date” means the date the Water Purchase Agreement is executed and delivered by the parties thereto.

“Contract Obligations” means everything required to be furnished and done for and relating to the permitting, design, construction, financing, operation and maintenance of the Project and the production and delivery of Product Water by the Project Company to the Product Water Delivery Point pursuant to the Water Purchase Agreement.

“Contract Services” means the Construction Work and Operating Work.

“Contract Standards” means the standards, terms, conditions, methods, techniques and practices imposed or required by:

- (1) Applicable Law;
- (2) The Design Requirements;
- (3) Good Design and Construction Practice;
- (4) The Major Repair and Replacement Plan;
- (5) The Performance Guarantees;
- (6) The Operating and Maintenance Standards;
- (7) Good Management Practice;
- (8) The Construction Quality Management Plan;
- (9) Applicable written equipment manufacturers’ specifications;
- (10) Applicable Insurance Requirements; and
- (11) Any other standard, term, condition or requirement specifically provided in the Water Purchase Agreement to be observed by the Project Company.

The “—Applicability, Stringency and Consistency of Contract Standards” shall govern issues of interpretation related to the applicability and stringency of the Contract Standards.

“Contract Year” means each of:

- (1) The period from the Contract Date to the next June 30th;
- (2) Each subsequent period of 12 calendar months commencing on July 1st; and
- (3) The period from July 1st in the year in which the Water Purchase Agreement expires or is terminated (for whatever reason) to and including the Termination Date.

Any computation made or requirement established on the basis of a Contract Year shall be adjusted on a pro rata basis to take into account any Contract Year of less than 365 or 366 days, whichever is applicable.

“County” means The County of San Diego, California.

“CPCFA” means the California Pollution Control Financing Authority, a political subdivision and political instrumentality of the State.

“Deductions” means those deductions from the otherwise applicable Monthly Water Purchase Payments that the Water Authority is permitted to take as offsets on account of: (1) the delivery of Off-Specification Water, pursuant to the “—Remedies for Breach of Product Water Quality Guarantee”, and (2) Drought Shortfall Payments, pursuant to the “—Drought Shortfall Payments”.

“Design Documents” means the Project Company’s plans, drawings, shop drawings, record drawings, specifications, sketches, graphic representations, calculations, electronic files and other design documents prepared in connection with the Construction Work.

“Design Requirements” means the design requirements for the Plant set forth in the Water Purchase Agreement.

“Differing Site Conditions” means concealed or latent subsurface conditions at the Plant Site that materially differ from those described in the geotechnical baseline conditions set forth in the Water Purchase Agreement.

“Directed Capital Modification” (MODIFICATIONS) means a Water Authority-directed Capital Modification made pursuant to “Capital Modifications at Water Authority Direction”.

“Directed Capital Modification Financing” means a financing by the Project Company of permitting, design and construction costs resulting from a Directed Capital Modification effected pursuant to “Directed Capital Modification Capital Costs”.

“Disclosed Data” means any information, data and documents made available or issued to the Project Company or any Project Contractor or Subcontractor in connection with the Project by or on behalf of the Water Authority, including any information relating to the Sites or the requirements of any Governmental Body, whether before or after the execution of the Water Purchase Agreement.

“Discriminatory Change in Tax Law” means a Change in Law Event which results in the imposition of Taxes or a change in Taxes and which specifically applies to discriminate against:

- (1) the Project or the Project Company with respect to the Project and not other projects or persons;
- (2) other similar projects delivered through public-private partnership or performance-based infrastructure delivery methods, or another delivery method similar to them and not other projects;

(3) Persons (including the Project Company) that have contracted with the Water Authority or other Governmental Bodies to deliver capital projects on a public-private partnership or performance-based infrastructure basis similar to the basis on which the Project was delivered and not other persons; or

(4) Persons (including the Project Company) holding shares or other evidences of ownership in persons whose principal business is contracting with Governmental Bodies to deliver capital projects on a public-private partnership or performance-based infrastructure basis similar to the basis on which the Project was delivered and not other persons.

“Electronic Operation and Maintenance Manual” means the electronic manual prepared by the Project Company as described in the Design Requirements.

“Employee Payments” means any liability that has been reasonably incurred by the Project Company arising as a result of termination of the Water Purchase Agreement under collective bargaining agreements, employment agreements or under any other agreements with employees of the Project Company, including severance (whether accrued or not), vacation pay and sick pay accrued.

“Encumbrance” means any Lien, lease, mortgage, security interest, charge, judgment, judicial award, attachment or encumbrance of any kind with respect to the Project.

“Environmental Impact Report” means the Environmental Impact Report for the Project prepared pursuant to CEQA and certified by the City in June 2006, and the September 2009 and November 2012 addenda thereto.

“Environmental Mitigation Measures” means the environmental mitigation measures set forth in the Governmental Approvals required to be obtained by the Project Company.

“EPA” means the United States Environmental Protection Agency and any successor agency.

“EPC Agreements” means the Plant EPC Agreement and the Product Water Pipeline Improvements EPC Agreement.

“EPC Contractor” means the joint venture of Kiewit Infrastructure West Co., a corporation organized and existing under the laws of the State of Delaware, and J. F. Shea Construction, Inc., a corporation organized and existing under the laws of the State of California, or any assignee or replacement permitted under the Water Purchase Agreement.

“Expiration Date” means (1) the date that is 30 years following the Commercial Operation Date, or (2) such later date not to exceed 33 years following the Commercial Operation Date as may be established pursuant to the “—Product Water Not Delivered or Received Due to Certain Uncontrollable Circumstances; Extension of Term” to account for Uncontrollable Circumstances precluding Product Water delivery or receipt following the Commercial Operation Date.

“Fees and Costs” means reasonable fees and expenses of employees, attorneys, architects, engineers, expert witnesses, contractors, consultants and other persons, and costs of transcripts, printing of briefs and records on appeal, copying and other reimbursed expenses, and expenses reasonably incurred in connection with investigating, preparing for, defending or otherwise appropriately responding to any Legal Proceeding.

“Financial Closing Date” means the date the Initial Plant Bonds are issued and sold by the CPCFA and purchased by the purchasers thereof pursuant to the Bond Purchase Agreement.

“Fitch” means Fitch Ratings Ltd., or any of its successors and assigns. If such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally-recognized securities rating agency designated by the Water Authority.

“Fixed Annual Costs” means the product of (1) the Fixed Unit Price, and (2) the Minimum Annual Demand Commitment.

“Flow Rate” means the rate of flow of Product Water delivered to the Water Authority measured at the Plant Flow Meter, and expressed in CFS.

“Force Majeure Event” means an Insurable Force Majeure Event or Uninsurable Force Majeure Event.

“Full System Test” means the test to be conducted pursuant to the requirements set forth in the Water Purchase Agreement demonstrating the interoperability of the Water Authority’s SCADA communication system for the Water Authority Distribution System with the Plant and the Product Water Pipeline Improvements and other related matters.

“GAAP” means generally accepted accounting principles in effect and consistently applied in the United States (including the accounting recommendations published in the Handbook of the American Institute of Certified Public Accountants).

“General Manager” means the General Manager of the Water Authority.

“Good Design and Construction Practice” means those methods, techniques, standards and practices which, at the time they are to be employed and in light of the circumstances known or reasonably believed to exist at such time, are generally recognized and accepted as good practice (1) in the design and construction of seawater desalination plants generally, and (2) in the construction of drinking water treatment plants and pipelines as observed in the State.

“Good Management Practice” means the methods, techniques, standards and practices which, at the time they are to be employed and in light of the circumstances known or reasonably believed to exist at such time, are generally recognized and accepted as good operation, maintenance, repair, replacement and management practices as observed (1) for seawater desalination plants, and (2) for drinking water treatment plants and pipelines as observed in the State.

“Governmental Approvals” means all permits, licenses, authorizations, consents, certifications, exemptions, rulings, entitlements and approvals issued by a Governmental Body of whatever kind and however described which are required under Applicable Law to be obtained or maintained by any person with respect to the Contract Obligations.

“Governmental Body” means any federal, State, regional or local legislative, executive, judicial or other governmental board, department, agency, authority, commission, administration, court or other body (including the Water Authority, acting in its governmental capacity other than as a party to the Water Purchase Agreement), or any official thereof, having jurisdiction in any way over or in respect of any aspect of the performance of the Water Purchase Agreement or the Project.

“Hazardous Substance” means any hazardous waste, hazardous product, contaminant, toxic substance, deleterious substance, dangerous good, pollutant, waste, reportable substance, and any other substance, in respect of which the storage, manufacture, handling, disposal, treatment, generation, use, transport, remediation or release into or presence in the environment is prohibited, controlled or regulated under Applicable Law pertaining to the environment or otherwise, or is capable of causing harm

to human health or the environment, including “hazardous substances” as defined under CERCLA and “hazardous waste” as defined under RCRA.

“**High Pressure Pumps**” means the Standard High Pressure Pumps and the Supplemental High Pressure Pump.

“**Income Tax**” means any tax imposed on the income of a person by any federal, State or local Governmental Body.

“**Independent Evaluator**” means a qualified independent evaluator or evaluation firm with demonstrated skill and experience of water utility property similar to the Plant, not otherwise associated with the transactions contemplated hereby, selected with the mutual consent of the parties for the purpose of evaluating and determining the condition of the Plant pursuant to the “—Plant Evaluations” and the Water Purchase Agreement. The Independent Evaluator may be an engineer or other technical professional competent to perform such services.

“**Index Linked**”, with respect to an amount at any time, means that the amount is increased as of July 1 of each Contract Year (commencing on July 1 of the Contract Year ending on June 30, 2014) by adding to it (1) an amount equal to such amount, multiplied by (2) the sum of the following percentages:

(1) The percentage representing the increase in the Inflation Index from (a) the Inflation Index for the last six months of the Contract Year ending on June 30, 2012, to (b) the Inflation Index for the last six months of the Contract Year immediately preceding the Contract Year for which a determination is to be made; and

(2) One-half of a percentage determined by dividing (a) the percentage determined under item (1) of this definition, by (b) the number of Contract Years occurring between the Contract Year ending on June 30, 2012 and the Contract Year ending on June 30 preceding the Contract Year with respect to which a determination is to be made.

“**Inflation Index**” means, with respect to items related to the Operating Work, the Consumer Price Index, All Urban Consumers (CPI-U) (1982-84 = 100) for the San Diego MSA published by the Bureau of Labor Statistics of the United States Department of Labor; provided, however, that if such Consumer Price Index shall cease to exist or is changed, then the term “Inflation Index” shall mean such other or similar index or formula as the parties reasonably select.

“**Initial Pipeline Bonds**” means the \$203,215,000 Bonds, Series 2012 (San Diego County Water Authority Desalination Pipeline Project), issued by the CPCFA.

“**Initial Plant Bonds**” means the \$530,345,000 Bonds, Series 2012 (Carlsbad Seawater Desalination Project) issued by the CPCFA under the Plant Indenture.

“**Installment Payments**” means the payments due by the Water Authority to the CPCFA under the Pipeline Installment Sale and Assignment Agreement.

“**Insurable Force Majeure Event**” means any peril other than an Uninsurable Force Majeure Event the response to which, in accordance with the Contract Standards, materially expands the scope or materially interferes with, delays, or increases the cost of performing the Contract Obligations, except to the extent such event arises from or is contributed to, directly or indirectly, by any Project Company Fault.

“Insurance Proceeds” means the amount of any insurance proceeds received by a person in respect of a claim made under any policy of insurance required to be maintained by the Project Company under the Water Purchase Agreement.

“Insurance Receivables” means Insurance Proceeds which a person is entitled to receive but which have not been received.

“Intellectual Property” means any or all of the following and all rights, arising out of or associated therewith:

(1) National, international and foreign patents, and applications therefor and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations-in-part thereof;

(2) Inventions (whether patentable or not), invention disclosures, improvements, innovations, trade secrets, proprietary information, know-how, technology, processes, software, technical data and customer lists, product formulations and specifications, and all documentation relating to any of the foregoing throughout the world;

(3) Copyrights, copyright registrations and applications therefor, and all other rights corresponding thereto throughout the world;

(4) Industrial designs and any registrations and applications therefor throughout the world;

(5) Rights in any internet uniform resource locators (URLs), domain names, trade names, logos, slogans, designs, common law trademarks and service marks, trademark and service mark registrations and applications therefor throughout the world;

(6) Databases and data collections and all rights therein throughout the world;

(7) Moral and economic rights of authors and inventors, however denominated, throughout the world; and

(8) Any similar or equivalent rights to any of the foregoing anywhere in the world.

“Interim Operations Approval” has the meaning set forth in “—Authorization of Operation and Water Introduction”.

“Interim Operations Delivered Water Unit Price” means the sum of (1) the Equity Return Charge, (2) the Variable Operating Charge, and (3) the Variable Electricity Charge.

“Legal Proceeding” means every action, suit, litigation, arbitration, administrative proceeding, and other legal or equitable proceeding having a bearing upon the Water Purchase Agreement, and all appeals therefrom.

“Letter of Credit” means the letter of credit that the Project Company is obligated to provide to the Water Authority pursuant to the “—Letter of Credit” in the form set forth in Transaction Form A (Letter of Credit).

“Lien” means any and every lien against the Project, including mechanics’, materialmen’s, laborers’ and lenders’ liens.

“Loss-and-Expense” means, and is limited to, (in each case subject to the “—No Special, Consequential or Punitive Damages” any and all actual loss, liability, forfeiture, obligation, damage, fine, penalty, judgment, deposit, charge, assessment, Tax, cost or expense relating to third-party claims for which the Project Company is obligated to indemnify the Water Authority under the Water Purchase Agreement, including all Fees and Costs, except as explicitly excluded or limited under any provision of the Water Purchase Agreement.

“Maintenance, Repair and Replacement Plan” means the repair and replacement plan prepared by the Project Company pursuant to the Water Purchase Agreement.

“Mechanical Completion Procedures” means the procedures set forth in the Water Purchase Agreement for determining when the Project Company has achieved Mechanical Completion.

“Mediator” means any person serving as a mediator of disputes under the Water Purchase Agreement pursuant to the “—Non-Binding Mediation”.

“Member Agencies” means the member agencies of the Water Authority.

“Metropolitan” means the Metropolitan Water District of Southern California.

“mg” or **“MG”** means millions of gallons.

“mgd” or **“MGD”** means millions of gallons per day.

“Monthly Delivered Water Units” means, for any Billing Period and subject to the “—Remedies for Breach of Product Water Quality Guarantee-Unacceptable Water”, the number of Units actually delivered by the Project Company and received by the Water Authority.

“Monthly Excused Demand Shortfall Units” means, for any Billing Period, Monthly Shortfall Units (if any) that result from the failure of the Water Authority to receive Product Water in volumes up to the Minimum Monthly Demand Commitment for such Billing Period, to the extent such failure is caused by a Product Water Purchase Relief Event.

“Monthly Excused Supply or Demand Shortfall Units” means the sum of Monthly Excused Supply Shortfall Units and Monthly Excused Demand Shortfall Units.

“Monthly Excused Supply Shortfall Units” means, for any Billing Period, Monthly Shortfall Units (if any) that result from the failure of the Project Company to supply Product Water in volumes up to the Monthly Product Water Order for such Billing Period, to the extent such failure is caused by Uncontrollable Circumstances or Product Water Supply Relief Event.

“Monthly Product Water Order” means, for any Billing Period, the sum of the Firm Daily Demand Orders for such Billing Period.

“Monthly Shortfall Units” means the sum of Monthly Demand Shortfall Units and Monthly Supply Shortfall Units.

“Monthly Unexcused Demand Shortfall Units” means, for any Billing Period, Monthly Shortfall Units (if any) that result from the Water Authority’s failure to receive Product Water that is available for delivery in volumes up to the Minimum Monthly Demand Commitment for such Billing Period, to the extent such failure is not caused by a Product Water Purchase Relief Event.

“Monthly Unexcused Supply Shortfall Units” means, for any Billing Period, Monthly Shortfall Units (if any), other than Monthly Unexcused Outage Units, that result from (1) the Project

Company's failure to deliver Product Water in volumes up to the Monthly Adjusted Supply Commitment for such Billing Period, to the extent such failure is not caused by Uncontrollable Circumstances or Product Water Supply Relief Event, and (2) during the Product Water Pipeline Improvements Warranty period, any Product Water that (a) is delivered to the Product Water Delivery Point, but is thereafter not received at the TOVWTP Clearwell due to water losses in the Product Water Pipeline Improvements to the extent that such losses are caused by the failure of the Product Water Pipeline Improvements to comply with the warranty applicable thereto under the Product Water Pipeline Improvements Design-Build Agreement, (b) is not delivered to the Product Water Delivery Point on account of the inability of the Water Authority to receive Product Water due to the failure of the Product Water Pipeline Improvements as a result of a defect covered by such warranty, and (3) during the Plant Primary Warranty Period or Plant Secondary Warranty Period, is not delivered due to failure of the Plant to comply with the warranty applicable under the Plant EPC Agreement.

“Monthly Unscheduled Outage Units” means, for any Billing Period, Monthly Supply Shortfall Units that (1) are not attributable to Uncontrollable Circumstances, (2) result from unplanned production shortfalls at the Plant that were contemporaneously documented and promptly reported to the Water Authority, (3) do not exceed, when taken together with all other Monthly Unscheduled Outage Units for the then-current Contract Year, the Annual Unscheduled Outage Units Allowance, and (4) that the Project Company elects to characterize as Monthly Unscheduled Outage Units.

“Monthly Water Purchase Payment” means the monthly amount to be paid by the Water Authority for the purchase of Product Water, calculated as provided in “—Payments Generally”.

“Moody’s” means Moody’s Investors Service Inc. or any of its successors and assigns. If such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally-recognized securities rating agency designated by the Water Authority.

“Non-Binding Mediation” means the voluntary system of dispute resolution established by “—Non-Binding Mediation” for addressing disputes arising under the Water Purchase Agreement.

“NPDES Project Permit” means the National Pollutant Discharge Elimination System (NPDES) Permit for the Project issued by the San Diego Regional Water Quality Control Board under Order No. R9-2006-0065, as amended by Order No. R9-2009-0038, and all subsequent renewals.

“Off-Specification Product Water” means Product Water conveyed to the Water Authority that does not strictly conform to the Product Water Quality Guarantee in every respect and to any extent whatsoever, irrespective of whether any such non-conformity as to any Product Water quality parameter may be considered material or immaterial. Off-Specification Water does not include Unacceptable Water.

“Operating and Maintenance Standards” means the standards for the operation, maintenance and management of the Project as set forth in the Water Purchase Agreement.

“Operating Hours” means hours other than Scheduled Shutdown Hours.

“Operating Notice” means a written notice given by one party to the other under the Water Purchase Agreement relating to routine operational matters arising under the Water Purchase Agreement following the Commercial Operation Date specifically required under the Water Purchase Agreement to be given as an “Operating Notice”.

“Operating Period” means the period between the Commercial Operation Date and the Termination Date.

“Operating Period Shortfall Payment Unit Price” means the price per Monthly Operating Period Shortfall Payment Unit set forth in the below Table 1.3, adjusted if and to the extent required (1) under “—Decrease in the Operating Period Shortfall Payment Unit Price Due to Certain Pipeline Bond Redemptions”, or (2) under “—Decrease to the Fixed Unit Price and the Operating Period Shortfall Payment Unit Price”, or (3) under “—Adjustments to the Operating Period Shortfall Payment Unit Price Due to the Issuance of Additional Pipeline Bonds”.

Table 1.3

Operating Period Shortfall Payment Unit Price

Contract	Pipeline Bond	Pipeline Bond Net Interest (\$s)	Net Deposits to DSRF	Fees (\$s)	Annual Pipeline Bond Costs	Minimum Annual Demand Commitment (AF)	Annual Operating Period Shortfall Pmt Unit Price (\$/AF)
6/30/2016		6,081,152.43	-	40,339.87	6,121,492.30	29,200.00	209.64
6/30/2018	See Table 1.3(a) of this Appendix the Contract Year ending 6/30/2018						
6/30/2019	-	9,866,661.93	314,500.00	70,728.44	10,251,890.37	48,000.00	213.58
6/30/2020	445,000.00	9,861,598.48	467,750.00	72,496.65	10,846,845.13	48,000.00	225.98
6/30/2021	935,000.00	9,831,817.70	278,250.00	74,309.07	11,119,376.77	48,000.00	231.65
6/30/2022	1,260,000.00	9,780,587.88	282,000.00	76,166.80	11,398,754.67	48,000.00	237.47
6/30/2023	1,605,000.00	9,713,047.68	289,750.00	78,070.97	11,685,868.64	48,000.00	243.46
6/30/2024	1,975,000.00	9,628,132.70	301,250.00	80,022.74	11,984,405.44	48,000.00	249.68
6/30/2025	2,375,000.00	9,524,532.58	301,250.00	82,023.31	12,282,805.88	48,000.00	255.89
6/30/2026	2,795,000.00	9,400,932.45	315,250.00	84,073.89	12,595,256.34	48,000.00	262.40
6/30/2027	3,250,000.00	9,256,106.93	-	86,175.74	12,592,282.66	48,000.00	262.34
6/30/2028	2,895,000.00	9,093,606.93	692,750.00	88,330.13	12,769,687.06	48,000.00	266.04
6/30/2029	4,250,000.00	8,937,703.65	332,500.00	90,538.39	13,610,742.04	48,000.00	283.56
6/30/2030	4,795,000.00	8,719,850.40	345,250.00	92,801.85	13,952,902.25	48,000.00	290.69
6/30/2031	5,380,000.00	8,474,541.88	356,000.00	95,121.89	14,305,663.77	48,000.00	298.03
6/30/2032	6,005,000.00	8,199,810.28	364,750.00	97,499.94	14,667,060.21	48,000.00	305.56
6/30/2033	6,670,000.00	7,893,687.80	371,500.00	99,937.44	15,035,125.24	48,000.00	313.23
6/30/2034	7,375,000.00	7,554,206.65	381,250.00	102,435.87	15,412,892.52	48,000.00	321.10
6/30/2035	8,125,000.00	7,179,318.53	388,750.00	104,996.77	15,798,065.30	48,000.00	329.13
6/30/2036	8,920,000.00	6,766,809.65	404,000.00	107,621.69	16,198,431.34	48,000.00	337.47
6/30/2037	9,770,000.00	6,314,305.25	-	110,312.23	16,194,617.48	48,000.00	337.39
6/30/2038	9,080,000.00	5,825,805.25	907,500.00	113,070.04	15,926,375.29	48,000.00	331.80
6/30/2039	11,620,000.00	5,357,194.50	434,000.00	115,896.79	17,527,091.29	48,000.00	365.15
6/30/2040	12,635,000.00	4,769,207.10	438,250.00	118,794.21	17,961,251.31	48,000.00	374.19
6/30/2041	13,705,000.00	4,130,401.28	454,750.00	121,764.06	18,411,915.34	48,000.00	383.58
6/30/2042	14,845,000.00	3,437,829.80	467,750.00	124,808.17	18,875,387.97	48,000.00	393.24
6/30/2043	16,055,000.00	2,688,049.03	472,250.00	127,928.37	19,343,227.40	48,000.00	402.98
6/30/2044	17,330,000.00	1,877,695.80	488,500.00	131,126.58	19,827,322.38	48,000.00	413.07
6/30/2045	18,685,000.00	1,003,330.95	-	134,404.74	19,822,735.69	48,000.00	412.97
11/21/2045	7,825,000.00	152,152.78	-	53,957.90	8,031,110.68	18,800.00	427.19
Any Extension Term.....							427.19

Note: This Table 1.3 sets forth the Operating Period Shortfall Payment Unit Price. This table may be revised: (i) if any Pipeline Bond proceeds are transferred from the Construction Account to the Revenue Fund pursuant to Section 603(e) of the Pipeline Indenture, as further described in "Decrease in the Operating Period Shortfall Payment Unit Price Due to Certain Pipeline Bond Redemptions" Section, or (ii) based on the results of the Performance Test in accordance with " - Decrease to the Fixed Unit Price and the Annual Operating Period Shortfall Payment Unit Price".

Table 1.3(a)

**Operating Period Shortfall Payment Unit Price
For the Contract Year Ending 6/30/2018**

Billing Month	Operating Period Shortfall Pmt Unit Price (\$/AF)
Jul-2017	209.71
Aug-2017	209.71
Sep-2017	209.71
Oct-2017	209.71
Nov-2017	209.71
Dec-2017	208.48
Jan-2018	206.99
Feb-2018	206.99
Mar-2018	206.99
Apr-2018	206.99
May-2018	206.99
Jun-2018	206.99

“Operating Protocol” means the protocol governing operation of the Project, including all interface, coordination, and water delivery and supply policies, procedures, plans and protocols to be established, adopted and revised in accordance with the Water Purchase Agreement.

“Operating Service Agreement” means the Operation, Maintenance, Repair and Replacement Agreement, dated December 20, 2012, between the Project Company and the Operating Service Provider, a certified copy of which has been delivered by the Project Company to the Water Authority.

“Operating Service Provider” means IDE Americas, Inc., a corporation organized and existing under the laws of the State of Delaware, or any assignee or replacement entity permitted under the Water Purchase Agreement.

“Operating Service Provider Breakage Costs” means the amount payable by the Project Company to the Operating Service Provider under subsection 10.3.2 of the Operating Service Agreement as a direct result of the exercise by the Water Authority of an option to purchase the Project Assets and the resulting termination of the Water Purchase Agreement (excluding any costs of improvements implemented by the Operating Service Provider pursuant to subsection 8.1.1 or clause (ii) of subsection 8.1.2 of the Operating Service Agreement, unless such improvements were implemented with the express approval of the Water Authority given in advance, including an agreement by the Water Authority to compensate the Project Company for such improvements in the event of any such termination).

“Operating Work” means everything required to be furnished and done relating to the operation, maintenance and management of the Project by the Project Company pursuant to the Water Purchase Agreement during the Operating Period.

“OSHA” means both the California Occupational Safety and Health Act, Chapter 3.2, Division 1, Title 8 of the California Code of Regulations, including all applicable regulations promulgated thereunder, and the Occupational Safety and Health Act of 1970, 29 U.S.C. Section 650 et seq., including the applicable regulations promulgated thereunder, each as amended or superseded from time to time.

“Other Uncontrollable Circumstances” means any Uncontrollable Circumstance other than a Force Majeure Event or a Change in Law Event.

“Overdue Rate” means the maximum rate of interest permitted by the laws of the State, if applicable, or 7.75 percent annually, whichever is lower.

“Performance Guarantees” means the guarantees of performance made by the Project Company specifically set forth in “Product Water Quality Guarantee”; “Maximum Monthly Supply Commitment and Adjusted Monthly Supply Commitment”; “Project Company’s Product Water Delivery Covenants”; “Operating Period Shortfall Payments”; “Drought Shortfall Payments”; “Project Company Disposal of Residuals”; “Project Company Disposal of Concentrate Discharge”; and the Water Purchase Agreement.

“Performance Test” means the performance test to be conducted pursuant to the Water Purchase Agreement for the achievement of Provisional Acceptance.

“Permitted Encumbrances” means, as of any particular time, any one or more of the following:

(1) Encumbrances for utility charges, taxes, rates and assessments not yet delinquent or, if delinquent, the validity of which is being contested diligently and in good faith by the Project Company and against which the Project Company has established appropriate reserves in accordance with GAAP;

(2) Any Encumbrance arising out of any judgment rendered which is being contested diligently and in good faith by the Project Company, the execution of which has been stayed or against which a bond or bonds in the aggregate principal amount equal to such judgments shall have been posted with a financially-sound insurer and which does not have a material and adverse effect on the ability of the Project Company to construct the Project or operate the Project;

(3) Any Encumbrance arising in the ordinary course of business imposed by law dealing with materialmen’s, mechanics’, workmen’s, repairmen’s, warehousemen’s, landlords’, vendors’ or carriers’ encumbrances created by law, or deposits or pledges which are not yet due or, if due, the validity of which is being contested diligently and in good faith by the Project Company and against which the Project Company has established appropriate reserves;

(4) Servitudes, licenses, easements, Encumbrances, restrictions, rights-of-way and rights in the nature of easements or similar charges which shall not in the aggregate materially and adversely impair the construction of the Project or operation of the Project by the Project Company;

(5) Applicable zoning and building bylaws and ordinances, municipal bylaws and regulations, and restrictive covenants;

- (6) Encumbrances which are created on or before the Contract Date;
- (7) Encumbrances which are created by a Change in Law Event;
- (8) Any Encumbrance created by an act or omission by any Governmental Body or with respect to which the Water Authority has given its consent;
- (9) Undetermined Encumbrances and charges incident to construction or maintenance, and Encumbrances and charges incident to construction or maintenance

now or hereafter filed of record which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), provided that the Project Company shall have set aside reserves with respect thereto which, in the opinion of its governing board, are adequate;

(10) Notices of lis pendens or other notices of or Encumbrances with respect to pending actions which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired) and against which the Project Company has established appropriate reserves in accordance with GAAP;

(11) Encumbrances for taxes, assessments, or other governmental charges which are not delinquent, or if delinquent are payable without penalty or are being contested in good faith; provided that the Project Company shall have set aside reserves with respect to any taxes, assessments or other governmental charges which are being contested which are appropriate in accordance with GAAP;

(12) Minor defects and irregularities in the title to the Project which in the aggregate do not materially adversely affect the value or operation of the Project for the purposes for which it is or may reasonably be expected to be used or any exceptions to title existing listed in the Title Insurance Policy;

(13) Encumbrances granted under the Plant Financing Agreements, including the rights of the Collateral Agent;

(14) Encumbrances securing indebtedness for the payment, redemption or satisfaction of which money (or evidences of indebtedness) in the necessary amount shall have been deposited in trust with a trustee or other holder of such indebtedness;

(15) Purchase money security interests and security interests existing on any personal property prior to the time of its acquisition by the Project Company through purchase, merger, consolidation or otherwise, whether or not assumed by the Project Company, or placed upon property being acquired by the Project Company to secure a portion of the purchase price thereof, or lessor's interests in leases required to be classified and accounted for as capital leases on a balance sheet of such person under GAAP;

(16) The lease or license of the use of a part of the Project for use in performing professional or other services necessary for the development, construction, operation and maintenance of the Project in accordance with customary business practices in the industry;

(17) Ordinary course Encumbrances, or those arising during the construction of the Project, in connection with worker’s compensation and unemployment insurance or other social security or pension obligations;

(18) Encumbrances granted under the subordinated deed of trust and subordinated security agreement to be made by the Project Company in favor of the City pursuant to the development agreement between the Project Company and the City with respect to the Project, and any other rights granted to the City under such development agreement which constitute Encumbrances; and

(19) Rights granted to Cabrillo under the Cabrillo Ground Lease.

“Personal Information” means information about a person, the disclosure of which would constitute an unwarranted invasion of privacy.

“Pipeline Bonds” means the Initial Pipeline Bonds and any Additional Pipeline Bonds.

“Pipeline Indenture” means the Trust Indenture to be entered into between the CPCFA and the Pipeline Trustee relating to the Pipeline Bonds.

“Pipeline Installment Sale and Assignment Agreement” means the Pipeline Installment Sale and Assignment Agreement to be entered into between the Water Authority and the CPCFA, under which debt financing for the Product Water Pipeline Improvements is provided.

“Pipeline Interconnection” means the interconnection pipeline and related improvements to be designed and built by the Project Company for the conveyance of Product Water between Pipeline 3 and Pipeline 4 pursuant to the Product Water Pipeline Improvements Design-Build Agreement.

“Pipeline Loan Agreement” means the Pipeline Loan Agreement to be entered into between the CPCFA and the San Diego County Water Authority Financing Agency, under which debt financing for the Product Water Pipeline Improvements is provided and which secures the Pipeline Bonds.

“Pipeline Trustee” means Union Bank, N.A. or any successor fiduciary institution serving as trustee from time to time under the Pipeline Indenture.

“Pipeline 3” means the water transmission line owned by the Water Authority and constituting part of the Water System known as Pipeline 3.

“Pipeline 3 Dedicated Segment” means the segment of Pipeline 3 of approximately 5 miles to be dedicated exclusively for the conveyance of Product Water from the Desal 1 Flow Control Facility to the TOVWTP, as improved by the Pipeline 3 Improvements.

“Pipeline 3 Improvements” means the improvements to the Pipeline 3 Dedicated Segment to be constructed by the Water Authority for the conveyance of Product Water from the Product Water Pipeline through the Pipeline 3 Dedicated Segment to the TOVWTP.

“Pipeline 4” means the treated water transmission line owned by the Water Authority and constituting part of the Water System known as Pipeline 4.

“Plant” means the 50 MGD Carlsbad seawater desalination plant and related structures to be constructed by the Project Company on the Plant Site pursuant to the Water Purchase Agreement for the production, delivery and sale of Product Water to the Water Authority, as well as all utility connections, landscaping and other Plant Site improvements connected to or related to the plant (whether located on or off the Plant Site), as further described in the Design Requirements. The Plant includes the Plant Clearwell, the Raw Seawater desalination and treatment facilities, pumping facilities, Residuals treatment facilities, operations building, the yard piping, any related structures and equipment, all roads, grounds, fences and landscaping appurtenant thereto, and all Capital Modifications.

“Plant Bondholders” means the holders of the Plant Bonds.

“Plant Bonds” means indebtedness issued pursuant to the Plant Indenture secured by a charge and lien on the revenues and assets of the Project that is superior to the lien or charge securing any other obligations issued thereunder or pursuant thereto. The Plant Bonds include the Initial Plant Bonds and the Additional Plant Bonds.

“Plant By-Products” means Residuals and Concentrate Discharge requiring disposal by the Project Company in accordance with “Project Company Obligations Generally - Operation and Management Responsibility for the Project” and “Performance”.

“Plant Clearwell” means the Product Water holding structure, to be designed, constructed, tested and maintained by the Project Company on the Plant Site for the storage of Product Water prior to conveyance to the Product Water Pipeline, as more particularly described in the Design Requirements.

“Plant EPC Agreement” means the Desalination Facility Engineering, Procurement and Construction Agreement, dated December 20, 2012, between the Project Company and the EPC Contractor, a certified copy of which has been delivered by the Project Company to the Water Authority.

“Plant Financing Agreements” means (1) the Plant Loan Agreement; (2) the Plant Indenture; (3) the Collateral Trust Agreement; and (4) any security agreements to be entered into pursuant to or in connection with the foregoing, certified copies of which are to be delivered by the Project Company to the Water Authority.

“Plant Flow Meter” means the flow meter built in conformance with the requirements of the Water Purchase Agreement, and located downstream from the Product Water transmission pump at the Plant for the measurement of the volume of Product Water conveyed from the Plant to the Product Water Pipeline.

“Plant Loan Agreement” means the Loan Agreement between the CPCFA and the Project Company, under which debt financing for the Project is provided and which secures the Plant Bonds.

“Plant Primary Warranty Period” has the meaning set forth in Section 10.1 of the EPC Agreements.

“Plant Secondary Warranty Period” has the meaning set forth in Section 10.1 of the EPC Agreements.

“Plant Site” means the real property described in the Water Purchase Agreement located in the City of Carlsbad, California leased to the Project Company under the Cabrillo Ground Lease and on which the Plant is to be constructed by the Project Company.

“Product Water Supply Relief Event” means, planned shutdowns for the sole purpose of Plant warranty inspections and repairs during the Primary Warranty Period and the Secondary Warranty Period pursuant to the warranty provided to the Project Company under the EPC Agreements.

“Plant Trustee” means Union Bank, N.A., or any successor fiduciary institution serving as trustee from time to time under the Plant Indenture.

“Process Services Agreement” means the Process Services Agreement, dated December 20, 2012, between the EPC Contractor and the Process Services Contractor, a certified copy of which has been delivered by the Project Company to the Water Authority.

“Process Services Contractor” means IDE Americas, Inc., a corporation organized and existing under the laws of the State of Delaware, or any assignee or replacement permitted under the Water Purchase Agreement.

“Product Water” means Raw Seawater which has been desalinated and treated at the Plant in accordance with the Contract Standards. Product Water includes Off-Specification Product Water, but does not include Unacceptable Water.

“Product Water Delivery Point” means the point at which the Product Water Pipeline meets the Plant Site property line.

“Product Water Pipeline” means the pipeline and related assets for the delivery of Product Water to be designed and built by the Project Company pursuant to the Product Water Pipeline Improvements Design-Build Agreement and owned and maintained by the Water Authority.

“Product Water Pipeline Improvements” means the Product Water Pipeline and the Pipeline Interconnection.

“Product Water Pipeline Improvements Design-Build Agreement” means the Design-Build Agreement for the Product Water Pipeline Improvements, dated December 20, 2012, between the Water Authority and the Project Company.

“Product Water Pipeline Improvements Warranty Period” means the warranty period for the Product Water Pipeline Improvements established under the Product Water Pipeline Improvements Design-Build Agreement.

“Product Water Pipeline Improvements EPC Agreement” means the Product Water Delivery System Engineering, Procurement and Construction Agreement, dated December 20, 2012, between the Project Company and the EPC Contractor, a certified copy of which has been delivered by the Project Company to the Water Authority.

“Product Water Pipeline Route” means the real property, interests therein and rights with respect thereto over or within which the Product Water Pipeline Improvements are to be constructed under the Product Water Pipeline Improvements Design-Build Agreement.

“Product Water Purchase Relief Event” means (1) the formal declaration by the General Manager or the board of directors of the Water Authority, based on an emergency condition occurring within the Water Authority Distribution System, closing all or any portion of the Water Authority Distribution System required to be open for receiving Product Water under sound municipal water utility operating practices, and (2) the removal from service of any Product Water Pipeline Improvement during the Product Water Pipeline Improvements Warranty Period for purposes of making inspections and repairs pursuant to the warranty provided to the Water Authority under the Product Water Pipeline Improvements Design-Build Agreement.

“Product Water Quality Sampling Locations” means the locations at which the quality of Product Water is sampled and measured, as more particularly described in the Water Purchase Agreement.

“Project” means the Plant and the Plant Site, and includes the performance of the Contract Obligations with respect thereto. The Project will be located in the City of Carlsbad, California.

“Project Assets Purchase Date” means the closing date for any purchase and sale of the Project Assets under the Water Purchase Agreement.

“Project Assets Purchase Price” means the applicable price payable by the Water Authority to the Project Company for the purchase of the Project Assets pursuant to the Water Purchase Agreement.

“Project Company” means Poseidon Resources (Channelside) LP, a limited partnership organized and existing under the laws of the State of Delaware, and its permitted successors and assigns.

“Project Company Fault” means:

- (1) A breach by the Project Company of any of its obligations under the Water Purchase Agreement or under the Product Water Pipeline Improvements Design-Build Agreement;
- (2) A breach of any representation or warranty made by the Project Company under the Water Purchase Agreement or under the Product Water Pipeline Improvements Design-Build Agreement;
- (3) Willful misconduct of the Project Company or any Project Company Person; or
- (4) A negligent act or omission of the Project Company or a Project Company Person.

“Project Company New Domestic Water Supply Permit” means the domestic water supply permit required to be issued by CDPH to the Project Company following Mechanical Completion, and authorizing the Project Company to use Product Water as a source of potable water for public consumption through the Water Authority Distribution System.

“Project Company Person” means:

- (1) Any director, officer, employee or agent of the Project Company in each case acting as such; or

(2) Any Project Contractor, any Subcontractor and any representative, advisor (including any legal and financial advisor) of the Project Company, in any such Person's capacity as a provider of services directly or indirectly to the Project Company in connection with the Project.

"Project Company Representative" means the individual specified in writing by the Project Company as the representative of the Project Company from time to time for all purposes of the Water Purchase Agreement.

"Project Completion" means completion of the Construction Work in compliance with the Design Requirements and the requirements of "—Project Completion".

"Project Contractor" means the EPC Contractor, the Process Services Contractor or any Operating Service Provider, and "Project Contractors" means any two or more of them.

"Project Contractor Substitution Agreement" means the agreement to be entered into among the Water Authority, a Project Contractor and the Project Company in the form set forth in the Water Purchase Agreement.

"Project Contracts" means the Plant EPC Agreement, the Process Services Agreement (solely to the extent of the provisions to which the Project Company is an explicit third party beneficiary) and the Operating Services Agreement.

"Project Costs" means, without duplication, costs and expenses incurred by the Project Company on or prior to the date on which Project Completion has occurred in connection with the development, design, engineering, permitting, construction, financing, installation, equipping, assembly, inspection, start-up, testing and initial operations of the Project and the Product Water Pipeline Improvements; the leasing and preparation of the Plant Site; and the preparation of the Product Water Pipeline Route, together with an adequate contingency, which costs and expenses shall include: (1) all amounts payable under the EPC Agreements and the other agreements relating to any of the foregoing activities, any state sales taxes on equipment or other goods or services, amounts payable for power and other utilities relating to construction, start-up and testing, and all project development expenses and fees incurred by the Project Company or any of its Affiliates; (2) interest incurred on or in respect of the Permitted Debt and any other amounts required to be paid by the Project Company under the agreements with respect to the Permitted Debt, including fiduciary fees; (3) bond insurer payments and payments contemplated by any bond insurance policy, and the fees and expenses and other reimbursement of the issuer, and any agent or trustee party to the agreements with respect to the Permitted Debt; (4) legal, accounting, consulting, financial advisory and other transaction fees and expenses incurred by the Project Company and its Affiliates prior to Project Completion; (5) operating and maintenance costs due and payable on or prior to Project Completion; (6) the costs of obtaining surety bonds, letters of credit or other security required to be delivered under an agreement or Governmental Approval on or prior to Project Completion (including any cash collateral required to be provided in connection therewith and security deposits made to applicable counterparties); and (7) costs incurred in compliance with Governmental Approvals.

"Project Equipment" means all manufactured equipment, property or assets, whether or not constituting personal property or fixtures, constituting part of the Project, including tanks (other than concrete tanks), basins (other than concrete basins), process and treatment, mechanical, piping (with an original useful life of less than 20 years), electrical, instrumentation and controls, remote monitoring and communications, HVAC, chemical and other storage and feed systems, cranes and hoists, and any ancillary, appurtenant and support equipment and systems utilized in or at the Project.

“Project Schedule” means the schedule set forth in Attachment 3B (Project Schedule) of the Water Purchase Agreement and updated in accordance with the Water Purchase Agreement.

“Project Structures” means all structures, buildings, concrete tanks, concrete basins, appurtenances (including valves, gates and weirs), and piping (with an original useful life of equal to or greater than 20 years) constituting part of the Project, other than Project Equipment.

“Provisional Acceptance” means satisfaction of the Provisional Acceptance Conditions.

“Punch List” means the list prepared at the time of Mechanical Completion (and periodically revised as necessary), which list shall set forth (1) all items of Construction Work which remain to be performed or corrected in order to ensure that the Project fully complies with all of the standards and requirements set forth herein (and shall include those items of Construction Work damaged or destroyed by the Project Company during completion of the Performance Test) and which do not affect the performance or safe and continued operation of the Plant, and (2) an assessed valuation of each such item of Construction Work that is equal to 150% of the estimated cost thereof. The final Punch List shall be provided to the Water Authority by the Commercial Operation Date. The Punch List shall not include any items of Construction Work, alone or in the aggregate, the non-completion of which (a) prevents the Plant from being used for its purpose as described in the Water Purchase Agreement in accordance with Applicable Law, (b) prevents the Plant from operation and maintenance on a legal, safe, environmentally sound and reliable basis, or (c) could have a materially adverse effect on the operation, maintenance, performance, warranties, efficiency, safety or reliability of the Plant or the environment.

“Qualified Commercial Bank” means a reputable domestic or foreign commercial bank:

- (1) Whose long term and short term debt is rated “A2” or higher by Moody’s, “A” or higher by Standard & Poor’s, and “A” or higher by Fitch (the lower of the three applying if there is a split rating); and
- (2) Which maintains a banking office, branch or agency in San Diego or Los Angeles, California.

“Qualified Insurer” means a reputable insurer authorized to conduct business in the State and having a credit rating of:

- (1) A-VII or better with A.M. Best; or
- (2) The equivalent thereof by any other recognized insurance rating agency.

“Rating Service” means Moody’s, Standard & Poor’s or Fitch.

“Raw Seawater” means sea water drawn from the Agua Hedionda Lagoon through the Cabrillo Raw Seawater Intake Structure and conveyed to the Plant through the Cabrillo Raw Seawater Intake System.

“Raw Seawater Delivery Point” means the point of connection of the Plant to the Cabrillo Raw Seawater Intake System or, upon the construction of the Cabrillo Raw Seawater Intake System Improvements, an alternate point mutually acceptable to the parties.

“**RCRA**” means the Resource Conservation and Recovery Act, 42 U.S.C.A. 6901 et seq., and applicable regulations promulgated thereunder, each as amended from time to time.

“**Refinancing**” means any refinancing of the Plant Bonds and any subsequent refinancings.

“**Refinancing Gain**” means the nominal cash flow savings on debt service payable with respect to the Plant Bonds each Contract Year over the remaining Term resulting from a Refinancing.

“**Regulated Site Condition**” means, and is limited to,

- (1) Surface or subsurface structures, materials, properties or conditions having historical, cultural, archaeological, religious or similar significance;
- (2) Any habitat of an endangered or protected species as provided in Applicable Law;
- (3) The presence anywhere in, on or under the Plant Site on the Contract Date of wells or underground storage tanks for the storage of chemicals or petroleum products;
- (4) The presence of Hazardous Substances in, on or under the Plant Site (including presence in surface water, groundwater, soils or subsurface strata; and
- (5) Any fact, circumstance or condition constituting a violation of, or reasonably likely to result in any loss, liability, forfeiture, obligation, damage, fine, penalty, judgment, deposit, charge, assessment, Tax, cost or expense under or in connection with any Applicable Law pertaining to the environment, in each case to the extent not disclosed in or reasonably inferable from the Disclosed Data.

“**Regulated Substance**” means (1) any oil, petroleum or petroleum product and (2) any pollutant, contaminant, hazardous substance, hazardous material, toxic substance, toxic pollutant, solid waste, municipal waste, or industrial waste that is defined as such by and is subject to regulation under any Applicable Law. Regulated Substances include Hazardous Substances and contaminated soils requiring special handling or disposal.

“**Residuals**” means any semi-solid or solid material resulting from the treatment of Raw Seawater which requires disposal as waste material.

“**Response Plan**” means the Hazardous Substance emergency/spill response plan developed by the Project Company in accordance with the requirements of the Water Purchase Agreement during the Construction Period, and updated during the Operating Period.

“**Restricted Person**” means any person who (or any member of a group of persons acting together, any one of which):

- (1) Is barred, suspended, or otherwise disqualified from federal, State, Water Authority, County or City contracting for any services similar in nature to the Contract Obligations;
- (2) Was or is subject to any material claim of the United States, State, Water Authority, County or City in any proceedings (including regulatory proceedings) which have

been concluded or are pending at the time at which the determination of whether the person falls within this definition is being made, and which (in respect of any such pending claim, if it were to be successful) would, in the Water Authority's view, in either case, be reasonably likely to materially affect the ability of the Project Company to perform its obligations under the Water Purchase Agreement;

(3) In the case of an individual, he or she (or in the case of a legal entity, any of the members of the board of directors or its senior executive managers) has been sentenced to imprisonment or otherwise given a custodial sentence for any criminal offense (other than minor traffic offences or misdemeanors) less than 5 years prior to the date at which the determination of whether the person falls within this definition is being made;

(4) Has, directly or indirectly, its principal or controlling office in a country that is subject to any economic or political sanctions imposed by the United States for reasons other than its trade or economic policies; or

(5) Has as its primary business the illegal manufacture, sale, distribution or promotion of narcotic substances or arms, or is or has been involved in terrorism.

“San Diego County Water Authority Financing Agency” means the San Diego County Water Authority Financing Agency, a public entity of the State.

“SDG&E” means the San Diego Gas & Electric Company, a public utility corporation organized and existing under the laws of the State of California.

“SDG&E Special Conditions Contract” means the Special Conditions Contract, dated as of October 1, 2009, by and between the Project Company and SDG&E.

“Service Area” means all territory in which customers are served by the Water Authority Distribution System during the Term thereof.

“Shareholder” means any holder or owner of Shares.

“Shares” means shares or other equity interests of any class in the capital of the Project Company.

“Specified Change in Tax Law” means a Change in Law Event which results in:

(1) A change in the sales Tax imposed by the State or by the City and paid by the Project Company, the Project Contractor or any Subcontractors with respect to sales of goods purchased for the performance of the Contract Obligations; or

(2) A new Tax imposed by the United States, the State or the City and paid by the Project Company, the Project Contractor or any Subcontractors with respect to the performance of the Contract Obligations, including any value added Taxes or any Taxes measured by gross receipts. New Taxes shall not include any Taxes based on or measured by net income; any unincorporated business, payroll, franchise or employment Tax; or any Taxes imposed by a foreign government or any of their agencies.

“Specified Raw Seawater Quality Parameters” means those Raw Seawater quality parameters which are listed in Table 8-4 of the Water Purchase Agreement.

“Standard High Pressure Pumps” means the four high pressure Product Water Pumps installed in the Plant pursuant to the Water Purchase Agreement for standard Plant operations.

“Standard & Poor’s” means Standard & Poor’s Rating Service, a division of The McGraw-Hill Companies, Inc., or any of its successors and assigns. If such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Standard & Poor’s” shall be deemed to refer to any other nationally-recognized securities rating agency designated by the Water Authority.

“State” means the State of California.

“Subcontract” means any contract entered into by a Project Contractor (except Project Contracts), or a subcontractor of a Project Contractor of any tier, with one or more persons in connection with the carrying out of the Project Company’s obligations under the Water Purchase Agreement, whether for the furnishing of labor, materials, equipment, supplies, services or otherwise.

“Subcontractor” means any person that enters into a Subcontract.

“Surge Protection System Test” means the test that takes place on the last day of the Performance Test, of the surge protection system which comprises a portion of the Plant’s Product Water pump facilities, conducted in accordance with “—Surge Protection) of the Water Purchase Agreement”.

“Tax” means, from time to time, all taxes, surtaxes, fees, duties, levies, imposts, rates, payments, assessments, withholdings, dues and other charges of any nature imposed by any Governmental Body, together with all fines, interest, penalties on or in respect of, or in lieu of or for non-collection.

“Termination Date” means the earlier of the Expiration Date or the date of termination of the Water Purchase Agreement provided in “—Termination Rights - Termination Date”.

“Title Insurance Policy” means the title insurance policy with respect to the Plant Site issued to the Project Company.

“TOVWTP Clearwell” means the two existing 7.5 MG treated water storage tanks located at the TOVWTP.

“TOVWTP Improvements” means the improvements to the Water Authority TOVWTP described in the Water Purchase Agreement to be constructed by the Water Authority pursuant to “—Water Authority Improvements”.

“TOVWTP Treated Water” means treated water produced at the Water Authority Twin Oaks Valley Water Treatment Plant and conveyed to the Water Authority TOVWTP Clearwell.

“Transaction Form” means any of the Transaction Forms appended to the Water Purchase Agreement.

“Twin Oaks Valley Water Treatment Plant” or **“TOVWTP”** means the Water Authority’s 100 MGD Twin Oaks Valley Water Treatment Plant located in northern San Diego County.

“Unacceptable Water” means water produced by the Plant and conveyed to the Water Authority that does not comply with the Product Water Quality Guarantee to such an extent that it (1) is

non-potable under Applicable Law; (2) presents a risk to public health or safety; or (3) has the potential to damage or destroy Water Authority or private property or create a need to clean, repair, replace or restore any such property.

“Uncontrollable Circumstance” means any act, event or condition that (1) is beyond the reasonable control of the Project Company in relying on it as a justification for not performing an obligation or complying with any condition required under the Water Purchase Agreement, and (2) materially expands the scope, interferes with, delays or increases the cost of performing the Project Company’s obligations under the Water Purchase Agreement, to the extent that such act, event or condition is not the result of the willful or negligent act, error or omission, failure to exercise reasonable diligence, or breach of the Water Purchase Agreement on the part of the Project Company in claiming the occurrence of an Uncontrollable Circumstance.

(1) Inclusions - Performance, Schedule and Compensation Relief. Subject to

the first paragraph of this definition, Uncontrollable Circumstances shall include the following, upon the occurrence of which the Project Company shall be entitled to performance, schedule and compensation relief in accordance with terms and conditions thereof:

(a) a Change in Law Event (except as provided in item (l) of the “Exclusions” section of this definition), as and to the extent provided in “—Change in Law Events”;

(b) an Uninsurable Force Majeure Event, as and to the extent provided in “—Uninsurable Force Majeure Event”, occurring within the United States;

(c) the failure of any Project Contractor or Subcontractor to furnish services, materials, chemicals or equipment on the dates agreed to, but only if such failure is the result of an event which would constitute an Uncontrollable Circumstance if it affected the Project Company directly (and entitled the Project Company to performance, schedule and compensation relief), and the Project Company is not able after exercising all reasonable efforts to timely obtain substitutes;

(d) a delay in completion of the Water Authority Improvements, as and to the extent described in “—Completion Delay”;

(e) an Extraordinary Flow Rate change demanded by the Water Authority pursuant to “—Flow Rate Limitations - Extraordinary Flow Rate Changes”, or a Water Authority curtailment pursuant to “—Water Authority-Directed Curtailments and Shutdown”;

(f) the occurrence of a Raw Seawater quality contamination event, as and to the extent provided in “—Raw Seawater Quality-Contamination”; and

(g) a material change to the Water Authority Improvements from the description set forth in the Water Purchase Agreement.

(2) Inclusions - Performance and Schedule Relief; No Compensation Relief.

Subject to the first paragraph of this definition, Uncontrollable Circumstances shall also include following, upon the occurrence of which the Project Company shall be entitled to performance

and schedule relief only, and not compensation relief, in accordance with the terms and conditions thereof:

- (a) an Insurable Force Majeure Event, wherever occurring;
- (b) an Uninsurable Force Majeure Event occurring outside the United States during the Construction Period;
- (c) an injunction or similar order issued by a Governmental Body;
- (d) the failure of any appropriate Governmental Body or utility having operational jurisdiction in the area in which the Plant is located to provide and maintain Utilities to the Plant which are required for the performance of the Water Purchase Agreement;
- (e) the failure of any Project Contractor or Subcontractor to furnish services, materials, chemicals or equipment on the dates agreed to, but only if such failure is the result of an event which would constitute an Uncontrollable Circumstance if it affected the Project Company directly (and entitled the Project Company to performance and schedule relief but not compensation relief), and the Project Company is not able after exercising all reasonable efforts to timely obtain substitutes;
- (f) the intake of Raw Seawater with characteristics outside the applicable parameter range set forth in the Water Purchase Agreement, as and to the extent provided in “—Raw Seawater Quality-Specified Parameters”;
- (g) the preemption, confiscation, diversion, destruction or other interference in possession or performance of materials or services by a Governmental Body in connection with a public emergency or any condemnation or other taking by eminent domain of any portion of the Project;
- (h) abnormally severe weather conditions wherever occurring that directly affect the performance of the Contract Obligations at the Plant Site;
- (i) a violation of Applicable Law by a person other than the Project Company, the Project Contractors or any Subcontractors;
- (j) any Water Authority Fault (without, however, limiting the Project Company’s right to bring an action for breach);
- (k) the existence of a Regulated Site Condition;
- (l) the existence of a Differing Site Condition;
- (m) contamination of the Plant Site from groundwater, soil or airborne Regulated Substances migrating from sources outside of the Plant Site;
- (n) the occurrence of certain events with respect to the Cabrillo Entities or the Cabrillo Generating Facility Site as described in “—Exceptions”;

(o) strikes, work stoppages and other labor disputes (except those involving employees of the Project Company, the Project Contractors and Subcontractors); and

(p) the occurrence of an Uncontrollable Circumstance (as defined in the Product Water Pipeline Improvements Design-Build Agreement) providing the Project Company with schedule or performance relief thereunder.

(3) Exclusions . It is specifically understood that, without limitation, none of the following acts, events or circumstances shall constitute Uncontrollable Circumstances:

(a) any Uninsurable Force Majeure Event occurring outside the United States during the Operation Period;

(b) any act, event or circumstance that would not have occurred but for the Project Company's failure to comply with its obligations under the Water Purchase Agreement;

(c) changes in interest rates, inflation rates, wage rates, insurance premiums, commodity prices, currency values, exchange rates or other general economic conditions;

(d) any changes in the financial condition of the Project Company, its Affiliates or Subcontractors affecting the ability to perform their respective obligations;

(e) the consequences of error, willful misconduct, neglect or omissions by the Project Company, any Project Contractor, any Subcontractor, any of their Affiliates or any other person in the performance of the Contract Services;

(f) union or labor work rules, requirements or demands which have the effect of increasing the number of employees employed at the Plant or otherwise increasing the cost to the Project Company of performing the Contract Services;

(g) any weather conditions other than those described in the Water Purchase Agreement;

(h) acts, events or circumstances affecting a Cabrillo Entity or occurring at the Cabrillo Generating Facility Site, except (1) as described in "—Cabrillo Risk – Exceptions" and (2) any act, event or circumstance listed in items (k), (l) or (m) of the "Inclusions" section of this definition, if such act, event or circumstance pertains to the Cabrillo Generating Facility Site and does not affect the Plant Site, and with the associated relief limitations set forth in item (2) of this definition;

(i) mechanical failure of equipment to the extent not resulting from a condition that is listed in the "Inclusions" section of this definition;

(j) any failure of title to the Project or any placement or enforcement of any Encumbrance on the Project not consented to in writing by, or arising out of any action or agreement entered into by, the party adversely affected thereby, other than Permitted Encumbrances;

(k) failure of the Project Company to secure any patent or other intellectual property right which is or may be necessary for the performance of the Contract Services; or

(l) except as provided for in “—Discriminatory or Specified Changes In Tax Law”, a Change in Law Event pertaining to Taxes.

“**Uninsurable Force Majeure Event**” means the occurrence of any of the following events or circumstances:

- (1) earthquakes or earth movement;
- (2) war, civil war or armed conflict and related causes;
- (3) terrorism arising from nuclear, biological or chemical materials;
- (4) certified acts of terrorism (as defined by the Terrorism Reinsurance Act (TRIA)) occurring during any period in which TRIA or a substantially identical federal law is not in effect; or
- (5) nuclear explosion or nuclear, radioactive, chemical or biological contamination, the response to which, in accordance with the Contract Standards, materially expands the scope or materially interferes with, delays, or increases the cost of performing the Contract Obligations, except to the extent that such event or circumstance arises from or is contributed to, directly or indirectly, by any Project Company Fault.

“**Unit**” means an Acre Foot of Product Water.

“**Unit Price**” means the Fixed Unit Price, the Variable Unit Price, and the Excess Product Water Deliveries Incentive Unit Price, as applicable.

“**Utilities**” means any and all utility services and installations whatsoever (including gas, water, sewer, electricity, telephone, and telecommunications), and all piping, wiring, conduit, and other fixtures of every kind whatsoever related thereto or used in connection therewith.

“**Water Authority**” means the San Diego County Water Authority, a county water authority organized and existing under and by virtue of the laws of the State.

“**Water Authority Distribution System**” means the water distribution system (including all pipes, pipelines, pumping stations, mains, valves, distribution facilities and equipment, treatment works, sources of water supply, and related buildings, structures, improvements and assets) and all appurtenances thereto owned by the Water Authority and serving the Service Area including the Product Water Pipeline Improvements, the Twin Oaks Valley Water Treatment Plant, and the Water Authority Improvements. The “Water Authority Distribution System” shall not include the Project.

“**Water Authority Domestic Water Supply Permit Amendment**” means the amendment to the Water Authority’s New Domestic Water Supply Permit required under Applicable Law to be entered into in connection with the Project.

“**Water Authority Engineer**” means the engineer appointed by the Water Authority pursuant to “—Construction of the Project - Water Authority Engineer”.

“Water Authority Fault” means:

- (1) A breach by the Water Authority of any of its obligations (other than payment obligations) under the Water Purchase Agreement or under the Product Water Pipeline Improvements Design-Build Agreement; or
- (2) A breach of any representation or warranty by the Water Authority under the Water Purchase Agreement or under the Product Water Pipeline Improvements Design-Build Agreement; or
- (3) Willful misconduct of an Water Authority Indemnatee; or
- (4) A negligent act or omission of an Water Authority Indemnatee.

“Water Authority Improvements” means the Pipeline 3 Improvements and the TOVWTP Improvements. The Water Authority Improvements do not include the Water Authority Interface Cabinet.

“Water Authority Interface Cabinet” means the programmable logic controller, fiber optic cable, and other equipment to be installed by the Water Authority at the Plant for the operating interface between the Water Authority Distribution System and the Plant, as more particularly described in the Water Purchase Agreement.

“Water Authority Representative” means the individual Water Authority employee specified in writing by the Water Authority as the representative of the Water Authority from time to time for all purposes of the Water Purchase Agreement.

“Water Purchase Agreement” means the Water Purchase Agreement, and includes the Transaction Forms and Appendices.

EFFECTIVE DATE AND TERM.

Term. The Water Purchase Agreement became effective, and the term thereof (the “Term”) shall commence, on the Contract Date. The Term shall continue to the Expiration Date or, if the Water Purchase Agreement is earlier terminated by either party in accordance with their respective termination rights under the Water Purchase Agreement, to the Termination Date.

Accrued Rights. No termination of the Water Purchase Agreement shall:

Limit or otherwise affect the respective rights and obligations of the parties thereto accrued prior to the date of such termination; or

Preclude either party from impleading the other party in any Legal Proceeding originated by a third-party as to any matter occurring during the Term.

SURVIVAL .

Notwithstanding any other provision of the Water Purchase Agreement, this Section and the following provisions survive the expiration or any earlier termination of the Water Purchase Agreement: (i) Financial Books and Records); (ii) Fair Employment and Contracting Policy - Indemnification; (iii) Termination Operating Period Shortfall Payments; (iv) Project Assets Transfer Condition; (v) Dispute

Resolution; (vi) Termination, as applicable to the obligations of the parties following the Termination Date; (vii) Water Authority Project Assets Purchase Options; (viii) Indemnification; (ix) Property Rights; (x) Water Authority's Confidentiality Obligations; (xi) Project Company's Confidentiality Obligations; and (xii) Personal Information; together with any provisions necessary to give effect to the above provisions.

GENERAL RESPONSIBILITIES OF THE PARTIES.

Project Company. The Project Company shall, subject to the terms and conditions of the Water Purchase Agreement, (1) permit, design, construct, finance, operate, maintain and manage the Plant, and (2) produce, deliver and sell Product Water to the Water Authority.

Water Authority. The Water Authority shall, subject to the terms and conditions of the Water Purchase Agreement, (1) construct the Water Authority Improvements, and (2) purchase and take delivery of Product Water.

LETTER OF CREDIT.

Letter of Credit Requirements. The Project Company shall provide security for the performance of its obligations under the Water Purchase Agreement and under the Product Water Pipeline Improvements Design-Build Agreement through an irrevocable direct pay Letter of Credit issued by a Qualified Commercial Bank (the "Letter of Credit"). The Letter of Credit shall be for a term of at least one year, shall be continuously renewed, extended or replaced no less often than every three years so that it remains in effect until the later of (1) 180 days after the Termination Date, or (2) the end of the Product Water Pipeline Improvements Warranty Period and shall be issued substantially in the form set forth in the Transaction Forms (or in such other form as may be reasonably acceptable to the Water Authority). The Letter of Credit shall be in a stated amount (the "Stated Amount") equal to \$5,000,000 (Index Linked through each date of extension or renewal).

CONSTRUCTION OF THE PLANT.

Commencement and Prosecution of Construction Work Generally. The Project Company shall promptly proceed to undertake, perform and complete the Construction Work in accordance with the requirements of the Design Requirements and the Contract Standards.

Payment of Costs. Except as otherwise specifically provided in the Water Purchase Agreement, the Project Company shall pay directly, and the Water Authority shall have no responsibility for, all costs and expenses of the Construction Work of any kind or nature whatsoever, including all costs of permitting (regardless of permittee); regulatory compliance and Legal Proceedings brought against the Project Company; obtaining and maintaining the Required Insurance; financing costs; payments due under the Project Contracts and Subcontracts or otherwise for all labor and materials; legal, financial, engineering, architectural and other professional services of the Project Company; sales, use and similar taxes on building supplies, materials and equipment; general supervision by the Project Company of all Construction Work; the preparation of schedules, budgets and reports; keeping all construction accounts and cost records; and all other costs required to achieve Mechanical Completion, Provisional Acceptance and Project Completion.

Project Company Control of the Construction Work; No Water Authority Responsibility. The Project Company shall have total control of the Construction Work and shall effectively direct and supervise the Construction Work so that it is undertaken in compliance with the terms of the Water Purchase Agreement. The Project Company shall have the sole and exclusive responsibility and liability

for the design, construction and performance of the Project under the Water Purchase Agreement, notwithstanding the Contract Standards or the fact that in negotiating the Water Purchase Agreement the Water Authority participated in certain design review activities. Nothing in the Water Purchase Agreement shall be interpreted as giving any responsibility for the Construction Work to the Water Authority, any Water Authority Indemnitee, or the Water Authority Engineer. Any Water Authority rights of review and comment provided in the Water Purchase Agreement with respect to any aspect of the Construction Work shall be for the Water Authority's benefit only, and no review or comment by the Water Authority Representative shall in any way relieve the Project Company of its obligation for all aspects of the Project.

Construction Work Reviews. During the Construction Period, the Water Authority shall have the right, but not the obligation, to: (1) attend design progress meetings described in the Water Purchase Agreement); (2) attend the preconstruction conference described in the Water Purchase Agreement; (3) attend construction progress meetings described in the Water Purchase Agreement; and (4) review the Construction Work for compliance with the Water Purchase Agreement). The Project Company shall consider and address in good faith any comments or concerns raised by the Water Authority in connection with such matters in accordance with the Water Purchase Agreement.

CONSTRUCTION GOVERNMENTAL APPROVALS.

Generally. The Project Company shall make all applications and take all other action necessary to obtain and maintain all Construction Governmental Approvals, and shall pay all fees, costs and charges due in connection therewith.

COMPLIANCE WITH APPLICABLE LAW .

Compliance Obligation. The Project Company shall perform the Contract Obligations in accordance with Applicable Law, and shall cause the Project Contractors and all Subcontractors to comply with Applicable Law, including all registration, licensing and certification requirements imposed by any Governmental Body. The Project Company shall comply with the terms of all Governmental Approvals and other Applicable Law pertaining to the Plant, Raw Seawater, Product Water, Plant By-Products, air emissions, noise, light emissions and odor. At the request of the Water Authority, the Project Company shall participate in general regional facility evaluation surveys conducted by the CDPH or the EPA.

Compliance With Environmental Mitigation Measures. The Project Company has agreed with various Governmental Bodies to perform certain Environmental Mitigation Measures in connection with obtaining Governmental Approvals and with the preparation and certification of the Environmental Impact Report. The Project Company shall comply with and perform all such Environmental Mitigation Measures in a timely manner to the extent required under applicable Governmental Approvals.

Investigations of Non-Compliance. In connection with any actual or alleged event of material non-compliance with Applicable Law in the performance of the Contract Obligations, the Project Company shall, in addition to any other duties which Applicable Law may impose: (i) fully and promptly respond to all inquiries, investigations, inspections, and examinations undertaken by any Governmental Body; (ii) attend all meetings and hearings with respect to the Project required by any Governmental Body; (iii) provide all corrective action plans, reports, submittals and documentation required by any Governmental Body, and shall provide copies of any such plan, report, submittal or other documentation to the Water Authority; and (iv) promptly upon receipt thereof, provide the Water Authority with a true, correct and complete copy of any written notice of violation or non-compliance with Applicable Law, and

true and accurate transcripts of any oral notice of non-compliance with Applicable Law, issued or given by any Governmental Body.

The Project Company shall furnish the Water Authority with a prompt written notice describing the occurrence of any event or the existence of any circumstance which results, or could reasonably be expected to result, in any such notice of violation or non-compliance to the extent the Project Company has knowledge of any such event or circumstance, and of any Legal Proceeding alleging such non-compliance. The Project Company shall provide the Water Authority a reasonable opportunity to review and comment on any proposed Project Company response to any material non-compliance with Applicable Law under the Water Purchase Agreement prior to its implementing such response.

Fines, Penalties and Remediation. Except to the extent excused by Uncontrollable Circumstances, in the event that the Project Company, a Project Contractor or any Subcontractor fails at any time to materially comply with Applicable Law with respect to the Contract Obligations, the Project Company shall: (i) Correct such failure and resume compliance with Applicable Law as soon as practicable; (ii) pay any resulting fines, assessments, levies, impositions, penalties or other charges; (iii) indemnify, defend and hold harmless the Water Authority and the Water Authority Indemnitees in accordance with “—Project Company’s Obligation to Indemnify” from any Loss-and-Expense resulting therefrom; (iv) make all commercially reasonable changes in performing the Contract Obligations which are necessary to assure that the failure of compliance with Applicable Law will not recur; and (v) comply with any corrective action plan filed with or mandated by any Governmental Body in order to remedy a failure of the Project Company, a Project Contractor or any Subcontractor to comply with Applicable Law.

RESTRICTIONS ON DIRECTED DESIGN REQUIREMENTS CHANGES AND CAPITAL MODIFICATIONS.

The Water Authority shall not, in the exercise of any of its rights under the Water Purchase Agreement, at any time during the Term require, and the Project Company may refuse to implement, a Design Requirements Change made due to an Uncontrollable Circumstance or a Directed Capital Modification which: (i) Would be contrary to Applicable Law; (ii) would render any policy of Required Insurance void or voidable unless the Water Authority agrees to provide replacement insurance or other security reasonably satisfactory to the Project Company; (iii) would cause the revocation of any Governmental Approval required for the Project Company to perform its obligations under this Water Purchase Agreement; (iv) would require a new Governmental Approval for the Project Company to perform its obligations under this Water Purchase Agreement which Governmental Approval would not, using reasonable efforts, be obtainable; or (v) would materially and adversely affect the risk allocation, ability to perform (including any material increase in the risk of non-performance) or cost of performance under this Water Purchase Agreement with respect to the Contract Obligations, unless the material and adverse effects of such requirement are remedied by the Water Authority to the Project Company’s reasonable satisfaction.

CABRILLO RISK.

Project Company Responsibility. Except as and to the extent provided in “—Cabrillo Risk – Exceptions”, the Project Company shall bear all risks with respect to the Cabrillo Entities, and all risks with respect to the Cabrillo Generating Facility and Cabrillo Generating Facility Site, including the following, and the occurrence of any such risk shall not constitute an Uncontrollable Circumstance: (i) the sale, bankruptcy, reorganization, merger or insolvency of any Cabrillo Entity; (ii) a breach or default by any party under the Cabrillo Ground Lease or under any other agreement between any Cabrillo Entity and the Project Company or any Project Company Affiliate; or (iii) the denial, modification or change in a term or condition of any law, regulation or governmental license, permit or approval affecting the

Cabrillo Generating Facility, including any such denial modification or change pertaining to the operation by Cabrillo of (1) the Raw Seawater Intake System based on any requirements of Section 316(b) of the federal Clean Water Act or similar regulations of any Governmental Body, and (2) the Cabrillo Generating Facility discharge facilities under the NPDES Project Permit, the federal Clean Water Act or the State Porter-Cologne Act.

Exceptions. The following constitutes an Uncontrollable Circumstance: (i) a force majeure event (of the type that would constitute a Force Majeure Event if it affected the Project) occurs that damages or destroys Cabrillo's Raw Seawater Intake System or any other property at the Cabrillo Generating Facility Site that is necessary for the intake of Raw Seawater for the Plant or the discharge of Concentrate Discharge from the Plant; or (ii) the failure of a Cabrillo Entity to perform its obligations under the Cabrillo Ground Lease to operate the water circulating pumps of the Cabrillo Raw Seawater Intake System for any reason, including a bankruptcy or insolvency of a Cabrillo Entity, but excluding a default by the Project Company under the Cabrillo Ground Lease.

CABRILLO RAW SEAWATER INTAKE SYSTEM IMPROVEMENTS .

Closure and Decommissioning of the Cabrillo Generating Facility. The parties acknowledged that the once-through cooling system at the Cabrillo Generating Facility, or the entire Cabrillo Generating Facility, is expected to be closed and decommissioned in approximately 2017 under Applicable Law.

Obligation to Construct Cabrillo Raw Seawater Intake System Improvements Constitutes a Change in Law; Limitations. The closure and de-commissioning of the once-through cooling system at the Cabrillo Generating Facility anticipated by the parties under “—Cabrillo Raw Seawater Intake System Improvements - Closure and Decommissioning of the Cabrillo Generating Facility”, if and when it occurs, shall constitute a Change in Law Event. Upon any such occurrence, the procedures set forth in “—Financing Compensation Adjustment Event Capital Costs”, “—Uncontrollable Circumstance Procedures”, and the relief to which the Project Company is entitled upon the occurrence of such an event set forth in “—Change in Law Events and Other Uncontrollable Circumstances” shall apply; provided, however, that:

The Debt Service Charge and the Equity Return Charge components of the Unit Price shall be adjusted as provided in this subsection. The Compensation Adjustment Event Capital Costs of the Cabrillo Raw Seawater Intake System Improvements shall first be negotiated and established on a lump sum basis as provided in “—Cost Substantiation for Additional Work Required Due to Directed Capital Modifications and Compensation Adjustment Events”. Such negotiated lump sum amount shall not exceed \$21,331,214 (Index-Linked to the Contract Year in which the financing for such improvements closes), even if the actual Compensation Adjustment Event Capital Costs exceed such threshold. Such negotiated lump sum amount shall be the basis of the Compensation Adjustment Event Financing to be undertaken by the Project Company for such improvements pursuant to “—Financing Compensation Adjustment Event Capital Costs”, and such Compensation Adjustment Event Financing may be sized in a manner that includes proceeds to be applied to pay costs of issuance, reserve funds, capitalized interest and other related financing costs as necessary and appropriate. Proceeds from the Compensation Adjustment Event Financing in the amount of such negotiated lump sum shall be applied by the Project Company to pay such Compensation Adjustment Event Capital Costs. The Project Company shall bear any such Compensation Adjustment Event Capital Costs in excess of such negotiated, lump sum amount. The Debt Service Charge component of the Unit Price shall be adjusted by adding an amount equal to (a) the annual payments that would be required to amortize an amount equal to 80% of such Permitted Debt at the interest rate of such Permitted Debt over the remaining Term, divided by (b) the then-applicable Minimum Annual Demand

Commitment. In addition, in connection with any Unit Price adjustment in such circumstances, the Equity Return Charge shall be adjusted by adding an amount equal to (a) the annual payments that would be required to amortize 20% of such Permitted Debt at an assumed interest rate of 15%, divided by (b) the then-applicable Minimum Annual Demand Commitment, whether or not any additional equity is actually issued by the Project Company in connection with the Compensation Adjustment Event Financing.

The Operating Charge and the intake pump station conversion rate element of the Electricity Charge components of the Unit Price shall be adjusted as provided in this subsection. The costs of operating, maintaining, repairing and replacing the Cabrillo Raw Seawater Intake System Improvements (including electricity costs for the Raw Seawater pumping requirements) shall first be reasonably estimated and negotiated for each Contract Year over the remaining Term, as provided in “—Cost Substantiation for Additional Work Required Due to Directed Capital Modifications and Compensation Adjustment Events”). The parties shall then negotiate an annual amount for such costs (based on the procedures set forth in “Cost Substantiation for Additional Work Required Due to Directed Capital Modifications and Compensation Adjustment Events” Section which, if established in the first Contract Year in which such improvements are placed in service and escalated based on reasonable assumptions as to the Inflation Index and the Electricity Price Adjustment Factors, as applicable, would compensate the Project Company for such future costs. Such negotiated annual amount shall not exceed \$2,663,900 per Contract Year, Index-Linked. The adjustment to the Operating Charge and Electricity Charge components of the Unit Price provided for in this subsection shall be made by dividing the respective negotiated lump sum amounts for the Operating Charge and the Electricity Charge by the then-applicable Minimum Annual Demand Commitment and shall apply solely to the Contract Year in which the Cabrillo Raw Seawater Intake System Improvements are placed in service. Following the adjustments described in this subsection, the Operating Charge and Electricity Charge shall continue to escalate and adjust for the remainder of the Term as provided in “—Operating Charges” and “—Electricity Charges”.

Baseline Unit Price Cap Applicability. The compensation adjustment to which the Project Company is entitled under this Section is subject to “—Cap on Increases in the Unit Price Due to Uncontrollable Circumstances”.

Governmental Approvals for the Cabrillo Raw Seawater Intake System Improvements. It shall be deemed to be a Change in Law Event, as to which the Project Company shall be entitled to schedule and performance relief but not compensation relief, if the Project Company has submitted a complete application for any Governmental Approval required in connection with the Cabrillo Raw Seawater Intake System Improvements (together with all information reasonably requested with respect thereto by the issuing Governmental Body as soon as reasonably practicable) and such Governmental Approval has not been issued within 180 days of such submittal.

COVENANT NOT TO CONSTRUCT A SEPARATE, STAND-ALONE SEAWATER DESALINATION FACILITY.

The Project Company covenants that neither the Project Company nor any Affiliate shall own, develop, finance or lease a seawater desalination facility in San Diego County that is separate and stand-alone from the Project, whether on or off the Plant Site without the Water Authority’s consent, given at its discretion.

GOOD MANAGEMENT PRACTICE AND GOOD DESIGN AND CONSTRUCTION PRACTICE.

Good Management Practice and Good Design and Construction Practice shall be utilized hereunder, among other things, to implement and in no event to displace or lessen the stringency of, the Contract Standards. In the event that, over the course of the Term, Good Management Practice or Good Design and Construction Practice evolves in a manner which in the aggregate materially and adversely affects the cost of compliance therewith by the Project Company, the Project Company shall be relieved of its obligation to comply with such evolved Good Management Practice and Good Design and Construction Practice (but not Good Management Practice and Good Design and Construction Practice as of the Contract Date) unless the Water Authority agrees to adjust the Unit Price (subject to Cost Substantiation) to account for such additional costs.

FINANCIAL BOOKS AND RECORDS.

Recordkeeping Requirements. The Project Company shall prepare and maintain proper, accurate, current and complete financial books and records regarding the Contract Obligations, including, to the extent available to the Project Company, all books of account, bills, vouchers, invoices, personnel rate sheets, cost estimates and bid computations and analyses, purchase orders, time books, daily job diaries and reports, correspondence, and any other documents showing all acts and transactions in connection with or relating to or arising by reason of the Contract Obligations, this Water Purchase Agreement, the Project Contracts, any Subcontract or any transactions in which the Water Authority has or may have a financial or other material interest hereunder, in each case to the extent required to determine the costs of Design Requirements Changes, Uncontrollable Circumstance costs, or other adjustments to the Unit Price or other payments based on costs for which the Water Authority is responsible under this Water Purchase Agreement. The Project Company shall produce such financial books and records for examination and copying for all such purposes promptly upon request by the Water Authority. All such information upon delivery to the Water Authority shall be presented in a format that will enable an independent auditor to perform a review of the information in accordance with GAAP, to the extent applicable. The Project Company shall not be required to provide the Water Authority any income statement showing profit or loss, but recognizes that profit and loss information may become discernible to the Water Authority through the Cost Substantiation process upon the delivery of financial records for the purposes hereof. The Project Company shall keep and maintain all such financial books and records with respect to each Contract Year until at least the tenth anniversary of the last day of each such Contract Year, or such longer period during which any Legal Proceeding with respect to the Project may be pending for which such financial books and records are relevant. In the event the Project Company fails to prepare or maintain any financial books, records or accounts as required under this Section, the Project Company shall not be entitled to any requested payments or adjustments to the extent such failure prevented verification or Cost Substantiation as required by this Water Purchase Agreement.

Inspection, Audit and Adjustment. The Water Authority shall have the right, at its cost and expense, to perform or commission an inspection or independent audit of the financial information required to be kept under this Section, and shall provide the results of such inspection or audit to the Project Company. If an inspection or audit reveals that the Project Company has overstated any component of the Monthly Water Purchase Payments, then the Project Company shall, at the election of the Water Authority, either immediately reimburse the Water Authority or adjust the Monthly Water Purchase Payments based on the overstated amount, plus interest at the Overdue Rate, from the time such amount was initially overpaid until reimbursed or credited to the Water Authority. If the overpayment exceeds 1% of the total amount that should have been properly paid by the Water Authority during the period audited, then the Project Company shall, in addition, reimburse the Water Authority for any and all fees and costs reasonably incurred in connection with the inspection or audit. The foregoing remedies shall be in addition to any other remedies the Water Authority may have, including remedies for a Project

Company Event of Default. If an inspection or audit reveals that the Project Company has understated any component of the Monthly Water Purchase Payments, then the Project Company shall include the amount of the understated payment in the next Billing Period invoice for payment in the regular course under “—Billing and Payment”.

WATER AUTHORITY OBLIGATIONS GENERALLY.

Generally. The Water Authority, subject to and in accordance with the terms and conditions thereof and in addition to the obligations it has accepted elsewhere in the Water Purchase Agreement, shall: (i) Construct the Water Authority Improvements, as provided in “—Water Authority Improvements”, including obtaining all permits, licenses, authorizations, consents, certifications, exemptions, rulings, entitlements and approvals issued by a Governmental Body of whatever kind and however described which are required under Applicable Law to be obtained or maintained for such construction; (ii) take delivery of and purchase the Minimum Monthly Demand Commitment of Product Water in the applicable Billing Period if and to the extent Product Water is produced and available for delivery by the Project Company in such volume; (iii) maintain and repair in good working order Product Water Pipeline Improvements and the Water Authority Improvements that are material to the Project Company’s performance of the Operating Work; (iv) pay the Monthly Water Purchase Payments and any other amounts due the Project Company; and (v) make available to the Project Company upon request copies of all information relating to the Project which is in the possession of the Water Authority and material to the Project Company’s performance under the Water Purchase Agreement.

Operation and Maintenance. The Water Authority shall operate and maintain the Water Authority Improvements during the Term so as to permit the delivery of Product Water to the Water Authority Distribution System in accordance with this Water Purchase Agreement.

PRODUCT WATER PURCHASE RELIEF EVENTS.

Notice and Written Report. In order to assert an entitlement based on the occurrence of a Product Water Purchase Relief Event, the Water Authority shall give notice of the occurrence of the Product Water Purchase Relief Event to the Project Company as soon as practicable. The Water Authority’s notice shall include a written report: (i) describing the Product Water Purchase Relief Event; (ii) stating the date on which the Product Water Purchase Relief Event began and its estimated duration, to the extent known; and (iii) summarizing the consequences of the Product Water Purchase Relief Event expected impact on the performance of the Water Authority’s obligations to receive Product Water under this Water Purchase Agreement.

Updates. The Water Authority shall provide the Project Company with weekly updates, together with further details and supporting documentation, as it receives or develops additional information pertaining to the Product Water Purchase Relief Event and the matters described in “—Notice and Written Report”. In particular, the Water Authority shall notify the Project Company as soon as the Product Water Purchase Relief Event has ceased and of the time when performance of its Product Water purchase obligations can be resumed.

Continuance of Relief. The Water Authority shall not be entitled to relief for a period of longer than 14 days based on the occurrence of a Product Water Purchase Relief Event unless the Board of Directors takes official action declaring the occurrence and continuance of the Product Water Purchase Relief Event. Following any such official action, such entitlement shall continue until the earlier of the date on which normal operations in the Water Authority Distribution System resume or the date on which the Board of Directors takes a further official action declaring the discontinuance of the Product Water Purchase Relief Event.

PLANT FINANCING .

Project Company Financing. The Project Company is solely responsible for obtaining and repaying all financing necessary for the design, permitting and construction of the Project at its own cost and risk and without recourse to the Water Authority, both initially, as may be required to complete the Project and for any Project purpose during the Term. The Project Company exclusively bears the risk of any changes in the interest rate, payment provisions or the other terms and conditions of any of its financings (other than fluctuations in any variable interest rate on any Plant Bonds on the basis of which the Debt Service Charge is measured, if the issuance of such Plant Bonds on a variable interest rate basis was approved in advance by the Water Authority as required under the Water Purchase Agreement). The Water Authority shall have no obligation to provide financing for the Project or for any Capital Modifications (other than Directed Capital Modifications pursuant to “—Inability of Project Company to Obtain Approved Financing”, for any Uncontrollable Circumstances, or for any other purpose.

Limitations on Project-Secured Debt. The Project Company shall not issue any Additional Plant Bonds or other debt secured by the Project or its revenues other than the following (the Plant Bonds and such other debt and is collectively referred to herein as “Permitted Debt”): (1) debt for Project Costs, (2) debt for Project Completion; (3) debt issued for Refinancing purposes; (4) debt necessary to finance the capital costs of Uncontrollable Circumstances, including Compensation Adjustment Event Capital Costs, subject to the terms of the Water Purchase Agreement; (5) debt to finance short-term Project cash flow requirements; (6) debt to finance Capital Modifications; (7) debt to finance letters of credit to secure the Project Company’s obligations under agreements and Governmental Approvals with respect to the Project; (8) debt to finance the costs of compliance with Governmental Approvals; (9) debt in connection with interest rate or other hedging arrangements related to the financing of the Project; and (10) subordinated debt issued for Project purposes. The term of any Permitted Debt issued by the Project Company shall not extend beyond the Expiration Date then in effect, except as provided in “—Negotiated Extension of Expiration Date”.

Permitted Debt Other than Plant Bonds. The Water Authority, notwithstanding any other provision of the Water Purchase Agreement, shall have no obligation under the Water Purchase Agreement for making any payment measured or calculated by or with reference to Permitted Debt (other than Plant Bonds), except (1)(a) Permitted Debt issued for the purposes described in clauses (1), (2), (4), (6) (but only to the extent that such Permitted Debt is issued to finance Directed Capital Modifications), and (8) of “—Limitations on Project-Secured Debt”, and to finance Compensation Adjustment Event Capital Costs, and (b) Permitted Debt with respect to which the Water Authority has agreed, in its discretion, to assume such an obligation (“Approved Permitted Debt”).

Permitted Debt Non-Recourse to Water Authority. All Permitted Debt or other obligations issued or incurred by the Project Company in connection with the Water Purchase Agreement or the Project shall be issued or incurred only in the name of the Project Company. The Water Authority shall have no obligation to pay debt service on any Permitted Debt or such other obligations, or to join in, execute or guarantee any note or other evidence of indebtedness of the Project Company.

Project Company Liability. Notwithstanding any foreclosure or other enforcement of any security interest created by a Project Financing Agreement, the Project Company shall remain liable to the Water Authority for the payment of all sums owing to the Water Authority under the Water Purchase Agreement and the performance and observance of all of the Project Company’s covenants and obligations under the Water Purchase Agreement.

PRODUCT WATER PIPELINE IMPROVEMENTS FINANCING .

Security for the Pipeline Bonds. The Pipeline Bonds shall be secured primarily by the Pipeline Installment Sale and Assignment Agreement, any Operating Period Shortfall Payments to be made by the Project Company under the Water Purchase Agreement, and any Construction Period Shortfall Payments to be made by the Project Company under the Product Water Pipeline Improvements Design-Build Agreement, which have been assigned by the Water Authority to the CPCFA under the Pipeline Installment Sale and Assignment Agreement.

Decrease in the Operating Period Shortfall Payment Unit Price Due to Certain Pipeline Bond Redemptions. The amount of any Pipeline Bond proceeds transferred from the Construction Account to the Revenue Fund pursuant to the Pipeline Indenture shall be deemed to have been used to redeem Pipeline Bonds pursuant to the terms of the Pipeline Indenture, and the reduction in Pipeline Bond debt service resulting therefrom shall be reflected as a corresponding modification on Table 1.3 of the Water Purchase Agreement, and accordingly shall operate to reduce the Operating Period Shortfall Payment Unit Price.

Delivery of Financing-Related Reports to the Project Company. The Water Authority shall deliver to the Project Company subsequent to the Financial Closing Date and throughout the Term copies of all material reports, notices, certificates and other documents that the Water Authority delivers or causes to be delivered to the Pipeline Trustee under or in connection with the Pipeline Installment Sale and Assignment Agreement, including continuing disclosure reports required under applicable securities laws, in each case to the extent that such items are in the Water Authority's possession.

Issuance of Additional Pipeline Bonds. Subject to the terms and conditions of the Pipeline Indenture, which requires the Project Company's consent prior to the issuance of Additional Pipeline Bonds that would increase the amounts that could become payable as Operating Period Shortfall Payments), the Water Authority may issue Additional Pipeline Bonds from time to time. The Project Company shall provide reasonable assistance to the Water Authority in connection with the issuance of Additional Pipeline Bonds, including providing the Water Authority with existing relevant data regarding the Project and the Project Company. The Project Company shall pay for its costs incurred in providing such reasonable assistance to the Water Authority related to (i) internal administration and personnel, and (ii) third party legal services. The Project Company will not be responsible for any ratings agency, third party accounting, or third party technical advisor costs related solely to the issuance of Additional Pipeline Bonds. The Project Company shall not take any action which seeks to cause the delay of an issuance of Additional Pipeline Bonds.

FINANCING COMPENSATION ADJUSTMENT EVENT CAPITAL COSTS .

Financing Compensation Adjustment Event Capital Costs. The Project Company shall use all reasonable efforts to finance Compensation Adjustment Event Capital Costs. The parties acknowledged that (1) the primary security for any Compensation Adjustment Event Financing shall be Monthly Water Purchase Payments that reflect the Unit Price adjustments made on account of such circumstances, (2) the resulting increase in the Debt Service Charge will be based on the actual debt service payable by the Project Company on the Permitted Debt issued for such purposes (subject to the limitations set forth in the subsection below), (3) the Equity Return Charge will be equitably adjusted to reflect the terms of any Compensation Adjustment Event Financing, (4) such Permitted Debt shall have a final maturity concurrent with the Expiration Date then in effect, except as provided in “—Negotiated Extension of the Expiration Date”, and (5) subject to the terms of the Collateral Trust Agreement, the raising of new equity supported by an increase in the Equity Return Charge will be minimized in preference of financing through issuance of Permitted Debt. The parties acknowledged that the Project Company may finance

Compensation Adjustment Event Capital Costs with equity prior to obtaining Compensation Adjustment Event Financing, but the Equity Return Charge or the Debt Service Charge shall not be adjusted to reflect such equity financing.

Limitation on Permitted Debt Issued for Compensation Adjustment Event Capital Costs Resulting from an Earthquake. The Compensation Adjustment Event Capital Costs resulting from an earthquake or earth movement for which the Water Authority shall be responsible hereunder shall be reduced, as applicable, by (1) the Insurance Proceeds and Insurance Receivables from the builders' risk insurance policy or the earthquake and earth movement insurance policy maintained as part of the Required Insurance during the Construction Period or the Operating Period, as applicable, and (2) during the Construction Period, the then-current balance of the Construction Contingency Amount held as part of the "Poseidon Project Account" under the Collateral Trust Agreement at the time of the occurrence of the earthquake or earth movement, at the time of the occurrence of the earthquake or earth movement. The Project Company shall not issue Permitted Debt based on Compensation Adjustment Event Capital Costs for such earthquake or earth movement in excess of such Compensation Adjustment Event Capital Costs net of such amounts, and the Unit Price Adjustment based on any such occurrence shall be limited accordingly. If the amount of such net Compensation Adjustment Event Capital Costs is a negative number, there shall be no Permitted Debt issued and no Unit Price adjustment made on account of the earthquake or earth movement.

Water Authority Rights With Respect to Compensation Adjustment Event Financings. The Project Company acknowledged that the Water Authority has a direct interest in the terms under which the Permitted Debt is issued and equity is raised for a Compensation Adjustment Event Financing. Accordingly, the Project Company shall ensure that the Water Authority and its financial advisors are substantially involved in all matters pertaining to the development and execution of the plan of financing for any such Compensation Adjustment Event Financing, including direct participation in and review of the structuring, maturities, interest rates and pricing of any such Permitted Debt and any adjustments to the Equity Return Charge. Permitted Debt issued for such purposes shall not be sold or issued without the approval of the Water Authority, acting reasonably.

Negotiated Extension of Expiration Date. The parties acknowledged that in certain circumstances the Water Authority may determine that the magnitude of the required increase in the Unit Price resulting from a Compensation Adjustment Event Financing is excessive. Such circumstances may arise, for example, where the design and construction costs required to implement a capital project required in response to a Compensation Adjustment Event are extraordinarily high, or where the period remaining before the Expiration Date over which such adjusted Unit Price is payable is relatively short. If the Water Authority makes such a determination it may, in lieu of exercising its right to finance and pay such costs directly to the Project Company pursuant to the below subsection, request an extension of the Expiration Date to lessen the required amount of increase in the Unit Price. Upon any such request, the parties shall enter into negotiations to reach a mutually acceptable extension of the Expiration Date and agreement upon amendments to any related terms and conditions of the Water Purchase Agreement. In the event such negotiations are unsuccessful, the Project Company shall use all reasonable efforts to finance such costs based on the unextended Expiration Date as provided in "—Financing Compensation Adjustment Event Capital Costs" above.

Water Authority Right to Finance Compensation Adjustment Event Capital Costs. The Water Authority shall have the right but not the obligation, in its discretion and in lieu of any Compensation Adjustment Event Financing by the Project Company, to finance any Compensation Adjustment Event Capital Costs itself. In such event, the Water Authority shall pay the Project Company for such costs from the proceeds of a Water Authority direct recourse financing or from Water Authority internally-generated funds, and there shall be no adjustment to the Unit Price on account of such Compensation Adjustment

Event Capital Costs. If any such payment is subject to federal and state income Tax to the Project Company (or its beneficial owners, as applicable), such payment shall, subject to “—Procedures Relating to Potential Tax Gross-Ups”, be grossed up so that the Project Company (or its beneficial owners, as applicable) receives an amount equal to the amount which it would have received had no such Taxes been payable.

Compensation Adjustment Event Capital Costs - Financing Availability Only on Dissimilar Terms and Conditions from the Original Financing. The Project Company, in performing its obligations under “—Financing Compensation Adjustment Event Capital Costs”, shall use all reasonable efforts to secure financing for Compensation Adjustment Event Capital Costs on terms and conditions and under a plan of financing that are substantially similar to those under which the Project was originally financed (a “Similar Financing”). A financing shall be deemed to be a Similar Financing for purposes of this subsection if: (a) the debt-to-equity ratio of such financing is similar to the debt-to-equity ratio of the Initial Plant Bond financing, (b) the debt portion of the financing has an investment grade credit rating or, if the debt is unrated, would have an investment grade credit rating if it had been sought, and (c) interest on the principal amount of the debt portion of such financing is exempt from federal income taxation. The criteria set forth in clause (c) immediately above for a Similar Financing (1) shall not be applicable if, at the time of the additional financing, the Internal Revenue Code has been amended such that tax-exempt financing for privately-owned water projects is no longer possible, whether with or without private activity bond volume cap, and (2) shall be applicable if, at the time of the additional financing, the Internal Revenue Code continues to permit tax-exempt financing for privately-owned water projects contingent upon the receipt of a private-activity bond volume cap allocation, but the Project Company is unable to secure such an allocation. The Water Authority acknowledged that materially higher debt interest rates payable on any such additional financing shall not disqualify it as a Similar Financing if the financing otherwise qualifies as a Similar Financing. In the event the Project Company, in performing such financing obligations, is able to secure financing for Compensation Adjustment Event Capital Costs, but only on terms and conditions and under a plan of financing that do not constitute a Similar Financing for any reason (including the insufficiency of the adjusted Monthly Water Purchase Payments to support a financing similar to the original Project financing, or adverse conditions in the financial market), the adjustments to the Equity Return Charge and the Debt Service Charge shall be limited to reflect the costs which would have been incurred with respect to a Similar Financing and the Project Company shall bear any additional costs with respect to the financing actually obtained.

Compensation Adjustment Event Capital Costs – Complete Financing Unavailability. If the Project Company is completely unable to obtain required financing for Compensation Adjustment Event Capital Costs for any reason (including the insufficiency of the adjusted Monthly Water Purchase Payments to support such a financing or adverse conditions in the financial markets), and as a consequence thereof (1) the Project Company is unable to pay such Compensation Adjustment Event Capital Costs and make the modifications, improvements or reinstatements that are required to be made due to the Compensation Adjustment Event, and (2) the Water Authority is likely to be denied the benefits of the Water Purchase Agreement for a period of at least 365 days following the occurrence of the Compensation Adjustment Event, then (a) the Water Authority shall have no obligation to make any payment or provide any financing with respect to such Compensation Adjustment Event Capital Costs; (b) the Water Authority, by notice to the Project Company, may terminate the Water Purchase Agreement, without the obligation to make any termination payment; (c) the Water Authority shall have the option, exercisable in its discretion, to purchase the Project Assets under the terms and conditions set forth in “—Project Assets Purchase Option in the Event of Financing Unavailability”; and (d) the Project Company shall not be deemed in breach of its obligations under the Water Purchase Agreement and shall not be subject to any damages or liability arising out of any failure to make required modifications, improvements or rectifications related to the Compensation Adjustment Event.

FINANCING THE CAPITAL COSTS OF DIRECTED CAPITAL MODIFICATIONS .

Financing Directed Capital Modification Capital Costs. In the event the Water Authority directs the Project Company to make Capital Modifications pursuant to “—Capital Modifications at Water Authority Direction”, the Project Company shall use all reasonable efforts to finance the design and construction costs of such Directed Capital Modifications to the extent permitted under the Collateral Trust Agreement. The parties acknowledged that (1) the primary security for any Directed Capital Modification Financing shall be Monthly Water Purchase Payments that reflect the Unit Price adjustments made on account of such circumstances, (2) the resulting increase in the Debt Service Charge will be based on the actual debt service payable by the Project Company on the Permitted Debt issued for such purposes, (3) the Equity Return Charge will be equitably adjusted to reflect the terms of any Directed Capital Modification Financing, and (4) such Permitted Debt shall have a final maturity concurrent with the Expiration Date.

Water Authority Rights With Respect to Directed Capital Modification Financings. The Project Company acknowledged that the Water Authority has a direct interest in the terms under which the Permitted Debt are issued and new equity is raised for a Directed Capital Modification Financing. Accordingly, the Project Company shall assure that the Water Authority and its financial advisors are substantially involved in all matters pertaining to the development and execution of the plan of financing for any such Permitted Debt, including direct participation in and review of the structuring, maturities, interest rates and pricing of any such Permitted Debt. Permitted Debt issued for such purposes shall not be sold or issued without the approval of the Water Authority, acting reasonably.

Negotiated Extension of Expiration Date. The parties acknowledged that in certain circumstances the Water Authority may determine that the magnitude of the required increase in the Unit Price resulting from a Directed Capital Modification Financing is excessive. Such circumstances may arise, for example, where the design and construction costs required to implement a capital project required in response to a Directed Capital Modification are extraordinarily high, or where the period remaining before the Expiration Date over which adjusted Unit Price is payable is relatively short. If the Water Authority makes such a determination it may, in lieu of exercising its right to finance and pay such costs directly to the Project Company pursuant to “—Water Authority Right to Finance Compensation Adjustment Event Capital Costs”, request an extension of the Expiration Date to lessen the required amount of increase in the Unit Price. Upon any such request, the parties shall enter into negotiations to reach a mutually acceptable extension of the Expiration Date and agreement upon amendments to any related terms and conditions of the Water Purchase Agreement. In the event such negotiations are unsuccessful, the Project Company shall use all reasonable efforts to finance such costs based on the unextended Expiration Date as provided in “—Financing Compensation Adjustment Event Capital Costs”.

Water Authority Right to Finance Directed Capital Modification Capital Costs. The Water Authority shall have the right but not the obligation, in its discretion and in lieu of any Directed Capital Modification Financing by the Project Company, to finance any Directed Capital Modification Capital Costs itself. In such event, the Water Authority shall pay the Project Company for such costs from the proceeds of a Water Authority direct recourse financing or from Water Authority internally-generated funds, and there shall be no adjustment to the Unit Price on account of such Directed Capital Modification Capital Costs. If any such payment is subject to federal and state income Tax to the Project Company (or its beneficial owners, as applicable), such payment shall, subject to “Procedures Relating to Potential Tax Gross-Ups”, be grossed up so that the Project Company (or its beneficial owners, as applicable) receives an amount equal to the amount which it would have received had no such Taxes been payable.

Financing Unavailability for Directed Capital Modifications. If the Project Company is unable to obtain financing for any Directed Capital Modification or the Water Authority does not approve the

proposed financing therefor pursuant to this Section, the Project Company shall have no further obligations with respect to the financing of the Directed Capital Modification, and “—Capital Modifications at Water Authority Direction” shall apply to the implementation of the Directed Capital Modification.

FINANCING THE CAPITAL COSTS OF PROJECT COMPANY- REQUESTED CAPITAL MODIFICATIONS.

The Project Company shall finance the cost of Capital Modifications requested by the Project Company pursuant to “—Capital Modifications at Project Company Request”. There shall be no adjustment to the Unit Price or any other compensation payable to the Project Company on account of any such Capital Modifications.

COMPLIANCE WITH PLANT FINANCING AGREEMENTS; DELIVERY OF REPORTS TO WATER AUTHORITY.

Compliance. The Project Company shall comply with the Plant Financing Agreements to the extent necessary to perform its obligations under the Water Purchase Agreement. If at any time the Project Company receives a notice that an “event of default”, any event entitling the Collateral Agent to enforce any security or any other similar event has occurred under the Project Financing Agreement, the Project Company shall forthwith deliver to the Water Authority a copy of such notice.

Delivery of Financing-Related Reports to the Water Authority. The Project Company shall deliver to the Water Authority subsequent to the Financial Closing Date and throughout the Term copies of all material reports, notices, certificates, audited financial statements and other documents that the Project Company delivers or causes to be delivered to the Collateral Agent the Senior Debt Control Person under or in connection with the Plant Financing Agreements, including reports prepared by the consulting engineer in connection with the Plant Bonds and continuing disclosure reports required under applicable securities laws, in each case to the extent that such items are in the Project Company’s possession.

CHANGES TO PLANT FINANCING AGREEMENTS.

The Project Company shall not without the written consent of the Water Authority (which shall not be unreasonably withheld or delayed) terminate, amend or otherwise modify the Plant Financing Agreements, or waive or exercise any of its rights under the Plant Financing Agreements, if such action would materially and adversely affect the Project Company’s ability to perform its obligations under the Water Purchase Agreement or have the effect of materially increasing any liability or potential liability of the Water Authority. In the event the Project Company delivers to the Water Authority a request for its consent to any such proposed termination action, amendment, modification, waiver or exercise of rights, together with the definitive text pertaining to such action or document, and the Water Authority has not responded to the Project Company’s request within 30 days of receipt (whether through rejecting the request or seeking clarification or information), the Water Authority’s consent shall be deemed to have been given. If at any time any material amendment is made to any Project Financing Agreement or the Project Company enters into any replacement Project Financing Agreement (or any agreement which affects the interpretation or application of any Project Financing Agreement), the Project Company shall deliver to the Water Authority a copy of each such material amendment or agreement within 10 Business Days of the date of its execution or creation, certified as a true copy by an officer of the Project Company.

REFINANCING GAIN.

Consent Required for Refinancing. The Project Company shall not enter into any Refinancing without the prior written consent of the Water Authority. Such consent will not be unreasonably withheld or delayed if the Refinancing occurs after the Commercial Operation Date, has no material and adverse effect on the Project Company's ability to perform its obligations under the Water Purchase Agreement, and does not increase any liability or potential liability of the Water Authority (unless the Water Authority is specifically compensated for such liability or potential liability).

Water Authority's Share of Refinancing Gain. The Water Authority shall be entitled to receive a 50 percent share of any Refinancing Gain arising from a Refinancing.

Project Company Proposal to Refinance. The Project Company shall promptly provide the Water Authority with full details of any proposed Refinancing, including: (i) all proposed revisions to the Plant Financing Agreements; and (ii) the Water Authority's estimated share of the Refinancing Gain, expressed in terms of the reduction of the Capital Charge described in "—Reduction in the Capital Charge".

The Water Authority shall (before, during and within two years after any Refinancing) have unrestricted rights of audit over any books, records and other documentation (including any aspect of the calculation of the Refinancing Gain) used in connection with such Refinancing; provided, however, that the Project Company shall not be required to provide the Water Authority any income statement showing profit or loss (provided that the Project Company recognizes that profit and loss information may become discernible to the Water Authority through the Cost Substantiation process upon the delivery of financial records for the purposes thereof).

Reduction on the Capital Charge. The Water Authority shall receive its share of any Refinancing Gain as a reduction in the Capital Charge component of the Unit Price, in accordance with "—Form of Compensation Adjustments for Events Occurring After the Contract Date - Adjustments to the Unit Price", over the period ending on the Expiration Date. Any such reduction in the Capital Charge shall reflect the savings in actual debt service payable with respect to the Plant Bonds.

Calculation of Refinancing Gain. The Water Authority and the Project Company shall negotiate in good faith the basis and method of calculation of the Refinancing Gain and the reduction in the Capital Charge component resulting from the Water Authority's share of the Refinancing Gain. The Refinancing Gain will be calculated after taking into account the reasonable and proper professional costs that the Project Company directly incurs in relation to the Refinancing and the Water Authority's costs that the Project Company pays pursuant to "—Water Authority's Expenses". If the Water Authority and the Project Company are unable to agree on the basis and method of calculation of the Refinancing Gain or the reduction in the Capital Charge, the dispute may be referred to Non-Binding Mediation.

Water Authority's Expenses. The Project Company shall pay the Water Authority's reasonable and properly incurred third party professional services costs in connection with a Refinancing, such costs to be paid to the Water Authority by the Project Company within 30 days after receipt of a valid invoice in respect of such amount following the close of the Refinancing.

WATER AUTHORITY REQUESTED REFINANCING.

Refinancing Notice. If the Water Authority, acting reasonably, considers the funding terms generally available in the market to be more favorable than those reflected in the Plant Financing Agreements, the Water Authority may, by notice in writing to the Project Company, require the Project Company to request potential funders to provide terms for a potential Refinancing (a "Refinancing

Notice”). The Refinancing Notice shall set out in reasonable detail the grounds upon which the Water Authority believes such funding terms to be available.

Meeting. The Project Company and the Water Authority shall meet to discuss the Refinancing Notice within 30 days. At such a meeting the parties shall consider the evidence available to both parties about the availability of funding terms for a potential Refinancing. The Water Authority shall be entitled to withdraw the Refinancing Notice at or before such a meeting, or within ten Business Days following the meeting.

Project Company Action. If the Water Authority serves a Refinancing Notice which is not withdrawn pursuant to “—Water Authority Requested Refinancing – Meeting”, then the Project Company shall: (i) act promptly, diligently and in good faith with respect to the potential Refinancing; (ii) use all reasonable efforts to obtain the most favorable available terms from existing or new lenders for any potential Refinancing, provided that the Project Company shall not be required to propose refinancing in a manner which (a) a prudent board of directors of a project company operating a similar business in the State to that operated by the Project Company, in similar circumstances, would not approve (it being acknowledged by the parties that terms which may result in the Project Company not being required to propose a refinancing shall include terms which increase the risk of default, terms would have a material and adverse effect on the Project Company’s cash flow, or terms which, taken as a whole, are materially more restrictive than the Plant Financing Agreements, or (b) would materially and adversely affect the risk allocation, ability to perform (including any material increase in the risk of non-performance) or cost of performance under the Water Purchase Agreement with respect to the Contract Obligations, unless the material and adverse effects of such requirements are remedied by the Water Authority to the Project Company’s satisfaction; and (iii) either: (a) as soon as reasonably practicable after receipt of the Refinancing Notice, provide to the Water Authority (i) full details of the proposed Refinancing, and (ii) initial drafts of any changes to the Water Purchase Agreement, including changes relating to potential compensation on termination which might be required to give effect to the proposed Refinancing; or (b) at any time at or after the meeting described in the “—Water Authority Requested Refinancing – Meeting”, if the Project Company, acting reasonably, believes that it is not possible to obtain funding terms which are more favorable than those reflected in the Plant Financing Agreements in accordance with the requirements of subsection (ii) of this Section, provide the Water Authority with notice of the Project Company’s decision not to pursue the Refinancing and reasonable evidence to the Water Authority that the Project Company has complied with its obligations in subsections (i) and (ii) of this Section.

Water Authority Instruction. Following receipt of the information referred to in subsection (iii)(a) of above the Water Authority shall, in its discretion, either: (i) instruct the Project Company to implement the proposed Refinancing; or (ii) Instruct the Project Company to discontinue with the proposed Refinancing, provided that if the Water Authority reasonably considers that the requirements of subsection (iii)(a) above have not been satisfied, the Water Authority may require the Project Company to satisfy its obligations under subsection (iii)(a) above, whereupon the provisions of this paragraph and the preceding paragraph shall apply as if the Water Authority had served a Refinancing Notice.

Implementation of Refinancing. If the Water Authority instructs the Project Company to implement the proposed Refinancing: (i) the Project Company shall, as soon as reasonably practicable, use all reasonable efforts to assure that such proposed Refinancing is implemented; and (ii) the provisions of the “—Refinancing Gain” shall apply.

Project Company Expenses. If: (i) the Water Authority instructs the Project Company to discontinue the potential Refinancing pursuant to Section (ii) of “—Water Authority Instruction”; or (ii) the Project Company provides the Water Authority with notice of the Project Company’s decision not to pursue the Refinancing, in accordance with the requirements of subsection (3)(b) of “—Project Company

Action”, then the Water Authority shall reimburse the Project Company for the reasonable and proper third party professional services costs incurred by the Project Company in relation to the potential Refinancing, such costs to be paid to the Project Company by the Water Authority as a Direct Payment within 30 days after receipt of a valid invoice in respect of such amount following discontinuance of the potential Refinancing.

Limitation On Refinancing Notices. The Water Authority shall be entitled to issue a Refinancing Notice under the Water Authority Requested Refinancing - Refinancing Notice Subsection at any time but not more than once in any three year period. A Refinancing Notice that has been withdrawn under “—Water Authority Requested Refinancing – Meeting” shall be deemed to have been issued for the purpose of this Section.

PROCEDURES RELATING TO POTENTIAL TAX GROSS- UPS

In order to assist the Water Authority in determining whether to pay Compensation Adjustment Event Capital Costs directly to the Project Company under “—Water Authority Right to Finance Compensation Adjustment Event Capital Costs” or “—Water Authority Right to Finance Directed Capital Modification Costs” in light of the Water Authority’s potential tax gross-up obligations under such subsections, the Project Company shall, in advance and in a timely manner, provide the Water Authority with all information it may reasonably request relating to the potential tax gross-up issue. Such information shall include (1) copies of the Project Company’s federal and state income tax returns from the Contract Date to the date of the Water Authority’s request, and any relevant Internal Revenue Service correspondence and audit records, and (2) copies of material legal opinions and memoranda prepared by or for the Project Company bearing on the issue and upon the Project Company’s relevant tax positions, including opinions and memoranda prepared by outside counsel and accountants. The Project Company shall also, upon request, provide an opinion and analysis of tax counsel to the Project Company as to the reasonably expected tax treatment of any potential direct payment by the Water Authority to the Project Company of such Compensation Adjustment Event Capital Costs or Directed Capital Modification Costs. In the event the Water Authority determines to make any such payment of Compensation Adjustment Event Capital Costs or Directed Capital Modification Costs to the Project Company, the Project Company shall not include such payment in its gross income unless required to do so by the Internal Revenue Service after contest and appeal by the Project Company acting with the reasonable approval of the Water Authority. The Water Authority shall make any Tax gross-up payment required under such subsections on a reimbursable basis as a Direct Payment within 30 days after receiving an invoice therefor from the Project Company, attaching evidence of payment by the Project Company of the Tax due and relevant documentation pertaining to the imposition of the Tax.

MECHANICAL COMPLETION .

Mechanical Completion shall be determined on the basis of the Mechanical Completion Procedures set forth in the Water Purchase Agreement.

INTERIM OPERATIONS APPROVAL AND DOMESTIC WATER SUPPLY PERMIT.

Authorization of Operation and Water Introduction. The Project Company acknowledged that the operation of the Project and the introduction of Product Water into the Water Authority Distribution System are prohibited by Applicable Law until an Interim Operations Approval, as defined in this subsection, or the Project Company New Domestic Water Supply Permit is issued by CDPH. CDPH may, but is not legally obligated to, issue a letter, permit with provisions, or other instrument authorizing temporary operation of the Project and introduction of Product Water into the Water Authority Distribution System until such time as the conditions of such letter, permit with provisions, or other

instrument have been satisfied and the Project Company New Domestic Water Supply Permit is issued (an “Interim Operations Approval”). The Project Company further acknowledged that the terms and conditions, as well as the issuance, of an Interim Operations Approval are a matter of administrative discretion on the part of CDPH.

Responsibilities of the Parties with Respect to the Water Authority Domestic Water Supply Permit Amendment. It is expected the CDPH will require submittals with respect to both the Water Authority Distribution System generally and the Project in connection with the issuance to the Water Authority, as permittee, of the Water Authority Domestic Water Supply Permit Amendment. The Project Company shall, on a timely basis, prepare all information and take all actions which may be necessary in order to submit a completed application with respect to all aspects of the Water Authority Domestic Water Supply Permit Amendment pertaining to the Project. In such connection, the Project Company shall: (i) prepare the application, and develop and furnish all necessary supporting material; (ii) supply all data and information which may be required; (iii) familiarize itself with the terms and conditions of the Water Authority Domestic Water Supply Permit Amendment; (iv) attend all required meetings and hearings; and (v) take all other actions necessary in obtaining, maintaining, renewing, extending and complying with the terms of the Water Authority Domestic Water Supply Permit Amendment. The Project Company shall manage the process of obtaining and maintaining the Water Authority Domestic Water Supply Permit Amendment on behalf of the Water Authority in a manner which affords the Water Authority a reasonable opportunity to review and comment on such submittals and all material documentation submitted to and issued by the CDPH in connection therewith.

Project Company Obligations Generally. The Project Company shall cooperate with CDPH throughout the Construction Period and, except as provided in “—Responsibilities of the Parties with Respect to the Water Authority Domestic Water Supply Permit Amendment”, shall make all applications and take all other action necessary to obtain and maintain the Project Company New Domestic Water Supply Permit and any Interim Operations Approval, and shall pay all fees, costs and charges due in connection therewith. Where required under Applicable Law, such applications shall be made in the name of the Water Authority, subject to the Water Authority’s rights hereunder. The Project Company shall manage the process of obtaining the Project Company New Domestic Water Supply Permit and any Interim Operations Approval and shall provide the Water Authority at least 10 Business Days to review such submittals and all material documentation submitted to and issued by any Governmental Body in connection therewith as provided in the Water Purchase Agreement. The Water Authority shall have the right to take any action it deems reasonably necessary to coordinate the Project Company’s efforts with its own efforts pursuant to “—Responsibilities of the Parties with Respect to the Water Authority Domestic Water Supply Permit Amendment”. The Project Company shall not, unless required by Applicable Law, knowingly take any action in any application, data submittal or other communication with any Governmental Body regarding the Project Company New Domestic Water Supply Permit and any Interim Operations Approval or the terms and conditions thereof that would impose any material cost or burden on the Water Authority in its capacity as a buyer of Product Water under the Water Purchase Agreement or that would contravene any Water Authority policies with respect to the matters contained therein. The Water Authority reserves the right to reject, modify, alter, amend, delete or supplement any information supplied, or term or condition proposed, by the Project Company which would have the effect described in the preceding sentence.

Project Company Assumption of Risk. The Project Company explicitly assumes the risk of obtaining and maintaining the Project Company New Domestic Water Supply Permit and any Interim Operations Approval from CDPH as contemplated in “—Interim Operations Approval and Domestic Water Supply Permit - Project Company Obligations Generally”, including the risk of delay, non-issuance, withdrawal, expiration, revocation or imposition of any term or condition in connection therewith; provided, however, that the Project Company shall be afforded relief from the assumption of

such risk as and to the extent provided in item 3(b) (Exclusions) (regarding Governmental Approvals) of the definition of Change in Law Event. In assuming this risk, the Project Company acknowledged in particular that (1) the delay or non-issuance of the Project Company New Domestic Water Supply Permit or an Interim Operations Approval may delay or prevent the delivery of Product Water to the Water Authority Distribution System, the commencement of the Performance Test, or the occurrence of Provisional Acceptance, and thereby give the Water Authority the right to terminate the Water Purchase Agreement, and (2) CDPH may impose or enforce terms and conditions which require the Project Company to make changes or additions to the Project or Project operations which may increase the cost or risk to the Project Company of performing the Contract Services, all of which costs or risks shall be for the account of and borne by the Project Company. The exercise by CDPH of any of its rights with respect to the Project Company New Domestic Water Supply Permit or an Interim Operations Approval shall not constitute a Change in Law Event. For example, an Interim Operations Approval that is time-limited or revocable, or that conditions its effectiveness on further capital investment in the Project, use of additional technologies or equipment, material changes in expected operating practices, or substantial revision to expected testing protocols, are terms and conditions with respect to which the Project Company assumes the risk.

PERFORMANCE TESTING.

Performance Test Protocol. At least 180 days prior to the commencement of the Performance Test, the Project Company shall submit a detailed plan to the Water Authority setting forth the Performance Test activities, monitoring, calculation methodologies, specific test instruments or equipment, and applicable calibration procedures proposed for demonstration of achievement of the Minimum Performance Criteria as set forth in the Water Purchase Agreement. The Performance Test Protocol shall also include a delivered Product Water schedule, which projects the proposed daily volume of Product Water the Project Company intends to deliver during the Performance Test. Within 30 days after the Water Authority's receipt of the Performance Test Protocol, the Water Authority shall provide written notice to the Project Company either acknowledging that the Performance Test Protocol is acceptable to the Water Authority or specifying the deficiencies therein. In the latter instance, the Project Company shall revise and resubmit the Performance Test Protocol to the Water Authority until the same is acceptable to the Water Authority (such approval not to be unreasonably withheld).

Performance Test and Surge Protection System Test. The Performance Test is to be conducted, and the results calculated, in accordance with the Contract Standards. The Project Company shall keep the Water Authority continuously apprised of the specific schedule, and changes therein, for the commencement and re-performance of the Performance Test. On the last day of the Performance Test, the Project Company shall perform the Surge Protection System Test.

Notice of Commencement of the Performance Test. The Project Company shall notify the Water Authority and the Water Authority Engineer that it wishes to perform a Performance Test complying with this Section. The Project Company shall provide the Water Authority Engineer and the Water Authority with at least 10 Business Days' prior written notice of the expected initiation of the Performance Test. The Project Company shall not attempt to perform the Performance Test if the Water Authority gives notice to the Project Company of uncompleted Construction Work, the completion of which is required for the safe operation of all or any part of the Plant during the Performance Test.

Conditions to Commencement of the Performance Test. The Project Company shall not commence the Performance Test until the following events have occurred: (i) the requirements of "— Notice of Commencement of the Performance Test" have been met; (ii) if required by Applicable Law, CDPH has approved the Performance Test plan proposed by the Project Company and approved by the Water Authority Engineer; (iii) Mechanical Completion has occurred; (iv) the portion of the Full System

Test described in the Water Purchase Agreement has been conducted and successfully passed; (v) the Project Company New Domestic Water Supply Permit or an Interim Operations Approval has been issued by CDPH, and contains sufficient authorization to permit the Performance Test and post-Performance Test operations to be conducted in accordance herewith; (vi) the Water Authority Domestic Water Supply Permit Amendment or an Interim Operations Approval has been approved by CDPH, and contains sufficient authorization to permit the Performance Test and post-Performance Test operations to be conducted in accordance herewith; (vii) all Utilities specified or required under the Water Purchase Agreement to be arranged for by the Project Company are connected and functioning properly; (viii) the Project Company has met with the Water Authority at least 60 days prior to the scheduled Performance Test to provide a forecast of expected Product Water production and delivery, described the intended management of Product Water and Off-Specification Product Water, and reviewed such forecast and intended management with the Water Authority staff responsible for the introduction of water into the Water Authority Distribution System; and (ix) the requirements of “—Performance Testing Prerequisites” of the Water Purchase Agreement have been met.

Conduct of the Performance Test. The Performance Test shall consist of the operation of the Plant as a whole, as described in the Water Purchase Agreement, for the time period mentioned therein, in compliance with the Contract Standards. Achievement of Provisional Acceptance will be determined in accordance with the criteria set forth in the Water Purchase Agreement. The Water Authority shall designate and make available qualified and authorized representatives to observe the Performance Test and to monitor the taking of measurements to determine the level of achievement of the Performance Guarantees, all in accordance with the Water Purchase Agreement. The Water Authority Engineer shall have the right to observe the Performance Test and the taking of measurements discussed in the preceding sentence. Neither the Water Authority nor the Water Authority Engineer shall interfere with the conduct of the Performance Test. The Project Company’s election and report of Performance Test results shall be made in accordance with the requirements defined in the Water Purchase Agreement.

Test Report. Within 45 days following the last day of any Performance Test, the Project Company shall furnish the Water Authority Engineer and the Water Authority with five copies of a written Performance Test report consistent with the requirements specified in the Water Purchase Agreement. The Performance Test results will be calculated in accordance with the Contract Standards. Within 20 days after the Water Authority’s and Water Authority Engineer’s receipt of the Performance Test results, the Water Authority and Water Authority Engineer shall provide written notice to the Project Company either acknowledging that the Performance Test report is complete and correct or specifying the deficiencies of the Performance Test. In the latter instance the foregoing procedure will be repeated or the report withdrawn; provided, that if such notice specifying deficiencies is provided more than 10 Business Days after receipt of the Performance Test results, the Scheduled Commercial Operation Date shall be extended for each day from the 10th Business Day from receipt of the Performance Test results until the day such notice is provided to the Project Company.

PROVISIONAL ACCEPTANCE.

Conditions. The following conditions shall constitute the “Provisional Acceptance Conditions,” each of which shall be and remain satisfied in all material respects by the Project Company in order to achieve Provisional Acceptance and establish the Commercial Operation Date:

Mechanical Completion. Mechanical Completion has been achieved (and all conditions of Mechanical Completion continue to be satisfied) and all equipment and facilities necessary for the operation of the Plant have been properly constructed, installed, erected, insulated and protected where required, and correctly adjusted;

Achievement of the Minimum Performance Criteria. A Performance Test shall have been conducted demonstrating that the Plant has achieved the Minimum Performance Criteria and complied with the Contract Standards, and a Performance Test report shall have been delivered to the Water Authority and the Water Authority Engineer validating such achievement, certified as correct and complete by the Project Company;

Baseline Membrane Normalization Calculations. Unless furnished earlier in connection with Mechanical Completion, the Project Company has (a) protected the reverse osmosis membranes in accordance with the manufacturer's storage requirements; (b) tested and disinfected the pressure vessels, (c) loaded the reverse osmosis membranes; (d) protected the membranes from damage due to disinfectants in feedwater; (e) obtained membrane data required for normalization by the RO membrane manufacturer's methodology within 96 hours of the initial operation of each of the membrane trains; and (f) maintained the data to map reverse osmosis element placement;

EPC Contractor Letter of Confirmation. The EPC Contractor shall have delivered a letter to the Water Authority and the Water Authority Engineer confirming the matters stated in "Achievement of the Minimum Performance Criteria" above;

Operating Governmental Approvals. All Governmental Approvals required under Applicable Law, including the Project Company New Domestic Water Supply Permit, which are required to be obtained by the Project Company as of the Commercial Operation Date for the performance of the Operating Work shall have been duly obtained by the Project Company and shall be in full force and effect. True and correct copies of all such Governmental Approvals, to the extent not in the Water Authority's possession, shall have been delivered to the Water Authority to the extent required by "—Copies" and "—Copies of Operating Governmental Approvals";

No Encumbrances. There are no Encumbrances registered or recorded on the Plant Site or any part of the Plant other than Permitted Encumbrances;

Governmental Body Readiness Confirmations. To the extent required under Applicable Law, all other Governmental Bodies having jurisdiction have confirmed (and issued all pertinent Governmental Approvals or other documents in respect thereof) that all buildings and structures comprising the Plant on the Plant Site are ready for use and occupancy;

Required Operating Period Insurance. The Project Company has obtained and submitted to the Water Authority endorsements and certificates of insurance for all Required Insurance specified in the Water Purchase Agreement;

Final Electronic Operation and Maintenance Manuals. The Project Company has delivered to the Water Authority the final Electronic Operation and Maintenance Manual; and

Surge Protection System Test. If the Plant failed the Surge Protection System Test, then pursuant to and to the extent required by the Water Purchase Agreement), the Project Company shall have completed all repairs or modifications identified as required before Provisional Acceptance and the Plant shall have subsequently passed the Surge Protection System Test.

Notice and Report of Provisional Acceptance. When the Project Company believes that it has achieved Provisional Acceptance, it shall deliver to the Water Authority and the Water Authority Engineer a notice thereof (the "Notice of Provisional Acceptance"). The Notice of Provisional

Acceptance shall contain a report in a form acceptable to the Water Authority, and with sufficient detail to enable the Water Authority to determine that Provisional Acceptance has been achieved.

Achievement of Provisional Acceptance. The Water Authority and the Water Authority Engineer shall, within 20 days following receipt of the Notice of Provisional Acceptance, inspect the Plant and all Construction Work and either (a) deliver a certificate to the Project Company certifying that the requirements under clauses (1) through (10) of “—Conditions” have been satisfied, or (b) notify the Project Company in writing that Provisional Acceptance has not been achieved, stating in detail the reasons therefor. In the event that Provisional Acceptance has not been achieved, the Project Company shall promptly take such action or perform such Construction Work to effect compliance with Provisional Acceptance, and shall issue to the Water Authority and the Water Authority Engineer another Notice of Provisional Acceptance pursuant to “—Notice and Report of Provisional Acceptance”. Such procedure shall be repeated as necessary until Provisional Acceptance has been achieved.

Adjustment for Underpayment. As provided in “—Monthly Water Purchase Payments”, the Water Authority shall pay Monthly Water Purchase Payments for Product Water delivered after the Commercial Operation Date. In the event the Water Authority has paid the Interim Operations Delivered Water Unit Price for such water pursuant to “—Interim Operations” pending the Water Authority’s review and approval of the Project Company’s Notice of Provisional Acceptance, the Water Authority shall make a payment to the Project Company sufficient to account for the amount underpaid. Any such payment shall be a Direct Payment.

ACHIEVEMENT OF PROVISIONAL ACCEPTANCE AND COMMERCIAL OPERATION DATE .

Provisional Acceptance. The Project Company shall achieve the Provisional Acceptance by the Scheduled Commercial Operation Date.

Scheduled Commercial Operation Date Defined. The Scheduled Commercial Operation Date is the date that is 1,430 days following the Financial Closing Date, as such Scheduled Commercial Operation Date may be extended as: (1) provided in “—Scheduled Commercial Operation Date - Extension for Uncontrollable Circumstances”; and (2) as provided in “—Schedule Relief Attributable to Certain Delays in Pipeline Route Availability” of the Product Water Pipeline Improvements Design-Build Agreement.

Extension for Uncontrollable Circumstances. If an Uncontrollable Circumstance occurs between the Financial Closing Date and the Scheduled Commercial Operation Date, the Scheduled Commercial Operation Date may be extended for such time as is reasonable in the circumstances to take account of the effect of the delay on any matter in the Project Schedule caused by the Uncontrollable Circumstance.

Completion and Acceptance of the Product Water Pipeline Improvements. The Project Company is obligated under the Product Water Pipeline Improvements Design-Build Contract to permit, design, build, commission and test the Product Water Pipeline Improvements. The Project Company acknowledged that completion of the Product Water Pipeline Improvements and the successful passage of the acceptance tests for the Product Water Pipeline Improvements are essential preconditions to the ability of the Water Authority to receive Product Water into the Water Authority Distribution System. Accordingly, the Commercial Operation Date shall not be established, unless and until the Project Company has completed construction of the Product Water Pipeline Improvements and satisfied the acceptance conditions for the Product Water Pipeline Improvements set forth in the Product Water Pipeline Improvements Design-Build Agreement.

Commercial Operation Date. For all purposes of the Water Purchase Agreement, the “Commercial Operation Date” shall be the date by which both of the following have occurred: (i) the Notice of Provisional Acceptance is delivered to the Water Authority, if, subsequent to such delivery, the Water Authority delivers a certificate to the Project Company certifying, in response to such Notice of Provisional Acceptance, that the Provisional Acceptance Conditions have been satisfied and (ii) the Project Company has completed construction of the Product Water Pipeline Improvements and satisfied the acceptance conditions for the Product Water Pipeline Improvements set forth in the Product Water Pipeline Improvements Design-Build Agreement.

FAILURE TO ACHIEVE THE COMMERCIAL OPERATION DATE BY THE SCHEDULED COMMERCIAL OPERATION DATE.

In the event the Project Company fails to achieve the Commercial Operation Date by the Scheduled Commercial Operation Date, a Project Company Event of Default shall be deemed to have occurred and the Water Authority may pursue all remedies available under “—Remedies of the Parties and Water Authority Step-In Rights”, “—Project Company Events of Default” and “—Termination”.

NO WATER AUTHORITY PAYMENT OBLIGATION PRIOR TO COMMERCIAL OPERATION DATE; EXCEPTIONS.

The Water Authority shall have no obligation to purchase Product Water or make any other payment to the Project Company prior to the Commercial Operation Date, except as provided in “—Completion Delay” or “—Product Water Deliveries Prior to the Commercial Operation Date”.

PROJECT COMPLETION.

Requirements. “Project Completion” shall occur on or before December 31, 2019. “Project Completion” shall occur when all of the following conditions have been satisfied: (i) the Project Company has achieved Provisional Acceptance in accordance with “—Provisional Acceptance”; (ii) all Construction Work (including all items on the Punch List and all clean up and removal of construction materials and demolition debris) is complete and in all respects is in compliance with the Water Purchase Agreement; (iii) the individual reverse osmosis trains that make up the first stage shall have complied with the testing requirements set forth in “—Reverse Osmosis, Energy Recovery and Concentrate Discharge System” of the Water Purchase Agreement; (iv) if the Plant failed the Surge Protection System Test, in addition to completion of the repairs or modifications required before Provisional Acceptance (if any), the Project Company shall have completed all other repairs or modifications identified pursuant to the Water Purchase Agreement; (v) the Project Company shall have delivered to the Water Authority, copies of the warranties of equipment and fixtures constituting a part of the Plant received from the equipment suppliers, together with copies of all related operating manuals supplied by the equipment suppliers; (vi) the Project Company has delivered to the Water Authority a final and complete set of as-built construction record drawings, prepared in accordance with the Water Purchase Agreement, and signed and sealed by a California registered engineer; and (vii) the Project Company has delivered to the Water Authority a claims statement setting forth in detail all claims known to it of every kind whatsoever of the Project Company connected with, or arising out of, the Construction Work Plan, and arising out of or based on events prior to the date when the Project Company gives such statement to the Water Authority.

Notice and Report of Project Completion. When the Project Company believes that it has achieved Project Completion, it shall deliver to the Water Authority and the Water Authority Engineer a written notice thereof (the “Notice of Project Completion”). The Notice of Project Completion shall contain a report in a form acceptable to the Water Authority and the Water Authority Engineer, and with

sufficient detail to enable the Water Authority and the Water Authority Engineer to determine the achievement by the Project Company of all Construction Work to be performed under the Water Purchase Agreement, including completed Punch List items, and such other information that the Water Authority or the Water Authority Engineer may require to determine whether Project Completion has been achieved.

Achievement of Project Completion. The Water Authority and the Water Authority Engineer, shall, within 10 days following receipt of the Notice of Project Completion, inspect the Project, review the report submitted by the Project Company and either (a) deliver a certificate to the Project Company stating that clauses (1) through (7) of “—Requirements” above have been satisfied, or (b) notify the Project Company in writing that Project Completion has not been achieved, stating in detail the reasons therefor. In the event that the Water Authority or the Water Authority Engineer determines that Project Completion has not been achieved, the Project Company shall promptly take such action or perform such Construction Work as will achieve Project Completion and shall issue to the Water Authority and the Water Authority Engineer another Notice of Project Completion pursuant to “—Notice and Report of Project Completion”. Such procedure shall be repeated as necessary until Project Completion is achieved.

Obligation to Achieve Project Completion; Punch List Items. The Project Company shall achieve Project Completion within 180 days after the Commercial Operation Date.

PROJECT COMPANY OBLIGATIONS GENERALLY.

Operation and Management Responsibility for the Project. Commencing on the Commercial Operation Date, the Project Company shall operate and manage the Project; treat Raw Seawater; produce, deliver and sell Product Water to the Water Authority; transport and dispose of Plant By-Products, provide all information necessary to secure and maintain Governmental Approvals to the extent required under the Water Purchase Agreement; and otherwise operate and manage the Project so as to comply with the Contract Standards applicable to such activities.

Application of Industry Experience. The Project Company shall use all reasonable efforts to apply at the Project the benefit of the advances and improvements in technology, management practices and operating efficiencies which are developed by the Project Company, the Process Services Contractor, the Operating Service Provider and their Affiliates through the operation of their water treatment businesses and industry research and development activities conducted over the Term, and which are useful and appropriate in the good faith judgment of the Project Company for carrying out the Operating Work in a manner which improves upon the Contract Standards.

Water Authority Administrative Space. The Project Company shall provide office space at the Plant for the exclusive use of the Water Authority’s compliance personnel and advisors in accordance with the Water Purchase Agreement. The cost related to the Water Authority’s use of such office space (including janitorial services to be provided by the Project Company) has been priced into the Monthly Water Purchase Payments.

SERVICE COORDINATION.

Project Company’s Chief Operator. The Project Company shall appoint a full-time manager of the Project (the “Chief Operator”). The Chief Operator shall have a Grade T 5 operator’s certification as of the date of the commencement of start-up and commissioning of the Project and shall be otherwise appropriately certified under Applicable Law. The sole employment responsibility of the Chief Operator shall be managing the operation of the Plant. In the event the Water Authority determines that (1) the Chief Operator has persistently failed to manage the operation of the Project in accordance with the

Contract Standards, or (2) an unworkable relationship (as defined below) has developed between the Chief Operator and the Water Authority, the Water Authority shall provide the Project Company with written notice, describing such failure or development of an unworkable relationship (as defined below) and its duration in reasonable detail. An unworkable relationship shall be deemed to have developed if the Chief Operator, by his or her persistent conduct, is non-responsive or non-communicative with Governmental Bodies, Cabrillo, the Water Authority or the Project Company; makes material misrepresentations; provides materially false or incomplete information; dishonors commitments; fails to make timely decisions; or fails to manage or control the employees under his or her managerial control. The parties shall thereupon schedule a meeting to discuss and seek to resolve the Water Authority's concerns, to be held not more than 30 days following delivery of such notice, which meeting shall be attended by senior executives of the Water Authority, the Project Company and the Operating Service Provider with authority to resolve the dispute. If, following such meeting, based on the persistent conduct that prompted the Water Authority's concern or conduct occurring following the meeting, the Water Authority, acting reasonably, still determines that an unworkable relationship exists or that the Chief Operator has persistently failed to manage the operation of the Project in accordance with the Contract Standards, the Water Authority shall so notify the Project Company and the Project Company shall remove such Chief Operator as soon as reasonably practicable, but in no event later than 60 days.

Communications and Meetings. On or before the Commercial Operation Date, the Project Company shall provide the Water Authority with contact information for the Chief Operator and senior management representatives of the Project Company. The Water Authority shall furnish to the Project Company comparable communications information with respect to the Contract Administrator. The Project Company shall meet with the Water Authority each month to review the contents of the monthly operations reports required to be prepared pursuant to "Periodic Reports". The Chief Operator (or other senior representative of the Operating Services Provider acceptable to the Water Authority) and, if requested by the Water Authority, a senior management representative of the Project Company each shall personally attend the monthly operations meetings with the Water Authority, and all special meetings which the Water Authority may reasonably request from time to time, to review management, operational, performance and planning matters arising with respect to the Project and the Water Purchase Agreement. The Project Company shall have the right to have a representative present at all such meetings. Any issue in dispute which the parties are unable to resolve at such monthly and special meetings may be referred to Non-Binding Mediation in accordance with "—Non-Binding Mediation", and the resolution of any issues resolved at such meetings or through Non-Binding Mediation shall be reflected in a Contract Administration Memorandum or a Water Purchase Agreement Amendment, as applicable.

Complaints and Communications. The Project Company shall respond in a timely and effective manner to all complaints and communications received by the Project Company or received by the Water Authority and forwarded to the Project Company regarding the treatment and distribution of water, odor and air emissions, noise, light emissions, construction or any other matter related to the Operating Work as to which there is a Contract Standard, to the extent required by the following sentence. The Project Company shall investigate each such complaint and communication and, if it has a valid basis, the Project Company shall promptly respond to or rectify the matter, as applicable; provided, however, that the Project Company shall have no obligation to respond to or rectify a matter raised in a complaint or communication if the Project Company is in compliance with the Contract Standards with respect to the matter. The Project Company shall respond to complaints and communications concerning (1) emergencies related to the Project within one hour; (2) material spillages, leaks, breaks, noise, and light emissions relating to the Project as soon as reasonably possible; and (3) other material communications within two Business Days. All such complaints and communications shall be immediately logged and responded to in writing, faxed to the Water Authority on a daily basis, and reported to the Water Authority as part of the monthly operations reports delivered pursuant to "—Periodic Reports". The

Project Company shall establish, maintain and make publicly known a telephone number, email address and mailing address to which customer or citizen complaints and communications may be directed.

Relations with Member Agencies. The Project Company shall cooperate with and assist the Water Authority in performing its obligations under its obligations to or agreements with the Member Agencies, including providing all information, data and reports required under such agreements.

STAFFING AND PERSONNEL .

Staffing Generally. The Project Company shall staff (or cause the Operating Service Provider to staff) the Project during the Term in accordance with the Contract Standards with qualified personnel who meet the licensing and certification requirements of the State. The Project staff, taken as a whole, shall be trained, experienced and proficient in the management and operation of membrane water treatment systems using membrane treatment similar to the Project. The Project Company shall (or shall cause the applicable Project Contractor to) appropriately discipline or replace, as appropriate, any employee of the Project Company or any Subcontractor engaging in unlawful, unruly or objectionable conduct. The Project Company shall notify the Water Authority of any material change in staffing levels and positions from time to time, and shall not make any such material change if the new staffing level would adversely materially and adversely affect the ability of the Project Company to provide the Operating Work in accordance with the Contract Standards.

Key Operations Staff. Collectively, the Chief Operator and those reporting directly to the Chief Operator shall have experience with all of the advanced technologies utilized in the Project sufficient to operate and maintain the Project in accordance with the Contract Standards.

Training. The Project Company shall be responsible for training the Chief Operator, operations supervisors and other Project Company personnel. No later than the Commercial Operation Date, the Project Company shall prepare a personnel training program which the Project Company proposes to institute in order to ensure that the Project is managed and operated by qualified personnel throughout the Term and in accordance with the Water Purchase Agreement. Such personnel training program shall include the personnel training guidelines, policies and procedures established (1) by the CDPH and the EPA; (2) in any Governmental Approval or operator's certificate required or issued by any Governmental Body; and (3) in any other Applicable Law.

UTILITIES .

Supply. The Project Company shall arrange for and establish the supply of electric, gas, water, sewer and other utility service required for the Project in accordance with the Design Requirements.

SDG&E Special Conditions Contract. The parties acknowledged that the Project Company has arranged for the construction, pursuant to the SDG&E Special Conditions Contract, of certain electric utility system improvements necessary for the supply of electricity to the Project. Such improvements, which are to be constructed by SDG&E and funded from the proceeds of the Initial Plant Bonds, will be the property of SDG&E. The parties further acknowledged that, in consideration of the Project Company's funding of such improvements, certain credits are to be applied by SDG&E to the monthly electrical invoices payable by the Project Company. All such credits shall be for the account of the Project Company. In the event the Water Authority exercises its right under "Alternative Electricity Suppliers" below to change electricity suppliers, the Water Authority shall have no obligation to compensate the Project Company for any credits foregone as a result of any such change in suppliers; provided, however, that in the event the Project Company is unable to make arrangements in connection with any such change in electricity suppliers so as to secure the full benefit of such credits, the Water Authority shall

pay the Project Company, as Direct Payments, an amount equal to such foregone credits at the times such credits would have accrued to the benefit of the Project Company under the SDG&E Special Conditions Contract.

Alternative Electricity Suppliers. The Water Authority shall have the right, upon reasonable notice, to direct the Project Company to change electricity suppliers, and to negotiate and establish electric rates with the replacement supplier; provided, however, that the terms and conditions of electricity supply established with the replacement supplier shall not materially and adversely affect the ability of the Project Company to perform the Contract Obligations or the costs thereof. The Project Company shall make no agreement that would materially impair such right of the Water Authority, and shall cooperate with and assist the Water Authority in making any such alternative electricity supply arrangements. The Water Authority shall give reasonable consideration to any requests and recommendations made by the Project Company as to the terms and conditions of electricity supply, and shall reimburse the Project Company for the reasonable and proper internal costs and external professional costs incurred by the Project Company in relation to the change of electricity suppliers. Any such reimbursement shall be a Direct Payment.

Payment of Utility Costs. The Project Company shall timely pay all utility costs for the Project.

ELECTRONIC OPERATION AND MAINTENANCE MANUAL .

Project Company Responsibility. The Project Company shall deliver a preliminary draft Electronic Operation and Maintenance Manual to the Water Authority for review and comment at least 45 days prior to Mechanical Completion, and a draft final Electronic Operation and Maintenance Manual at least 60 days following Provisional Acceptance. The Water Authority shall have the right to review and comment on such draft final Electronic Operation and Maintenance Manual within a 30-day period following its receipt, and the Project Company shall give reasonable consideration to such comments in finalizing the draft. The Operating Work shall be performed substantially in compliance with the Electronic Operation and Maintenance Manual, the Operating Protocol and the CMMS. The Project Company shall keep the Electronic Operation and Maintenance Manual current in accordance with the Contract Standards, including changes required to reflect updates to record documents made pursuant to “—Record Documents”.

Supplements for Capital Modifications. The Project Company shall prepare supplements and revisions to the Electronic Operation and Maintenance Manual which are required due to the design, construction and installation of all Capital Modifications. The cost and expense of all such supplements and revisions shall be borne by the Project Company, except with respect to supplements and revisions necessitated by Capital Modifications directed by the Water Authority or required by a Change in Law Event or other Uncontrollable Circumstance.

SAFETY .

The Project Company shall maintain the safety of the Project at a level consistent with all federal, State and local safety and health rules and regulations, and the Contract Standards. Without limiting the foregoing, the Project Company shall: (i) take reasonable precautions for the safety of, and provide reasonable protection to prevent damage, injury or loss by reason of or related to the operation of the Project to, (a) all employees performing the Contract Obligations and other persons who may be directly affected thereby, (b) all visitors to the Project, (c) all materials and equipment under the care, custody or control of the Project Company on the Plant Site, (d) other property constituting part of the Project, and (e) Water Authority Property affected by Plant operations; (ii) give all notices and comply with all Applicable Laws relating to the safety of persons or property or their protection from damage,

injury or loss; (iii) designate a qualified and responsible employee at the Plant whose duty shall be the development and implementation of safety and health requirements at the Plant, the prevention of fires and accidents and the coordination of such activities, with federal, State, local and Water Authority officials; (iv) operate all equipment in a manner consistent with the manufacturer's safety requirements; and (v) develop and implement a health and safety program that includes a written site-specific health and safety plan designed to implement the requirements of this Section. The Project Company shall make all modifications to the Plant which are or may be required under OSHA., subject to any relief to which it may be entitled based on a Change-in-law Event.

SECURITY .

The Project Company, in accordance with the Contract Standards, shall be responsible for the security and protection of the Project. The Project Company shall prepare and keep current a security plan for the Project and conduct vulnerability assessments in accordance with the requirements of the Water Purchase Agreement (the "Security Plan"), and shall comply with the requirements of the Security Plan. The Project Company shall guard against all damage or injury to such properties caused by trespass, negligence, vandalism or malicious mischief of third parties, and shall operate, maintain, repair and replace all surveillance and other security equipment and assets constituting fixtures of the Plant in accordance with the Contract Standards.

OPERATING GOVERNMENTAL APPROVALS .

Applications and Submittals. The Project Company shall make all filings, applications and reports necessary to obtain and maintain all Governmental Approvals required to be made, obtained, maintained, renewed or extended by or in the name of the Project Company under Applicable Law in order to operate the Plant, including those set forth in the Water Purchase Agreement. All permit and filing fees required in order to obtain and maintain Governmental Approvals for the Operating Work shall be paid by the Project Company, regardless of the identity of the applicant, except with respect to Governmental Approvals required in connection with an Uncontrollable Circumstance.

Data and Information. All data, information and action required to be supplied or taken in connection with the Governmental Approvals required for the Operating Work shall be supplied and taken on a timely basis by the Project Company considering the requirements of Applicable Law. The data and information supplied by the Project Company to the Water Authority and all regulatory agencies in connection therewith shall be correct and complete in all material respects. The Project Company shall provide all material documentation to be submitted to a Governmental Body in connection with the following Governmental Approvals for the Water Authority's review and comment at least 10 days prior to submission to the applicable Governmental Body any: (i) proposed revisions to the Encina Power Station Precise Development Plan required by changes to the Project; (ii) proposed revisions to the South Carlsbad Coastal Project Area Redevelopment Plan required by changes in the Project; (iii) amendments to the Redevelopment Permit required by changes to the Project; (iv) amendments to the Encina Specific Plan No. 144 required by changes to the Project; (v) amendments to the Coastal Development Permit for the Project during the Term of the Water Purchase Agreement; (vi) amendments to the Project Company Domestic Water Supply Permit by the California Department of Public Health; (vii) amendments to the NPDES Project Permit; and (viii) CEQA compliance matter required for any revisions to the Project.

The Project Company shall be responsible for any schedule and cost consequences which may result from the submission of materially incorrect or incomplete information. Unless required under Applicable Law, the Project Company shall not knowingly take any action in any application, data submittal or other communication with any Governmental Body regarding Governmental Approvals or the terms and conditions thereof that would impose an unreasonable cost or burden on the Water

Authority in its capacity as a buyer of Product Water under the Water Purchase Agreement. The Water Authority reserves the right to reject, modify, alter, amend, delete or supplement any information supplied, or term or condition proposed, by the Project Company which would have the effect described in the preceding sentence, provided that any such action by the Water Authority shall not cause the Project Company to fail to comply with Applicable Law.

Non-Compliance and Enforcement. The Project Company shall report to the Water Authority, immediately upon obtaining knowledge thereof, all notices or communications it receives with respect to violations of the terms and conditions of any Governmental Approval or Applicable Law pertaining to the Project. The failure of the Project Company to comply with any Governmental Approval in all material respects shall constitute a breach of the Water Purchase Agreement.

Reports to Governmental Bodies. The Project Company shall, in accordance with the Contract Standards, prepare all periodic reports, make all information submittals and provide all notices to all Governmental Bodies required by all Governmental Approvals and under Applicable Law with respect to the Project, including sampling and testing results. Such reports shall contain all information required by the Governmental Body, and may be identical to comparable reports prepared for the Water Authority, if such are acceptable to the Governmental Body. The Project Company first shall provide the Water Authority with copies of such regulatory reports prior to their filing as and to the extent required pursuant to “—Data and Information”.

Copies of Operating Governmental Approvals. The Project Company shall make available for review and copying by the Water Authority, upon request, copies of the following Operating Governmental Approvals and related applications: (i) Permits and approvals to use water, sewer and other various local utilities; (ii) Permits to supply and deliver chemicals, materials and other consumables used for Operating Work; (iii) Permits to dispose of storm water; (iv) Permits to dispose of waste cleaning chemicals, solids waste, and any other liquid or solid waste materials and soils generated by the Plant during the Term; (v) Permits needed to dispose of Plant permeate, concentrate and waste filter backwash that do not comply with the requirements of the applicable regulations and specifications defined in the NPDES Project Permit; (vi) Operator licensing documents; (vii) 40 CFR Part 68 Risk Management Plan; (viii) Section 112(r) Accidental Release Prevention Plan; and (ix) all other Project operation, maintenance, repair and monitoring related Governmental Approvals not otherwise listed in this subsection that may be required by any Governmental Body, including the U.S. Environmental Protection Agency, U.S. Fish and Wildlife Service, National Oceanic & Atmospheric Administration, U.S. National Marine Fisheries Service, U.S. Army Corp of Engineers, CALTRANS, California Department of Public Health, California Department of Fish and Game, City of Carlsbad, and San Diego County.

Potential Regulatory Change. The Project Company shall keep the Water Authority regularly advised as to potential material changes in regulatory requirements affecting the Project of which the Project Company becomes aware, together with recommended responses to such potential changes (including potential Capital Modifications) so as to mitigate any possible adverse economic impact on the Water Authority should a Change in Law Event actually occur.

WATER AUTHORITY ACCESS TO PLANT.

General Access. The Water Authority shall have the right upon reasonable notice (or, in an emergency, at any time) to visit and inspect the Plant and related records and observe the Project Company’s performance of the Operating Work in order to determine compliance with the Contract Standards, including the Project Company’s obligations under “—Maintenance, Repair and Replacement”. The Project Company shall permit and facilitate access to the Plant for such purposes by Water Authority personnel and by agents and contractors designated by the Water Authority. Keys or

passwords, as applicable, for the facilities or structures comprising the Plant shall be provided to the Water Authority's Contract Administrator by the Project Company in accordance with the Project Company's physical security plan and key control program. All visitors and on-site Water Authority personnel shall comply with the Plant Site-specific health and safety plan and rules, and shall not interfere with the Project Company's operation of the Plant. When visiting any portion of the Plant that is staffed by the Project Company at the time of the visit, all Water Authority employees, agents and contractors shall announce themselves to the staff and Project Company employees may elect to accompany any Water Authority employees, agents and contractors during the visit.

Tours. The Project Company shall conduct public tours of the Plant during normal business hours, and take visitors through such portions of the Plant as are suitable for public visitation, all during normal business hours and in a pre-arranged and mutually agreed upon manner that does not interfere with the Project Company's performance of the Contract Obligations.

ASSET RECORDS.

Information Systems. The Project Company, on and after the Commercial Operation Date, shall establish and maintain computerized information systems with respect to the Plant for operations and maintenance data and process control, including the information necessary to verify calculations made pursuant to the Water Purchase Agreement and demonstrate compliance with the Contract Standards. The Project Company shall grant the Water Authority real time, continuous access to such computerized information systems through the Water Authority Interface Cabinet in accordance with the Water Purchase Agreement.

Availability of Plant Records to Water Authority. The Project Company shall make available for inspection and copying by the Water Authority, upon request, copies of all operations, maintenance, performance, Plant By-Products management, process control and similar records and data kept by the Project Company in its performance of the Operating Work.

Record Documents. The Project Company shall maintain at the Plant and make available to the Water Authority upon request for review and copying: (1) all material Design Documents and record drawings and documents pertaining to the Plant copies of which were delivered to the Water Authority by the Project Company pursuant to the Water Purchase Agreement; and (2) similar documents relating to any Capital Modifications. The Project Company shall: (1) update annually all such records to show any material changes to the Plant made by the Project Company in the performance of the Operating Work (which shall include any change that alters the functionality, performance or usability of any Project Equipment and Project Structures, or which could impact Product Water quality or Water Authority aqueduct operations); and (2) provide advice and assistance to the Water Authority, based on such records, in establishing and maintaining any Water Authority geographic mapping and information systems.

Annual Update of Record Drawings and Documents. The Project Company, within 60 days following the end of each Contract Year, shall deliver to the Water Authority an electronic copy of an updated set of as-built drawings reflecting any material changes to the Project during such Contract Year, of any updates to record drawings and documents that were made during the previous Contract Year. The annual record drawings and documents update shall be prepared in accordance with the requirements of "—Drawing Requirements" and delivered separately from the annual operation and maintenance reports delivered pursuant to "—Annual Operation and Maintenance Reports".

PERIODIC REPORTS.

Monthly Operations. The Project Company shall provide the Water Authority with monthly operations reports no later than 15 days after the end of each Billing Period. In addition to the operating data specified in the Water Purchase Agreement, the monthly operations reports shall include a report by the Project Company as to the following: (i) a table or other information format acceptable to the Water Authority setting forth all results of operations pertaining to the delivery or non-delivery of Product Water, presented using each of the categories used for billing and tracking purposes under “—Monthly Water Purchase Payments”; (ii) summary of the quantities and characteristics of Raw Seawater and Product Water produced during the prior month, in a manner consistent with the listing of the characteristics set forth in the Water Purchase Agreement; (iii) summary of all sampling and test data required by the Water Purchase Agreement; (iv) quantities of electricity, natural gas, water and other Utility services used during such month; (v) summary of staffing levels, job positions and workforce turnover; (vi) statement of any complaints or communications received by the Project Company in relation to the Operating Work as to which the Project Company is obligated to respond under subsection “—Complaints and Communications”, and how each such complaint and communication was addressed by the Project Company; (vii) description of the maintenance, repair and replacement activities performed and Capital Modifications made during the prior month and anticipated during the current month; (viii) description of maintenance backlog and status of work orders of preventative and unplanned maintenance; (ix) list of material machinery and equipment which was unavailable for service during the prior month, and a timetable for repair and replacement; (x) description of any asset abandoned in place pursuant to the Water Purchase Agreement; (xi) description of partial or total Project equipment shutdowns for maintenance and repairs during the prior month and anticipated during the current month; (xii) adverse conditions which may be expected to arise during the current month that may affect the ability of the Project Company to treat Raw Seawater and produce Product Water in accordance with the terms and conditions of the Water Purchase Agreement; (xiii) results of any regulatory or insurance inspections conducted during the prior month; (xiv) information on any Utility outages occurring during the prior month; (xv) descriptions of any failures to meet the Performance Guarantees and data required to determine performance liquidated damages under the Water Purchase Agreement, if any; (xvi) listing and description of any reports or other submittals made to or received from any Governmental Body with respect to any environmental, health or safety tests or monitoring procedures conducted by the Governmental Body during the prior month; (xvii) notices of material violations of any Governmental Approval received during the prior month; (xviii) summary of any Monthly Unscheduled Outage Units occurring during the prior month, and a cumulative total for the Contract Year to date; and (xix) list of visitors to the Plant in the prior month.

The Project Company shall submit for the Water Authority’s review and approval, in accordance with the Water Purchase Agreement, the proposed format of the monthly operations report required to be provided by the Project Company pursuant to this Section.

Annual Operations and Maintenance Reports. The Project Company shall furnish the Water Authority, within 45 days after the end of each Contract Year following the Commercial Operation Date, an annual summary of the information contained in the monthly operations reports, including a report by the Project Company of any administrative fine, penalty or consent order against it or any of its Affiliates with respect to the performance of operation and maintenance services at other water treatment plants located in the State. The Project Company shall also perform and report to the Water Authority, as part of its annual operations and maintenance report and in accordance with the Contract Standards, a review and analysis of the administrative, operational and maintenance practices employed in the management of the Plant. The annual operations and maintenance report shall also include a summary of all replacements or retirement of material Project Equipment and Capital Modifications. The annual record drawing updates

required by “—Annual Update of Record Drawings and Documents” shall be prepared as a separate submittal to the Water Authority.

Default Reports. The Project Company shall provide to the Water Authority, immediately after the receipt thereof, copies of any written notice of a material default, breach or non-compliance received or sent under or in connection with any Project Contract entered into by the Project Company in connection with the Operating Work.

MAINTENANCE OF RECORDS.

Duty to Maintain Records. The Project Company shall retain and maintain all the records (including superseded records) referred to in “—Records to Be Kept” in accordance with this subsection and other applicable terms of the Water Purchase Agreement, in chronological order, in a form that is capable of audit. The Project Company shall make such records (other than books of account) available to the Water Authority for inspection during normal business hours upon reasonable notice.

Maintenance of Records. Wherever practical and unless otherwise agreed, the Project Company shall retain and maintain original records in electronic and hard copy form. True copies of the original records may be kept by the Project Company if it is not practicable to retain original records.

The Project Company shall retain and maintain all records referred to in subsection 8.12(E) (Records to Be Kept) for a period of at least ten years from the Contract Year to which such records relate, or such longer period as may be required by Applicable Law, all in sufficient detail, in appropriate categories and generally in such a manner to enable each party to comply with its obligations and exercise its rights under the Water Purchase Agreement.

On the expiration of such period or at the earlier request of the Water Authority, the Project Company shall deliver all those records (or, if those records are required by statute to remain with the Project Company or a Project Contractor, copies thereof to the Water Authority in the manner and at the location as the Water Authority specifies, acting reasonably.) The Water Authority shall make available to the Project Company for inspection during normal business hours all records the Project Company delivers pursuant to this Section upon reasonable notice.

Disposal of Records. During the Term, the Project Company may dispose of any records referred to in “—Records to Be Kept” if any are more than 10 years old or in respect of which the required period for their retention has expired, provided that the Project Company first notifies the Water Authority in writing and provides the Water Authority with 60 days to elect to receive delivery of such records.

Drawing Requirements. Any drawings required to be made or supplied pursuant to the Water Purchase Agreement shall be prepared in accordance with the requirements of Attachment 3D (Water Authority Drawing Requirements) of the Water Purchase Agreement, and shall be of a size appropriate to show the detail to be depicted clearly without magnifying aids. Where by prior agreement with the Project Company the Water Authority has agreed to accept microfilm, microfiche or other storage media (which must include secure back up facilities), the Project Company shall make or supply, or have made or supplied, drawings and other documents in such agreed upon form.

Records to Be Kept. The Project Company shall retain the following: (i) the Water Purchase Agreement and the documents executed based on the Transaction Forms, including all amendments to such agreements; (ii) records relating to the appointment and supervision of the Water Authority Representative and the Project Company Representative; (iii) documents relating to Governmental Approvals, including applications, refusals and appeals; (iv) notices, reports, results and certificates

relating to completion of the Construction Work, Commissioning, and Capital Modifications; (v) all operation and maintenance manuals; (vi) record drawings and documents, and periodic updates; (vii) documents relating to Uncontrollable Circumstances; (viii) all notices made to or received from the Water Authority Representative; (ix) documents relating to a request for the consent of the Water Authority to any Change in Control by the Project Company; (x) documents relating to a Refinancing of the Project Company (other than an Exempt Refinancing); (xi) Tax invoices and records applicable to the Project (other than any income tax records for the Project Company or records pertaining to other taxes personal to the Project Company); (xii) Records required by Applicable Law (including in relation to health and safety matters) to be maintained by the Project Company with respect to the Construction Work and Operating Work; (xiii) documents relating to the Required Insurance; and (xiv) all other records, notices or certificates required to be produced or maintained by the Project Company pursuant to the express terms of the Water Purchase Agreement.

EMERGENCIES .

Emergency Plan. Within 75 days prior to the Scheduled Commercial Operation Date, the Project Company shall provide the Water Authority with a plan of action to be implemented in the event of an emergency, including fire, weather, environmental, health, safety, power outage, and other potential emergency conditions. The plan shall: (1) provide for appropriate notifications to the Water Authority and all other Governmental Bodies having jurisdiction and for measures which facilitate coordinated emergency response actions by the Water Authority and all such other appropriate Governmental Bodies; (2) specifically include spill prevention and response measures; and (3) assure the timely availability of all personnel required to respond to any emergency (no later than one hour during nights, weekends or holidays). The emergency plan shall be reviewed by the parties annually as part of the review of the annual operations report, and updated when necessary, in accordance with the Operating Protocol.

Emergency Action. Notwithstanding any requirement of the Water Purchase Agreement requiring Water Authority approval or consent to reports or submittals, if at any time the Project Company determines in good faith that an emergency situation exists such that action must be taken to protect the safety of the public or its employees, to protect the safety or integrity of the Project, or to mitigate the immediate consequences of an emergency event, then the Project Company shall take all such action it deems in good faith to be reasonable and appropriate under the circumstances. As promptly thereafter as is reasonable, the Project Company shall notify the Water Authority of the event at an emergency phone number supplied by the Water Authority, and the Project Company's response thereto. The cost of the Project Company's response measures shall be borne by the Project Company except to the extent the emergency event was caused by an Uncontrollable Circumstance, in which case the Water Authority shall bear the cost.

ANNUAL MANAGEMENT FEE .

Fee Calculation. The Water Authority shall pay the Project Company annually, as a Direct Payment made as part of the annual settlement provided for in "—Annual Settlement", a Management Fee equal to (1) the Monthly Delivered Water Units for the applicable Contract Year, multiplied by (2) the sum of (a) \$5.00 (Index Linked) and (b) an amount between zero and \$5.00 (Index Linked), determined by the Water Authority for the applicable Contract Year as an incentive payment for superior service and performance by the Project Company under the Water Purchase Agreement, based on the service and performance criteria set forth in "—Factors" below. The Water Authority's determination as to the level of any such incentive amount within such range shall be made in its discretion, without obligation of any kind, and shall be final when made.

Factors. In making its determination under clause (2) “—Fee Calculation”, the Water Authority intends to take into account the level of excellence demonstrated by the Project Company in: (1) maintaining Plant safety; (2) cooperating with the Water Authority in the Product Water daily ordering process; (3) invoicing and record keeping; (4) efficiently and amicably resolving operating and performance issues; (5) pro-actively addressing Product Water quality management issues; (6) maintaining effective communication with the Water Authority; (7) demonstrating responsiveness to Water Authority requests for information and assistance; (8) conducting tours and public outreach and communications; (9) keeping the appearance of the Project neat, clean and tidy; (10) performing its general environmental stewardship responsibilities; and (11) assisting the Water Authority in its relations with legislators, Member Agencies, and other Water Authority stakeholders generally.

HAZARDOUS SUBSTANCE MANAGEMENT DURING THE OPERATING PERIOD.

As between the parties, the Project Company shall be responsible for, and shall bear the risk and cost, of managing and disposing of Hazardous Substances during the Operating Period. The Project Company shall update as reasonably necessary: (1) the Hazardous Substance Management Program; and (2) the Response Plan.

GENERAL PERFORMANCE RESPONSIBILITIES.

Project Company Acknowledgment. The Project Company acknowledged that the Project will constitute: (1) a primary source of treated drinking water for conveyance to the Member Agencies and their customers through the Water Authority Distribution System; and (2) a critical part of the Water Authority’s emergency storage program, which consists of a system of reservoirs, interconnected pipelines and pumping stations designed to make water available to the San Diego region in the event of an interruption in imported water deliveries. The Project Company further acknowledged that the Water Authority, in meeting the water supply requirements of the Service Area, is providing an essential public service and, in complying with Applicable Law, will rely on the performance by the Project Company of the Contract Obligations. The parties acknowledged and agreed that this subsection shall not be construed to expand or otherwise modify the Project Company’s obligations under the Water Purchase Agreement.

Asset Management. The Water Authority: (1) has and shall retain full management responsibility for the Water Authority Distribution System; and (2) shall be responsible for the operation, maintenance, repair, replacement and management of the Product Water Pipeline Improvements upon completion of construction and testing in accordance with the Product Water Pipeline Improvements Design-Build Agreement. The Project Company shall be responsible, in accordance with the Water Purchase Agreement, for the operation, maintenance, repair, replacement and management of the Project.

Water Ownership. The Water Authority shall become the owner of all Product Water at the Product Water Delivery Point.

Risk of Loss of Product Water. The Project Company shall bear the risk of loss of Product Water at all locations up to the Product Water Delivery Point, beyond which the Water Authority shall bear the risk of loss.

Hydraulic Transients. The Project Company shall operate the Project in accordance with the Operating Protocol so as to avoid the occurrence of any sudden, significant changes in the Flow Rate and pressure of Product Water beyond the Product Water Delivery Point. The Project Company shall reimburse the Water Authority for the cost of making any repairs to the Product Water Pipeline Improvements and the Water Authority Improvements required to repair damage caused by a failure to comply with this subsection. Any such reimbursement shall be a Direct Payment.

Limitations on Project Company Rights. The Project Company shall not treat water other than Raw Seawater, and shall not use the Project for any purpose other than the purposes contemplated hereby or to serve or benefit any person other than the Water Authority. The Project Company shall not deliver Product Water to any person other than the Water Authority, and shall not impose a fee or charge on any person other than the Water Authority for the supply of Product Water. The only compensation to the Project Company for the supply of Product Water and for performing the Operating Work shall be the Monthly Water Purchase Payments and other amounts payable by the Water Authority under the Water Purchase Agreement.

PRODUCT WATER QUALITY GUARANTEE.

Applicable Law Limits. Except to the extent relieved for Uncontrollable Circumstances, the Project Company shall operate the Project so as to produce Product Water from Raw Seawater in compliance with the requirements of Applicable Law and the Water Purchase Agreement. In no event shall the Project Company deliver Product Water that is not in compliance with the requirements of Applicable Law.

Additional Product Water Quality Standards. In addition to its obligation to comply with the Product Water requirements imposed by Applicable Law as provided in “— Product Water Quality Guarantee - Applicable Law Limits” and except to the extent relieved for Uncontrollable Circumstances, the Project Company shall produce Product Water from Raw Seawater in compliance with the contract requirements set forth in the Water Purchase Agreement (the “Additional Product Water Quality Standards”). The Additional Product Water Quality Standards and the requirements in “— Product Water Quality Guarantee - Applicable Law Limits” shall collectively mean the “Product Water Quality Guarantee”.

Chlorine Residual and Chloramine/Ammonia Ratio. The Water Authority shall have the right to require the Project Company to alter the concentration limits for chlorine residual and chloramine/ammonia ratio set forth in the Water Purchase Agreement in order to meet the Water Authority’s requirements for Blended Water being conveyed to the Water Authority Distribution System, subject to the compensation adjustments set forth therein.

Sampling Locations for Determining Compliance With the Product Water Quality Guarantee. Compliance with the Product Water Quality Guarantee shall be measured at the Product Water Quality Sampling Locations.

Remedies for Breach of Product Water Quality Guarantee - Off- Specification Product Water. Except to the extent the Project Company is relieved due to Uncontrollable Circumstances, in the event the Project Company delivers any Off-Specification Product Water to the Water Authority, (1) each Unit of Off-Specification Water received by the Water Authority shall be deemed to constitute a Monthly Delivered Water Unit; (2) the Water Authority shall have the right in its discretion to impose a Deduction in an amount equal to the melded M&I treatment rate per Acre Foot of water that is surcharged by the Water Authority to the Member Agencies as in effect at the time the Deduction is imposed; (3) the Water Authority in its discretion may cease taking delivery of Product Water until the Project Company demonstrates to the Water Authority that appropriate measures have been taken so that Product Water received upon the resumption of deliveries will not constitute Off-Specification Product Water; and (4) the Water Authority shall further have the additional remedies set forth in “— Water Authority Remedies for Non-Compliance With Performance Guarantees”. Any Unit of Product Water available for delivery but not taken by the Water Authority pursuant to the exercise of its rights under this Section shall constitute neither a Monthly Delivered Water Unit, a Monthly Unexcused Demand Shortfall Unit, nor a Monthly Excused Supply or Demand Shortfall Unit.

Remedies for Breach of Product Water Quality Guarantee - Unacceptable Water. Except to the extent the Project Company is relieved due to Uncontrollable circumstances, in the event the Project Company delivers Unacceptable Water to the Water Authority: (1) each Unit of Unacceptable Water shall be deemed not to constitute a Monthly Delivered Water Unit; (2) the Water Authority shall have no obligation to compensate the Project Company for such Unit of Unacceptable Water; (3) the Water Authority shall have the right to bring an action for damages; and (4) the Water Authority shall further have the additional remedies set forth in “— Water Authority Remedies for Non-Compliance With Performance Guarantees”.

Boil Water Notices. In the event the CDPH requires the issuance of a “boil water” notice on the basis of the quality of Product Water delivered to the Water Authority: (1) the Project Company shall, if required by the Water Authority, terminate the Operating Service Agreement and enter into a replacement Operating Service Agreement in accordance with “—Project Contracts”, (2) the Water Authority may exercise its step-in rights pursuant to “Water Authority’s Temporary Step-In Rights”, (3) such notice shall constitute a Project Company Remediable Breach pursuant to “—Project Company Remediable Breach Defined”, and (4) the Water Authority shall have the further remedies specified herein, including those specified in “—Water Authority Remedies for Non-Compliance with Performance Guarantees”. If, at any time during the Term following the issuance of a first such boil water notice, the CDPH subsequently requires the issuance of a second boil water notice on the basis of the quality of Product Water delivered to the Water Authority, a Project Company Event of Default shall be deemed to have occurred and the Water Authority may pursue the remedies available under “—Remedies of the Parties and Water Authority Step-In Rights”, “—Project Company Events of Default”, and “—Termination”.

Reporting Off-Specification Product Water and Unacceptable Product Water. The Project Company shall report to the Water Authority the delivery to the Water Authority of any Off-Specification Product Water and Unacceptable Water immediately upon having actual knowledge of any such delivery.

Indemnity for Loss-and-Expense from Non-Complying Product Water. In the event that any Product Water delivered to the Product Water Delivery Point fails to comply with the Product Water Quality Guarantee, except to the extent such failure of compliance is caused by an Uncontrollable Circumstance, the Project Company shall indemnify, defend and hold harmless the Water Authority and the Water Authority Indemnitees in accordance with “—Project Company’s Obligation to Indemnify” Section from any Loss-and-Expense resulting from the supply of such non-complying Product Water. This indemnity shall extend to any liability resulting from property loss or damage or death or personal injury suffered or alleged to be suffered by any party from exposure to or as a result of using or consuming such noncomplying Product Water based on any theory of recovery, including theories of product liability, toxic tort or environmental impairment. The Loss-and-Expense relating to such liabilities to third parties to which the indemnity provided in this Section extends shall include any special, incidental, consequential, punitive and other similar damages awarded to such third parties, notwithstanding waivers contained with respect to such damages in “— No Special, Consequential or Punitive Damages”.

Change in Law Event Affecting Product Water. The parties acknowledged that a Change in Law Event may affect Product Water standards or impose more stringent requirements relating to equipment or processes than those established under the Water Purchase Agreement as of the Contract Date. In the event a Change in Law Event occurs, the Project Company shall not be entitled to performance relief or additional compensation under “—Change in Law Events and Other Uncontrollable Circumstances” unless: (1) such Change in Law Event imposes a regulatory standard or operating requirement with respect to any particular Product Water characteristic or parameter which is more stringent than the Contract Standards in effect as of the Contract Date applicable to such characteristic or parameter, or requires equipment or processes not then in place or practiced at the Plant; and (2) the Project Company is

unable, after taking all mitigation measures required under “— Uncontrollable Circumstances Generally” and “—General Duty to Mitigate” with respect to such a Change in Law Event, to avoid the necessity for such performance relief or additional compensation.

MAXIMUM ANNUAL SUPPLY COMMITMENT AND ADJUSTED ANNUAL SUPPLY COMMITMENT.

Maximum Annual Supply Commitment Defined. “The Maximum Annual Supply Commitment”, for the purposes of the Water Purchase Agreement, is 56,000 Acre Feet (prorated for any Contract Year of less than 365 days), modified as provided in “—Decrease in Maximum Annual Supply Commitment Based on Performance Test” to permit the Project Company to reduce its Product Water supply commitment to the Water Authority on an annual basis in the event of a “buy-down” of the Plant’s capacity by the EPC Contractor under the Plant EPC Contract. The purpose of establishing the Maximum Annual Supply Commitment is to provide the basis for determining the Maximum Monthly Supply Commitments pursuant to “Establishment”.

Decrease in Maximum Annual Supply Commitment Based on Performance Test. If the amount of Product Water produced by the Project Company during the Performance Test (on the basis of which Provisional Acceptance is established under the Water Purchase Agreement) is less than 4,800 Acre Feet, the Maximum Annual Supply Commitment shall be reduced to an amount equal to 56,000 Acre Feet, multiplied by a fraction, the numerator of which is the number of Acre Feet of Product Water produced during such Performance Test and the denominator of which is 4,800 Acre Feet (such fraction constituting the “Supply Commitment Reduction Percentage”). In no event shall the Maximum Annual Supply Commitment be less than 50,128 Acre Feet. No adjustment shall be made to the Maximum Annual Supply Commitment unless the Provisional Acceptance Conditions have been satisfied and the Commercial Operation Date has been established.

Scheduled Shutdown Hours. The Project Company may designate, in the Maximum Annual Supply Commitment schedule, up to 240 specific hours during the Contract Year during which the Plant may be shut down for scheduled maintenance (“Scheduled Shutdown Hours”). The Water Authority shall not demand, and the Project Company shall not be obligated to supply, Product Water during any Scheduled Shutdown Hour, as provided in “—Limitations on the Project Company’s Product Water Supply Obligations”. The designation of Scheduled Shutdown Hours shall not, however, serve to lessen the Maximum Annual Supply Commitment or any Maximum Monthly Supply Commitment, which shall be met during Operating Hours.

Cabrillo Shutdown Hours. The Project Company, upon 20 days advance notice, may cease Product Water production and delivery during any hour (up to a maximum of 110 hours in a Contract Year) in which such production and delivery is precluded by a shutdown of the Cabrillo Generating Facility (“Cabrillo Shutdown Hours”). The designation of Cabrillo Shutdown Hours shall not, however, serve to lessen the Maximum Annual Supply Commitment or any Maximum Monthly Supply Commitment, which shall be met during Operating Hours other than Cabrillo Shutdown Hours.

Adjusted Annual Supply Commitment. The Adjusted Annual Supply Commitment for a Contract Year shall be the sum of the Adjusted Monthly Supply Commitments for each Billing Period of the Contract Year.

MINIMUM ANNUAL DEMAND COMMITMENT .

Minimum Annual Demand Commitment Defined. The “Minimum Annual Demand Commitment”, for purposes of the Water Purchase Agreement, is 48,000 Acre-Feet (pro-rated for any

Contract Year of less than 365 days), except as otherwise provided in this Section. The purpose of the Minimum Annual Demand Commitment is to provide the basis for determining the Minimum Monthly Demand Commitment.

Decrease in Minimum Annual Demand Commitment. In the event the Maximum Annual Supply Commitment is decreased pursuant to “Decrease in Maximum Annual Supply Commitment Based on Performance Test”, the Water Authority shall have the right, in its discretion, to elect to reduce the Minimum Annual Demand Commitment by any number of Acre-Feet not in excess of an amount equal to the product of (1) the unadjusted Minimum Annual Demand Commitment, and (2) the Supply Commitment Reduction Percentage; provided, however, that in any event the Minimum Annual Demand Commitment shall be reduced at least to the extent necessary to account for any reduction in the daily maximum supply commitment made pursuant to “—Limitations on the Project Company’s Product Water Supply Obligations”.

Decrease to the Fixed Unit Price and the Operating Period Shortfall Payment Unit Price. Following the Water Authority’s election pursuant to “—Decrease in Minimum Annual Demand Commitment”, the Debt Service Charge for each Contract Year, the Equity Return Charge for each Contract Year, the Operating Period Shortfall Payment Unit Price for each Contract Year, the Fixed Operating Charge, and the Fixed Electricity Charge shall each be reduced, if necessary, by the same percentage amount such that the Fixed Annual Costs, when calculated at the revised Minimum Annual Demand Commitment shall be reduced by the same percentage as the Maximum Annual Supply Commitment has been reduced pursuant to Decrease in “—Maximum Annual Supply Commitment Based on Performance Test”.

MAXIMUM MONTHLY SUPPLY COMMITMENT AND ADJUSTED MONTHLY SUPPLY COMMITMENT .

Establishment. The Project Company shall establish for each Contract Year in cooperation with the Water Authority, not later than 60 days prior to the commencement of each Contract Year (or, for the first Contract Year, not later than 60 days prior to the Commercial Operation Date), the Maximum Monthly Supply Commitment for each Billing Period in the Contract Year. The Maximum Monthly Supply Commitment for each Billing Period shall be stated in Acre-Feet and shall be established such that the sum of the Maximum Monthly Supply Commitments for the Contract Year equals the Maximum Annual Supply Commitment.

Adjusted Monthly Supply Commitment Defined. The Adjusted Monthly Supply Commitment for a Billing Period, for purposes of the Water Purchase Agreement, shall be an amount equal to the lesser of (1) the Maximum Monthly Supply Commitment for such Billing Period, or (2) the Monthly Product Water Order for such Billing Period.

MINIMUM MONTHLY DEMAND COMMITMENT .

Establishment. The Water Authority shall establish for each Contract Year in cooperation with the Project Company, subsequent to the establishment by the Project Company of the Maximum Monthly Supply Commitment and not later than 30 days prior to the commencement of each Contract Year (or, for the first Contract Year, not later than 30 days prior to the Commercial Operation Date), the Minimum Monthly Demand Commitment for each Billing Period in the Contract Year. The Minimum Monthly Demand Commitment for each Billing Period shall be stated in Acre-Feet and shall be established such that (1) the Minimum Monthly Demand Commitment for a particular Billing Period does not exceed the Maximum Monthly Supply Commitment for the same Billing Period, and (2) the sum of the Minimum

Monthly Demand Commitments for the Contract Year equals the Minimum Annual Demand Commitment.

Water Authority Product Water Purchase Obligation. The Water Authority shall take delivery of and purchase the Minimum Monthly Demand Commitment of Product Water in the applicable Billing Period if and to the extent Product Water is produced and available for delivery by the Project Company in such volume, all subject to and in accordance with the terms and conditions of the Water Purchase Agreement. The Water Authority shall pay for Product Water by making Monthly Water Purchase Payments in accordance with “—Monthly Water Purchase Payments”.

PROJECTED ANNUAL DELIVERY SCHEDULES.

Projected Annual Delivery Schedules. During the Term, the Project Company and the Water Authority shall negotiate and establish a proposed Product Water production plan (the “Projected Annual Delivery Schedule”) for each Contract Year (commencing with the Contract Year in which the Commercial Operation Date occurs) setting forth the daily and monthly volumes of Product Water that the Project Company proposes to produce and deliver and the Water Authority proposes to take and purchase during each Billing Period of such Contract Year. The Projected Annual Delivery Schedule shall be prepared on an estimated basis not later than 365 days prior to the commencement of each such Contract Year, and on a definitive basis not later than 30 days prior to the commencement of each such Contract Year (or, for the first such Contract Year, not later than 30 days prior to the Commercial Operation Date). The Projected Annual Delivery Schedule (a) shall reflect the requirements of “—Limitations on the Project Company’s Product Water Supply Obligations”, (b) for any Billing Period, shall not (with respect to the definitive Projected Annual Delivery Schedule) project Product Water deliveries in volumes less than the applicable Minimum Monthly Demand Commitment or greater than the Maximum Monthly Supply Commitment, and (c) for any Contract Year, shall not project Product Water deliveries in volumes less than the Minimum Annual Demand Commitment or greater than the Maximum Annual Supply Commitment. The Project Company acknowledged that the Projected Annual Delivery Schedule will be incorporated into the Water Authority’s annual aqueduct operating plan. The Projected Annual Delivery Schedule shall take into account the following:

Downtime for Scheduled Maintenance, Repair and Replacement. Planned Project maintenance, repair and replacement, which shall be scheduled for and limited to the months of December, January, February and March (to the extent reasonably practicable), with complete Plant shutdowns limited to a maximum total of 240 hours during such four month period;

Water Authority Scheduled Maintenance. Planned shutdowns or partial outages of any part of the Water Authority Distribution System for scheduled maintenance, repair and replacement, which may limit the Water Authority’s ability to receive Product Water during the period of Water Authority shutdown;

Cabrillo Generating Facility Maintenance. Planned shutdowns of the Cabrillo Generating Facility;

Capital Modifications. The timing of any Capital Modification work to be performed during the Contract Year; and

Other Operating Considerations. Other considerations material to Project and Water Authority Distribution System operations.

Modifications by Mutual Agreement. The parties may at any time, by mutual agreement, modify the Projected Annual Delivery Schedule.

PLANNED AND ACTUAL DAILY DELIVERIES OF PRODUCT WATER .

Planned Daily Deliveries. The volume of Product Water planned to be delivered on each day of the Contract Year under the Projected Annual Delivery Schedule shall be the “Scheduled Daily Delivery Volume” applicable to such day. The daily deliveries of Product Water set forth in the Projected Annual Delivery Schedule shall be for planning purposes only. The Project Company shall actually deliver Product Water solely based on the specific demands for Product Water made by the Water Authority pursuant to this Section, and not on the basis of the Projected Annual Delivery Schedule.

Expected Firm Daily Demand Schedule. Not later than 4:00 PM on each day during the Operation Period, the Water Authority shall furnish the Project Company with an expected firm Product Water demand schedule for the following day (midnight to midnight). The demand schedule shall specify the Flow Rates for the entire 24-hour period and (subject to the limitations set forth in “Modified Firm Daily Demand Schedule and Allowable Ordinary Flow Rates”) may call for no more than two Flow Rate changes.

Modified Firm Daily Demand Schedule and Allowable Ordinary Flow Rates. The Water Authority shall have the right on any day to modify the expected firm Product Water Flow Rate demand schedule which was established on the prior day, subject to the following limitations: (1) no modification to the Flow Rate set forth in such demand schedule shall be required to take effect less than eight hours after the modification is requested; (2) the Flow Rate shall not change more than twice during any day, with a minimum of eight hours between consecutive Flow Rate changes; (3) there shall be no more than six changes in Flow Rates specified during any seven consecutive days; and (4) there shall be no more than 12 changes in Flow Rates specified during any 30 consecutive days. The Flow Rates permitted to be established by the Water Authority under “Expected Firm Daily Demand Schedule” and this Section shall constitute the “Allowable Ordinary Flow Rates”. The Water Authority shall have the right to establish Flow Rates other than Allowable Ordinary Flow Rates only as provided, and subject to the limitations set forth, in “— Flow Rate Limitations”, including particularly those limitations provided in “— Extraordinary Flow Rate Changes”.

Establishing the Firm Daily Demand Order. The “Firm Daily Demand Order”, for purposes of the Water Purchase Agreement, shall be the volume of Product Water demanded by the Water Authority based on the Flow Rates specified in the “day-before” projected firm Product Water demand schedule furnished by the Water Authority pursuant to “Expected Firm Daily Demand Schedule”, as adjusted by any “day-of” modifications thereto made by the Water Authority pursuant to “— Modified Firm Daily Demand Schedule”. The Water Authority and the Project Company, by mutual agreement from time to time and as appropriate, shall establish the means of communication by which (1) definitive Water Authority Product Water demands may be made, (2) definitive Project Company confirmations may be given, and (3) appropriate evidence thereof may be furnished. The right of the Water Authority to establish Flow Rates for the delivery of Product Water under this subsection is subject to the limitations set forth in “—Limitations on the Project Company’s Product Water Supply Obligations”.

Project Company’s Product Water Delivery Covenants. The Project Company shall use all reasonable efforts to produce and deliver Product Water to the Water Authority, and the Water Authority shall use all reasonable efforts to take and receive Product Water deliveries by the Project Company, at the specific Flow Rates established by the Water Authority in the Firm Daily Demand Order. The failure or inability of the Water Authority to take delivery of Product Water to any degree or for any reason shall not constitute a breach of the Water Purchase Agreement or the basis of a Water Authority Event of

Default. Without the express approval, given in advance, by the Water Authority in its discretion: (1) the Project Company shall not deliver Product Water to the Water Authority at a Flow Rate that is less than 95% nor greater than 105% of the specific Flow Rate demanded by the Water Authority in effect at any given time; and (2) the Project Company shall not deliver Product Water to the Water Authority in any Billing Period in volumes in excess of the Monthly Product Water Order for such Billing Period.

Limitations on the Project Company's Product Water Supply Obligations. The Project Company shall not be obligated to supply Product Water:(i) during any Scheduled Shutdown Hour or during any Cabrillo Shutdown Hour; (ii) on any day, in volumes in excess of 163 Acre Feet, multiplied by the Supply Commitment Reduction Percentage; (iii) on any day on which the average daily temperature of Raw Seawater is 14° centigrade or colder, in volumes in excess of 153 Acre-Feet, multiplied by the Supply Commitment Reduction Percentage; (iv) at Flow Rates other than those required under “– Flow Rate Limitations”; (v) in any Billing Period, in volumes in excess of the Maximum Monthly Supply Commitment for the Billing Period; (vi) in any Contract Year, in volumes in excess of the Maximum Annual Supply Commitment; (vii) in Three Pump Mode during any Supplemental High Pressure Pump Service Period, at any time a High Pressure Pump is out of service for any reason, provided that the Project Company is expediting repairs consistent with its duty to mitigate under “– Mitigation by the Project Company”; (viii) in Supplemental High Pressure Pump Mode, during any Supplemental High Pressure Pump Service Period, at any time the Supplemental High Pressure Pump is out of service for any reason, provided that the Project Company is in compliance with the Contract Standards and is expediting repairs consistent with its duty to mitigate under “– Mitigation by the Project Company”; and (ix) during any period not exceeding 24 hours in duration when the Project Company is installing or removing the Supplemental High Pressure Pump in response to a Water Authority request made pursuant to “– Supplemental High Pressure Pump”; except that the Project Company shall use all reasonable efforts to provide Product Water in excess of the limitations of this subsection (other than the limitation in item (iii)) when requested by the Water Authority if such Product Water can be provided while operating the Plant in accordance with Applicable Law, Good Management Practice and within its design limits. The Project Company shall be compensated, as a Direct Payment, for any additional costs of providing Product Water in the circumstances described in items (i) and (iv) above. The Project Company shall not be compensated for any additional costs of providing Product Water in the circumstances described in items (ii), (iii), (v) and (vi) above, as such costs have been taken into account in the pricing for Additional Product Water Units and Excess Product Water Units set forth in “–Monthly Water Purchase Payments”. In the circumstances described in item (vii) above, the Plant will not be capable of producing additional Product Water, and accordingly no additional costs will be incurred.

Supplemental High Pressure Pump. The Project Company shall procure and keep in storage at the Plant the 12 MGD-capacity Supplemental High Pressure water pump (the “Supplemental High Pressure Pump”) described in the Water Purchase Agreement. The purpose of the Supplemental High Pressure Pump is to give the Water Authority the option, during periods of low demand for treated water in the Water Authority Distribution System, to demand a Flow Rate lower than the minimum Flow Rate at which the Plant is capable of operating in the One Pump Mode. The Project Company shall maintain, and repair and replace as necessary, the Supplemental High Pressure Pump in accordance with the Contract Standards. Commencing at the end of the Second Operating Period and for the remainder of Term, the Water Authority shall have the right to direct the Project Company to remove the Supplemental High Pressure Pump from storage and install it in the Plant's process train for a single period (the “Supplemental High Pressure Pump Service Period”) not exceeding four months in length during each Contract Year. The Water Authority shall give the Project Company 21 days' definitive notice of its directive to install or remove from service the Supplemental High Pressure Pump, such installation and removal dates demarcating the beginning and the end of the Supplemental High Pressure Pump Service Period. The Project Company shall promptly notify the Water Authority of the beginning and of the end of any outage occurring with respect to any High Pressure Pump (including the Supplemental High

Pressure Pump) for any reason during a Supplemental High Pressure Pump Service Period. During any Supplemental High Pressure Pump Service Period, the Water Authority shall have the right to direct and redirect the Project Company to operate in any of the Operating Modes described in “—Operating Modes”, including Shutdown Mode.

Product Water Not Delivered or Received Due to Certain Uncontrollable Circumstances; Extension of Term. If an Uncontrollable Circumstance limits or precludes the Project Company from producing and delivering, or if a Product Water Purchase Relief Event limits or precludes the Water Authority from taking and receiving, Product Water as required by “—Project Company’s Product Water Delivery Covenants”, the volume of Product Water not delivered or received on account thereof shall be produced and delivered by the Project Company and taken and purchased by the Water Authority subsequent to such occurrence, based on the production capacity of the Plant, at a price per Unit equal to the sum of the Fixed Unit Price and the Variable Unit Price prevailing at the time of subsequent purchase or shall be deemed to be produced and delivered in accordance with the provisions of “—Excused Supply Shortfall Unit Tacking Account and Excused Demand Shortfall Unit Tracking Account” and “—Annual Tracking Account Reduction Charge”. The schedule for such subsequent deliveries, receipts and purchases shall be negotiated by the parties in developing and modifying the Projected Annual Delivery Schedules. The Term shall be extended for a period not to exceed three years after the original Expiration Date as and to the extent required to allow for all such subsequent purchases not completed as of the original Expiration Date, as such subsequent purchases are reflected in the balance of Units in the Excused Supply Shortfall Unit Tracking Account and the Excused Demand Shortfall Unit Tracking Account as of such unextended Expiration Date.

Metering Point for Determining Product Water Deliveries. The volume of Product Water delivered to the Water Authority shall be metered, for all purposes of the Water Purchase Agreement, by the Plant Flow Meter.

Product Water Demand and Supply Resulting in Excess Product Water Deliveries. The parties acknowledged and agreed that Excess Product Water Deliveries under the Water Purchase Agreement will result only if the Project Company agrees in its discretion, notwithstanding the limitations set forth in “—Limitations on the Project Company’s Product Water Supply Obligations”, to produce and deliver Product Water in response to Water Authority requests made from time to time in Firm Daily Demand Orders that result at the end of the Contract Year in Product Water deliveries which exceed the Maximum Annual Supply Commitment.

FLOW RATE LIMITATIONS .

Operating Modes. For the purposes of the Water Purchase Agreement: (i) “Three Pump Mode” shall mean the operation of the Plant (using three Standard High Pressure Pumps) to produce a Flow Rate between 74.4 CFS (+0% and -10%) and 83.7 CFS (the higher CFS amount to be multiplied by the Supply Commitment Reduction Percentage); (ii) “Two Pump Mode” shall mean the operation of the Plant (using two Standard high pressure pumps) to produce a Flow Rate between 49.6 CFS (+0% and -10%) and 62 CFS (+10% and -0%) (the higher CFS amount to be multiplied by the Supply Commitment Reduction Percentage); (iii) “One Pump Mode” shall mean the operation of the Plant (using one Standard high pressure pump) to produce a Flow Rate between 24.8 CFS (+0% and -10%) and 31 CFS (+10% and -0%) (the higher CFS amount to be multiplied by the Supply Commitment Reduction Percentage); (iv) Supplemental High Pressure Pump Mode shall mean the operation of the Plant (using the Supplemental High Pressure Pump) to provide a Flow Rate between 18.6 CFS and 21.67 CFS (v) “Shutdown Mode” shall mean the shutdown of the Plant; (vi) “Operating Mode” shall mean any of a Three Pump Mode, Two Pump Mode, One Pump Mode, Supplemental High Pressure Pump Mode and Shutdown Mode; and (vii) “Operating Mode Change” shall mean Water Authority-requested change in Flow Rate requiring the

Plant to switch from one Operating Mode to another. When the Plant is not operating in a Supplemental High Pressure Pump Service Period, the Water Authority shall not have the right to direct the Project Company to operate in the Supplemental High Pressure Mode.

First Operating Period. During the 60 day period commencing on the Commercial Operation Date (the “First Operating Period”), the Water Authority shall have the right to demand the delivery of Product Water only at Flow Rates in Three Pump Mode, subject to (1) “—Emergency Water Authority Distribution Events”, and (2) any Operating Mode Change Performance Test conducted during this period.

Second Operating Period. During the 60 day period commencing at the end of the First Operating Period (the “Second Operating Period”), the Water Authority shall have the right to demand the delivery of Product Water at any Flow Rate produced by any Operating Mode (other than the Supplemental High Pressure Pump Mode), subject to “—Extraordinary Flow Rate Changes” and provided that the Water Authority shall use reasonable efforts to order at least three Flow Rate changes which require an Operating Mode Change in each seven day period during the Second Operating Period. Such Operating Mode Changes shall be implemented at times acceptable to the Project Company and the Operating Service Provider.

Operating Mode Change Performance Test. The Project Company shall conduct the Operating Mode Change Performance Test prior to the end of the Second Operating Period as provided in the Water Purchase Agreement. During the Operating Mode Change Performance Test and any repeated test, the Product Water Quality Guarantee, the other Performance Guarantees, and the Water Authority’s rights and remedies with respect to any non-compliance therewith (including rights and remedies with respect to the delivery of Off-Specification Product Water and Unacceptable Product Water) shall apply. If the Project Company fails to pass the Operating Mode Change Performance Test prior to the end of the Second Operating Period, Product Water shall be deemed to be Off-Specification Product Water to the extent provided in the Water Purchase Agreement until the Project Company successfully passes a subsequent Operating Mode Change Performance Test (even if such Product Water meets the Product Water Quality Guarantee). The Water Authority may exercise any of its rights and remedies under the Water Purchase Agreement available upon the delivery of Off-Specification Product Water. Such rights and remedies include those set forth in “—Water Authority Remedies for Non-Compliance With Performance Guarantees”, including the right to require the Project Company to make necessary capital improvements, modifications, repairs and replacements at the cost and expense of the Project Company. The Project Company shall have the right to conduct the Operating Mode Change Performance Test as often as necessary to achieve passage, in coordination with Flow Rate Changes reasonably acceptable to the Water Authority.

Remaining Operating Period. Commencing at the end of the Second Operating Period and for the remainder of the Term, the Water Authority shall have the right to demand the delivery of Product Water at any Flow Rate produced by any Operating Mode, subject to the provisions of “—Planned and Actual Daily Deliveries of Product Water” and “—Extraordinary Flow Rate Changes”.

Extraordinary Flow Rate Changes. The Project Company shall use reasonable efforts to change the Flow Rate from the Flow Rate established by the Firm Daily Demand Order within the Allowable Ordinary Flow Rates to respond to the following (“Extraordinary Flow Rate Changes”):

Water Authority-Requested Extraordinary Flow Rate Changes. The Water Authority shall have the right, at any time and for any reason (including, without limitation, if a problem occurs with the Product Water Pipeline Improvements or the Water Authority Distribution

System), notwithstanding the subsections above, to demand an extraordinary change in the Flow Rates to any other newly designated Flow Rate. In such event, the following shall apply:

In the case of downward Flow Rate changes, the Project Company shall use reasonable efforts to reduce the volume of Product Water delivered at the Plant Flow Meter to the demanded Flow Rate within 30 minutes of the Water Authority's demand therefor and to reduce the volume of Product Water produced by the Plant to the requested Flow Rate within four hours of the Water Authority's demand, it being understood and agreed that the difference between the volume produced and the volume delivered shall be discharged into the Plant's discharge pipeline (and ultimately to the ocean).

In the case of the Water Authority's demand for upward Flow Rate changes, the Project Company shall use reasonable efforts to effectuate the requested Flow Rate change within four hours of the Water Authority's demand.

The Flow Rate designated under the Water Authority's demand for Extraordinary Flow Rate Changes shall be maintained until further notice from the Water Authority, at which time the ordinary procedures for establishing the Flow Rate shall again apply.

Emergency Water Authority Distribution System Events. If a problem occurs in the Product Water Pipeline Improvements or the Water Authority Distribution System (including the occurrence of a Product Water Purchase Relief Event), the Project Company shall, notwithstanding the above subsections, assist the Water Authority in responding to such problem by using all reasonable efforts to permit a necessary change in the Flow Rate. The Project Company shall be responsible for using all reasonable efforts to maintain the necessary Flow Rate changes until such time as the problem is resolved or the Water Authority issues a stop request.

Extraordinary Flow Rate Change Payments. The Water Authority shall compensate the Project Company for Extraordinary Flow Rate Changes as follows: (i) For each of the following Operating Mode Changes (or the reverse of any such changes) resulting from an Extraordinary Flow Rate Change pursuant to “—Extraordinary Flow Rate Changes”, the Water Authority shall pay the Project Company \$807 (Index-Linked): (a) three Pump Mode to Two Pump Mode; (b) two Pump Mode to One Pump Mode or Supplemental High Pressure Pump Mode; and (c) one Pump Mode or Supplemental High Pressure Pump Mode to Shutdown Mode. (ii) for each of the following Operating Mode Changes (or the reverse of any such changes) resulting from an Extraordinary Flow Rate Change pursuant to “—Extraordinary Flow Rate Changes”, the Water Authority shall pay the Project Company \$1,809 (Index-Linked); (a) three Pump Mode to One Pump Mode or Supplemental High Pressure Pump Mode; and (b) two Pump Mode to Shutdown Mode. (iii) for an Operating Mode Change of Three Pump Mode to Shutdown Mode (or the reverse) resulting from an Extraordinary Flow Rate Change pursuant to “—Extraordinary Flow Rate Changes”, the Water Authority shall pay the Project Company \$1,981 (Index-Linked). (iv) for an Operating Mode Change of One Pump Mode to Supplemental High Pressure Pump Mode (or the reverse of such change), no payment shall be required.

Limitations. The Project Company shall be under no obligation to make any Flow Rate changes pursuant to “—Extraordinary Flow Rate Changes” unless such changes can be made while operating the Plant in accordance with Applicable Law, Good Management Practice and within its design limits.

WATER AUTHORITY-DIRECTED CURTAILMENTS AND SHUTDOWNS.

General. The Project Company acknowledged that operating conditions in the Water Authority Distribution System as a whole may require the Water Authority to immediately curtail receipt of Product

Water, and that such conditions may therefore require the immediate curtailment or cessation of ordinary operations at the Plant. Such conditions may occur as a result of mechanical or structural failure within the Water Authority Distribution System, emergency conditions originating in the Water Authority Distribution System or other unexpected factors. The Project Company shall cooperate with the Water Authority during such conditions and shall curtail or cease operations at the Plant to the extent necessary to respond to such conditions immediately upon receipt by the Project Company's Contract Representative or the Chief Operator of such a directive by the Water Authority's Contract Representative. The issuance of any such directive shall constitute an Uncontrollable Circumstance. In responding to any curtailment or shutdown under this Section, the Project Company shall use reasonable efforts to meet the curtailed water delivery level and all of the other Performance Guarantees; provided, however, that the Project Company shall be under no obligation to do so unless such requirements can be met while operating the Plant in accordance with Applicable Law, Good Management Practice, and within its design limits. The Project Company shall resume operations of the Plant within 24 hours of receipt by the Project Company of a written resumption directive issued by the Water Authority's Contract Representative.

OPERATING PERIOD SHORTFALL PAYMENTS.

General. The Project Company shall pay Operating Period Shortfall Payments to the Water Authority, the Water Authority shall pay Monthly Operating Period Shortfall Restoration Payments to the Project Company, and the Project Company shall pay the Annual Operating Period Shortfall Payment True-Up Payment to the Water Authority in the circumstances and in the amounts set forth in this Section. The parties acknowledged that (1) under the Pipeline Installment Sale and Assignment Agreement, the Operating Period Shortfall Payments for the payment of the Pipeline Bonds and related costs have been assigned to the San Diego County Water Authority Financing Agency, and, in the Pipeline Loan Agreement, the San Diego County Water Authority Financing Agency has further assigned such right to the CPCFA, and the CPCFA has further assigned such right to the Pipeline Trustee under the Pipeline Indenture, and (2) the amount thereof that is due and payable (whether or not actually paid) shall reduce the Water Authority's Installment Payment obligations. Upon the discharge and satisfaction of the Water Authority's obligations under the Pipeline Installment Sale and Assignment Agreement, such assignment shall no longer be effective with respect to obligations of the Project Company to pay Operating Period Shortfall Payments coming due after the date of such discharge and the Project Company shall make any Operating Period Shortfall Payments that become due after such date to the Water Authority as Direct Payments. Notwithstanding the discharge and satisfaction of the Water Authority's obligations under the Pipeline Installment Sale and Assignment Agreement, the calculation of Operating Period Shortfall Payments shall remain unchanged, and neither Table 1.3 of the Water Purchase Agreement nor the definition of "Operating Period Shortfall Payment Unit Price" shall be modified as a result.

Operating Period Shortfall Payments. "Operating Period Shortfall Payments" shall consist of (1) Monthly Operating Period Shortfall Payments, and (2) any payments made by the Project Company to the Water Authority pursuant to Termination Operating Period Shortfall Payments.

Monthly Operating Period Shortfall Payments. The "Monthly Operating Period Shortfall Payment" for any Billing Period, for purposes of the Water Purchase Agreement, shall be the amount determined in this subsection.

Minimum Demand Progress Benchmark. The parties shall measure the Project Company's progress month to month in satisfying the Minimum Annual Demand Commitment as set forth in this paragraph and in the illustrative examples provided in the Water Purchase Agreement. Progress shall be measured by (a) the cumulative sum of Monthly Delivered Water Units, Monthly Unexcused Demand Shortfall Units and Monthly Unscheduled Outage Units for such Contract Year, minus (b) the cumulative

sum of the Minimum Monthly Demand Commitments for such Contract Year. Each such cumulative sum shall include all preceding Billing Periods in the Contract Year, plus the current Billing Period. A positive result shall represent a surplus in satisfying the Minimum Annual Demand Commitment. A negative result shall represent a shortfall in satisfying the Minimum Annual Demand Commitment.

Monthly Excused and Unexcused Supply Shortfall Units. The “Monthly Excused and Unexcused Supply Shortfall Units” for each Billing Period shall be the sum of Monthly Excused Supply Shortfall Units and Monthly Unexcused Supply Shortfall Units for such Billing Period.

Monthly Operating Period Shortfall Payment Units. “Monthly Operating Period Shortfall Payment Units” shall be determined in accordance with this paragraph. In any Billing Period in which Monthly Excused and Unexcused Supply Shortfall Units are incurred, the resulting amount of Monthly Operating Period Shortfall Units shall be determined as set forth in this paragraph. If the Minimum Demand Progress Benchmark for such Billing Period is zero or a positive amount, the Monthly Excused and Unexcused Supply Shortfall Units for such Billing Period shall not be deemed Monthly Operating Period Shortfall Payment Units. If the Minimum Demand Progress Benchmark for such Billing Period is a negative amount, the Monthly Excused and Unexcused Supply Shortfall Units for such Billing Period shall be deemed Monthly Operating Period Shortfall Payment Units, provided that the amount of Monthly Operating Period Shortfall Payment Units so deemed for such Billing Period shall be reduced as necessary so that the ending balance of the Monthly Operating Period Shortfall Payment Unit Tracking Account for such Billing Period shall not exceed the shortfall amount indicated by the Minimum Demand Progress Benchmark for such Billing Period.

Monthly Operating Period Shortfall Payments . In the event that in any Billing Period there are Monthly Operating Period Shortfall Payment Units, the Project Company shall pay to the Pipeline Trustee as assignee of the Water Authority an amount equal to the product of (1) the number of Monthly Operating Period Shortfall Payment Units for such Billing Period, and (2) the Operating Period Shortfall Payment Unit Price for such Contract Year (“Monthly Operating Period Shortfall Payments”).

Monthly Operating Period Shortfall Payment Unit Tracking Account. The Project Company shall establish and maintain a Monthly Operating Period Shortfall Payment Unit Tracking Account, in which it shall record and track the number of Monthly Operating Period Shortfall Payment Units for each Contract Year. The opening balance of the Monthly Operating Period Shortfall Payment Unit Tracking Account for the first Billing Period in each Contract Year shall be zero. Each Billing Period, the Monthly Operating Period Shortfall Payment Unit Tracking Account shall be (i) increased by the amount of Monthly Operating Period Shortfall Payment Units for such Billing Period and (ii) decreased by the amount of Monthly Operating Period Shortfall Restoration Payment Units for such Billing Period. The resulting balance of the Monthly Operating Period Shortfall Payment Unit Tracking Account shall be treated as the opening balance for the subsequent Billing Period, provided that there shall be no carry-over of a balance from Contract Year to Contract Year.

Monthly Operating Period Shortfall Restoration Payments. The Project Company shall have the opportunity to recover amounts it has paid as Monthly Operating Period Shortfall Payments during each Contract Year through Monthly Operating Period Shortfall Restoration Payments, and the Water Authority shall have the obligation to make Monthly Operating Period Shortfall Restoration Payments to the Project Company during each Contract Year, as described in this subsection. Any Monthly Operating Period Shortfall Restoration Payments shall be added to the Monthly Water Purchase Payment set forth in “—Monthly Water Purchase Payments”.

Monthly Operating Period Shortfall Restoration Payment Units. To the extent that the Monthly Operating Period Shortfall Payment Unit Tracking Account has a positive opening balance in any Billing

Period, the Project Company shall compare such opening balance with its cumulative shortfall in meeting its Annual Minimum Demand Requirement as quantified by the Minimum Demand Progress Benchmark. If the Minimum Demand Progress Benchmark for such Billing Period is zero or positive, the entire balance of the Monthly Operating Period Shortfall Payment Unit Tracking Account shall be deemed “Monthly Operating Period Shortfall Restoration Payment Units”. If the Minimum Demand Progress Benchmark for such Billing Period is negative, but the cumulative shortfall so represented is less than the opening balance Monthly Operating Period Shortfall Payment Unit Tracking Account, the amount by which the Monthly Operating Period Shortfall Payment Unit Tracking Account exceeds the Minimum Demand Progress Benchmark shall also be deemed “Monthly Operating Period Shortfall Restoration Payment Units”. If the Minimum Demand Progress Benchmark for such Billing Period is negative, and the cumulative shortfall so represented is equal to or greater than the opening balance of the Monthly Operating Period Shortfall Payment Unit Tracking Account, no Monthly Operating Period Shortfall Restoration Payment Units shall be designated for the Billing Period.

Monthly Operating Period Shortfall Restoration Payments. In the event that in any Billing Period there are Monthly Operating Period Shortfall Restoration Units, the Water Authority shall pay the Project Company an amount equal to the product of (a) the number of Monthly Operating Period Shortfall Restoration Payment Units for such Billing Period, and (b) the Operating Period Shortfall Payment Unit Price for such Contract Year (“Monthly Operating Period Shortfall Restoration Payments”).

Adjustments to the Monthly Operating Period Shortfall Payment Unit Tracking Account. The number of Units in each Billing Period that are deemed Monthly Operating Period Shortfall Restoration Payment Units shall be deducted from the opening balance of the Monthly Operating Period Shortfall Payment Unit Tracking Account for such Billing Period.

Termination Operating Period Shortfall Payments. If the Water Authority terminates the Water Purchase Agreement upon the occurrence of a Project Company Event of Default during any period in which an assignment of the Operating Period Shortfall Payments described in “—General” is effective, the Project Company shall be obligated to pay Monthly Operating Period Shortfall Payments in an amount equal to (1) one-twelfth, multiplied by (2) the dollar amount list in Table 1.3 of the Water Purchase Agreement under the heading “Annual Pipeline Bond Costs” for the applicable Contract Year until such time as the Pipeline Bonds are accelerated. Upon such an acceleration, the Project Company shall pay the Water Authority an amount equal to the sum of the amounts listed in Table 1.3 of the Water Purchase Agreement under the heading “Pipeline Bond Principal” from the Contract Year in which such an acceleration occurs through the last Contract Year listed in such Table, plus accrued and unpaid interest thereon and any related fees and expenses of the Collateral Agent, the Pipeline Trustee, the CPCFA and any Rating Service then rating the Pipeline Bonds. If the Water Authority terminates the Water Purchase Agreement upon the occurrence of a Project Company Event of Default during any period in which the assignment of the Operating Period Shortfall Payments described in “—General” is no longer effective, the Project Company shall pay the Water Authority an amount equal to the sum of the amounts listed in Table 1.3 of the Water Purchase Agreement under the heading “Pipeline Bond Principal” from the Contract Year in which such a termination occurs through the last Contract Year listed in such Table.

Annual Operating Period Shortfall Payment True-Up Payment. The Project Company shall make an Annual Operating Period Shortfall Payment True-Up Payment at the end of each Contract Year in the manner provided in this subsection. The Annual Operating Period Shortfall True-Up Payment is intended to compensate the Water Authority for any failure by the Project Company to make Additional Product Water Deliveries to the Water Authority in a Contract Year (if and to the extent any such Additional Product Water Deliveries are requested by the Water Authority hereunder), which compensation is in addition to the compensation payable by the Project Company pursuant to “—Monthly Operating Period

Shortfall Payments” (which compensation payable under “—Monthly Operating Period Shortfall Payments” is intended to compensate the Water Authority only for any failure by the Project Company to make Base Product Water Deliveries to the Water Authority in the same Contract Year).

Annual Unexcused Supply Shortfall Units Reduction. The Excess Product Water Deliveries for such Contract Year shall be applied to reduce the amount of Annual Unexcused Supply Shortfall Units for such Contract Year. The “Annual Unexcused Supply Shortfall Units Reduction” shall be the amount of such reduction.

Annual Excused Supply Shortfall Units Reduction. The sum of the Additional Product Water Deliveries for such Contract Year and any Excess Product Water Deliveries remaining after “—Annual Unexcused Supply Shortfall Units Reduction” above shall be applied to reduce the amount of Annual Excused Supply Shortfall Units for such Contract Year. The “Annual Excused Supply Shortfall Units Reduction” shall be the amount of such reduction.

Adjusted Annual Operating Period Shortfall Payment Units. The “Adjusted Annual Operating Period Shortfall Payment Units” shall be (a) the Adjusted Annual Supply Commitment for such Contract Year, minus the sum of the Monthly Delivered Water Units, Monthly Unexcused Demand Shortfall Units and Monthly Unscheduled Outage Units, minus (b) the Annual Unexcused Supply Shortfall Units Reduction, minus (c) the Annual Excused Supply Shortfall Units Reduction.

Annual Operating Period Shortfall Payment Target Amount. The “Annual Operating Period Shortfall Payment Target Amount” shall be (a) the Adjusted Annual Operating Period Shortfall Payment Units as determined in the preceding paragraph, times (b) the Annual Pipeline Bond Costs as set forth in Table 1.3 of the Water Purchase Agreement, divided (c) by the Adjusted Annual Supply Commitment. The Annual Operating Period Shortfall Payment Target Amount is understood by the parties to be the amount that is intended to be paid by the Project Company to the Water Authority, in consideration of the Project Company’s failure to fully satisfy its Adjusted Annual Supply Commitment.

Annual Operating Period Shortfall Payment True-Up Payment. The “Annual Operating Period Shortfall Payment True-Up Payment” shall be (a) the Annual Operating Period Shortfall Payment Target Amount, minus (b) the total amount of Monthly Operating Period Shortfall Payments paid by the Project Company during a Contract Year net of the total amount of Monthly Operating Period Shortfall Restoration Payments received by the Project Company during a Contract Year.

No Offset. The obligation of the Project Company to make any Annual Operating Period Shortfall Payment True-Up Payment is independent of the charges and credits on the basis of which the Monthly Water Purchase Payments are determined, and shall not be used to offset Monthly Water Purchase Payments.

Subordination. The Project Company shall be obligated to make Annual Operating Period Shortfall Payment True-Up Payments as a Direct Payment solely from amounts available for such purposes in the Distribution and Stabilization Fund established under the Collateral Trust Agreement and upon the terms and conditions set forth therein. The parties acknowledge, accordingly, that (1) the right of the Water Authority to receive Annual Operating Period Shortfall Payment True-Up Payments is subordinate to the right of the holders of the Permitted Debt to receive debt service payments, and (2) the right of the Project Company to receive distributions is subordinate to the right of the Water Authority to receive Annual Operating Period Shortfall Payment True-Up Payments. Any Annual Operating Period Shortfall Payment True-Up Payment that is due to the Water Authority with respect to a Contract Year and not paid within 30 days following the end of such Contract Year shall accrue interest until paid in accordance with “—Interest on Overdue Amounts”.

Operating Period Shortfall Payment Statement of Account. The Project Company, concurrently with the delivery to the Water Authority of its Monthly Water Purchase Payment invoice for each Billing Period pursuant to “—Invoicing and Monthly Water Purchase Payment Due Date”, shall deliver a separate statement of account with respect to Operating Period Shortfall Payments (the “Operating Period Shortfall Payment Statement of Account”). The Operating Period Shortfall Payment Statement of Account shall set forth all data and calculations relevant to the determination of any Operating Period Shortfall Payment due with respect to the Billing Period, and annually with respect to any Annual Operating Period Shortfall Payment True-Up Payment.

Water Authority Review and Determination. The Water Authority shall promptly review the statements of accounts submitted by the Project Company pursuant to “—Operating Period Shortfall Payment Statement of Account” and determine whether to confirm or dispute and revise the statement. Copies of the Operating Period Shortfall Payment Statement of Account as confirmed or revised by the Water Authority (accompanied by a description of the basis of any revision) shall be delivered to the Project Company, the Collateral Agent and the Pipeline Trustee within 10 Business Days following receipt by the Water Authority of the Project Company’s original statement. The Project Company shall pay the amount of the Operating Period Shortfall Payment and the Annual Operating Period Shortfall Payment True-Up Payment shall be established based on the amounts set forth in the Water Authority’s confirmed or revised Operating Period Shortfall Payment Statement of Account, pending confirmation or further revision pursuant to the procedures set forth in “—Dispute Resolution” in the event the Project Company disputes the Water Authority’s determination.

Non-Payment During the Assignment Period. During any period in which the assignment of the Operating Period Shortfall Payments described in “—General” is effective, any failure by the Project Company to timely make an Operating Period Shortfall Payment shall not be a breach of the Water Purchase Agreement unless and until there are insufficient amounts available to the Pipeline Trustee to pay debt service on the Pipeline Bonds as a result of (1) an accumulation of all such failures by the Project Company to make Operating Period Shortfall Payments, and (2) the unavailability of other amounts in the debt service reserve fund or in other funds for such debt service payment purposes. The amount of any such Operating Period Shortfall Payment shall not be a Deduction or otherwise constitute an offset against the Monthly Water Purchase Payments. To the extent any Operating Period Shortfall Payment is not timely made, the Project Company shall make such payment as soon as funds are available for such payment under the terms of the Collateral Trust Agreement.

Non-Payment Following the Assignment Period. During any period in which the assignment of the Operating Period Shortfall Payments described in “—General” is no longer effective, any failure by the Project Company to make an Operating Period Shortfall Payment may be enforced directly by the Water Authority for its own account, but only at such time, to such extent and following such procedures as the Pipeline Trustee would have been able to exercise remedies under the Pipeline Indenture for a payment default with respect to the Pipeline Bonds arising out of the Project Company’s failure to pay such Operating Period Shortfall Payments had such Pipeline Bonds not been discharged and satisfied.

Adjustments to the Operating Period Shortfall Payment Unit Price Due to the Issuance of Additional Pipeline Bonds. Upon the issuance of any Additional Pipeline Bonds, the amounts set forth under each heading in Table 1.3 of the Water Purchase Agreement, including the calculation of the Operating Period Shortfall Unit Price, shall be updated to reflect such issuance. The parties shall document the revised Table 1.3 of the Water Purchase Agreement in a Contract Administration Memorandum. The written consent of the Project Company shall be required prior to the issuance of Additional Pipeline Bonds that would increase the calculation of the Operating Period Shortfall Unit Price.

DROUGHT SHORTFALL PAYMENTS.

If in any Billing Period (1) the Water Authority has activated Stage 2 (Supply Enhancement) of its formally promulgated water shortage management and drought response plan, and (2) an amount equal to the sum of the Monthly Delivered Water Units, the Monthly Excused Supply or Demand Shortfall Units, the Monthly Unexcused Demand Shortfall Units and the Monthly Unscheduled Outage Units is less than 90% of the Adjusted Monthly Supply Commitment for such Billing Period, the Project Company shall make a payment to the Water Authority. Such payment (the “Drought Shortfall Payment”) shall be an amount equal to (a) the number of Units of the delivery shortfall as so calculated, multiplied by (b) the Equity Return Charge. In the event such Stage 2 activation is effective for a portion of any month, the amount of the Drought Shortfall Payment shall be prorated based on the number of days of such effectiveness and the total number of days in the Billing Period. Product Water deliveries in any other Billing Period in excess of the maximum monthly supply commitment for such other Billing Period shall not be taken into account in making determinations with respect to Drought Shortfall Payments with respect to Billing Periods in which delivery shortfalls (as so calculated) occur. The Drought Shortfall Payments are additive to the Operating Period Shortfall Payments, are not pledged under the Pipeline Installment Payment and Assignment Agreement, and constitute Direct Payments.

RAW SEAWATER QUALITY AND UNCONTROLLABLE CIRCUMSTANCES.

Relief Generally. The Project Company shall be entitled to relief from the Performance Guarantees and its other performance obligations hereunder (but not to compensation relief except as provided in “—Raw Seawater Quality-Contamination” on account of variations in the nature, condition or quality of Raw Seawater only as and to the extent set forth in this Section.

Raw Seawater Quality-Specified Parameters. The Project Company shall not be entitled to relief under this Section on account of Raw Seawater quality conditions so long as concentration levels or characteristics of any Raw Seawater quality parameter which is listed among the Specified Raw Seawater Quality Parameters are within the applicable range set forth in Table 8-4 of the Water Purchase Agreement. If the concentration levels or characteristics of any such Raw Seawater quality parameter are outside the applicable parameter range, however, the Project Company shall have the right to assert the occurrence of an Uncontrollable Circumstance and to claim performance relief (but not compensation relief), based thereon in accordance with the requirements of the Water Purchase Agreement.

Raw Seawater Quality-Unspecified Parameters. The Project Company shall not be entitled to assert the occurrence of an Uncontrollable Circumstance if the concentration levels or characteristics of any Raw Seawater quality parameter which is not specifically listed among the Specified Raw Seawater Quality Parameters vary at any time during the Term so as to affect the ability of the Project Company to successfully achieve Provisional Acceptance, to meet the Performance Guarantees or otherwise to perform the Construction Work or the Operating Work or increase the cost thereof to the Project Company, and the Project Company shall not be entitled to any relief on account thereof; provided, however, that the Project Company may assert the occurrence of an Uncontrollable Circumstance and shall be entitled to performance relief on account thereof (but not to an adjustment to the Unit Price or other compensation relief) if the concentration levels or characteristics in any such unlisted parameter pose a threat to health or safety or result in the Project Company being required by a Governmental Body to reduce or cease Plant operations.

“Red Tide” Algae Blooms. The parties acknowledged that, notwithstanding the fact that “red tide” algae is not listed among the Specified Raw Seawater Quality Parameters, the Project Company shall nonetheless be entitled to relief based on the occurrence of an Uncontrollable Circumstance only as and to the extent specified in “—Raw Seawater Quality - Specified Parameters” if a “red tide” algae

bloom occurs that causes the TSS, TOC, turbidity or any other listed Raw Seawater Quality Parameter to be outside the applicable parameter range.

Raw Seawater Quality-Contamination. The Project Company may assert the occurrence of an Uncontrollable Circumstance, and shall be entitled to schedule, performance and compensation relief on account thereof as and to the extent provided in “—Other Uncontrollable Circumstances”, if a spill, release, leak or other similar significant event not caused by Project Company Fault takes place which introduces contaminants (other than contaminants which are listed among the Specified Raw Seawater Quality Parameters) into the Raw Seawater in concentrations which materially and adversely affect the ability of the Project Company to meet the Performance Guarantees or perform the Operating Work, or materially increase the cost thereof to the Project Company. If such an event occurs during the Performance Test, the compensation relief entitled to the Project Company pursuant to this subsection shall be limited to that set forth in the Water Purchase Agreement.

Claim Requirements. In order to assert an Uncontrollable Circumstance claim under this Section based on Raw Seawater quality conditions, the Project Company, in addition to following the generally applicable procedures set forth in “—Uncontrollable Circumstance Procedures”, shall demonstrate the specific manner in which such conditions meet the criteria for relief set forth in the definition of an Uncontrollable Circumstance and in the Water Purchase Agreement, and the specific manner in which it mitigated the effect of the occurrence pursuant to “ — General Duty to Mitigate”.

Effect on Water Authority Obligations. Nothing in this Section shall obligate the Water Authority to accept or purchase Unacceptable Water.

WATER AUTHORITY REMEDIES FOR NON-COMPLIANCE WITH PERFORMANCE GUARANTEES.

Remedies. If the Project Company fails to comply with any Performance Guarantee and is not excused from performance as a result of an Uncontrollable Circumstance, the Project Company shall, without relief under any other Performance Guarantee, and in addition to the payment of Deductions and any other remedy provided herein, allowed by Applicable Law or required by a Governmental Body: (i) notify the Water Authority promptly (and in any event not later than 24 hours) of the Project Company’s having knowledge of any such non-compliance; (ii) provide the Water Authority promptly (and in any event not later than 24 hours) with copies of any notices sent to or received from the EPA, the CDPH or any other Governmental Body having regulatory jurisdiction with respect to any violations of Applicable Law; (iii) pay any other resulting fines, levies, assessments, impositions, penalties or other charges resulting therefrom; (iv) take any commercially reasonable action (including making all capital investments, improvements or modifications or repairs, replacements and operating and management practices changes) necessary in order to comply with such Performance Guarantee, continue or resume performance hereunder and eliminate the cause of, and avoid or prevent recurrences of non-compliance with such Performance Guarantee; and (v) assist the Water Authority with all public relations matters necessary to adequately address any public concern caused by such non-compliance, including, but not limited to, preparation of press releases, attendance at press conferences, and participation in public information sessions and meetings.

Example of Water Authority Remedies. As an example of the actions to be taken by the Project Company under item (iv) of “—Water Authority Remedies for Non-Compliance with Performance Guarantees – Remedies”, if the capacity of the structures and equipment installed by the Project Company for the pretreatment or desalination of Raw Seawater persistently proves to be inadequate to meet the Contract Standards, the Project Company shall be obligated to install additional membranes or implement other measures, which may include the construction of additional pretreatment or membrane facilities and

equipment, at its sole cost and expense, in order to prevent the recurrence of such failures, regardless of their magnitude. The Project Company shall consult with the Water Authority regarding the appropriate remedy and the Water Authority shall not unreasonably object to the Project Company's chosen method of remedy so long as the Project Company's chosen method of remedy is consistent with the Water Purchase Agreement.

Performance Testing. In the event that the Project Company fails to meet the Performance Guarantees for six Billing Periods in a row, the Water Authority may require a performance test to be conducted by the Project Company, at the Water Authority's cost and expense, to determine the cause of such failure; provided, however, that such test shall not materially and adversely affect the Project or the Project Company's performance of (or cost of the performance of) the Contract Obligations. If the cause of such failure to meet the Performance Guarantees is determined, the Project Company shall use reasonable efforts to make all necessary repairs and replacements, including major repairs and replacements, or capital investments, improvements or modifications.

SERVICE COORDINATION .

At least 60 days prior to the commencement of each Contract Year following the Commercial Operation Date, the Project Company shall update, subject to the approval of the Water Authority, the Operating Protocol consistent with the Contract Standards. In the event the Water Authority fails to respond to a request by the Project Company for a proposed update to the Operating Protocol, the existing Operating Protocol shall remain effective until the Water Authority's approval is received. The Operating Protocol shall set forth all practices, procedures and protocols which are necessary or useful in coordinating the activities of the parties hereunder, including particularly the establishment and modification from time to time of the Water Authority's demands for Product Water, all operational and informational communications between the Water Authority and the Project Company, and all data and information required to demonstrate the extent to which the Plant is being operated in compliance with the Performance Guarantees. The Operating Protocol also shall provide for such matters as the parties may mutually deem necessary or desirable in the implementation of the Water Purchase Agreement. The Water Authority's Contract Representative and the Chief Operator shall be responsible for coordinating all matters relating to the Operating Protocol.

METERING AND TESTING .

Testing. The Project Company shall conduct all tests of Raw Seawater and Product Water in accordance with the Contract Standards and in accordance with the Operating Protocol. The tests shall be made at State-certified laboratories to the extent required by the Contract Standards and shall be conducted at the Project Company's sole cost and expense, except to the extent such tests are required by a Change in Law Event or any other Uncontrollable Circumstances and are not required under the terms thereof as of the Contract Date. All Raw Seawater and Product Water sampling and testing for contract performance shall be conducted at the testing locations identified in the testing and sampling standards set forth in the Water Purchase Agreement and the other Contract Standards.

Metering

Raw Seawater Meter. In accordance with the Water Purchase Agreement, the Project Company shall maintain in good working order and repair, and replace when necessary, a flow metering device capable of metering the daily total volume of Raw Seawater received at the Plant at the Raw Seawater Delivery Point.

Plant Flow Meter. The Project Company shall be design, calibrate, test, and install the Plant Flow Meter in accordance with Attachment 3C, Part 1, of the Water Purchase Agreement. After Provisional Acceptance, the Water Authority shall be responsible for the routine servicing and maintenance of the Plant Flow Meter and appurtenant field mounted instruments to the extent set forth in the Water Purchase Agreement. The Project Company shall be responsible for (i) the cost of materials and replacement parts required for the Water Authority's responsibilities set forth in this clause and (ii) all other component replacement and maintenance and repair of the Plant Flow Meter, including those which may be characterized as 'major' or 'capital' in nature. The Water Authority shall provide reasonable notice to the Project Company for, and the Project Company shall provide to the Water Authority, access to the Plant Flow Meter to perform its responsibilities pursuant to this clause. The Water Authority shall make reasonable efforts not to interfere with the Project Company's performance of its Contract Obligations. The Project Company shall have the right to observe any activities performed by the Water Authority pursuant to this clause.

Project Company Estimates During Incapacitation or Testing. To the extent any metering device is incapacitated or is being tested, the Project Company shall estimate as accurately as practicable the data required by the Project Company to perform the Contract Services. This estimate and methodology shall, with the Water Authority's approval (which shall not be unreasonably withheld), be used as the basis for determining the operating data required hereunder during the outage.

RELEASES, LEAKS AND SPILLS.

Unauthorized Releases. The Project Company shall operate the Plant in such a manner that Raw Seawater, Product Water, Plant By-Products or chemicals will not contaminate, or be released, leaked or spilled on or into, or discharged to the environment, other than as permitted by the most stringent of any of the Contract Standards.

Notification and Reporting. The Project Company shall be responsible for fulfilling all notification and reporting requirements established by Applicable Law related to any unauthorized release of Raw Seawater, Product Water, Plant By-Products or chemicals into the environment from or in connection with its operation and management of the Plant. The Project Company shall prepare a memorandum evidencing such notification and reporting and provide copies thereof to the Water Authority, along with any documents provided to the relevant Governmental Body regarding the release.

Site Assessment Upon Termination or Expiration. The Water Authority may conduct an assessment of the Plant Site upon the Water Authority's election to purchase the Project Assets pursuant to "—Project Assets Purchase Option During the Term", "—Project Assets Purchase Option in the Event of Unavailability of Financing" or "—Project Assets Purchase Option at the Expiration Date" to determine whether any Raw Seawater, Product Water, Plant By-Products or chemicals have been released, leaked or spilled on or into, or discharged into the environment in violation of this Section. The Project Company shall be responsible for the remediation of any such release discovered by the Water Authority through any such assessment of the Plant Site in the manner and to the extent provided in "—Cleanup and Costs.

Cleanup and Costs. The Project Company shall coordinate with the Water Authority and all appropriate Governmental Bodies in effectuating the prompt remediation of any unauthorized release. The Project Company shall, in the most expeditious manner possible under the circumstances, cause any Raw Seawater, Product Water, Plant By-Products or chemicals released without authorization to be cleaned up or remediated in accordance with Applicable Law. All costs associated with performing any such clean up and remediation measures, including any fines, assessments, penalties or damages resulting from the unauthorized release, shall be borne by the Project Company, except to the extent the

unauthorized release of Raw Seawater, Product Water, Plant By-Products or chemicals resulted from an Uncontrollable Circumstance, in which case the appropriate portion of such costs shall be borne by the Water Authority on a reimbursable basis.

PROJECT COMPANY DISPOSAL OF RESIDUALS .

Residuals Management. The Project Company shall locate an Acceptable Disposal Site and shall make all necessary arrangements with the owner or operator thereof for the disposal of all Residuals during the Term of the Water Purchase Agreement. The Project Company shall collect, segregate, treat and store Residuals from treatment operations at the Plant in accordance with Applicable Law. The Project Company shall transport all Residuals to an Acceptable Disposal Site in a safe and environmentally sound manner and in accordance with Applicable Law. All cost and expense of Residuals disposal shall be borne by the Project Company.

Acceptable Disposal Site. An “Acceptable Disposal Site”, as used herein, means either a sanitary landfill or other waste disposal or management facility, which: (i) is located in the United States; (ii) does not appear on any federal or state list of sites, such as but not limited to the National Priority List or the Comprehensive Environmental Response, Compensation, and Liability Information System (CERCLIS) database maintained under CERCLA, maintained for the purpose of designating landfills which are reasonably expected to require remediation on account of the release or threat of release of Hazardous Substances; and (iii) is being operated at the time of disposal or delivery in accordance with Applicable Law, as evidenced by the absence of any significant regulatory sanctions or any significant enforcement actions with respect to material environmental matters.

Transportation Operations. In the event of a release, spill, leak or loss of Residuals during transfer or transit within the Project Company’s control or responsibility or under its supervision, the Project Company shall immediately arrange for the clean-up of the material and transportation to an Acceptable Disposal Site, and shall pay any resulting fines, assessments, penalties or damages assessed against the Project Company.

Acceptable Disposal Site Information. The Project Company shall keep and maintain such logs, records, manifests, bills of lading or other documents pertaining to the Residuals as are necessary or appropriate to comply with Governmental Approvals and to monitor and confirm compliance by the Project Company with the requirements of this Section, and shall make available for review and copying by the Water Authority, upon request, copies of all weights and measures data and information relating to Residuals quantities generated and disposed of under the Water Purchase Agreement.

Indemnity. The Project Company shall indemnify, defend and hold harmless the Water Authority and the Water Authority Indemnitees in accordance with “—Project Company’s Obligation to Indemnify” from all Loss-and-Expense resulting from the generation, processing, transportation or disposal of Residuals, including Hazardous Residuals.

PROJECT COMPANY DISPOSAL OF CONCENTRATE DISCHARGE .

The Project Company shall manage all Concentrate Discharge produced at the Plant and the Plant Site during the Term in accordance with Applicable Law.

ADMINISTRATIVE OBLIGATIONS .

Except to the extent excused by Uncontrollable Circumstances, the Water Authority shall have the right to require the Project Company to make a Direct Payment to the Water Authority in the amount

provided in this Section for failure to perform the following administrative obligations: (i) report any material violation of any Governmental Approval or Applicable Law as required by “—Periodic Reports”; (ii) respond to a written request for information related to the Water Purchase Agreement made by the Contract Administrator and designated as a “priority request” within three business days as required by “—Authority of Water Authority Representative”; (iii) respond to complaints and communications received by the Project Company as required by “—Complaints and Communications”; (iv) report complaints or communications to the Water Authority as required by “—Complaints and Communications”; (v) attend Water Authority meetings, as reasonably requested, with advance notice from the Water Authority; (vi) provide the Water Authority with any report, record, logs or other document required under the Water Purchase Agreement on time; (vii) respond to alarms at the Plant as required under the Water Purchase Agreement; (viii) provide any plan, proposal, report or other deliverable required under the Water Purchase Agreement with respect to Uncontrollable Circumstances or any regulatory deadline agreed to by the parties thereto; (ix) properly sample, test or report the results thereof as required by Applicable Law or by the Water Purchase Agreement; and (x) mitigate noise complaints as required by “—Complaints and Communications”.

The amount of such Direct Payment shall be \$500 (Index Linked) per occurrence for the Project Company’s failure to comply with the administrative obligations set forth above (an occurrence being deemed to have taken place where, in any Contract Year, there are three instances of non-compliance for the same obligation or three instances of non-compliance for different obligations). The Project Company shall have the right to discuss with the Water Authority any such occurrence prior to being obligated to make any such Direct Payment.

MAINTENANCE, REPAIR AND REPLACEMENT GENERALLY .

Ordinary Maintenance, Repair and Replacements. The Project Company shall perform all normal and ordinary maintenance of the machinery, equipment structures, improvements and all other property constituting the Project, shall keep the Project in good working order, condition and repair, in a neat and orderly condition and in accordance with the Contract Standards, and shall maintain the aesthetic quality of the Project as originally constructed and in accordance with the Design Requirements. The Project Company shall provide or make provisions for all labor, materials, supplies, equipment, spare parts, and services which are necessary for the normal and ordinary maintenance of the Project and shall conduct predictive, preventive and corrective maintenance of the Project as required by the Contract Standards. The Project Company shall keep maintenance logs in accordance with the maintenance, repair and replacement plan set forth in the Water Purchase Agreement.

Major Maintenance, Repairs and Replacements. The Project Company shall perform all major maintenance, repair and replacement of the machinery, equipment, structures, improvements and all other property constituting the Project during the Term of the Water Purchase Agreement required under the Contract Standards, including all maintenance, repair and replacement which may be characterized as “major” or “capital” in nature. The obligations of the Project Company under the Water Purchase Agreement are intended to assure that the Project is fully, properly and regularly maintained, repaired and replaced in order to preserve its long-term reliability, durability and efficiency.

Repair and Maintenance of Plant Site. The Project Company, in accordance with the Contract Standards, shall keep the grounds of the Plant Site in a neat and orderly condition (including the cleanup of litter and debris on a daily basis or more frequently as required). The Project Company shall also maintain and repair all Plant Site signage, fencing and other security systems. In addition, the Project Company shall provide all landscaping services for the Plant Site, including the replacement of all dead or dying plants in the manner provided in the Water Purchase Agreement, and shall service and maintain the on-site irrigation system in compliance with the Precise Development Plan.

MAINTENANCE, REPAIR AND REPLACEMENT PLAN AND MAINTENANCE, REPAIR AND REPLACEMENT SCHEDULE.

Maintenance, Repair and Replacement Plan. The Water Purchase Agreement contains requirements for preparing the Maintenance, Repair and Replacement Plan. The Maintenance, Repair and Replacement Plan is intended to establish a minimum standard by which to measure the Project Company's performance of its ongoing maintenance, repair and replacement obligations hereunder, and to assure that no material deferred or sub-standard maintenance, repair or replacement occurs. Within 90 days following the Commercial Operation Date, the Project Company shall incorporate the Maintenance, Repair and Replacement Plan into the Electronic Operation and Maintenance Manual. The Project Company shall adhere to these plans as incorporated in the Electronic Operation and Maintenance Manual, except where it can demonstrate to the Water Authority that changes are reasonable under Good Management Practice. The timing and extent of maintenance, repair and replacement activities performed by the Project Company under the Water Purchase Agreement with respect to the Project, taken as a whole, shall equal or exceed the standard set for those activities by the Water Purchase Agreement, as incorporated in the Electronic Operation and Maintenance Manual. The Project Company shall also perform any additional maintenance, repair and replacement work which is necessary in order to comply with the Contract Standards.

Maintenance, Repair and Replacement Schedule. The Water Purchase Agreement sets forth the requirements for major equipment repair and replacement activities which would be required to be performed by the Project Company over the Term thereof in order to achieve the standard of overall Project maintenance and repair for the proper operability, durability and reliability of the Project in accordance with the Contract Standards. Without limiting any of the Project Company's obligations under this Section, the Project Company shall make and complete all major equipment repairs and replacements which are necessary to achieve such standard of repair and replacement by performing maintenance, repair and replacement in accordance with the Maintenance, Repair and Replacement Schedule and the Reverse Osmosis System Replacement Schedule, as such plan and schedules may be altered or amended pursuant to this subsection. Downtime for scheduled maintenance, repair and component replacement shall, to the extent practicable, be scheduled for the months of December, January, February and March. The parties acknowledged that, in light of the long term nature of the Water Purchase Agreement and the practical limitations on predicting with specificity the useful life of any particular asset, it may be appropriate from time to time to alter the Maintenance, Repair and Replacement Schedule and the Reverse Osmosis System Replacement Schedule. Accordingly, the Project Company shall have the right to deviate from the Maintenance, Repair and Replacement Schedule and the Reverse Osmosis System Replacement Schedule at any time during the Term, provided that the Project Company provides the Water Authority with a reasonable justification in advance for such deviation and that such deviation shall be consistent with the requirements set forth in the Water Purchase Agreement. Any alterations to the Maintenance, Repair and Replacement Schedule or the Reverse Osmosis System Replacement Schedule shall be reflected in a Contract Administration Memorandum. The Project Company shall coordinate with the Water Authority with respect to any unscheduled or unanticipated maintenance or repair which would reasonably lead to failure to comply with the Contract Obligations.

PLANT EVALUATIONS.

Asset Registry. The Project Company shall, prior to the Commercial Operation Date, photograph, video (to the extent reasonably accessible) and prepare an itemized inventory of all material property constituting the Plant, including records of assets originally installed, manufacturer and model number, identification number and, to the extent available, original cost data (the "Asset Registry"). The Asset Registry shall be prepared in accordance with the Water Purchase Agreement based on information and data collected in achieving Mechanical Completion, and shall reflect, based on the Construction Price and

the Design Requirements, the condition, functionality and value of the Plant as originally constructed by the Project Company under the Water Purchase Agreement. The purpose of the Asset Registry shall be to establish an informational baseline for determining compliance by the Project Company with its maintenance, repair and replacement obligations under the Water Purchase Agreement. The Asset Registry shall be kept in a secure environment at a location other than the Plant Site. The Project Company shall provide an electronic copy of the Asset Registry to the Water Authority in a form reasonably acceptable to the Water Authority. The Asset Registry (except the photographs and video components thereof) shall be annually updated by the Project Company as required by the Water Purchase Agreement, and reflected in a report that is separate from the annual Operations and Maintenance Reports prepared pursuant to “—Annual Operations and Maintenance Reports”.

Final Evaluation of the Plant. Within 15 days after the Water Authority has delivered its notice pursuant to “—Notice of Intent Required for Certain Purchase Options” of its intent to exercise its Project Assets Purchase Option during the Term, or its notice pursuant to “—Notice of Intent Required for Certain Purchase Options” of its intent to exercise its Project Assets Purchase Option on the Expiration Date, the Independent Evaluator shall conduct a final evaluation of the Plant in accordance with the protocol established in the Water Purchase Agreement and shall utilize standard utility property evaluation methods. In connection with the final asset evaluation, the Project Company shall furnish the Water Authority and the Independent Evaluator with the Asset Registry and record documentation prepared pursuant to the Water Purchase Agreement and all database information developed in connection with the implementation of the CMMS.

Disputes. The expense of the Independent Evaluator for all services performed pursuant thereto shall be borne equally by the parties. The final determination by the Independent Evaluator as to any matter arising under this Section involving amounts less than \$250,000 (Index Linked) which is in dispute between the Water Authority and the Project Company shall be final and binding upon the parties. For disputes involving amounts greater than \$250,000 (Index Linked), the Independent Evaluator’s determination shall be advisory only, and such dispute shall be handled as provided in “—Forum for Dispute Resolution” and “—Non-Binding Mediation”.

PERIODIC MAINTENANCE INSPECTIONS.

Annual Maintenance Inspection. The Water Authority may, upon reasonable written notice, perform an inspection of the Plant and relevant records of the Project Company each Contract Year following the Commercial Operation Date to determine compliance with the Contract Standards. The Water Authority’s annual inspection may include the inspection of: (1) the Plant and the Plant Site; (2) all in-house laboratories where tests are conducted for samples from the Plant; (3) all areas where chemicals are stored or used; and (4) all operations, maintenance, repair and replacement records kept by the Project Company.

Full-Scale Biennial Inspections. Every full second Contract Year following the Commercial Operation Date, the Water Authority may, upon reasonable written notice, perform a full-scale inspection and review of the state of repair, working condition and performance capability of the Plant, including testing of equipment to determine its physical and operational conditions, and inspection of the general status of repairs of all Project Equipment and Project Structures, grounds, utility lines, spare parts, inventories, and operation, maintenance, repair and replacement records. Any such inspection and review shall be performed by or on behalf of the Water Authority by a Water Authority Engineer at the Water Authority’s expense, and shall take place at such time as the Water Authority shall determine upon three months’ written notice to the Project Company. The principal purpose of the inspection and review shall be to permit the Water Authority to ascertain on a comprehensive and focused basis the extent to which

the Plant is being properly maintained, repaired and replaced in accordance with the Contract Standards. The inspection shall include a concurrent review of all relevant data, records and reports.

Non-Interference. The Project Company shall cooperate fully with all inspections conducted pursuant to this Section, which shall not materially interfere with the Project Company's performance of the Contract Services and shall not impose any material costs on the Project Company.

COMPUTERIZED MAINTENANCE MANAGEMENT SYSTEM.

The Project Company shall develop and maintain a computerized maintenance management system (the "CMMS") as part of the Construction Work that it is capable of providing a record of repair and replacement of the Plant on a detailed, item-by-item basis; scheduling, carrying out, monitoring and controlling predictive, preventive and corrective maintenance programs; and monitoring routine operations within the Plant. The CMMS shall be developed consistently with the Asset Registry and the requirements of the Water Purchase Agreement, and shall be modified as and when appropriate during the Term to take account of removals from and additions to the Plant. The Project Company shall utilize the CMMS to provide the Water Authority with documentation which allows it to efficiently monitor compliance by the Project Company with its maintenance, repair and replacement obligations under the Water Purchase Agreement. The Water Authority shall have computer-based real time, read-only access to the CMMS as provided in the Water Purchase Agreement. The Project Company shall permit all electronic data to be replicated and provided to the Water Authority for review by the Water Authority Engineer except for information regarding costs incurred by the Operating Service Provider.

END OF TERM PERFORMANCE EVALUATION REQUIREMENTS.

Applicability of End of Term Performance Evaluation Requirements. The provisions of this Section shall apply only in the event the Water Authority exercises its option to purchase the Project Assets in accordance with "—Project Assets Purchase Option During the Term" or "—Project Assets Purchase Options at the Expiration Date", and not otherwise. In the event that the Water Authority issues a notice of intent under "—Notice of Intent Required for Certain Purchase Options" but does not subsequently issue the corresponding notice of exercise pursuant to "—Notice of Exercise of Project Assets Purchase Option" then all evaluations, tests and other activities being conducted pursuant to this Section shall cease and this Section shall thereafter only apply if the Water Authority subsequently exercises its option to purchase the Project Assets in accordance with "—Project Assets Purchase Option During the Term", or "—Project Assets Purchase Option at the Expiration Date".

Compliance With End of Term Performance Evaluation Requirements. If, during the applicable exit performance period described in "—Applicable Exit Performance Period", the Project Company complies with the End of Term Performance Evaluation Requirements, the Project Company shall have no obligation to perform the Exit Performance Test.

Non-Compliance With End of Term Performance Evaluation Requirements. If, during the applicable exit performance period described in "—Applicable Exit Performance Period", the Project Company has not complied with the End of Term Performance Evaluation Requirements, the Project Company shall, at its cost and expense, conduct an Exit Performance Test of the Plant (the "Exit Performance Test"). The Exit Performance Test shall be conducted in the same manner and over the same timeframes as required hereunder for the Performance Test that established Provisional Acceptance. In the event the Exit Performance Test does not demonstrate that the Minimum Performance Criteria were achieved, the Project Company at its own cost and expense shall make all repairs and replacements necessary so that the Plant is capable of achieving the Minimum Performance Criteria. Upon completion of the repair and replacement work, the Exit Performance Test shall again be conducted. This procedure

shall be repeated until an Exit Performance Test demonstrates that the Minimum Performance Criteria have been achieved.

Applicable Exit Performance Period. The applicable exit performance period under this Section shall be a period of six full Billing Periods, designated by the Project Company by written notice to the Water Authority, commencing no later than 60 days after the Water Authority has delivered its notice (pursuant to “—Notice of Intent Required for Certain Purchase Options”) of its intent to exercise its Project Assets Purchase Option during the Term; and (ii) 90 days after the Water Authority has delivered its notice (pursuant to “—Notice of Intent Required for Certain Purchase Options”) of its intent to exercise its Project Assets Purchase Option on the Expiration Date.

Condition of Project Structures and Project Equipment. In addition to either complying with the End of Term Performance Evaluation Requirements or the Exit Performance Test, the Project Company shall meet the End of Term Transfer Condition Requirements.

PROJECT ASSETS TRANSFER CONDITION .

Water Authority Exercise of End-of-Term Purchase Option. The provisions of this Section shall apply only in the event the Water Authority exercises its option to purchase the Project Assets in accordance with “—Project Assets Purchase Option During the Term”, or “—Project Assets Purchase Option at the Expiration Date”, and not otherwise. In the event that the Water Authority issues a notice of intent under “—Notice of Intent Required for Certain Purchase Options” but does not subsequently issue the corresponding notice of exercise pursuant to “—Notice of Exercise of Project Assets Purchase Option” then all evaluations, tests and other activities being conducted pursuant to this Section shall cease and this Section shall thereafter only apply if the Water Authority subsequently exercises its option to purchase the Project Assets in accordance with “—Project Assets Purchase Option During the Term”, or “—Project Assets Purchase Option at the Expiration Date”.

Required Project Condition. On the Termination Date, the Project shall be in a condition: (i) which is consistent with the Project Company having performed the Contract Obligations; (ii) which, with respect to buildings, structures and pipelines that as of the Contract Date were expected to have a useful life of more than 20 years (as set forth in the Water Purchase Agreement, have functional or structural ratings of at least “3” (as defined in the Water Purchase Agreement); and (iii) which, with respect to Project Equipment’s maintenance, repair and replacement status, meets the standards set forth in the Water Purchase Agreement. The requirements of this subsection constitute the “Transfer Condition Requirements”.

Transfer Condition Survey and Work Plan. Within 15 days after the Water Authority has delivered its notice pursuant to “—Notice of Intent Required for Certain Purchase Options” of its intent to exercise its Project Assets Purchase Option during the Term, or its notice pursuant to “—Notice of Intent Required for Certain Purchase Options” of its intent to exercise its Project Assets Purchase Option on the Expiration Date, the Project Company and the Water Authority shall conduct a joint inspection and survey of the Project Structures and a separate joint inspection and survey of the Project Equipment over a 45 day period. If these surveys indicate that any element of the Project, on the Termination Date, is not reasonably expected to be in a condition consistent with the Transfer Condition Requirements upon the Project Company implementing the plans and programs required under the Water Purchase Agreement over the remainder of the Term, within 60 days of completion of the survey the Project Company shall deliver to the Water Authority the Project Company’s plan to perform the additional work necessary to meet the Transfer Condition Requirements, together with a cost estimate for the work.

Determination of Transfer Condition Retainage. Upon completion of the Project condition survey and work plan required by “—Transfer Condition Survey and Work Plan”, the Water Authority: (i) may review and comment on the Project Company’s work plan; (ii) may direct the Project Company to amend its work plan to incorporate corrective work which the Water Authority reasonably determines is necessary to meet the Transfer Condition Requirements and the cost of such work; and (iii) shall, after giving due consideration to the Project Company’s cost estimate and the Independent Evaluator’s assessment conducted pursuant to “—Evaluation of the Plant” and “—End of Term Project Condition Assessment” the Water Purchase Agreement, determine in good faith the amount the Water Authority reasonably believes is necessary to complete the additional work required to meet the Transfer Condition Requirements (the “Transfer Condition Retainage”).

Establishment and Use of Transfer Condition Retainage Account. The Water Authority shall hold back and retain from each Monthly Water Purchase Payments (starting with the monthly payment for the first month after the Water Authority determines the amount of Termination Condition Retainage pursuant to subsection (iii) of “—Determination of Transfer Condition Retainage” an amount equal to (1) the Transfer Condition Retainage, divided by (2) the number of months between the first monthly payment for which Termination Condition Retainage is withheld and the Termination Date, and shall deposit such amount in an interest bearing account held by a Qualified Commercial Bank. The account shall be the property of the Water Authority, subject to the Project Company’s withdrawal rights under this Section; provided, however, that any Transfer Condition Retainage remaining in the Transfer Condition Retainage Account shall be reimbursed to the Project Company when the Transfer Condition Requirements have been met. The Project Company shall have the right, upon the submittal of certified requisitions to the Water Authority with full supporting receipts or other evidence of payment, to withdraw from such account amounts necessary to reimburse itself for amounts actually expended in the performance of the additional work necessary to meet the Transfer Condition Requirements. Notwithstanding the foregoing, the Project Company shall be entitled to post a letter of credit with the Water Authority in an amount equal to the Transfer Condition Retainage in lieu of such holdback from the Monthly Water Purchase Payments.

Performance of the Transfer Condition Work and Further Inspection. The Project Company shall implement the transfer condition plan proposed under “—Transfer Condition Survey and Work Plan” and take all other steps necessary to assure compliance with the Transfer Condition Requirements, notwithstanding the Water Authority’s participation in the transfer condition survey or review of the Project Company’s work plan or the fact that the actual cost of compliance may be higher than the amount of the Transfer Condition Retainage. At least 120 days prior to the Termination Date or a date that is mutually agreed upon, the Project Company and the Water Authority shall conduct a further joint inspection and survey of the condition of the Project and the progress of the transfer condition work. If, 90 days prior to the Termination Date, the Plant (1) has failed to demonstrate that it has the capacity to meet the requirements of “—Evaluation of Six Months of Plant Performance” of the Water Purchase Agreement or, if applicable, the Exit Performance Test; or (2) is not being operated or maintained in compliance with the Contract Standards, then the Water Authority may, acting reasonably, increase the amount of the Transfer Condition Retainage to make the repairs and modifications to the Project that would be necessary to allow the Project to meet the requirements of the Exit Performance Test.

Final Water Authority Condition Assessment. On, or within five Business Days after, the Termination Date, the Water Authority shall either: (i) issue to the Project Company a transfer condition certificate confirming compliance with the Transfer Condition Requirements and return any remaining Transfer Condition Retainage to the Project Company; or (ii) notify the Project Company of its decision not to issue the transfer condition certificate, setting out each respect in which the Project does not comply with the Transfer Condition Requirements and stating the Water Authority’s estimate of the cost of completing all work required for the Project to comply with the Transfer Condition Requirements.

Final Project Company Condition Assessment. The Project Company may, within 30 days after receipt of the notice given in accordance with subsection (ii) of “—Final Water Authority Condition Assessment”, object to any matter set forth in the notice giving details of the grounds of each such objection and setting out the Project Company’s proposals in respect of such matters.

Final Compliance. If the Project did not, at the Termination Date, comply in all respects with the Transfer Condition Requirements, the Water Authority will promptly either (1) use any remaining proceeds of the Termination Condition Retainage to complete any work necessary to cause such compliance; or (2) draw upon the Letter of Credit in an amount equal to the estimated value of completing such work, and use such amount to complete such work; provided, however, that any such proceeds of the Termination Condition Retainage or any amounts drawn upon the Letter of Credit which are not spent on such work shall be paid to the Project Company upon the completion of such work.

CAPITAL MODIFICATIONS GENERALLY.

A Capital Modification for purposes of the Water Purchase Agreement means a material change to the physical assets constituting the Plant (including the alteration, addition, demolition, removal, extension or expansion of the physical assets constituting the Plant, or the installation of new structures, equipment, systems or technology) made after the Commercial Operation Date for any reason that, individually or in the aggregate with any related changes, exceeds \$10,000,000 (Index Linked) in capital cost or that materially impairs the quality, integrity, durability or reliability of the Plant or materially alters the original design of the Plant as set forth in the Design Requirements. Repairs or replacements of the Project Equipment or the Project Structures (including replacements of membranes or other Project Equipment or Project Structures with more advanced or efficient membranes or other Project Equipment or Project Structures) shall not constitute Capital Modifications.

CAPITAL MODIFICATIONS MADE AT PROJECT COMPANY REQUEST.

General. The Project Company shall give the Water Authority written notice of, and reasonable opportunity to review and comment upon, any Capital Modification proposed to be made at the Project Company’s request. Any such Capital Modification shall be financed and paid for by the Project Company, and there shall be no increase in the Unit Price or other compensation payable by the Water Authority on account thereof.

Water Authority Approval. The Water Authority shall have the right, in its discretion, to approve any Capital Modification requested by the Project Company under “—General” above. The Water Authority may condition the exercise of its approval right in any manner it chooses. To assist the Water Authority in the exercise of its approval right under this Section, the notice shall contain sufficient information for the Water Authority to determine that the Capital Modification: (i) does not materially diminish the capacity of the Project to be operated so as to meet the Contract Standards; (ii) does not materially impair the quality, integrity, durability and reliability of the Project; and (iii) is feasible.

Capital Modifications required due to Compensation Adjustment Events shall not constitute Capital Modifications requested by the Project Company under this Section.

CAPITAL MODIFICATIONS REQUIRED DUE TO COMPENSATION ADJUSTMENT EVENT.

General. Upon the occurrence of a Compensation Adjustment Event, if a Capital Modification is required on account thereof, the required Capital Modification shall be financed and paid for as provided and subject to the limitations set forth in “—Financing Compensation Adjustment Event Capital Costs”,

“—Uninsurable Force Majeure Events”, “—Change in Law Events”, and “—Other Uncontrollable Circumstances”, with the attendant increase in the Unit Price described in such Sections.

Water Authority Approval. The Water Authority shall have the right, acting reasonably, to approve any Capital Modification required to be made on account of a Compensation Adjustment Event.

CAPITAL MODIFICATIONS AT WATER AUTHORITY DIRECTION .

General. The Water Authority shall have the right to direct the Project Company to make Capital Modifications (whether above or below the \$10,000,000 cost threshold) at any time and for any reason whatsoever after the Commercial Operation Date (including Capital Modifications to expand the capacity of the Plant), whether and however the exercise of such rights affects the Water Purchase Agreement (“Directed Capital Modifications”), so long as the implementation of any such Directed Capital Modification does not contravene the limitations referred to in “—Restrictions on Water Authority-Directed Design Requirements Changes and Directed Capital Modifications”. The design and construction costs of any such Directed Capital Modification, shall be financed by the Project Company as and to the extent as provided in “—Financing the Capital Costs of Directed Capital Modifications”.

Inability of Project Company to Obtain Financing. If the Project Company is unable to obtain financing for Directed Capital Modifications, or if the Water Authority does not approve the proposed financing therefor, in either case as provided in “—Financing the Capital Costs of Directed Capital Modifications”, the Water Authority (1) shall withdraw its direction to make the Directed Capital Modification, or (2) shall pay the Project Company directly on a milestone basis (separately from the Monthly Water Purchase Payments) an amount equal to the negotiated lump sum price for the design and construction of such Directed Capital Modifications, as such lump sum price is negotiated in accordance with “—Cost Substantiation for Additional Work Required Due to Directed Capital Modifications and Compensation Adjustment Events”. The Water Authority shall make any such payments for design and construction work from its own available funds or reserves, or shall finance such payments using its own borrowing capacity.

No Plant Bondholder Obligation. The Water Authority acknowledged that the Plant Bondholders have no obligation to provide the financing referred to in this Section or to subordinate or share their security.

PROCEDURES FOR IMPLEMENTING DIRECTED CAPITAL MODIFICATIONS AND COMPENSATION ADJUSTMENT EVENT CAPITAL MODIFICATIONS .

Primary Implementation Procedure. The implementation procedures set forth in this Section shall apply with respect to Directed Capital Modifications and Compensation Adjustment Event Capital Modifications. The Project Company may implement Capital Modifications under “—Capital Modifications made at Project Company Request” by any means of its own choosing in accordance with Applicable Law.

Project Company Conceptual Plan and Water Authority Review. At the request of the Water Authority, the Project Company shall prepare and deliver to the Water Authority a conceptual plan for the implementation of the Capital Modification. The conceptual plan shall include the Project Company’s recommendations as to technology, design, construction, equipment, materials, and operating and performance impacts. The foregoing recommendations shall seek to allow for maximum competition in price and shall not favor the Project Company or any of its Affiliates. Preliminary schedule and lifecycle capital and operating cost estimates shall be included, together with an assessment of possible alternatives. The conceptual plan shall specifically evaluate reasonable alternatives to the mix of Capital

Modifications and changed operating and management practices which the Project Company is recommending. The Water Authority shall review the Project Company's conceptual plan and recommendations, and undertake discussions with the Project Company in order to reach agreement on a basic approach to the Capital Modification.

Project Company Implementation Proposal. Following agreement on a basic approach to the Capital Modification, at the request of the Water Authority the Project Company shall submit a formal implementation proposal to the Water Authority for its consideration. The Capital Modification implementation proposal shall contain (1) a Project Company services element, to be implemented through a Water Purchase Agreement Amendment, and (2) a third-party services element, to be implemented through third-party contracting.

Project Company Services Element. The Project Company services element shall contain: (a) the Project Company's offer to perform design, construction management and performance testing services and obtain and maintain Governmental Approvals with respect to the Capital Modification for a fixed price, and, shall include a guarantee of the performance of the Capital Modification through a performance test and a guaranteed maximum construction price if so requested by the Water Authority and agreed to by the Project Company; and (b) as applicable, the Project Company's offer to operate, maintain, repair, replace, obtain and maintain Governmental Approvals for, and manage the Capital Modification following construction and commissioning for an Index-Linked fixed fee and shall include long-term performance guarantees with respect to the Capital Modification.

Third-Party Services Element. The third-party services element shall be a proposal by the Project Company to conduct either qualification-based selection process for design engineers and a bidding process for the construction work or a competitive proposal process for the design-build work involved in completing the Capital Modification. The resulting design services and construction contracts or design-build contract shall be held by and executed in the name of the Project Company.

Preparation Costs. The cost and expense of preparing a conceptual plan and any formal implementation proposed under this Section shall be borne by the Water Authority as a Direct Payment or through an adjustment to the Unit Price.

Negotiation and Finalization of Project Company Implementation Proposal. The parties shall proceed, promptly following the Water Authority's review of the Project Company's submittal and quotation, to negotiate to reach an agreement on the required Unit Price adjustment (based on the fixed prices in the Project Company's implementation proposal) and any related adjustment to the terms and conditions of the Water Purchase Agreement. Any final negotiated agreement for the implementation of a Capital Modification under this Section shall address, as applicable: (i) Design requirements; (ii) Construction management services; (iii) Performance tests, standards and procedures; (iv) a guarantee of completion; (v) Performance guarantees; (vi) any changes to the Contract Standards to take effect as a consequence of the Capital Modification; (vii) a payment schedule for the design and construction management-related services; (viii) any adjustments to the Unit Price resulting from the Capital Modification, including any related operation, maintenance, repair and replacement costs; (ix) a financing plan; and (x) any other appropriate amendments to the Water Purchase Agreement.

The Project Company shall not be obligated to undertake any Directed Capital Modification or Compensation Adjustment Event Capital Modification, nor shall the Unit Price be adjusted or any Direct Payment be due the Project Company on account of any such Capital Modification, except following

agreement by the parties as to all matters affected thereby, unless otherwise required on an emergency basis or on account of an Uncontrollable Circumstance.

Implementation Procedures. The Water Authority shall have the same substantive and procedural rights with respect to the implementation of each Capital Modification that it has with respect to the design, construction, commissioning and performance testing of the Project as originally built (with appropriate changes in light of the nature of the particular Capital Modification), as set forth in the Water Purchase Agreement.

OPERATING, MAINTENANCE, REPAIR AND REPLACEMENT COSTS RELATED TO CAPITAL MODIFICATIONS.

Directed Capital Modifications and Compensation Adjustment Events. Any operation, maintenance, repair and replacement costs resulting from a Directed Capital Modification or from a Compensation Adjustment Event shall be paid by the Water Authority as an adjustment to the Unit Price, negotiated pursuant to “—Negotiated Price Based on Expected Costs”.

Project Company-Requested Capital Modifications. Any operation, maintenance, repair and replacement costs resulting from a Capital Modification made at the request of the Project Company shall be borne by the Project Company with no compensation adjustment hereunder.

USE OF PROJECT CONTRACTORS AND SUBCONTRACTORS.

Project Contractors and Subcontractors. The Water Authority acknowledged that the Project Company may carry out the Contract Obligations by contracting such obligations to Project Contractors, who in turn may contract all or part of their obligations under any Project Contract to one or more Subcontractors.

Bonds. The Project Company shall cause the EPC Contractor to provide the performance and payment bonds required under the Plant EPC Agreement, and shall cause the Operating Service Provider to provide the operations performance bond required under the Operating Service Agreement.

Use of Project Contractors and Key Individuals. The Project Company shall use the Project Contractors and Key Individuals listed in the Water Purchase Agreement or such others as the Water Authority may approve, acting reasonably and without unreasonable delay, for the performance of the Contract Obligations in the roles indicated in the Water Purchase Agreement.

Restricted Persons. In performing the Contract Obligations, the Project Company shall not contract with, or allow any of its Project Contractors or any material Subcontractors to contract with, any person that, is a Restricted Person. In the event that the Water Authority determines that the Project Company has contracted with, or allowed a Project Contractor to enter into a material contract with, a person that is, in the Water Authority’s reasonable opinion, a Restricted Person, the Water Authority shall notify the Project Company and the Project Company shall replace (or use commercially reasonable efforts to cause the Project Contractor to replace) such person within 30 days.

Water Authority Access to and Communications with Project Contractors. The Project Company shall provide the Water Authority with access to the Project Contractors as follows:

General Communications. The Project Company shall grant the Water Authority’s Director of Engineering and Director of Operations (or management personnel senior to such positions) direct access to the Project Contractors and their senior management personnel for

meetings and email, telephone and fax communications regarding any material aspect of the work being performed by the Project Contractor which the Water Authority believes has resulted or may result in a breach of the Water Purchase Agreement. This right of direct access shall apply during normal business hours and at any time during emergencies. The Project Company, upon request, shall have the right to be present at any such meetings, and to receive copies of any such communications (including reasonable advance notice of any meetings). The Operating Service Agreement shall expressly obligate the Operating Service Provider to respond promptly to any communication from the Water Authority's Director of Engineering and Director of Operations (or management personnel senior to such positions), to attend any meeting reasonably called by such Water Authority personnel, and to furnish any information requested by the Water Authority personnel, in each case that has a bearing on the performance of the Contract Obligations with respect to which the Project Contractor has responsibility, involvement or knowledge.

Other Communications During the Construction Period. During the Construction Period, the Construction Superintendent or his or her delegate shall be available to be contacted by the Water Authority's on-site representative: (1) on a 24 hours per day basis for emergency response; and (2) during normal business hours for safety concerns or others issues requiring immediate attention.

Other Communications During the Operating Period. During the Operating Period, the Chief Operator or its designee shall be available to be contacted by the Water Authority on a 24 hours per-day basis for emergency response and operational coordination.

Incentive Compensation Payable to Operating Service Provider. If for any Billing Period the Project Company receives compensation pursuant to "—Monthly Payments", the Project Company shall, within 30 days of receipt of such amount, pay the Operating Service Provider an amount equal to (1) \$125 (Index-Linked), multiplied by (2) the Excess Product Water Deliveries for such Billing Period.

PROJECT CONTRACTS AND SUBCONTRACTS .

Terms and Actions. The Project Company shall retain full responsibility to the Water Authority under the Water Purchase Agreement for all matters related to the Contract Obligations. No failure of any Project Contractor or Subcontractor used by the Project Company in connection with the provision of the Contract Obligations shall relieve the Project Company from its obligations hereunder to perform the Contract Obligations. The Project Company shall be responsible for settling and resolving with all Project Contractors and Subcontractors all claims arising from the actions or inactions of the Project Company or a Project Contractor or Subcontractor.

Indemnity for Claims. The Project Company shall pay or cause to be paid to the EPC Contractor and the Operating Service Provider all amounts due in accordance with their respective Project Contracts and Subcontracts. No Project Contractor or Subcontractor shall have any right against the Water Authority for labor, services, materials or equipment furnished for the Contract Obligations. The Project Company acknowledged that its indemnity obligations under "—Project Company's Obligation to Indemnify" shall include all claims for payment or damages by any Project Contractor or Subcontractor who furnishes or claims to have furnished any labor, services, materials or equipment in connection with the Contract Obligations to the extent that those claims fall within the scope of the indemnity in "—Project Company's Obligation to Indemnify".

Assignability. All Project Contracts (and any related parent company guaranty) entered into by the Project Company with respect to the Project shall be assignable to the Water Authority (provided, with respect to the Process Services Agreement, that only Project Company's rights under such agreement

shall be assignable to the Water Authority), solely at the Water Authority's election and without cost or penalty, upon the expiration or termination of the Water Purchase Agreement.

PROJECT CONTRACTS .

Water Authority Consents. Unless the Water Authority has consented to such course of action, such consent not to be unreasonably withheld or delayed, the Project Company shall not: (i) Terminate, or agree to or permit the termination of, all or any material part of any Project Contract; provided, however, that the Project Company may terminate the Operating Service Agreement if it enters into a replacement Operating Service Agreement on terms reasonably acceptable to the Water Authority with an Operating Service Provider listed in the Water Purchase Agreement or who is otherwise reasonably acceptable to the Water Authority; (ii) Make, or agree to or permit the making of: (a) any material amendment of any Project Contract (other than material amendments directly resulting from Compensation Adjustment Events or Directed Capital Modifications); or (b) any departure by any party from any material provision of any Project Contract; (iii) Permit any Project Contractor to assign or transfer to any person any of such Project Contractor rights or obligations under a Project Contract other than by way of a Subcontract that is not a subcontract of all or substantially all of the obligations under the Project Contract; or (iv) Enter into, or permit the entering into of, any replacement of a Project Contract entered on or before the Contract Date.

Timeframe for Consents. The Water Authority shall give or deny such consent within: (i) 10 Business Days of receipt of such notice and all relevant documentation, if the Project Company is seeking to terminate a Project Contract immediately; and (ii) 20 Business Days of receipt of such notice and all relevant documentation in all other cases.

If the Water Authority fails to give or deny its consent within such time periods it shall be deemed to have given its consent. The giving or denial of consent by the Water Authority shall not create any liability of the Water Authority to the Project Company or to any third party.

Costs of Request for Consent. The Project Company shall pay, without duplication, the Water Authority's reasonable internal administrative and personnel costs and all out-of-pocket costs in connection with considering any request for consent by the Project Company pursuant to this Section. At the time of the request the Project Company shall make a payment to the Water Authority against its obligation under this Section of \$15,000 (Index Linked). After the Water Authority's decision is rendered, the Water Authority will either refund any overpayment or invoice the Project Company for any additional amounts due under this Section.

REPLACEMENT PROJECT CONTRACTS .

If any Project Contract at any time lapses, terminates, or otherwise ceases to be in full force and effect (whether by reason of expiration or otherwise), unless the goods, services or rights which were the subject matter of such Project Contract are no longer reasonably required for the Project, the Project Company: (i) will forthwith enter into, or cause to be entered into, a replacement contract or contracts upon the same or substantially similar terms as the contract so replaced (to the extent reasonably practicable); and (ii) will forthwith enter into, or cause the replacement Project Contractor to enter into, a Project Contractor Substitution Agreement.

DELIVERY OF AMENDED OR REPLACEMENT PROJECT CONTRACTS .

If at any time any amendment is made to any Project Contract, or a replacement Project Contract (or any agreement which materially affects the interpretation or application of any Project Contract) is

entered into, the Project Company shall deliver to the Water Authority a copy of each such amendment or agreement within 10 Business Days of the date of its execution or creation, certified as a true copy by an officer of the Project Company.

LABOR RELATIONS AND DISPUTES .

Labor Relations. As between the Water Authority and the Project Company, the Project Company shall have exclusive responsibility for disputes or jurisdictional issues among unions or trade organizations representing employees of the Project Company, the Project Contractor and Subcontractors. The Water Authority shall have no responsibility whatsoever for any such disputes or issues and the Project Company shall indemnify, defend and hold harmless the Water Authority and the Water Authority Indemnitees in accordance with “—Project Company’s Obligation to Indemnify” from any and all Loss-and Expense resulting from any such labor dispute.

Labor Disputes. If the Project Company has knowledge of an actual or potential labor dispute that would reasonably be expected to materially and adversely affect any of the Contract Obligations, the Project Company shall promptly: (i) give notice thereof to the Water Authority, including all relevant information related to the dispute of which the Project Company has knowledge; and (ii) take all reasonable steps to ensure that such labor dispute does not materially and adversely affect the performance of any of the Contract Obligations including, if necessary, by applying for relief to appropriate tribunals or courts.

INSURANCE, DAMAGE AND DESTRUCTION INSURANCE .

Required Insurance. At all times during the Term, the Project Company shall obtain, maintain and comply with the terms and conditions of the Required Insurance, and shall pay all premiums with respect thereto as the same become due and payable; provided, however, that the Project Company shall not be obligated to carry Required Insurance to the extent and for any period that coverage for any particular risk or event is not available on commercially reasonable terms. The Water Authority in any such circumstances shall bear no risk or responsibility upon the occurrence of any such uninsured or underinsured risk or event, and (2) the unavailability of insurance coverage shall not cause any such risk or event to be considered an Uninsurable Force Majeure Event.

Project Contractors and Subcontractors. The Project Company shall ensure that all Project Contractors and Subcontractors secure and maintain all insurance coverage and other financial sureties required by Applicable Law in connection with their presence and the performance of their duties at or concerning the Project.

Compliance with Insurer Requirements. The Project Company shall comply promptly with the requirements of all insurers providing the Required Insurance pertaining to the Project. The Project Company shall not knowingly do or permit anything to be done that results in the cancellation or the reduction of coverage under any policy of Required Insurance.

Proof of Insurance Coverage. Annually, the Project Company shall furnish, or shall cause a Project Contractor to furnish, the Water Authority with (1) any endorsements to the policies for such insurance obtained for the Project, and (2) certificates of insurance from each insurance carrier showing that the insurance required under such Project Contract is in force, the amount of the carrier’s liability thereunder, and further providing that the insurance will not be canceled, changed or not renewed until the expiration of at least 30 days (or 10 days in the case of cancellation due to non-payment of premiums after written notice (by certified mail, return receipt requested) of such cancellation, change or non-renewal has been received by the Water Authority). Each policy of insurance (or renewal policy of

insurance) furnished hereunder shall: (a) evidence the existence and coverage amounts of the Required Insurance; and (b) show the Water Authority as an “additional insured” or “named insured”, as required by the Water Purchase Agreement for the particular policy of Required Insurance.

Failure to Provide Insurance Coverage. If the Project Company fails to pay or cause to be paid any premium for Required Insurance, or if any insurer cancels any Required Insurance policy and the Project Company fails to obtain replacement coverage so that the Required Insurance is maintained on a continuous basis, the Water Authority may, but is not obligated to, pay such premium or procure similar insurance coverage from another insurer and upon such payment by the Water Authority the amount thereof shall be immediately reimbursable as a Direct Payment to the Water Authority by the Project Company. The failure of the Project Company to obtain and maintain any Required Insurance shall not relieve the Project Company of its liability for any losses, be a satisfaction of any Project Company liability under the Water Purchase Agreement or in any way limit, modify or satisfy the Project Company’s indemnity obligations hereunder.

Reductions for Insurance Proceeds and Insurance Receivables. Whenever the Water Purchase Agreement obligates the Water Authority to pay any amount to the Project Company in respect of an event or circumstance for which, or with respect to the consequences of which, an insurance claim may be made by the Project Company under the Required Insurance, the amount which the Water Authority is obligated to pay will be reduced by the amount of Insurance Proceeds and Insurance Receivables which the Project Company recovers or would have been entitled to recover if it had complied with the requirements of the Water Purchase Agreement or any policy of Required Insurance.

Use of Property Insurance Proceeds. Section 3.14(b) of the Collateral Trust Agreement provides that property Insurance Proceeds shall be deposited in the Plant Restoration Fund established thereunder, and grants the Project Company the right to direct the use thereof, subject to the terms and conditions set forth therein. Except as provided below in this subsection, the Project Company shall exercise such right so as to cause all property Insurance Proceeds to be applied first to the repair or reconstruction of the Plant, with any proceeds in excess of those required for such purpose applied to any other purpose permitted under such Section; and in such regard the Project Company shall use all reasonable efforts to satisfy the conditions to the use of property Insurance Proceeds for repair or reconstruction set forth in Section 3.14(b)(iv)(A) of the Collateral Trust Agreement. The Water Authority acknowledged that if the requirements set forth in such Section of the Collateral Trust Agreement are not in fact satisfied, that such property Insurance Proceeds may be deposited to the Prepayment Fund established under the Collateral Trust Agreement for the repayment of Permitted Debt as and to the extent provided therein.

PROTECTION OF PROJECT AND PRIVATE PROPERTY FROM LOSS, DAMAGE AND DESTRUCTION.

Protection. The Project Company shall use care and diligence, and shall take all reasonable and appropriate precautions, to protect the Project from loss, damage or destruction. The Project Company shall report to the Water Authority and the applicable insurers providing the Required Insurance, immediately upon obtaining knowledge thereof, any material damage or destruction to the Project and as soon as practicable thereafter shall submit a full report to the Water Authority. Upon any such occurrence the Project Company also shall comply with the reporting requirements of any insurer providing Required Insurance. The Project Company shall submit to the Water Authority within five Business Days of receipt copies of all accident and other reports filed with, or given to the Project Company by, any insurer, adjuster or Governmental Body.

The Project Company shall promptly repair or replace all property owned by the Water Authority that is damaged by the Project Company or any Project Company Person in connection with the

performance of, or the failure to perform, the Contract Obligations. The repair and replacements shall restore the damaged property, to the maximum extent reasonably practicable, to at least its character and condition existing immediately prior to the damage.

WATER PURCHASE AGREEMENT NOT AFFECTED BY DAMAGE OR DESTRUCTION.

Except as otherwise expressly provided herein, the partial destruction or damage or complete destruction of the Project by fire or other casualty will not permit either party to terminate the Water Purchase Agreement or to demand any increase in any amounts payable to the Project Company under the Water Purchase Agreement.

UNCONTROLLABLE CIRCUMSTANCES GENERALLY.

Extent of Relief Available to the Project Company. If an Uncontrollable Circumstance occurs, the Project Company may be entitled to relief from its obligations and extensions of time, and may claim compensation, but only as and to the extent provided in this Section, “—Insurable and Uninsurable Force Majeure Events”, and “—Change in Law Events and Other Uncontrollable Circumstances”. Such relief shall be available irrespective of whether an obligation of the Water Purchase Agreement expressly states that it is excused by Uncontrollable Circumstances.

Mitigation Given Effect. Any relief to which the Project Company is entitled under the Water Purchase Agreement on account of Uncontrollable Circumstances shall be adjusted to account for the effect of the mitigation measures which were or should have been taken by the Project Company in compliance with its duty to mitigate under “—General Duty to Mitigate”.

Applicable Law Compliance. Nothing in the Water Purchase Agreement shall be interpreted as relieving the Project Company of its obligation, following any and all Uncontrollable Circumstances, to perform its obligations under the Water Purchase Agreement in compliance with Applicable Law.

PROCEDURES UPON THE OCCURRENCE OF AN UNCONTROLLABLE CIRCUMSTANCE.

Notice and Written Report. In order to assert an entitlement based on the occurrence of an Uncontrollable Circumstance, the Project Company shall give notice of the occurrence of the Uncontrollable Circumstance to the Water Authority as soon as practicable, and in any event within ten Business Days of the date the Project Company has knowledge that the Uncontrollable Circumstance has caused or is likely to cause an entitlement under the Water Purchase Agreement. The Project Company’s notice shall include a written report: (i) describing the Uncontrollable Circumstance and the cause thereof, to the extent known; (ii) stating the date on which the Uncontrollable Circumstance began and its estimated duration, to the extent known; (iii) summarizing the consequences of the Uncontrollable Circumstance and the expected impact on the performance of the Project Company’s obligations under the Water Purchase Agreement; and (iv) indicating the nature and scope of the Project Company’s potential entitlement to relief.

Updates. The Project Company shall provide the Water Authority with periodic updates, together with further details and supporting documentation, as it receives or develops additional information pertaining to the Uncontrollable Circumstance and the matters described in “—Notice and Written Report”. In particular, the Project Company shall notify the Water Authority as soon as the Uncontrollable Circumstance has ceased and of the time when performance of its affected obligations can be resumed.

Submittal of Relief Request. The Project Company shall submit to the Water Authority a further notice making its request for specific relief, the basis therefor and the event giving rise to the requested relief within 30 days after the notice referred to in “—Notice and Written Report”. If the specific relief cannot reasonably be ascertained within such 30-day period, the Project Company shall furnish such notice within such longer period as necessary to detail the event and ascertain such relief.

Delay in Notification. If any Uncontrollable Circumstance notice or any required information is submitted by the Project Company to the Water Authority after the dates required under this Section, then the Project Company shall be entitled to relief provided due to the occurrence of the Uncontrollable Circumstance except to the extent that the ability to mitigate was adversely affected as a result of the delay in providing such notice or information.

Multiple and Overlapping Claims. The Project Company may make multiple but not duplicative claims with respect to an Uncontrollable Circumstance.

Burden of Proof and Mitigation. The Project Company shall bear the burden of proof in establishing the occurrence of an Uncontrollable Circumstance and the entitlement to relief based thereon, and shall demonstrate that the Project Company complied with its mitigation obligations under “—General Duty to Mitigate”.

Resumption of Performance. Promptly following the occurrence of an Uncontrollable Circumstance, the Project Company shall use all reasonable efforts to eliminate the cause thereof and resume performance of the Water Purchase Agreement.

Project Company Information. The Water Authority shall provide the Project Company information reasonably requested in order for the Project Company to reasonably assert an Uncontrollable Circumstance claim.

Water Authority Response. Within 30 days after receipt of a relief request by the Project Company pursuant to “—Submittal of Relief Request”, the Water Authority shall issue a written determination as to the extent, if any, to which it concurs with the Project Company’s request, and the reasons therefor.

Agreement or Dispute. The agreement of the parties as to the specific relief to be given the Project Company on account of an Uncontrollable Circumstance shall be evidenced by a Contract Administration Memorandum or a Water Purchase Agreement Amendment, as applicable. Either party may refer any dispute for resolution pursuant to “—Dispute Resolution”.

INSURABLE FORCE MAJEURE EVENTS.

Project Company Reinstatement. If all or any part of the Project is damaged or destroyed on account of an Insurable Force Majeure Event, the Project Company shall promptly repair, replace or restore the part of the Project so damaged or destroyed to at least the character or condition thereof existing immediately prior to the damage or destruction in compliance with Applicable Law and in accordance with “—Project Company’s Obligations Upon Material Damage or Destruction”.

Schedule and Performance Relief. The Project Company shall be relieved from its obligation to perform the Contract Obligations to the extent that any failure to perform results from an Insurable Force Majeure Event. With respect to schedule relief: (i) the Scheduled Commercial Operation Date shall be extended as and to the extent provided in “—Scheduled Commercial Operation Date”; and (ii) except as provided in “—Product Water Not Delivered or Received Due to Certain Uncontrollable Circumstances;

Extension of Term”, the occurrence of an Insurable Force Majeure Event shall not operate to extend the Expiration Date, and accordingly shall not extend the period of time during which the Project Company is obligated to perform the Contract Obligations and entitled to receive the Monthly Water Purchase Payments.

No Compensation Relief. If an Insurable Force Majeure Event occurs, (i) the Unit Price shall not be increased, nor shall any other compensation be payable, on account of the occurrence of the Insurable Force Majeure Event; (ii) the Water Authority shall continue to have the right to impose Deductions for any failure to meet the Product Water Quality Guarantee; and (iii) the Project Company shall bear all costs resulting from the occurrence of an Insurable Force Majeure Event.

Application of Property Insurance Proceeds Available for Repair, Replacement or Restoration. The Water Authority and the Project Company shall cause an insurance proceeds account to be created and held by the Collateral Agent pursuant to the terms of the Collateral Trust Agreement. Upon the occurrence of an Insurable Force Majeure Event, all property Insurance Proceeds available for the repair, replacement or restoration of the Project shall be deposited in such insurance proceeds account and applied to such repair, replacement or restoration purposes in accordance with the terms of the Water Purchase Agreement and following the procedures set forth in the Collateral Trust Agreement, except in the event such proceeds are permitted to be applied to the payment of the Permitted Debt as provided therein.

Water Authority Remedies and Termination Right. The failure of the Project Company to comply with its obligations “—Project Company Reinstatement” shall constitute a Project Company Remediable Breach which, if not remedied by the Project Company, shall entitle the Water Authority to exercise all of its remedies, including the right, by notice to the Project Company, (1) to terminate the Water Purchase Agreement in accordance with “—Water Authority Termination Right”, and (2) to step in and perform the Contract Obligations in accordance with “—Water Authority’s Temporary Step-In Rights”.

Earthquakes. The parties acknowledged that Public Contracts Code Section 7105 is not applicable to the Project or the Water Purchase Agreement. The parties further acknowledged that earthquakes are defined and shall be treated as Uninsurable Force Majeure Events, notwithstanding the obligation of the Project Company to obtain and maintain earthquake insurance as part of the Required Insurance, as and to the extent provided in the Water Purchase Agreement. In the event an earthquake occurs, the Insurance Proceeds from earthquake insurance maintained as part of the Required Insurance shall be applied to the repair, replacement or restoration on the Project with the effect on the Water Authority’s payment obligations described in “—Reductions for Insurance Proceeds and Insurance Receivables”, (b) the Water Authority shall be responsible for all deductible amounts and for costs exceeding the policy coverage limits pursuant to its obligations under “—Uninsurable Force Majeure Events”, and (c) the Unit Price shall be adjusted, and the parties shall have their respective rights, set forth in “—Uninsurable Force Majeure Events”; provided, however, that the Unit Price adjustment to be made under this subsection shall be limited as and to the extent provided in “—Limitation on Permitted Debt Issued for Compensation Adjustment Event Capital Costs Resulting from an Earthquake”.

UNINSURABLE FORCE MAJEURE EVENTS.

Project Company Reinstatement. If all or any part of the Project is damaged or destroyed on account of an Uninsurable Force Majeure Event, the Project Company shall promptly repair, replace or restore the part of the Project so damaged or destroyed to at least the character or condition thereof existing immediately prior to the damage or destruction and in compliance with Applicable Law.

Schedule and Performance Relief. The Project Company shall be relieved from its obligation to perform the Contract Obligations to the extent that any failure to perform results from an Uninsurable Force Majeure Event. With respect to schedule relief: (i) the Scheduled Commercial Operation Date shall be extended as and to the extent provided in “—Scheduled Commercial Operation Date”; and (ii) except as provided in “—Product Water Not Delivered or Received Due to Certain Uncontrollable Circumstances; Extension of Term”, the occurrence of an Uninsurable Force Majeure Event shall not operate to extend the Expiration Date, and accordingly shall not extend the period of time during which the Project Company is obligated to perform the Contract Obligations and entitled to receive the Monthly Water Purchase Payments.

Compensation for Uninsurable Force Majeure Events Occurring Prior to the Commercial Operation Date. If any Uninsurable Force Majeure Event occurs prior to the Commercial Operation Date: (i) the Project Company shall not be entitled to any adjustment to the Unit Price or other compensation with respect thereto prior to the Commercial Operation Date, nor any adjustment to the Unit Price or other compensation at all if the Commercial Operation Date never occurs; and (ii) if the Commercial Operation Date occurs, the Project Company’s entitlement to compensation shall be solely through an adjustment to the Unit Price as provided in “—Compensation Relief for Uninsurable Force Majeure Events Occurring On and After the Commercial Operation Date”.

Compensation Relief for Uninsurable Force Majeure Events Occurring On and After the Commercial Operation Date. If an Uninsurable Force Majeure Event occurs on or after the Commercial Operation Date: (i) the Unit Price (subject to the cap thereon provided in “—Cap on Increases in the Unit Price Due to Uncontrollable Circumstances” shall be: (a) reduced by an amount equal to Avoidable Costs; and (b) increased by an amount necessary to compensate the Project Company for any increase in the cost to the Project Company of performing the Contract Obligations, to the extent resulting from the Uninsurable Force Majeure Event; and (ii) the Water Authority shall not have the right to exercise its rights upon any failure to comply with the Product Water Quality Guarantee, to the extent caused by Uninsurable Force Majeure Event.

Disaster Relief Funds. Upon the occurrence of an Force Majeure Event for which the Project Company is required to repair, replace or restore any part of the Project damaged or destroyed pursuant to “—Insurable and Uninsurable Force Majeure Events”, the Water Authority shall promptly apply for and use all reasonable efforts to obtain any available State and federal disaster relief funds and shall make such funds available to repair, replace or rebuild the Project.

Financing Unavailability Following an Uninsurable Force Majeure Event. In the event that financing is required to pay Compensation Adjustment Event Capital Costs in connection with the occurrence of an Uninsurable Force Majeure Event, the parties shall have their respective rights and obligations set forth in “—Financing Compensation Adjustment Event Capital Costs”.

PROJECT COMPANY’S OBLIGATIONS UPON MATERIAL DAMAGE OR DESTRUCTION.

Draft Reinstatement Plan. If the Project suffers damage or destruction that is likely to cost more than \$5,000,000, Index Linked, to repair, replace and restore, the Project Company shall, as soon as practicable and in any event within 30 days of such damage or destruction, and before undertaking any material remedial work (other than any emergency work required to stabilize other parts of the Project or to facilitate the continued operations of other parts of the Project, provide the Water Authority with a draft plan (the “Draft Reinstatement Plan”) for the carrying out of the works necessary (the “Reinstatement Works”) to repair, replace and restore the damaged or destroyed portions of the Project and related assets, and containing to the extent possible the details required to be included in the Reinstatement Plan under “—Reinstatement Plan Details”.

Comment on Draft Reinstatement Plan. As soon as reasonably practicable and in any event within 15 Business Days after the delivery of the Draft Reinstatement Plan, the Water Authority shall provide the Project Company with any comments it may have on the Draft Reinstatement Plan.

Reinstatement Plan. As soon as reasonably practicable and in any event within 15 Business Days after receipt of the Water Authority’s comments, the Project Company shall deliver to the Water Authority a revised plan (the “Reinstatement Plan”) to reasonably take into account the comments received from the Water Authority and making changes to the Draft Reinstatement Plan necessary to reflect the contractual terms agreed (as negotiated and finalized) with the person effecting the Reinstatement Works;

Reinstatement Plan Details. The Reinstatement Plan shall set forth in as much detail as is reasonable in the circumstances: (i) the identity of the person, or (if the Project Company is conducting a competitive process) persons, intended to effect the Reinstatement Works; (ii) the terms and timetable or (if not then established) the reasonably anticipated terms and timetable upon which the Reinstatement Works are to be effected (including the date upon which the Project is reasonably expected to become fully operational again and the Contract Obligations to be fully performed); (iii) the impact that implementation of the Reinstatement Plan will have on the revenues of the Project Company under the Water Purchase Agreement and on the payment obligations of the Project Company under the Project Contracts; and (iv) the total cost or (if not then established) the reasonably anticipated total cost of the Reinstatement Works.

Thereafter, unless the damage or destruction was caused by an Uninsurable Force Majeure Event and a party elects to terminate the Water Purchase Agreement in accordance with the provisions of “—Termination Rights”, the Project Company shall repair, replace or restore the Project, subject to Applicable Law.

STANDARDS OF REPLACEMENT, REPAIR OR RECONSTRUCTION.

Any replacement, repair, or reconstruction of the Project or any part thereof pursuant to the provisions of “—Insurable Force Majeure Events” or 15.2 (Uninsurable Force Majeure Events) shall be made or done in compliance with the Design Requirements and the requirements set forth in the Water Purchase Agreement, subject to any agreement made between the Water Authority and the Project Company to revise the Design Requirements or the requirements set forth in the Water Purchase Agreement as they pertain to the replacement, repair or reconstruction work.

UNAVAILABILITY OF REQUIRED INSURANCE .

The Project Company shall bear the risk of the unavailability of Required Insurance with Qualified Insurers and the risk that the premiums payable or the terms and conditions for insuring the risks intended to be covered by the Required Insurance are to any degree in excess of or are more burdensome than the premiums, terms and conditions existing on the Contract Date or assumed by the Project Company in entering into the Water Purchase Agreement.

CHANGE IN LAW EVENTS .

Schedule and Performance Relief. The Project Company shall be relieved from its obligation to perform the Contract Obligations to the extent that any failure to perform results from a Change in Law Event. With respect to schedule relief: (i) the Scheduled Commercial Operation Date shall be extended as and to the extent provided in “—Scheduled Commercial Operation Date”; and (ii) except as provided in “—Product Water Not Delivered or Received Due to Certain Uncontrollable Circumstances; Extension of

Term”, the occurrence of a Change in Law Event shall not operate to extend the Expiration Date, and accordingly shall not extend the period of time during which the Project Company is obligated to perform the Contract Obligations and entitled to receive the Monthly Water Purchase Payments.

Compensation Relief for Changes Occurring Prior to the Commercial Operation Date. If a Change in Law Event (except for a Change in Law Event described in item (1)(d) (Inclusions) (regarding CDPH permitting delay) of the definition thereof) occurs prior to the Commercial Operation Date: (i) the Project Company shall not be entitled to any adjustment to the Unit Price or other compensation with respect thereto prior to the Commercial Operation Date, nor any adjustment to the Unit Price or other compensation at all if the Commercial Operation Date never occurs for any reason; and (ii) if the Commercial Operation Date occurs, the Project Company shall be compensated as provided in “—Compensation Relief for Changes On or After the Commercial Operation Date”, such compensation to be reflected in the Unit Price.

Compensation Relief for Changes On or After the Commercial Operation Date. If a Change in Law Event (except for a Change in Law Event described in item (1)(d) (Inclusions) (regarding CDPH permitting delay) of the definition thereof) occurs on or after the Commercial Operation Date (or, as provided in subsection (ii) of “—Compensation Relief for Changes Occurring Prior to the Commercial Operation Date”, occurs prior to the Commercial Operation Date and the Project subsequently achieves the Commercial Operation Date), (i) the Unit Price (subject to the compensation adjustment limitations set forth in “—Cabrillo Raw Seawater Intake System Improvements”, and further subject to the cap on adjustments to the Unit Price set forth in “—Cap on Increases in the Unit Price Due to Uncontrollable Circumstances”) shall be: (a) reduced by an amount equal to Avoidable Costs; and (b) increased by an amount necessary to compensate the Project Company for any increase in the cost to the Project Company of performing the Contract Obligations in compliance with Applicable Law, to the extent resulting from the Change in Law Event; and (ii) the Water Authority shall not have the right to exercise its rights upon any failure to meet the Product Water Quality Guarantee, to the extent caused by a Change in Law Event.

Financing Unavailability Following a Change in Law Event. In the event that financing is required to pay Compensation Adjustment Event Capital Costs in connection with a Change in Law Event, the parties shall have their respective rights and obligations set forth in “—Financing Compensation Adjustment Event Capital Costs”.

DISCRIMINATORY OR SPECIFIED CHANGES IN TAX LAW .

Changes Prior to the Commercial Operation Date. If a Discriminatory Change in Tax Law or Specified Change in Tax Law occurs prior to the Commercial Operation Date: (i) neither party shall be entitled to any compensation with respect thereto prior to the Commercial Operation Date, nor any compensation at all if the Commercial Operation Date never occurs for any reason; and (ii) if the Commercial Operation Date occurs, the Project Company or the Water Authority shall be entitled to additional compensation for any revenue loss or revenue gain for the Project Company or any Shareholder (as the case may be) directly attributable thereto, such compensation to be reflected through an adjustment to the Unit Price (subject to the cap on Unit Price adjustments set forth in “—Cap on Increases in the Unit Price Due to Uncontrollable Circumstances”.

Changes On or After the Commercial Operation Date. If a Discriminatory Change in Tax Law or a Specified Change in Tax law occurs on or after the Commercial Operation Date, the Project Company or the Water Authority shall be entitled to additional compensation for any revenue loss or revenue gain for the Project Company or any Shareholder (as the case may be) directly attributable thereto.

OTHER UNCONTROLLABLE CIRCUMSTANCES.

Schedule and Performance Relief. The Project Company shall be relieved from its obligation to perform the Contract Obligations to the extent that any failure to perform results from an Other Uncontrollable Circumstance (except that, with respect to Regulated Site Conditions or Differing Site Conditions, the Project Company shall be entitled only to schedule relief). With respect to schedule relief: (i) the Scheduled Commercial Operation Date shall be extended as and to the extent provided in “—Scheduled Commercial Operation Date”; and (ii) Except as provided in “—Product Water Not Delivered or Received Due to Uncontrollable Circumstances; Extension of Term”, the occurrence of an Other Uncontrollable Circumstance shall not operate to extend the Expiration Date, and accordingly shall not extend the period of time during which the Project Company is obligated to perform the Contract Obligations and entitled to receive the Monthly Water Purchase Payments.

Compensation for Other Uncontrollable Circumstances Occurring Prior to the Commercial Operation Date. If an Other Uncontrollable Circumstance that is listed or referred to in “Inclusions - Performance, Schedule and Compensation Relief” in the definition of Uncontrollable Circumstances (and subject to any specific limitations provided herein with respect to the amount of compensation relief to be provided upon the occurrence of the particular event or circumstance) occurs prior to the Commercial Operation Date: (i) the Project Company shall not be entitled to any adjustment to the Unit Price or other compensation with respect thereto prior to the Commercial Operation Date, nor any adjustment to the Unit Price or other compensation at all if the Commercial Operation Date never occurs; and (ii) if the Commercial Operation Date occurs, the Project Company shall be compensated as provided in “—Compensation Relief for Other Uncontrollable Circumstances Occurring On and After the Commercial Operation Date”, such compensation to be reflected in the Unit Price.

Compensation Relief for Other Uncontrollable Circumstances Occurring On and After the Commercial Operation Date. If an Other Uncontrollable Circumstance that is listed or referred to in “Inclusions - Performance, Schedule and Compensation Relief” in the definition of Uncontrollable Circumstances (and subject to any specific limitations provided herein with respect to the amount of compensation relief to be provided upon the occurrence of the particular event or circumstance) occurs on or after the Commercial Operation Date: (i) the Unit Price (subject to the cap on adjustments to the Unit Price set forth in “—Cap on Increases in the Unit Price Due to Uncontrollable Circumstances”) shall be: (a) reduced by an amount equal to Avoidable Costs; and (b) increased by an amount necessary to compensate the Project Company for any increase in the cost to the Project Company of performing the Contract Obligations, to the extent resulting from the Other Uncontrollable Circumstance; and (ii) the Water Authority shall not have the right to exercise its rights upon any failure to meet the Product Water Quality Guarantee, to the extent caused by an Uncontrollable Circumstance.

Financing Unavailability Following an Other Uncontrollable Circumstance. In the event that financing is required to pay Compensation Adjustment Event Capital Costs in connection with an Other Uncontrollable Circumstance, the parties shall have their respective rights and obligations set forth in “—Financing Compensation Adjustment Event Capital Costs”.

PAYMENTS GENERALLY.

Monthly Water Purchase Payments Following the Commercial Operation Date. From and after the Commercial Operation Date and through the Termination Date, the Water Authority shall pay the Project Company Monthly Water Purchase Payments in accordance with the terms thereof.

Limitation on Payments. Other than the payments expressly provided for herein, the Project Company shall have no right to any further compensation from the Water Authority in connection with

the delivery of Product Water, the performance of the Contract Obligations, or otherwise in connection with the Project.

MONTHLY DELIVERY RECORDS .

Monthly Product Water Deliveries. The Project Company shall record the Firm Daily Demand Order, the Monthly Product Water Order and the number of Monthly Delivered Water Units for each Billing Period, rounding the number of Units of the Monthly Delivered Water Units to the nearest one-tenth of one Acre Foot.

Monthly Demand Shortfall Units. “Monthly Demand Shortfall Units” for any Billing Period shall mean the amount by which the Monthly Product Water Order is less than the Minimum Monthly Demand Commitment. Monthly Demand Shortfall Units shall, without double counting, be characterized and recorded as Monthly Excused Demand Shortfall Units or Monthly Unexcused Demand Shortfall Units, as applicable. p

Monthly Supply Shortfall Units. “Monthly Supply Shortfall Units” for any Billing Period shall mean the amount by which Monthly Delivered Water Units are less than the Adjusted Monthly Supply Commitment. Monthly Supply Shortfall Units shall, without double counting, be characterized and recorded as Monthly Excused Supply Shortfall Units, Monthly Unexcused Supply Shortfall Units, or Monthly Unscheduled Outage Units, as applicable, provided that the cumulative amount of Monthly Unscheduled Outage Units for any Contract Year shall not exceed the Annual Unscheduled Outage Unit Allowance.

Base Product Water Deliveries. Beginning at the start of each Contract Year, the Project Company shall keep a running cumulative total of Monthly Delivered Water Units, Monthly Unexcused Demand Shortfall Units, and Monthly Unscheduled Outage Units, until such cumulative total equals the Minimum Annual Demand Commitment. Monthly Delivered Water Units, Monthly Unexcused Demand Shortfall Units and Monthly Unscheduled Outage Units so recorded shall be deemed to be “Base Product Water Deliveries”.

Additional Product Water Deliveries. Once Base Product Water Deliveries for a Contract Year have reached the Minimum Annual Demand Commitment, the Project Company shall keep a further running cumulative total of additional Monthly Delivered Water Units delivered in such Contract Year, until such cumulative total equals the Maximum Annual Supply Commitment. Monthly Delivered Water Units so recorded shall be deemed to be “Additional Product Water Deliveries”.

Excess Product Water Deliveries. Monthly Delivered Water Units in any Contract Year in excess of the Maximum Annual Supply Commitment shall be deemed to be “Excess Product Water Deliveries”.

EXCUSED SUPPLY SHORTFALL UNIT TRACKING ACCOUNT AND EXCUSED DEMAND SHORTFALL UNIT TRACKING ACCOUNT .

Account Establishment, Maintenance and Use. The Project Company shall establish and maintain an Excused Demand Shortfall Unit Tracking Account and an Excused Supply Shortfall Unit Tracking Account, in which it shall record and track the number of Monthly Excused Demand Shortfall Units and Monthly Excused Supply Shortfall Units occurring throughout the Term that have not been cured pursuant to the provisions of “—Changes to Excused Demand Shortfall Tracking Account Balance” and “—Changes to Excused Supply Shortfall Tracking Account”. The Excused Demand Shortfall Unit Tracking Account and the Excused Supply Shortfall Tracking Account shall be used, among other things, to make determinations with respect to the extension of the Term pursuant to “—Product Water Not

Delivered or Received Due to Uncontrollable Circumstances; Extension of Term”. Table 4.2 of the Water Purchase Agreement provides various examples of the tracking account adjustments set forth in this Section.

Changes to the Excused Demand Shortfall Unit Tracking Account Balance. For each Contract Year:

Opening Balance. The opening balance of the Excused Demand Shortfall Unit Tracking Account shall be the closing balance from the prior Contract Year, except that, in the first Contract Year of operations, the opening balance shall be zero.

Additions for Current Year Excused Demand Shortfall Units. The opening balance of the Excused Demand Shortfall Unit Tracking Account shall be increased by the lesser of (a) the total amount of Monthly Excused Demand Shortfall Units for such Contract Year, or (b) an amount equal to (i) the amount by which Base Product Water Deliveries for such Contract Year falls short of the Minimum Annual Demand Commitment, multiplied by (ii) a fraction, the numerator of which is the total amount of Monthly Excused Demand Shortfall Units for such Contract Year and the denominator is the sum of the Monthly Excused Demand Shortfall Units and the Monthly Excused Supply Shortfall Units for such Contract Year. Monthly Excused Demand Shortfall Units incurred during such Contract Year that are not added to the Excused Demand Shortfall Unit Tracking Account pursuant to the preceding sentence shall be deemed to have been cured during the Contract Year. For avoidance of doubt, satisfaction of the Minimum Annual Demand Commitment in any Contract Year through Base Product Water Deliveries is deemed as curing all Excused Demand Shortfall Units incurred during such Contract Year.

Reductions for Curing of Prior Year Excused Demand Shortfall Units. The opening balance of the Excused Demand Shortfall Unit Tracking Account shall be reduced by (a) the sum of the Additional Product Water Deliveries and Excess Product Water Deliveries delivered during such Contract Year, multiplied by (b) a fraction, the numerator of which is the opening balance of the Excused Demand Shortfall Unit Tracking Account and the denominator is the sum of the opening balances of the Excused Demand Shortfall Unit Tracking Account and the Excused Supply Shortfall Unit Tracking Account, provided that the balance of the Excused Demand Shortfall Unit Tracking Account shall never be reduced below zero.

Closing Balance. The closing balance of the Excused Demand Shortfall Unit Tracking Account shall be the opening balance for the subsequent Contract year as provided in “—Opening Balance”, as adjusted as provided in “—Changes and Reduction” and “—Reductions for Curing of Prior Year Excused Demand Shortfall Units”.

Changes to the Excused Supply Shortfall Unit Tracking Account Balance.

For each Contract Year:

Opening Balance. The opening balance of the Excused Supply Shortfall Unit Tracking Account shall be the closing balance from the prior Contract Year, except that, in the first Contract Year of operations, the opening balance shall be zero.

Additions for Current Year Excused Supply Shortfall Units. The opening balance of the Excused Supply Shortfall Unit Tracking Account shall be increased by the lesser of (a) the total amount of Monthly Excused Supply Shortfall Units for such Contract Year or (b) an amount equal to (i) the amount by which Base Product Water Deliveries for such Contract Year falls short of the

Minimum Annual Demand Commitment, multiplied by (ii) a fraction, the numerator of which is the total amount of Monthly Excused Supply Shortfall Units for such Contract Year and the denominator is the sum of the Monthly Excused Demand Shortfall Units and the Monthly Excused Supply Shortfall Units for such Contract Year. Monthly Excused Supply Shortfall Units incurred during such Contract Year that are not added to the Excused Demand Shortfall Unit Tracking Account pursuant to the preceding sentence shall be deemed to have been cured during the Contract Year. For avoidance of doubt, satisfaction of the Minimum Annual Demand Commitment in any Contract Year through Base Product Water Deliveries is deemed as curing all Excused Supply Shortfall Units incurred during such Contract Year.

Reduction for Curing of Prior Year Excused Supply Shortfall Units. The opening balance of the Excused Supply Shortfall Unit Tracking Account shall be reduced by the sum of the Additional Product Water Deliveries and Excess Product Water Deliveries incurred during such Contract Year times (ii) the fraction in which the numerator is the opening balance of the Excused Supply Shortfall Unit Tracking Account and the denominator is the sum of the opening balances of the Excused Demand Shortfall Unit Tracking Account and the Excused Supply Shortfall Unit Tracking Account, provided that the balance of the Excused Supply Shortfall Unit Tracking Account shall never be reduced below zero.

Closing Balance. The closing balance of the Excused Demand Shortfall Unit Tracking Account shall be the opening balance for the subsequent Contract year as provided in “—Opening Balance”, as adjusted as provided in “—Changes and Reduction” and “—Reductions for Curing of Prior Year Excused Demand Shortfall Units”.

CAPITAL CHARGES .

Debt Service Charge. The Debt Service Charge for each Contract Year shall be the per Acre-Foot amount set forth in Table 1.1 of the Water Purchase Agreement. The Debt Service Charge is fixed for each Contract Year as of the Contract Date (except as provided in “—Decrease in the Fixed Unit Price and the Operating Period Shortfall Payment Unit Price” and in “—Adjustments to the Unit Price”, and shall not be Index-Linked.

Equity Return Charge. The Equity Return Charge for each Contract Year shall be the per Acre-Foot amount set forth in Table 1.2 of the Water Purchase Agreement. The Equity Return Charge is fixed for each Contract Year as of the Contract Date (except as provided in “—Cabrillo Raw Seawater System Intake Improvement”, in “—Compensation Adjustment Event Capital Costs”, in “—Financing Directed Capital Modification Capital Costs”, “—Decrease in the Fixed Unit Price and the Operating Period Shortfall Payment Unit Price”, in “—Adjustments to the Equity Return Charge Based Upon Events Occurring Under the Product Water Improvements Design-Build Agreement”, and in “—Adjustments to the Unit Price”, and shall not be Index-Linked.

OPERATING CHARGES .

Fixed Operating Charge. The Fixed Operating Charge as of the Financial Closing Date shall be the per-Acre Foot amount set forth in Table 1.4 of the Water Purchase Agreement. The Fixed Operating Charge shall be Index Linked and is subject to adjustment as provided in “—Decrease in the Fixed Unit Price and the Operating Period Shortfall Payment Unit Price” and in “—Adjustments to the Unit Price”.

Variable Operating Charge. The Variable Operating Charge as of the Financial Closing Date shall be the per-Acre Foot amount set forth in Table 1.4 of the Water Purchase Agreement). The Variable

Operating Charge shall be Index-Linked, and shall be subject to adjustment as provided in “—Adjustments to the Unit Price”.

ELECTRICITY CHARGES .

Fixed Electricity Charge. The Fixed Electricity Charge for each Contract Year shall be the per-Acre Foot amount determined in accordance with the Water Purchase Agreement, subject to adjustment as provided in the Water Purchase Agreement.

Variable Electricity Charge. The Variable Electricity Charge for each Billing Period in each Contract Year shall be the per-Acre Foot amount determined in accordance with the Water Purchase Agreement.

UNIT PRICES .

Fixed Unit Price. The Fixed Unit Price shall be an amount equal to the sum of (1) the Debt Service Charge, (2) the Equity Return Charge, (3) the Fixed Operating Charge, and (4) the Fixed Electricity Charge. The Fixed Unit Price shall be adjusted if and to the extent required by (a) “—Decrease in the Fixed Unit Price and the Operating Period Shortfall Payment Unit Price”.

Variable Unit Price. The Variable Unit Price shall be an amount equal to the sum of (1) the Variable Operating Charge, and (2) the Variable Electricity Charge.

Excess Product Water Deliveries Incentive Unit Price. The Excess Product Water Deliveries Incentive Unit Price is \$195 (Index-Linked).

MONTHLY WATER PURCHASE PAYMENTS .

Monthly Payments. The Water Authority shall pay the Project Company a Monthly Water Purchase Payment for each Billing Period during the Term equal to: (i) the number of Monthly Delivered Water Units delivered during such Billing Period that constitute Base Product Water Deliveries, multiplied by the sum of the Fixed Unit Price and the Variable Unit Price; plus (ii) the number of Monthly Unexcused Demand Shortfall Units and Monthly Unscheduled Outage Units that constitute Base Product Water Deliveries occurring during such Billing Period, multiplied by the Fixed Unit Price; plus (iii) the number of Monthly Delivered Water Units delivered during such Billing Period that constitute Additional Product Water Deliveries, multiplied by the Variable Unit Price; plus (iv) the number of Monthly Delivered Water Units delivered during such Billing Period that constitute Excess Product Water Deliveries, multiplied by the sum of the Variable Unit Price and the Excess Product Water Deliveries Incentive Unit Price; plus or minus (v) direct Payments, all subject to the adjustments and cap provided for in the Water Purchase Agreement. No payments shall be due for Monthly Unexcused Demand Shortfall Units or Monthly Unscheduled Outage Units that are either Additional Product Water Deliveries or Excess Product Water Deliveries. To the extent the Project Company receives compensation pursuant to item (iv) of this Section, it shall compensate the Operating Service Provider as provided in “—Incentive Compensation Payable to Operating Services Provider”.

Annual Tracking Account Reduction Charge Applicable to July Monthly Payments. The Annual Tracking Account Reduction Charge determined for any Contract Year pursuant to “—Annual Tracking Account Reduction Charge” shall be applied to increase the July Monthly Water Purchase Payment due in the next-subsequent Contract Year.

ANNUAL TRACKING ACCOUNT REDUCTION CHARGE .

Annual Tracking Account Reduction Charge. “Annual Tracking Account Reduction Charge”, for purposes of the Water Purchase Agreement, means the sum of (1) the Annual Excused Demand Shortfall Unit Tracking Account Reduction Charge, and (2) the Annual Excused Supply Shortfall Unit Tracking Account Reduction Charge.

Annual Excused Demand Shortfall Unit Tracking Account Reduction Charge. To the extent that Additional Product Water Deliveries or Excess Product Water Deliveries are applied to reduce the Excused Demand Shortfall Unit Tracking Account Balance pursuant to “—Reductions for Curing of Prior Year Excused Demand Shortfall Units”, such application will result in an Annual Excused Demand Shortfall Unit Tracking Account Reduction Charge equal to (1) the number of Units so applied, multiplied by (2) the Fixed Unit Price.

Annual Excused Supply Shortfall Unit Tracking Account Reduction Charge. To the extent that Additional Product Water Deliveries or Excess Product Water Deliveries are applied to reduce the Excused Supply Shortfall Unit Tracking Account Balance pursuant to “—Reductions for Curing of Prior Year Excused Supply Shortfall Units”, such application will result in an Annual Excused Supply Shortfall Unit Tracking Account Reduction Charge equal to (1) the number of Units so applied, multiplied by (2) the sum of the Fixed Unit Price and the Operating Period Shortfall Payment Unit Price.

ANNUAL ADJUSTED SUPPLY COMMITMENT TRUE-UP PAYMENT BY THE PROJECT COMPANY.

Annual Adjusted Supply Commitment True-Up Payment. The Project Company shall make an Annual Adjusted Supply Commitment True-Up Payment to the Water Authority at the end of each Contract Year in the manner provided in “—Subordination”. The “Annual Adjusted Supply Commitment True-Up Payment” shall be an amount equal to the positive balance, if any, of: (i) the Base Product Water Deliveries for such Contract Year, multiplied by the Fixed Unit Price, minus (ii) (a) a fraction, the numerator of which is the sum of the Monthly Delivered Water Units, Monthly Unexcused Demand Shortfall Units and Monthly Unscheduled Outage Units for such Contract Year, and the denominator of which is the Adjusted Annual Supply Commitment for such Contract Year, multiplied by (b) the Fixed Annual Costs.

No Offset. The obligation of the Project Company to make any Annual Adjusted Supply Commitment True-Up Payment is independent of the charges and credits on the basis of which the Monthly Water Purchase Payments are determined, and shall not be used to offset Monthly Water Purchase Payments.

Subordination. The Project Company shall be obligated to make Annual Adjusted Supply Commitment True-Up Payments solely from amounts available for such purposes in the Distribution and Stabilization Fund established under the Collateral Trust Agreement and upon the terms and conditions set forth therein. The parties acknowledge, accordingly, that (1) the right of the Water Authority to receive Annual Adjusted Supply Commitment True-Up Payments is subordinate to the right of the holders of the Permitted Debt to receive debt service payments, and (2) the right of the Project Company to receive distributions is subordinate to the right of the Water Authority to receive Annual Adjusted Supply Commitment True-Up Payments. Any Annual Adjusted Supply Commitment True-Up Payment that is due to the Water Authority with respect to a Contract Year and not paid within 30 days following the end of such Contract Year shall accrue interest until paid in accordance with “—Interest on Overdue Amounts”.

DEDUCTIONS CREDIT.

The Deductions Credit component of the Direct Payments component of the Monthly Water Purchase Payments shall be the sum of all Deductions imposed with respect to the applicable Billing Period.

DIRECT PAYMENTS.

The Direct Payments component of the Monthly Water Purchase Payments, which may be a charge or a credit, shall be equal to the net amount of the Direct Payments with respect to the applicable Billing Period.

FORM OF COMPENSATION ADJUSTMENTS FOR EVENTS OCCURRING AFTER THE CONTRACT DATE.

General. The Water Purchase Agreement provides increased or decreased compensation to the Project Company over the Term based on the occurrence of specified events following the Contract Date (“Compensation Adjustment Events”). Such payments and adjustments shall be paid and made either as an adjustment to the Unit Price or a Direct Payment, as provided in this Section. The Project Company shall substantiate its entitlement to additional compensation in the manner required by “—Cost Substantiation for Additional Work Required Due to Compensation Adjustment Events”.

Adjustments to the Unit Price. Compensation to the Project Company shall be payable as an adjustment to the appropriate Charge component of the applicable Unit Price (“Unit Price Adjustments”), and other adjustments to the appropriate Charge component of the applicable Unit Price shall be made, in accordance with and subject to the terms and conditions of the Water Purchase Agreement (including Section pertaining to Cap on Increases in the Unit Price Due to Uncontrollable Circumstances), upon the occurrence of the events described in the following Sections and subsections: (i) Letter of Credit - Release or Suspension; (ii) Cabrillo Raw Seawater Intake System Improvements; (iii) Good Management Practice and Good Design and Construction Practice; (iv) Adjustments to the Equity Return Charge Based Upon Events Occurring Under the Product Water Pipeline Improvements Design-Build Agreement; (v) Financing Compensation Adjustment Event Capital Costs; (vi) Financing Directed Capital Modification Capital Costs; (vii) Refinancing Gain; (viii) Cleanup and Costs; (ix) Preparation Costs; (x) Directed Capital Modifications and Compensation Adjustment Events; (xi) Uninsurable Force Majeure Events; (xii) Change in Law Events; (xiii) Discriminatory or Specified Changes in Tax Law; and (xiv) Other Uncontrollable Circumstances.

The adjustment to one or more of the Charge components of the Unit Price to be made under this subsection shall be established at the time the appropriate compensation relief is agreed upon, and such compensation shall be payable solely to the extent that the Water Authority is obligated to make Monthly Water Purchase Payments based on the Unit Price with respect to Product Water delivered or available for delivery hereunder. The Project Company acknowledged, accordingly, that any failure by the Project Company to deliver or make available for delivery Product Water for which it would have been entitled to payment based on the Unit Price (including the adjustment to one or more Charge components thereof reflecting such compensation relief) will result in a reduction in the compensation relief to which it would have been entitled upon the occurrence of the compensation relief circumstance had the Project Company delivered or made available for delivery such Product Water.

Direct Payments. The Water Authority shall pay the Project Company as a direct payment (and not as part of an adjustment to the Unit Price under “—Adjustments to the Unit Price”), and the Project Company shall pay the Water Authority as a direct payment, any amounts due under or referred to in the

following Sections. The net amount shall constitute the Direct Payment and applied as a credit or debit in calculating the Monthly Water Purchase Payment:

(i) Project Company Expenses; (ii) Procedures Relating to Potential Tax Gross-Ups; (iii) Adjustment for Underpayment; (iv) SDG&E Special Conditions Contract; (v) Alternative Electricity Suppliers; (vi) Annual Management Fee; (vii) Hydraulic Transients; (viii) Remedies for Breach of Product Water Quality Guarantee-Off-Specification Product Water; (ix) Limitations on the Project Company's Product Water Supply Obligations; (x) Extraordinary Flow Rate Change Payments; (xi) General; (xii) Drought Shortfall Payments; (xiii) Administrative Obligations; (xiv) Preparation Costs; (xv) Failure to Provide Insurance Coverage; (xvi) Deductions Credit; (xvii) Remedies of the Parties and Water Authority Step-In Rights; (xviii) Project Company to Cooperate; (xix) Project Company's Obligation to Indemnify, and any other term or condition thereof, under which indemnification payments are owed by the Project Company; (xx) "—Insurance Requirements", the Section with respect to any additional insurance coverage requested by the Water Authority; (xxi) "—Supplemental Performance Guarantee Requirements", with respect to payment adjustments due to Water Authority-directed chlorine residual and chloramine/ammonia ratio levels made pursuant to the Section related to Chlorine Residual and Chloramine/Ammonia Ratio; (xxii) any term or condition thereof, under which non-compliance results in actual or liquidated damages payable by either party; and (xxiii) any other term or condition thereof, under which payment is owed by one party to the other that (a) has not been accounted for by an adjustment to the Unit Price under this Section, and (b) and has not been paid to the Project Company on a lump sum basis for Compensation Adjustment Event Capital Costs as provided in the Lump Sum Payments for Directed Capital Modification Capital Costs and Compensation Adjustment Event Capital Costs Section.

Lump Sum Payments for Directed Capital Modification Capital Costs and Compensation Adjustment Event Capital Costs. "—Water Authority Right to Finance Compensation Adjustment Event Capital Costs" provides for an election by the Water Authority to compensate the Project Company for Compensation Adjustment Event Capital Costs on a lump sum basis, rather than through an adjustment to the Unit Price. Any such lump sum payment shall be made on a negotiated progress payment basis, separate and apart from the Monthly Water Purchase Payments. The parties acknowledged and agreed that the payments described in "—Annual Operating Revised Shortfall True-Up Charge Payment" and in "—Annual Adjusted Supply Commitment True-Up Payment by the Project Company" (1) constitute direct payments, (2) should not be the basis of an adjustment to the Unit Price under "—Adjustments to the Unit Price", (3) should not be applied as a credit in calculating the Monthly Water Purchase Payment, and (4) shall be payable only as and to the extent provided respectively in "—Annual Operating Period Shortfall Payment True-Up Payment" and "—Subordination".

CAP ON INCREASES IN THE UNIT PRICE DUE TO UNCONTROLLABLE CIRCUMSTANCES.

Baseline Unit Price. The "Baseline Unit Price" at any time for purposes of the Water Purchase Agreement shall be (1) the sum of the Fixed Unit Price and the Variable Unit Price at such time, and (2) the sum of all Unit Price Adjustments referred to in "—Adjustments to the Unit Price" to be made based on the events or circumstances referred to in items (i), (iii), (iv) (but only for those events and circumstances that do not adjust the Baseline Unit Price Cap, as set forth in "—Baseline Unit Price Cap"), (v), (vi), (vii), (viii), (ix), and (x) and effective at such time that increase the Fixed Unit Price and the Variable Unit Price. The Baseline Unit Price shall not include any Unit Price Adjustments under such

subsection and effective at such time that decrease the Fixed Unit Price or the Variable Unit Price, such as decreases resulting from a Refinancing Gain.

Baseline Unit Price Cap. The sum of the increases in the Fixed Unit Price and the Variable Unit Price to be made based on the events or circumstances referred to in items (ii), (iv) (but only for those events or circumstances set forth in clause (ii) set forth below in this subsection), (xi), (xii), (xiii) and (xiv) of “—Adjustments to the Unit Price” (which increases reflect the cumulative cost of (i) all Uninsurable Force Majeure Events, Change in Law Events, Other Uncontrollable Circumstances, and Discriminatory or Specified Changes in Tax Law; and (ii) the equitable adjustments to the Equity Return Charge made to reflect the terms of any financing of any “Base Design-Build Price Adjustment Event Capital Costs” undertaken pursuant to the Product Water Pipeline Improvements Design-Build Agreement as set forth in “—Adjustments to the Equity Return Charge Based Upon Events Occurring Under the Product Water Pipeline Improvements Design-Build Agreement”) occurring in the aggregate up to the time of any particular calculation) shall not exceed an amount equal to 30% of the Baseline Unit Price at any time, nor shall the sum of such increases effective in any one Contract Year exceed an amount equal to 10% of the Baseline Unit Price effective in the immediately preceding Contract Year (such limitations together constituting the “Baseline Unit Price Cap”). Accordingly, the Project Company shall not be entitled to, and shall forego, any compensation on account of such event or circumstance to the extent the sum of any such increases would at any time cause the Baseline Unit Price Cap to be exceeded. There shall be no deferral or carry forward of any such foregone compensation.

Recordkeeping. The Project Company shall maintain current records of the amount of the Baseline Unit Price and the Baseline Unit Price Cap (and the basis of calculating such amounts) in effect from time to time, and provide the Water Authority with copies thereof upon request, any change in such amounts, and upon making a claim for compensation based on any of the events or circumstances referred to in “—Baseline Unit Price Cap”.

BILLING AND PAYMENT.

Invoicing and Monthly Water Purchase Payment Due Date. The Project Company shall provide the Water Authority with an invoice for each Billing Period by the tenth Business Day following the end of such Billing Period. The invoice shall set forth the amount of the Monthly Water Purchase Payment due with respect to such Billing Period and, in addition, shall state the accumulated payments to the date of such invoice and such other documentation or information as the Water Authority may reasonably require to determine the accuracy and appropriateness of the invoice in accordance with the Water Purchase Agreement. The Water Authority shall pay the invoice within 30 days of receipt.

Late Annual Monthly Water Purchase Payments. In the event the Water Authority fails to make a Monthly Water Purchase Payment when due under “—Invoicing and Monthly Water Purchase Payment Due Date”, interest shall accrue and be payable thereon, as and to the extent provided in “—Interest on Overdue Amounts”.

ESTIMATES AND ADJUSTMENTS.

First and Last Billing Periods. If the first or last Billing Period is a partial month, any computation made on the basis of a Billing Period shall be adjusted on a pro-rata basis to take account of the partial period of service.

Budgeting. For Water Authority budgeting purposes, (1) no later than 60 days prior to the Commercial Operation Date, and (2) no later than 90 days preceding each Contract Year, the Project

Company shall provide to the Water Authority a written statement setting forth for such Contract Year its reasonable estimate of the Monthly Water Purchase Payments, each component thereof, the Inflation Index, and the adjustments to the Fixed Electricity Charge and Variable Electricity Charge provided for in the Water Purchase Agreement. The estimate shall not be binding on the Project Company but, in the event that any component of the Monthly Water Purchase Payments for a Billing Period cannot be determined when the invoice for such Billing Period is being submitted, then such estimate shall be used, subject to an appropriate adjustment in a subsequent invoice when the actual value of such component becomes available.

ANNUAL SETTLEMENT.

Within 60 days after the end of each Contract Year, the Project Company shall provide to the Water Authority an annual settlement statement (the “Annual Settlement Statement”) setting forth the actual aggregate Monthly Water Purchase Payments payable with respect to such Contract Year and a reconciliation of such amount with the amounts actually paid by the Water Authority with respect to such Contract Year. The Water Authority or the Project Company, as appropriate, shall pay all known and undisputed amounts within 60 days after receipt or delivery of the Annual Settlement Statement. If any amount is then in dispute or is for other reasons not definitely known at the time the Annual Settlement Statement is due, the Annual Settlement Statement shall identify the subject matter and reasons for such dispute or uncertainty and, in cases of uncertainty, shall include a good faith estimate by the Project Company of the amount in question. When the dispute is resolved or the amount otherwise finally determined, the Project Company shall file with the Water Authority an amended Annual Settlement Statement which shall, in all other respects, be subject to this Section.

TAXES .

The Project Company shall pay, without reimbursement from the Water Authority, all Taxes imposed with respect to the Plant or the Contract Obligations, including: (i) any property tax on the Plant; (ii) any possessory interest tax imposed with respect to the Plant; (iii) any sales or use tax imposed on building materials incorporated in the Plant; and (iv) any sales or use tax imposed on operating or maintenance supplies and services, whether any such Tax exists on the Contract Date or is imposed at any time during the Term. The Project Company acknowledged that all such Taxes have been taken into account in establishing the Monthly Water Purchase Payments; provided, however, that with respect to new or changed Taxes resulting from a Discriminatory Change in Tax Law or a Specified Change in Tax Law, the Project Company or the Water Authority shall be entitled to an adjustment to the Unit Price on account of the occurrence of a Change in Law Event as provided in “—Discriminatory or Specified Changes in Tax Law”.

RISK OF ADVERSE TAX OR ACCOUNTING TREATMENT .

There shall be no adjustment of the Monthly Water Purchase Payments or any other amount payable to, and no relief from any obligation of, the Project Company hereunder on account of: (i) except as provided in “—Change in Law Events” with respect to a Discriminatory Change in Tax Law, any change in any provision of Income Tax law to take effect after the Contract Date pertaining to the transactions contemplated hereby which affects the Project Company or any other person (including, without limitation, any provisions thereof pertaining to Income Tax rates or to the Income Tax treatment of the Monthly Water Purchase Payments or any other payment between the parties), notwithstanding any assumptions made by the Project Company in entering into the Water Purchase Agreement or any Project Contract as to the provisions of Income Tax law which would be applicable to this transaction or their effect on the Project Company or such other person, (ii) any administrative or judicial determination which is adverse to the Project Company or any other person as to any Income Tax treatment or

consequence arising in connection herewith, including any such determination made with respect to depreciation, amortization or credits with respect to equity invested in the Project or with respect to the exclusion of interest on any obligation issued to finance the Project where such interest was intended to be excludable from taxpayer gross income, (iii) any inability of the Project Company or other person to fully utilize any Income Tax benefits which may have been assumed to accrue on account of the transactions contemplated hereby, or (iv) any application of or change in accounting standards to the transactions contemplated hereby which may be inconsistent with the accounting standards or application thereof which may have been assumed by the Project Company or any other person in connection with such transactions.

COST SUBSTANTIATION FOR ADDITIONAL WORK REQUIRED DUE TO DIRECTED CAPITAL MODIFICATIONS AND COMPENSATION ADJUSTMENT EVENTS.

General. The Project Company shall substantiate all costs for which it claims compensation based on the occurrence of a Directed Capital Modification or a Compensation Adjustment Event (“Cost Substantiation”), whether compensation is to be paid as part of adjustment to the Unit Price or as a lump sum, as provided in “—Form of Compensation Payments and Adjustments for Events Occurring After the Contract Date”.

Negotiated Price Based on Expected Costs. It is the expectation of the parties that most Directed Capital Modifications and Compensation Adjustment Events will occur in a manner which permits the parties to negotiate in advance a price for the work required in response to the Directed Capital Modifications or the Compensation Adjustment Event. In such circumstances the Project Company shall substantiate the costs it expects to incur in performing the work, and deliver a Cost Substantiation Certificate as to such expected costs. The Cost Substantiation Certificate shall form the basis of the negotiations of parties as to the compensation payable on account of the Directed Capital Modifications or the Compensation Adjustment Event as provided in “—Adjustments to the Unit Price”. For example, if a Change in Law Event occurs, as required under “—Change in Law Events and Other Uncontrollable Circumstances”, the parties will assess the impact of the Change in Law Event, take all appropriate mitigation steps, determine any necessary Capital Modifications and operating changes, and agree upon lump sum or other fixed pricing with respect to the additional work to be performed or costs to be incurred. Once the parties agree upon the lump sum or other fixed price compensation, the Project Company’s actual costs of performance shall not be subject to further substantiation.

Price Payable Based on Incurred Costs. The parties acknowledged that the Project Company may be required to incur costs to perform the Contract Obligations in response to a Compensation Adjustment Event involving an emergency or other immediate need to respond to an Uncontrollable Circumstance before a price for the required work can be negotiated. In such circumstances the Project Company shall substantiate its entitlement to a compensation adjustment after the fact through the delivery of a Cost Substantiation Certificate setting forth its costs actually incurred.

Competition Practices. In incurring costs for additional work required due to Directed Capital Modifications or Compensation Adjustment Events which are or may be subject to Cost Substantiation, the Project Company shall utilize competitive practices to the maximum reasonable extent (including, where practicable, obtaining three competing quotes or estimates for costs expected to be in excess of \$50,000 (Index Linked)), and shall enter into Subcontracts on commercially reasonable terms and prices in light of the work to be performed and the Water Authority’s potential obligation to pay for it; provided, however, that during the Construction Period, the Project Company shall not be required to utilize competitive practices for additional work self-performed by the EPC Contractor or by a Subcontractor that is an original party to (and not an assignee under) Subcontracts that pre-existed the need and request for additional work. If the Project Company is not required to utilize competitive practices, it shall instead

demonstrate to the Water Authority that the additional costs in response to a Directed Capital Modification or a Compensation Adjustment Event hereunder are commercially reasonable.

Cost Substantiation Certificate. Any certificate delivered hereunder to substantiate expected or incurred cost shall state the amount of such cost and the provisions of the Water Purchase Agreement under which compensation is payable by the Water Authority, shall describe the competitive or other process utilized by the Project Company to obtain the commercially reasonable price, and shall state that such services and materials are reasonably required pursuant to the Water Purchase Agreement. The Cost Substantiation Certificate shall be accompanied by copies of such documentation as shall be necessary to demonstrate the reasonableness of the cost. Such documentation shall be in a format reasonably acceptable to the Water Authority and shall include reasonably detailed information concerning all Subcontracts and self-perform work.

Evidence of Costs Incurred. To the extent reasonably necessary to confirm actual incurred costs that are subject to Cost Substantiation, copies of timesheets, invoices, canceled checks, expense reports, receipts and other documents, as appropriate, shall be delivered to the Water Authority, with the request for reimbursement of such costs.

Mark-Ups. For any self-performed work requiring Cost Substantiation, the Project Company shall be entitled to a mark-up of 6% for a combination of overhead, risk, profit and contingency for costs of its own personnel, and for subcontracted work a mark-up of 6% for a combination of overhead, risk, profit and contingency for costs of its Subcontractors.

WATER AUTHORITY'S RIGHT OF SET OFF.

Except as provided in “—Subordination”, once the Water Authority determines that any credits, payments, reimbursements or liquidated damages are owed to the Water Authority in accordance with the terms and conditions of the Water Purchase Agreement and have not been reflected in any previously submitted Billing Statement, the Water Authority shall notify the Project Company and the Project Company shall include such amounts as an Extraordinary Item in the next Billing Period invoice provided to the Water Authority under the Water Purchase Agreement. In the event the Project Company does not include such amounts in the next Billing Period invoice provided to the Water Authority in accordance with this Section, the Water Authority shall have the right to offset the Monthly Water Purchase Payment otherwise payable for such Billing Period invoice by the amount of such credits, payments, reimbursements or liquidated damages. Notwithstanding the foregoing, the Water Authority shall have the right to offset the Monthly Water Purchase Payment otherwise payable to the Project Company for the final three Billing Period invoices during the Term by the amount of any credits, payments, reimbursements or liquidated damages due to the Water Authority under the Water Purchase Agreement.

BILLING STATEMENT DISPUTES.

If the Water Authority disputes in good faith any amount billed by the Project Company, the Water Authority shall pay all undisputed amounts when due but may withhold payment of the disputed amount, and shall provide the Project Company with a written objection indicating the amount being disputed and the reasons then known to the Water Authority for the dispute. In the event that the Project Company disputes any amounts offset by the Water Authority, it shall provide the Water Authority with a written objection indicating the amount being disputed and the reasons then known to the Project Company. When any billing dispute is finally resolved, if payment by the Water Authority to the Project Company of amounts withheld is required, such payment shall be made within 30 days of the date of resolution of the dispute, together with interest thereon, from the date originally due, determined as provided in “—Interest on Overdue Amounts.

INTEREST ON OVERDUE AMOUNTS .

If payment of any amount payable under the Water Purchase Agreement is not made when due (including the Project Assets Purchase Price), simple interest will be payable on such amount at the Overdue Rate and shall be calculated on the basis of a 365-day year from the date such payment is due (or was determined to have been due, in the case of amounts being disputed by the Water Authority) under the Water Purchase Agreement until paid. The party to whom payment is owed and overdue shall notify the other party at least quarterly of the overdue amount.

FORUM FOR DISPUTE RESOLUTION .

Court Jurisdiction. It is the express intention of the parties that all Legal Proceedings related to the Water Purchase Agreement or to the Project or to any rights or any relationship between the parties arising therefrom shall be solely and exclusively initiated and maintained in State or federal courts located in the County of San Diego, California. The Project Company and the Water Authority each irrevocably consents to the jurisdiction of such courts in any such Legal Proceeding and waives any objection it may have to the laying of the jurisdiction of any such Legal Proceeding.

Disputes as to Provisional Acceptance. In the event (1) the Water Authority and the Project Company become involved in any mediation or judicial proceeding with respect to whether Provisional Acceptance has been achieved, and (2) the Project Company determines that it would be appropriate that any corresponding dispute between the Project Company and the Plant EPC Contractor under the Plant EPC Agreement (with respect to issues that are substantially identical under both the Water Purchase Agreement and the Plant EPC Agreement) be resolved in that proceeding, the Water Authority consents to the EPC Contractor's joinder to, and consolidated resolution of such substantially identical issues in, that proceeding.

NON-BINDING MEDIATION .

Rights to Request and Decline. Either party may request Non-Binding Mediation of any dispute arising under the Water Purchase Agreement. The non-requesting party may decline the request in its discretion. If there is concurrence that any particular matter shall be mediated, the provisions of this Section shall apply. The costs of the Mediator shall be divided equally between the Water Authority and the Project Company.

Procedure. The Mediator shall be a professional mutually acceptable to the parties who has no current or on-going relationship to either party. The Mediator shall have full discretion as to the conduct of the mediation. Each party shall participate in the Mediator's program to resolve the dispute until and unless the parties reach agreement with respect to the disputed matter or one party determines in its discretion that its interests are not being served by the mediation.

Non-Binding Effect. Mediation is intended to assist the parties in resolving disputes over the correct interpretation of the Water Purchase Agreement. No Mediator shall be empowered to render a binding decision.

Relation to Judicial Legal Proceedings. Nothing in this Section shall operate to limit, interfere with or delay the right of either party under the Water Purchase Agreement to commence judicial Legal Proceedings upon a breach of the Water Purchase Agreement by the other party, whether in lieu of, concurrently with, or at the conclusion of any Non-Binding Mediation.

REMEDIES FOR BREACH.

The parties agree that in the event that either party breaches the Water Purchase Agreement, the other party may exercise any legal rights it may have under the Water Purchase Agreement, under the Letter of Credit and under Applicable Law to recover damages or to secure specific performance, and that such rights to recover damages and to secure specific performance shall ordinarily constitute adequate remedies for any such breach. Neither party shall have the right to terminate the Water Purchase Agreement except as provided or referred to in “—Termination”. Any such damage payment shall be a Direct Payment.

WATER AUTHORITY’S TEMPORARY STEP-IN RIGHTS.

If (1) a “Notice of Grantee Event of Default” has been given under the Cabrillo Ground Lease and the Water Authority reasonably determines that the underlying “Grantee Event of Default” (as defined in the Cabrillo Ground Lease) would reasonably be expected to result in termination of the Cabrillo Ground Lease, or (2) the Water Authority reasonably considers that the Project Company has breached any obligation under the Water Purchase Agreement, or another event has occurred, that is likely to create an immediate and serious threat to public health or safety on account of the quality or quantity of Product Water being delivered or not being delivered to the Water Authority Distribution System, then the Water Authority, acting reasonably, may either:

(1) If it considers that there is sufficient time and that it is likely that the Project Company shall be willing and able to provide assistance, require the Project Company by notice to take such steps as are necessary or expedient to mitigate or rectify such state of affairs including, if applicable due to breach of any Project Contract, suspension of the Project Contractor, and the Project Company shall use all reasonable efforts to comply with the Water Authority’s requirements as soon as reasonably practicable; or

(2) If it considers, acting reasonably, there is not sufficient time, or that the Project Company is not likely to be willing and able to take the necessary steps, take such steps as it considers are appropriate (either itself or by engaging others) to mitigate or rectify such state of affairs. The Water Authority will carry out such steps as quickly as is practicable, and in such manner as will minimize interference with the Project Company’s performance of its obligations under the Water Purchase Agreement.

The Project Company shall ensure that no Project Contract prevents the Water Authority from exercising its rights under this Section.

NOTICE OF CAPITAL MODIFICATION.

The Water Authority shall notify the Project Company of any Capital Modification which the Water Authority intends to make pursuant to the exercise of the Water Authority’s rights under “—Water Authority’s Temporary Step-In Rights” and provide the Project Company a reasonable opportunity, taking into account all the circumstances, to comment on the proposed Capital Modification. In making such Capital Modification, the Water Authority will reasonably consider comments received in a timely manner from the Project Company on the proposed Capital Modification.

NO EFFECT ON CONTRACT OBLIGATIONS.

The exercise by the Water Authority of any of its rights under this “—Remedies of the Parties and Water Authority Step-In Rights” shall not reduce or affect in any way the Project Company’s responsibility under the Water Purchase Agreement to perform the Contract Obligations.

ALLOCATION OF COSTS FOR WATER AUTHORITY’S EXERCISE OF STEP-IN RIGHTS.

To the extent that any of the circumstances set forth in “—Water Authority’s Temporary Step-In Rights” arise as a result of any breach by the Project Company of its obligations under the Water Purchase Agreement, then the Project Company shall pay the Water Authority the amount of all costs and expenses reasonably incurred by the Water Authority in exercising its rights under “—Water Authority’s Temporary Step-In Rights” and an additional mark-up of 6% of such costs and expenses in respect of indirect costs and overhead not otherwise directly attributable to the exercise of such rights. In all other cases, the Water Authority shall compensate the Project Company for actions taken under “—Water Authority’s Temporary Step-In Rights” in the manner provided in “—Change in Law Events and Other Uncontrollable Circumstances” as if such circumstances constituted an Uncontrollable Circumstance affecting the Project Company.

WAIVER OF REMEDIES.

No failure to exercise, and no delay in exercising, any right or remedy under the Water Purchase Agreement will be deemed to be a waiver of that right or remedy. No waiver of any breach of any provision of the Water Purchase Agreement will be deemed to be a waiver of any subsequent breach of that provision or of any similar provision.

EXERCISE OF REMEDIES.

Remedies Cumulative. The rights and remedies of the parties under the Water Purchase Agreement are cumulative and are in addition to and not in substitution for any other rights and remedies available at law or in equity or otherwise.

Similar Rights and Remedies. A party will not be prevented from enforcing a right or remedy on the basis that another right or remedy under the Water Purchase Agreement deals with the same or similar subject matter.

Single or Partial Exercise of Remedies. No single or partial exercise by a party of any right or remedy precludes or otherwise affects the exercise of any other right or remedy to which that party may be entitled.

NO DUPLICATIVE RECOVERY OR CLAIMS OUTSIDE CONTRACT.

Every right to claim compensation, indemnification or reimbursement under the Water Purchase Agreement shall be construed so that recovery is without duplication to any other amount recoverable under the Water Purchase Agreement. Neither party shall be entitled to make any claim against the other party for compensation, indemnification or reimbursement other than as provided under the Water Purchase Agreement.

NO SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES.

In no event shall either party thereto be liable to the other or obligated in any manner to pay to the other party any special, incidental, consequential, punitive or similar losses or damages based upon claims arising out of or in connection with the performance or non-performance of its obligations or otherwise under the Water Purchase Agreement, or any representation made in the Water Purchase Agreement being materially incorrect, whether such claims are based upon contract, tort, negligence, warranty or any other legal theory. This Section shall not limit the recovery of any such losses or damages under “—Indemnification” in respect of claims by third parties.

PROJECT COMPANY EVENTS OF DEFAULT.

For the purposes of the Water Purchase Agreement, “Project Company Event of Default” means any of the following events or circumstances:

The occurrence of a Project Company Remediable Breach that is not remedied in accordance with “—Project Company Remediable Breach Cure and Remedial Program”, unless such occurrence is the result of an Uncontrollable Circumstance;

The failure of the Project Company to timely achieve the Commercial Operation Date, as provided in “—Failure to Achieve the Commercial Operation Date by the Scheduled Commercial Operation Date”, unless such failure is the result of an Uncontrollable Circumstance;

The occurrence of a Project Company Bankruptcy-Related Event;

The Project Company abandons the Project, other than pursuant to its right to suspend performance due to a Force Majeure Event;

The Project Company breaches “—Limitation on Assignment by Project Company” or a Change in Control occurs which is prohibited by “—Limitations on Change in Control”;

The occurrence of either of the following with respect to Product Water quality, unless the occurrence is the result of an Uncontrollable Circumstance: (a) an exceedance of the same primary drinking water standard MCL in three consecutive months, or four times in any consecutive 12 month period; or (b) the issuance by the CDPH of a second “boil water” notice with respect to Product Water, as provided in “—Boil Water Notices”;

In any rolling period of 36 consecutive Billing Periods, the sum in 24 or more of such 36 Billing Periods of (1) all Monthly Delivered Water Units, (2) Monthly Unexcused Demand Shortfall Units, (3) Monthly Excused Supply or Demand Shortfall Units occurring in each of such 24 or more Billing Periods, and (4) Monthly Unscheduled Outage Units is less than an amount equal to 75% of the sum of the Monthly Product Water Orders for the corresponding Billing Periods;

The termination of the Cabrillo Ground Lease following an event of default thereunder;
or

Project Company Remediable Breach Defined. For purposes of the Water Purchase Agreement, “Project Company Remediable Breach” means:

A failure by the Project Company to pay any amount due and owing to the Water Authority under the Water Purchase Agreement on the due date (which amount is not being disputed in good faith) and the Project Company has not remedied such failure to pay within 10 Business Days following notice from the Water Authority;

A failure by the Project Company to maintain the policies of insurance required to be maintained by the Project Company under the Water Purchase Agreement and to comply with its obligation under the Water Purchase Agreement to name the Water Authority as an insured party;

A failure by the Project Company to comply with its obligation under Insurable Force Majeure Events to repair, replace or restore the Project following the occurrence of an Insurable Force Majeure Event;

The Project Company fails to immediately take all appropriate action in the event that the Water Authority notifies the Project Company that a public health or safety emergency exists or is threatened due to the Project Company's failure to comply with the Contract Standards;

A Project Company Persistent Breach;

Except as provided for in the Water Purchase Agreement, a breach, or series of breaches, by the Project Company of any agreement, covenant or undertaking made to the Water Authority (other than a breach for which the Water Authority may impose Deductions) or any representation or warranty made by the Project Company to the Water Authority in the Water Purchase Agreement (or any ancillary certificate, statement or notice issued thereto) being incorrect when made or at any time during the Term, the consequence of which is:

- (a) a material risk to the health or safety of the public;
- (b) a risk of material liability of the Water Authority to third persons;
- (c) an adverse effect on the performance of the Contract Obligations to the extent that the Water Authority is reasonably likely to be materially deprived of the benefit of the Water Purchase Agreement; or
- (d) any material provision of the Water Purchase Agreement being unenforceable against the Project Company; or

Any other fact or circumstance designated as a "Project Company Remediable Breach" under the Water Purchase Agreement.

Project Company Persistent Breach Defined. For purposes of the Water Purchase Agreement, "Project Company Persistent Breach" means a breach by the Project Company of any term, covenant or undertaking to the Water Authority (other than a breach for which Deductions could be imposed) which, due to the fact that such breach has continued for 60 days or more or that the same breach has occurred four or more times in the previous 12 months, demonstrates either a persistent inability, or a persistent unwillingness, to comply with its obligations under the Water Purchase Agreement.

Project Company Bankruptcy-Related Event Defined. For purposes of the Water Purchase Agreement, “Project Company Bankruptcy-Related Event” means any of the following events:

A receiver, receiver manager or other encumbrance holder taking possession of or being appointed over, or any distress, execution or other process being levied or enforced upon, the whole or any material part of the assets of the Project Company; or

Any proceedings with respect to the Project Company being commenced under the Bankruptcy Law and if such proceedings are commenced against the Project Company and are disputed by the Project Company, such proceedings are not discontinued, withdrawn, dismissed or otherwise remedied within 90 days of such proceedings being instituted; or

The Project Company making an assignment for the benefit of its creditors, being declared bankrupt or committing an act of bankruptcy, becoming insolvent, making a proposal or otherwise taking advantage of provisions for relief under the Bankruptcy Law or similar legislation in any jurisdiction, or any other type of insolvency proceedings being commenced by or against the Project Company under the Bankruptcy Law or otherwise and, if proceedings are commenced against the Project Company and are disputed by the Project Company, such proceedings are not stayed, dismissed or otherwise remedied within 90 days of such proceedings being instituted; or

The Project Company ceasing to carry on business.

NOTIFICATION BY THE PROJECT COMPANY .

The Project Company shall notify the Water Authority of the occurrence, and details, of any Project Company Event of Default and of any event or circumstance which is likely, with the passage of time or otherwise, to constitute or give rise to a Project Company Event of Default, in either case promptly on the Project Company becoming aware of its occurrence.

PROJECT COMPANY REMEDIABLE BREACH CURE AND REMEDIAL PROGRAM.

Notice and Remedy or Remedial Program. After the occurrence of a Project Company Remediable Breach and while it is continuing, the Water Authority may serve a notice on the Project Company specifying in reasonable detail the type and nature of the Project Company Remediable Breach and:

The Project Company shall remedy such Project Company Remediable Breach referred to in such notice (if it is continuing) within 60 days after such notice or within such longer period as is reasonably required for the Project Company to rectify or remedy such Project Company Remediable Breach as long as the Project Company is diligently pursuing such rectification or remedy, but in no event exceeding 180 days after such notice; or

If either the Water Authority (as set forth in its notice) or the Project Company reasonably considers that a Project Company Remediable Breach cannot reasonably be remedied within 60 days of such notice, the Project Company shall deliver to the Water Authority within 10 Business Days of such notice a reasonable program (set forth, if appropriate, in stages) for remedying the Project Company Remediable Breach. The

program will specify in reasonable detail the manner in, and the latest date by which the Project Company Remediable Breach is proposed to be remedied (which date shall be no longer than the maximum cure period provided under the preceding paragraph.

Water Authority Acceptance or Non-Acceptance. If the Project Company puts forward a program in accordance with the preceding paragraph, the Water Authority will have 20 Business Days from receipt of the program within which to notify the Project Company that the Water Authority, acting reasonably, does not accept the program, failing which the Water Authority will be deemed not to have accepted the program. If the Water Authority notifies the Project Company that it does not accept the program as being reasonable, or is deemed not to have accepted the program, the parties will use all reasonable efforts within the following five Business Days to agree to any necessary amendments to the program put forward. In the absence of an agreement within such ten Business Days, the question of whether the program (as it may have been amended by agreement) will remedy such Project Company Remediable Breach in a reasonable manner and within a reasonable time period (and, if not, what would be a reasonable program) may be referred by either party to Non-Binding Mediation.

Remediable Program Limited to Project Company Remediable Breaches. The Project Company Remediable Breach and remedial program provisions of this Section shall apply only to a Project Company Remediable Breach, and not to any other event or circumstance constituting a Project Company Event of Default.

WATER AUTHORITY TERMINATION RIGHT .

Termination Right. If a Project Company Event of Default occurs, then the Water Authority may (if the Project Company Event of Default continues unwaived and unremedied), subject to “—Continued Performance” and the terms of the Collateral Agent’s Remedies Agreement, terminate the Water Purchase Agreement by notice to the Project Company. The right of the Water Authority to terminate the Water Purchase Agreement under this Section is in addition, and without prejudice, to any other right which the Water Authority may have in connection with the Project Company’s non-compliance with the Water Purchase Agreement, including those set forth in the Water Purchase Agreement.

Collateral Agent’s Remedies Agreement. The rights of the Water Authority under this Section are subject to the terms of the Collateral Agent’s Remedies Agreement.

WATER AUTHORITY EVENTS OF DEFAULT .

For the purposes of the Water Purchase Agreement, “Water Authority Event of Default” means any of the following events or circumstances:

A failure by the Water Authority to pay any amount due and owing to the Project Company under the Water Purchase Agreement within 45 days of the due date for such amount;

Except as provided in the preceding paragraph, a breach, or series of breaches, by the Water Authority of any term, covenant or undertaking to the Project Company or any representation or warranty made by the Water Authority to the Project Company in the Water Purchase Agreement being incorrect when made, the consequence of which is:

a material and adverse effect on the performance of the Contract Obligations; or

any material provision of the Water Purchase Agreement being unenforceable against the Water Authority to the extent that the Project Company is reasonably likely to be materially deprived of the benefit of the Water Purchase Agreement;

The authorized filing by the Water Authority of a petition seeking relief under the Bankruptcy Code, as applicable to political subdivisions which are insolvent or unable to meet their obligations as they mature; provided that the appointment of a financial control or oversight board by the State for the Water Authority shall not in and of itself constitute a Water Authority Event of Default under the Water Purchase Agreement; or

The Water Authority breaches “—Limitation on Assignment by the Water Authority”.

PROJECT COMPANY OPTIONS UPON A WATER AUTHORITY EVENT OF DEFAULT.

Notice. After the occurrence of a Water Authority Event of Default and while a Water Authority Event of Default is continuing, the Project Company may, at its option, serve notice on the Water Authority of the occurrence and specifying the details of such a Water Authority Event of Default.

Remediable Water Authority Events of Default. If the relevant matter or circumstance has not been rectified or remedied by the Water Authority:

in the case of a Water Authority Event of Default under “—Water Authority Events of Default”, within 10 days of such notice; or

in the case of a Water Authority Event of Default under “—Water Authority Events of Default”, within 60 days after the notice provided by the Project Company pursuant to “—Notice” above or within such longer period as is reasonably required for the Water Authority to rectify or remedy such Water Authority Event of Default as long as the Water Authority is diligently pursuing such rectification or remedy, but in no event exceeding 180 days after such notice.

the Project Company may serve a further notice on the Water Authority terminating the Water Purchase Agreement with immediate effect and, in the case of a Water Authority Event of Default under “—Water Authority Events of Default”, within 30 days of such notice, the Project Company also may bring an action to enforce payment of the amount due.

Non-Remediable Water Authority Events of Default. In the case of a Water Authority Event of Default under the Water Purchase Agreement, concurrently with, or at any time after, the delivery of notice under “—Notice” above, the Project Company may serve a further notice on the Water Authority terminating the Water Purchase Agreement with immediate effect.

Other Rights Upon Water Authority Non-Compliance. The right of the Project Company to terminate the Water Purchase Agreement under this Section is in addition, and without prejudice, to any other right which the Project Company may have in connection with the Water Authority’s non-compliance with the Water Purchase Agreement.

TERMINATION RIGHTS.

Water Authority Termination Rights. The Water Purchase Agreement may be terminated by the Water Authority prior to the Expiration Date: (i) in the event the Financial Closing Date does not occur by

the date that is 45 days following the Contract Date, pursuant to “—Issuance of Initial Plant Bonds”; (ii) in connection with a Project Company Event of Default, pursuant to “—Failure to Achieve Provisional Acceptance by the Scheduled Commercial Operation Date”; (iii) in connection with the inability of the Project Company to finance the reinstatement of the Project following the occurrence of an Uninsurable Force Majeure Event, pursuant to “—Insufficiency of Monthly Water Purchase Payments to Support Financing Following an Uninsurable Force Major Event”; (iv) in connection with the inability of the Project Company to finance certain costs, pursuant to “—Insufficiency of Adjusted Monthly Water Purchase Payments to Support Financing for the Capital Costs of Complying with a Change in Law Event”; (v) in connection with the inability of the Project Company to finance certain costs, pursuant to “—Insufficiency of Adjusted Monthly Water Purchase Payments to Support Financing for the Capital Costs of Making Rectifications With Respect to an Other Uncontrollable Circumstance”; (vi) in connection with a Project Company Event of Default, pursuant to “—Water Authority Termination Right”; (vii) upon the exercise by the Water Authority of any of its options to purchase the Project Assets pursuant to “—Project Assets Purchase Option During the Term”, in which event the Water Purchase Agreement shall terminate upon the date of purchase; or (viii) if the Cabrillo Ground Lease terminates on account of the condemnation or taking by eminent domain of the whole or substantially all of the Plant Site and the Plant as provided in Section 14.1 of the Cabrillo Ground Lease.

Project Company Termination Rights. The Water Purchase Agreement may be terminated by the Project Company prior to the Expiration Date: (i) in the event the Financial Closing Date does not occur by the date that is 45 days following the Contract Date, pursuant to “—Issuance of Initial Plant Bonds”; (ii) in connection with a Water Authority Event of Default, pursuant to “—Project Company Options Upon a Water Authority Event of Default”; or (iii) in the event of a termination of the Product Water Pipeline Improvements Design-Build Agreement as a result of a Water Authority Event of Default under the Product Water Pipeline Improvements Design-Build Agreement.

Extent of Termination Rights. Except as provided or referred to in “—Water Authority Termination Rights”, neither party shall have the right to terminate the Water Purchase Agreement.

Termination Date. The Termination Date for any early termination of the Water Purchase Agreement as provided in “—Water Authority Termination Rights” and “—Water Authority Termination Rights” shall be the date notice of termination is given by one party to the other party in accordance herewith.

Continued Performance. The parties shall continue to perform their obligations under the Water Purchase Agreement (including the Water Authority continuing to pay the Monthly Water Purchase Payments) until the Termination Date, notwithstanding the giving of any notice of default.

Completion or Continuance by Water Authority. Subject to the rights of the Collateral Agent under the Collateral Agent’s Remedies Agreement and the prior right of the Collateral Agent to enter into agreements with the Process Services Contractor and other operators, contractors and technology and equipment suppliers under agreements directly with such contract counterparties, after the Termination Date, and whether termination occurs due to a Project Company Event of Default or otherwise, the Water Authority may at any time (but without any obligation to do so) enter into contracts with the Process Services Contractor, Operating Service Provider and other operators, contractors and technology and equipment suppliers. The Project Company waives any right at law or in equity it may have to restrict the Water Authority from entering into any such contracts excluding, however, any rights the Project Company has under any confidentiality arrangements with third parties.

PROJECT ASSETS PURCHASE OPTION DURING THE TERM.

Option. The Water Authority shall have the option, exercisable in its discretion, to purchase the Project Assets at any time following the date that is 10 years following the Commercial Operation Date.

Project Assets Purchase Price. If the Water Authority exercises its Project Assets purchase option under this Section, the Water Authority shall pay to the Project Company on the Project Assets Purchase Date a Project Assets Purchase Price (adjusted as appropriate as provided in “—Project Company Notice and Determination”) equal to the aggregate amount, without duplication, of: (i) the aggregate principal amount of Plant Bonds and Approved Permitted Debt outstanding as of the Project Assets Purchase Date, together with accrued interest thereon and any applicable bond redemption premium, and any other Plant Bond and Approved Permitted Debt breakage, prepayment or other termination costs; (ii) the Employee Payments and the Operating Service Provider Breakage Costs; and (iii) the net present value, calculated annually as of the Project Assets Purchase Date using a discount rate of 5%, of the Annual Equity Return Target Amount for each of the Contract Years from the Contract Year in which the Project Assets Purchase Date occurs through final Contract Year.

PROJECT ASSETS PURCHASE OPTION IN THE EVENT OF FINANCING UNAVAILABILITY.

The Water Authority shall have the option, exercisable in its discretion, to purchase the Project Assets for the Project Assets Purchase Price specified in “—Project Assets Purchase Price” in the event financing is unavailable to pay Compensation Adjustment Event Capital Costs as provided in “—Financing Unavailability for Compensation Adjustment Event Capital Costs”.

PROJECT ASSETS PURCHASE OPTION UPON A PROJECT COMPANY EVENT OF DEFAULT.

The Water Authority shall have the option, exercisable in its discretion, to purchase the Project Assets upon a Project Company Event of Default for a Project Assets Purchase Price equal to (1) the aggregate principal amount of Plant Bonds and Approved Permitted Debt outstanding as of the Termination Date, together with any accrued interest thereon, minus (2) an amount equal to all amounts on deposit in the funds and accounts held under the Collateral Trust Agreement or the Plant Indenture for the benefit of the holders of the Plant Bonds and Approved Permitted Debt on the Project Assets Purchase Date (except amounts held in the Contractor Security Account to the extent the such amounts are required to be held in escrow under Applicable Law).

PROJECT ASSETS PURCHASE OPTION AT THE EXPIRATION DATE

The Water Authority shall have the option, exercisable in its discretion, to purchase the Project Assets on the Expiration Date for a Project Assets Purchase Price equal to one dollar.

PURCHASE OPTION PROCEDURES.

Notice of Exercise of Project Assets Purchase Option. The Water Authority shall give the Project Company irrevocable prior written notice of its election to exercise its option to purchase the Project Assets: (i) at least 270 days prior to the Project Assets Purchase Date, in the case of a purchase under “—Project Assets Purchase Option During the Term”; (ii) on or following the date upon which it is determined under “—Financing Unavailability for Compensation Adjustment Event Capital Costs” that the Project Company is unable to obtain financing for the Compensation Adjustment Event Capital Costs (in which case the Project Assets Purchase Date shall be the date that is 180 days following such notice date),

in the case of a purchase under “—Project Assets Purchase Option in the Event of Financing Unavailability”; (iii) on or following the date on which a Project Company Event of Default occurs, in the case of a purchase under “—Project Assets Purchase Option Upon a Project Company Event of Default”; and (iv) at least 365 days prior to the Project Assets Purchase Date, in the case of a purchase under “—Project Assets Purchase Option at the Expiration Date”.

The written notice shall specify the closing date for the purchase and sale of the Project Assets (the “Project Assets Purchase Date”).

Notice of Intent Required for Certain Purchase Options. As a condition of the Water Authority’s right to exercise its Project Assets Purchase Options under “—Project Assets Purchase Option During the Term” or “—Project Assets Purchase Option at the Expiration Date”, the Water Authority shall give the Project Company a notice of intent to exercise its Project Assets Purchase Option: (i) at least 365 days prior to the Project Assets Purchase Date, in the case of a purchase under “—Project Assets Purchase Option During the Term”; and (ii) at least 730 days prior to the Project Assets Purchase Date, in the case of a purchase under “—Project Assets Purchase Option at the Expiration Date”.

Notwithstanding the delivery of a notice of intent under this subsection, the Water Authority shall have no obligation to exercise the Project Assets Purchase Option that was the subject of such notice.

Project Company Notice and Determination. As soon as practicable after receipt of the Water Authority’s notice of its election to purchase the Project Assets under “—Project Assets Purchase Option During the Term” or “—Project Assets Purchase Option in the Event of Unavailability of Financing”, the Project Company shall, acting reasonably, notify the Water Authority of the Project Company’s determination of the amount of the Project Assets Purchase Price due, and include in such notice the details and calculations of each component thereof, including certificates from agents of trustees for the Plant bondholders or the lenders of Approved Permitted Debt (if other than Plant Bonds) as to the amounts owed to them. The Project Company shall provide to the Water Authority all such documents and information as may be reasonably required by the Water Authority to support and confirm the amount of the Project Assets Purchase Price due under such subsection.

Adequacy of Project Assets Purchase Price. The Project Company agrees that any applicable Project Assets Purchase Price provided for in the Water Purchase Agreement shall constitute the only compensation from the Water Authority to the Project Company for all costs, foregone potential profits and any charges of any kind whatsoever (whether foreseen or unforeseen), including initial transition and mobilization costs and demobilization, employee transition and other similar wind-down costs, attributable to the termination of the Project Company’s right to perform the Water Purchase Agreement in connection with the purchase of the Project Assets under the Water Purchase Agreement.

Reliance on Plant Bondholders and Approved Permitted Debt Holders Certification. The Water Authority shall be entitled to rely on one or more certificates of agents of the Plant Bondholders and holders of Approved Permitted Debt as conclusive evidence of the amount of the Plant Bonds and Approved Permitted Debt outstanding, and any accrued interest and redemption premium, in any calculation of a Project Assets Purchase Price. Upon receipt of this amount by Project Company, the Plant Bondholders and holders of Approved Permitted Debt or their agents shall discharge the Water Authority’s obligation to pay any portion of compensation due to the Project Company that is attributable to the Plant Bonds and Approved Permitted Debt.

Termination. Upon payment of the Project Assets Purchase Price on the Project Assets Purchase Date pursuant to the Water Purchase Agreement, the Termination Date shall be deemed to have occurred and the Water Purchase Agreement shall terminate.

CONVEYANCE .

Project Assets. Upon payment of the applicable Project Assets Purchase Price under the Water Purchase Agreement, the Project Company shall sell, assign, transfer, convey and deliver to the Water Authority on the Project Assets Purchase Date all of its right, title and interest in the Project Assets, free and clear of all Encumbrances other than items listed in paragraphs (4), (5), (6), (7), (8), (12), (18) and (19) of the definition of Permitted Encumbrances. The Project Assets shall not include the Excluded Assets. The Cabrillo Ground Lease and any other operative agreements related to the Project Assets shall not restrict the exercise of the rights of the Water Authority under the Water Purchase Agreement.

Condition of Project Assets Upon Conveyance. Except as provided or referred to in “—Project Assets Transfer Condition” and the Water Purchase Agreement, the conveyance of the Project Assets shall be “as is, where is” and the Project Company shall not make any representation with respect to the Project Assets or any matter related to such conveyance.

Project Liabilities. Upon the purchase of the Project Assets pursuant to the Water Purchase Agreement, the Water Authority shall assume the Assumed Liabilities as and to the extent provided in the Water Purchase Agreement. The Assumed Liabilities shall not include the Excluded Liabilities.

Intellectual Property Rights. The Company acknowledged that the grant of Intellectual Property rights made by the Project Company in “—Property Rights” shall continue perpetually following any purchase by the Water Authority of the Project Assets under the Water Purchase Agreement.

FULL SETTLEMENT; ANTECEDENT AND POST-TERMINATION LIABILITIES.

Any and all amounts paid by the Water Authority to the Project Company upon a purchase of the Project Assets, and the related termination of the Water Purchase Agreement, under the Water Purchase Agreement will be the full and final settlement of each party’s rights and claims against in connection with such purchase or with respect to the Project Assets, whether under contract, tort, restitution or otherwise, but without prejudice to: (i) any antecedent liability of either party to the other that arose prior to the date of termination of the Water Purchase Agreement (but not from the termination itself); and (ii) any liability of either party to the other that may arise after the Termination Date of the Water Purchase Agreement (but not from the termination itself), including liabilities arising under the provisions of the Water Purchase Agreement which are intended by “—Survival” to survive termination.

ADDITIONAL OBLIGATIONS UPON PROJECT ASSETS PURCHASE .

Transfer Responsibilities. If the Water Authority exercises its right to purchase the Project Assets, then on or promptly after the Termination Date:

The Project Company shall, or will use reasonable efforts to cause any Project Contractor to, offer to sell to the Water Authority at fair market value, free from any security interest, all or any part of the stocks of material and other assets, spare parts and other moveable property owned by the Project Company or any Project Contractor and reasonably required by the Water Authority in connection with the operation of the Project or the provision of the Contract Obligations;

The Project Company shall deliver to the Water Authority (to the extent not already delivered to the Water Authority):

relevant information pertaining to any Legal Proceedings against the Project Company by the Project Contractors, any Subcontractor or other third parties relating to the termination of the Contract Obligations (or any Subcontracts); and

to the extent reasonably available to the Project Company, copies of all Subcontracts (with confidential or commercially sensitive information redacted), together with a statement of:

the items ordered and not yet delivered pursuant to each agreement;

the expected delivery date of all such items;

the total cost of each agreement and the terms of payment; and

the estimated cost of canceling each agreement;

The Project Company shall deliver to the Water Authority a complete list and description of all Licensed IP as of the Termination Date.

The Project Company shall give written notice of termination, effective as of the Expiration Date, promptly under each policy of Required Insurance (with a copy of each such notice to the Water Authority), but permit the Water Authority to continue such policies thereafter at its own expense, if possible; and

The Project Company shall take such other actions, and execute such other documents as may be necessary to effectuate and confirm the foregoing matters.

No Additional Compensation. The Project Company shall ensure that provision is made in all applicable contracts to ensure that the Water Authority will be in a position to exercise its rights, and the Project Company shall be in a position to comply with its obligations, under this Section without additional payment or compensation to any person.

TRANSITIONAL ARRANGEMENTS .

If the Water Authority exercises its right to purchase the Project Assets under the Water Purchase Agreement, the Project Company shall, in connection with the expiration or termination of the Water Purchase Agreement: (i) stop the Contract Obligations on the Termination Date; (ii) on the Termination Date deliver to the Water Authority: (a) all keys, access codes or other devices required to operate the Project; and (b) any Project Intellectual Property required to be delivered by the Project Company pursuant to “—Transfer Responsibilities”; (iii) as soon as practicable after the Termination Date vacate, and cause the Project Company Persons to vacate, the Plant Site, and leave the Project in a safe, clean and orderly condition; (iv) on request by the Water Authority and on payment of the Project Company’s reasonable costs (including costs payable to the Operating Service Provider under the Operating Service Agreement) by the Water Authority, for a period not to exceed 90 days after the Termination Date, cooperate fully with the Water Authority and any successor providing to the Water Authority services in the nature of any of the Contract Obligations or any part of the Contract Obligations, in order to achieve a smooth transfer of the manner in which the Water Authority obtains services in the nature of the Contract Obligations; (v) as soon as practicable following the Termination Date, remove from the Plant Site all property of the Project Company or any Project Company Person that does not constitute Project Assets or does not belong to the Water Authority and if it has not done so within 60 days after any notice from the Water Authority requiring it to do so, the Water Authority may (without being responsible for any

loss, damage, costs or expenses) remove and sell any such property and will hold any proceeds less all costs incurred to the credit and direction of the Project Company; and (vi) comply with all requirements of “—Project Transfer Condition”.

PROJECT COMPANY TO COOPERATE .

If the Water Authority exercises its right to purchase the Project Assets and wishes to conduct a competition prior to the Termination Date with a view to entering into an agreement for the provision of services (which may or may not be the same as, or similar to, the Operating Work following the Termination Date), the Project Company shall prior to the Termination Date co-operate with the Water Authority fully in such competition process, including by:

Providing any information in the Project Company’s control or possession which the Water Authority may reasonably require to conduct such competition, except that information which is commercially sensitive to the Project Company or a Project Company Person (and, for such purpose commercially sensitive means information which would if disclosed to a competitor of the Project Company or a Project Company Person give that competitor a material competitive advantage over the Project Company or the Project Company Person and thereby prejudice the business of the Project Company or the Project Company Person); and

Assisting the Water Authority by providing any participants in such competition process with access to the Plant Site, provided such access does not affect the Contract Obligations in a way that results in any reduction in Monthly Water Purchase Payments.

The Project Company shall be entitled to reimbursement for all reasonable out of pocket expenses and internal costs incurred in connection with the foregoing services and an additional mark-up of 6% of such costs and expenses.

LIMITATION ON ASSIGNMENT BY PROJECT COMPANY .

The Project Company shall not assign, transfer or otherwise dispose of any interest in the Water Purchase Agreement or a Project Contract except:

As security (in accordance with the Collateral Agent’s Remedies Agreement or otherwise substantially in a form approved by the Water Authority, acting reasonably) for any loan made to the Project Company under the Plant Financing Agreements;

In connection with the exercise of rights of the Collateral Agent under the Collateral Agent’s Remedies Agreement; or

Otherwise:

prior to the day that is two years after the Commercial Operation Date (the “Transfer Restriction Date”), with the prior written consent of the Water Authority, which may be given or withheld in the Water Authority’s discretion; and

after the Transfer Restriction Date, with the prior written consent of the Water Authority, which will not be unreasonably withheld or delayed;

provided that in the case of an assignment under the Water Purchase Agreement, the assignee assumes all the obligations of the Project Company under the Water Purchase Agreement. Any purported assignment of the Water Purchase Agreement in violation of this Section is void.

LIMITATIONS ON CHANGE IN CONTROL .

Change in Control Defined . For purposes of the Water Purchase Agreement “Change in Control” means with respect to a person any direct or indirect change in the ownership or control of any legal, beneficial or equitable interest in any or all of the shares, Shares or equity in the person (including the control over the exercise of voting rights conferred on equity share capital, unit interests or equity interests or the control over the right to appoint or remove directors, a general partner, a managing member or other managers), including changes arising from assignment or transfer of existing shares, Shares or equity, issuance of new shares, Shares or equity or amalgamation, merger consolidation, amendment of a limited partnership certificate or other reorganization, or any other direct or indirect change which results in a person or group of persons, other than the equity holders of the entity immediately prior to the change, directly or indirectly: (i) controlling the composition of the majority of the board of directors of the entity or of a general partner or manager of the entity; (ii) controlling the decisions made by or on behalf of the person, including by controlling the voting power of the board of directors or by controlling the voting power of any class of shareholders or equity holders of any of the entity, a general partner of the entity or a manager of the entity or otherwise; (iii) holding equity (either beneficially or otherwise) of that entity with a subscribed value (taking into account contributions to be made in the case of a limited partnership) of more than one half of the subscribed value (taking into account contributions to be made in the case of a limited partnership) or equity (either beneficially or otherwise) of that entity with more than one half of the voting rights; or (iv) having the ability to direct or cause the direction of the management, actions or policies of the entity; provided, however, that any of the foregoing with respect to Poseidon Water, LLC or Stonepeak Partners Infrastructure Fund LP or its affiliates shall not be considered to be a Change in Control for the purposes of the Water Purchase Agreement.

Limitations. No Change in Control of the Project Company shall be permitted (whether by the Project Company or otherwise) to occur except: (i) in connection with the exercise of rights of the Collateral Agent under the Collateral Agent’s Remedies Agreement; (ii) arising from any bona fide open market transaction in any shares or other securities of the Project Company or of any Affiliate of a Shareholder effected on a recognized public stock exchange; (iii) any assignment, sale or transfer of any direct or indirect legal, beneficial or equitable interest in any shares, Shares or equity of the Project Company (or of any person who directly or indirectly owns shares or equity in the Project Company) to Stonepeak Partners Infrastructure Fund LP or any of its affiliates and any subsequent assignment, sale or transfer by Stonepeak Partners Infrastructure Fund LP, any of its affiliates or any subsequent assignee, purchaser or transferee of part or all of any such transferred interest; or otherwise: (a) prior to the Transfer Restriction Date, with the prior written consent of the Water Authority, which may be given or withheld in the Water Authority’s discretion; and (b) after the Transfer Restriction Date, with the prior written consent of the Water Authority, which will not be unreasonably withheld or delayed.

In determining whether to give its consent to any Change in Control under item (iv)(b) above, the Water Authority shall take into consideration the following factors: (1) the financial strength and integrity of the proposed transferee, its direct or indirect beneficial owners, any proposed managers or operating partners and each of their respective Affiliates; (2) the backgrounds and reputations of the proposed transferee, its direct or indirect beneficial owners, any proposed managers or operating partners, each of their respective officers, directors, and employers and each of their respective Affiliates (including the absence of criminal, civil, or regulatory claims or actions against any such person and the quality of any such person’s past or present performance on the other projects); (3) compliance with the Water

Authority's conflict of interest requirements; and (4) the ability of the Project Company to meet its obligations under the Water Purchase Agreement after the transfer.

FACTORS THE WATER AUTHORITY MAY CONSIDER .

In determining whether to provide its consent under “—Limitation on Assignment by Project Company”, “—Change in Control Defined” or “—Limitations”, and without limiting the Water Authority's consent rights thereunder, it will be reasonable for the Water Authority to refuse its consent if: (i) the proposed assignee or the new party in control of the Project Company, as the case may be, or any of their Affiliates, is a Restricted Person; (ii) the proposed assignee or the new party in control of the Project Company, as the case may be, is, in the reasonable opinion of the Water Authority, less creditworthy than the assignor; or (iii) The assignment or Change in Control could, in the reasonable opinion of the Water Authority, have a material and adverse effect on the Water Authority or the Project.

LIMITATION ON ASSIGNMENT BY THE WATER AUTHORITY .

The Water Authority shall not assign, transfer or otherwise dispose of any interest in the Water Purchase Agreement except to another Governmental Body which assumes, and is legally capable of discharging, all the obligations of the Water Authority under the Water Purchase Agreement without the prior written consent of the Project Company, which may be given or withheld in the Project Company's discretion. Any purported assignment of the Water Purchase Agreement in violation of this Section is void.

COSTS OF REQUEST FOR CONSENT .

If the Project Company requests consent to an assignment, transfer or disposition pursuant to “—Limitation on Assignment by Project Company” or to a Change in Control pursuant to “—Limitations on Change in Control”, the Project Company shall pay the Water Authority's reasonable internal administrative and personnel costs and all out-of-pocket costs in connection with considering any such request. At the time of the request the Project Company shall make a payment to the Water Authority against its obligation under this Section of \$25,000 (Index Linked). After the decision of the Water Authority is rendered, the Water Authority will either refund any over payment or invoice the Project Company for any additional amounts due under this Section.

PROJECT COMPANY'S OBLIGATION TO INDEMNIFY .

The Project Company shall indemnify and keep elected officials, members, appointed officers, employees, representatives, agents and contractors of the Water Authority (each a “Water Authority Indemnitee”) indemnified at all times from and against all Loss-and-Expense that any Water Authority Indemnitee may sustain in connection with any loss of or physical damage to property or assets of any Water Authority Indemnitee, or any claim made by one or more third parties (including for loss of or physical damage to property or assets), or any claim for, or in respect of, the death, personal injury, disease or illness of any person, including any Water Authority Indemnitee, arising by reason of any: (i) breach of any representation or warranty by the Project Company under the Water Purchase Agreement; (ii) negligent act or omission of the Project Company; (iii) willful misconduct of the Project Company; (iv) non-compliance by the Project Company with any of the provisions of the Water Purchase Agreement or any document, instrument or agreement delivered to the Water Authority as required under the Water Purchase Agreement; (v) release of Hazardous Substances by the Project Company; (vi) breach by the Project Company of, or non-compliance by the Project Company with, any Governmental Approval or Applicable Law, or the failure of the Project Company to obtain all necessary Governmental Approvals in accordance with the Water Purchase Agreement; or (vii) legal Proceeding brought by a third

party prior to the date that is one year following the Contract Date seeking to prevent construction or operation of the Project (including Legal Proceedings relating to environmental reviews and Governmental Approvals), other than Legal Proceedings relating to the power of the Water Authority to enter into the Water Purchase Agreement or the proceedings of the Water Authority conducted in connection with; except to the extent caused by Water Authority Fault. The Project Company's indemnity obligations under this Section shall not be limited by any coverage exclusions or other provisions in any policy of Required Insurance or other insurance maintained by the Project Company which is intended to respond to such events. Notwithstanding the foregoing, the Water Authority Indemnitees' right to indemnification pursuant to this Section shall be reduced by all insurance, settlement proceeds or third party indemnification proceeds actually received by the Water Authority Indemnitees. This Section may be relied upon by the Water Authority Indemnitees and may be enforced directly by any of them against the Project Company in the same manner and for the same purpose as if pursuant to a contractual indemnity directly between them and the Project Company.

COVENANT AGAINST SALE OF THE PLANT .

The Project Company shall not sell, lease, assign, convey, move or otherwise transfer its ownership interest in the Plant or the Plant Site without the consent of the Water Authority given in its discretion, except in connection with an assignment of the Water Purchase Agreement pursuant to “— Limitation on Assignment by Project Company”.

RELATIONSHIP OF THE PARTIES .

The Project Company is an independent contractor of the Water Authority and the relationship between the parties shall be limited to performance of the Water Purchase Agreement in accordance with its terms. Neither party shall have any responsibility with respect to the services to be provided or contractual benefits assumed by the other party. Nothing in the Water Purchase Agreement shall be deemed to constitute either party a partner, agent or legal representative of the other party. No liability or benefits, such as workers compensation, pension rights or liabilities, or other provisions or liabilities arising out of or related to a contract for hire or employer/employee relationship shall arise or accrue to any party's agent or employee as a result of the Water Purchase Agreement or the performance thereof.

NO OTHER BUSINESS .

The Project Company shall not engage in any business or activity other than the business or activities conducted for the purposes of the Project or its performance under the Product Water Pipeline Improvements Design-Build Agreement, or otherwise expressly permitted hereunder.

GENERAL PROJECT COMPANY ASSUMPTION OF RISK .

Except to the extent expressly allocated to the Water Authority or otherwise provided for under the Water Purchase Agreement, all risks, costs and expenses in relation to the performance by the Project Company of its obligations under the Water Purchase Agreement are allocated to, and accepted by, the Project Company as its entire and exclusive responsibility.

GENERAL DUTY TO MITIGATE .

Mitigation by the Project Company. In all cases where the Project Company is entitled to receive any relief from the Water Authority or exercise any rights, including the right to receive any payments, costs, damages or extensions of time, whether on account of Uncontrollable Circumstances or otherwise, the Project Company shall use all reasonable efforts to mitigate such amount required to be paid by the

Water Authority to the Project Company under the Water Purchase Agreement, or the length of the extension of time. Upon request from the Water Authority, the Project Company shall promptly submit a detailed description, supported by all such documentation as the Water Authority may reasonably require, of the measures and steps taken by the Project Company to mitigate and meet its obligations under this subsection.

Mitigation by the Water Authority. In all cases where the Water Authority is entitled to receive from the Project Company any compensation, costs or damages, but not in any other cases, the Water Authority shall use all reasonable efforts to mitigate such amount required to be paid by the Project Company to the Water Authority under the Water Purchase Agreement, provided that such obligation shall not require the Water Authority to: (i) take any action which is contrary to the public interest, as determined by the Water Authority in its discretion; (ii) undertake any mitigation measures that might be available arising out of its status as a Governmental Body, but which measure would not normally be available to a private commercial party; or (iii) alter the amount of Deductions it is entitled to make in accordance with “—Remedies for Breach of Product Water Quality Guarantee”.

The Water Authority shall have no obligation to mitigate, implied or otherwise, except as set forth in this subsection or otherwise as expressly provided in the Water Purchase Agreement. Upon request by the Project Company, the Water Authority shall promptly submit a detailed description, supported by all such documentation as the Project Company may reasonably require, of the measures and steps taken by the Water Authority to mitigate and meet its obligations under this subsection.

OPPORTUNITIES .

Except as expressly provided herein, or as may be specifically agreed in writing between the Water Authority and the Project Company during the Term, the Water Authority reserves the right to all commercial and other opportunities for, or related to, the Project.

CONTRACT ADMINISTRATION .

Contract Administration Memoranda. The principal formal tool for the administration of routine matters arising under the Water Purchase Agreement between the parties which do not require a Water Purchase Agreement Amendment shall be a “Contract Administration Memorandum.” A Contract Administration Memorandum shall be prepared, once all preliminary communications have been concluded, to evidence the resolution reached by the Water Authority and the Project Company as to matters of interpretation and application arising during the course of the performance of their obligations hereunder. Such matters may include, for example: (i) issues as to the meaning, interpretation or application of the Water Purchase Agreement in particular circumstances or conditions; (ii) calculations required to be made; (iii) notices, waivers, releases, satisfactions, confirmations, further assurances, consents and approvals given hereunder; and (iv) other similar routine contract administration matters.

Procedure. Either party may request the execution of a Contract Administration Memorandum. When resolution of the matter is reached, a Contract Administration Memorandum shall be prepared by or at the direction of the Water Authority reflecting the resolution. Contract Administration Memoranda shall be serially numbered, dated, signed by the Water Authority Representative and the Project Company Representative. The Water Authority and the Project Company each shall maintain a parallel, identical file of all Contract Administration Memoranda, separate and distinct from the Water Purchase Agreement Amendments and all other documents relating to the administration and performance of the Water Purchase Agreement.

Effect. Executed Contract Administration Memoranda shall serve to guide the ongoing interpretation and application of the terms and conditions of the Water Purchase Agreement.

WATER PURCHASE AGREEMENT AMENDMENTS .

Amendments Generally. Notwithstanding the provisions of “—Contract Administration”, no material change, alteration, revision or modification of the terms and conditions of the Water Purchase Agreement shall be made except through a written amendment to the Water Purchase Agreement (a “Water Purchase Agreement Amendment”) duly authorized by the Water Authority and by the Project Company. Water Purchase Agreement Amendments shall be dated and signed by the Water Authority Representative and the Project Company Representative.

Water Purchase Agreement Amendments and Contract Administration Memoranda. In order to maintain a complete file of all agreements made with respect to the administration of the Water Purchase Agreement, when a Water Purchase Agreement Amendment or other agreement with respect to the Water Purchase Agreement is entered into and executed by the parties, a Contract Administration Memorandum shall be prepared attaching and acknowledging the Water Purchase Agreement Amendment or other agreement, but need not be executed by the parties.

WATER AUTHORITY APPROVALS AND CONSENTS .

When the Water Purchase Agreement requires any approval or consent by the Water Authority to a Project Company submittal, request or report, the approval or consent shall, within the limits of the authority of “—Contract Administration”, be given by the Water Authority Representative in writing and such writing shall be conclusive evidence of such approval or consent, subject only to compliance by the Water Authority with the Applicable Law that generally governs its affairs. Unless expressly stated otherwise in the Water Purchase Agreement, and except for (1) approvals provided for in the Water Purchase Agreement, and (2) requests, reports and submittals made by the Project Company that do not, by their terms or the terms of the Water Purchase Agreement, require a response or action, if the Water Authority does not find a request, report or submittal acceptable, it shall provide written response to the Project Company describing its objections and the reasons therefor within 30 days of the Water Authority’s receipt thereof. If no response is received, the request, report or submittal shall be deemed rejected unless the Water Authority’s approval or consent may not be unreasonably delayed by the express terms thereof, and the Project Company may resubmit the same, with or without modification. Requests, reports and submittals that do not require a response or other action by the Water Authority pursuant to some specific term of the Water Purchase Agreement shall be deemed acceptable to the Water Authority if the Water Authority shall not have objected thereto within 30 days of the receipt thereof.

DISCLOSED DATA .

It is the Project Company’s responsibility to have conducted its own analysis and review of the Project and, before the execution of the Water Purchase Agreement, to have taken all steps it considers necessary to satisfy itself as to the accuracy, completeness and applicability of any Disclosed Data upon which it places reliance and to assess all risks related to the Project. The Project Company shall not be entitled to and will not make (and will ensure that no Project Contractor or Subcontractor makes) any claim against any Water Authority Indemnitee, whether in contract, tort or otherwise, including any claim in damages for extensions of time or for additional payments under the Water Purchase Agreement on the grounds: (i) of any misunderstanding or misapprehension in respect of the Disclosed Data; (ii) that the Disclosed Data was incorrect or insufficient; or (iii) that incorrect or insufficient information relating to the Disclosed Data was given to it by any person other than the Water Authority, nor will the Project

Company be relieved from any obligation imposed on or undertaken by it under the Water Purchase Agreement on any such ground.

PROPERTY RIGHTS.

Protection from Infringement. The Project Company shall indemnify, defend and hold harmless the Water Authority and the Water Authority Indemnities in the manner provided in “—Project Company’s Obligation to Indemnify” from and against any and all Loss-and-Expense arising out of or related to the infringement or unauthorized use of any patent, trademark, copyright or trade secret relating to, or for the Construction Work and the Operating Work. At its option, the Project Company shall acquire the rights of use under infringed patents, or modify or replace infringing equipment with equipment equivalent in quality, performance, useful life and technical characteristics and development so that such equipment does not so infringe.

Intellectual Property Developed by the Project Company. The following provisions shall apply with respect to Intellectual Property developed in connection with the Project:

License Grant. The Project Company hereby grants to the Water Authority a perpetual, limited, fully paid, royalty-free, personal and non-transferable (except as provided below) non-exclusive license to use the Intellectual Property resulting from or developed during the course of development, design, construction or operation of the Project under the Project Company’s rights to such Intellectual Property (the “Licensed Intellectual Property”), which for the purposes thereof shall include without limitation the Project Company’s license under US patent no. 6,946,081 in the Service Area but shall exclude Intellectual Property of persons or entities other than the Project Company (except to the extent of the Project Company’s license rights in such Intellectual Property). The license granted under this subsection shall be solely for projects owned by the Water Authority or the Water Authority’s Member Agencies in their respective service territories, and the Metropolitan Water District of Southern California and its member agencies and their sub-agencies. The Project Company shall assure that all Project Contracts provide subsequent owners of the Plant the rights to Intellectual Property provided to the Project Company under such Project Contracts.

Maintenance and Enforcement. Except as otherwise provided herein, the Project Company shall have the sole right, but not the obligation, to maintain the Licensed Intellectual Property and to enforce or protect the Licensed Intellectual Property against infringers relating to the Licensed Intellectual Property. Except as otherwise provided herein, the Water Authority agrees that any proceeds received (by settlement or otherwise) in connection with any such action shall belong to the Project Company.

Ownership. The Water Authority acknowledged that the Project Company is the sole and exclusive owner of the Licensed Intellectual Property. Nothing contained herein shall create or be construed as an assignment to the Water Authority of any right, title or interest in or to the Licensed Intellectual Property, other than the license granted by this subsection.

Improvements. The Water Authority may make sole or joint improvements, developments, extensions or modifications to the subject matter of the Licensed Intellectual Property (“Improvements”). The Water Authority hereby grants and agrees to grant to the Project Company a perpetual, irrevocable, unlimited, worldwide, fully-paid, royalty-free non-exclusive license to use the Improvements for any purpose,

including but not limited to incorporating Improvements into desalination plants operated by the Project Company or its customers. The Water Authority agrees to promptly disclose such Improvements to the Project Company.

No Warranties. THE PROJECT COMPANY DISCLAIMS ALL WARRANTIES EXPRESSED OR IMPLIED AS TO THE LICENSED INTELLECTUAL PROPERTY, INCLUDING ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR VALIDITY. In particular, and without limiting the foregoing, nothing in this License Agreement shall be construed as: (i) a warranty or representation by the Project Company as to the validity or scope of the Licensed Intellectual Property; or (ii) a warranty or representation that anything made, used, sold, or otherwise disposed of under this subsection is or will be free from infringement of any type, including patent or copyright infringement, or from the misappropriation of trade secrets; or (iii) a requirement that the Project Company shall file any patent or copyright application, secure any patent or copyright registration, or maintain any patent or copyright registration in force; (iv) an obligation to bring or prosecute actions or suits against third parties for infringement or otherwise; or (v) an obligation to defend a suit or action brought by a third party which challenges or concerns the validity of any of the Licensed Intellectual Property or which concerns the infringement of any rights of third parties by practice of the Licensed Intellectual Property. The Project Company makes no representation, extends no warranties of any kind, either express or implied, and assumes no responsibility whatsoever with respect to the use, sale, or other disposition by the Water Authority, or any of its vendees or other transferees of articles incorporating or made under the Licensed Intellectual Property.

Assignment. The Project Company may freely assign the Licensed Intellectual Property in whole or in part without prior consent of any kind from the Water Authority, and the Water Authority's rights under this subsection may not be assigned nor may the Licensed Intellectual Property be sublicensed by the Water Authority without the Project Company's prior written consent. Notwithstanding the foregoing, the Water Authority shall have the right to have its contractors use the Licensed Intellectual Property solely for projects owned by the Water Authority in its Service Area, provided such contractors shall have agreed to be bound by the provisions of this subsection by signing an acknowledgement of this subsection and delivering it to the Project Company.

ACTIONS OF THE WATER AUTHORITY IN ITS GOVERNMENTAL CAPACITY.

Nothing in the Water Purchase Agreement shall be interpreted as limiting the rights and obligations of the Water Authority under Applicable Law in its governmental capacity (including police power actions to protect health, safety and welfare), or as limiting the right of the Project Company to bring any action against the Water Authority, not based on the Water Purchase Agreement, arising out of any act or omission of the Water Authority in its governmental capacity.

WATER AUTHORITY'S CONFIDENTIALITY OBLIGATIONS .

General. The Water Authority shall have the right to disclose and make public any information received from the Project Company, except for (1) information that the Project Company requests be kept confidential in a manner permitted by the California Public Records Act, and (2) the information described in "—Confidential Project Company Information".

Disclosable Information. The Water Authority shall have the right to disclose and make public the following information, whether or not such information may be subject to the confidentiality provisions of the California Public Records Act: (i) information which is or comes into the public domain other than through any disclosure prohibited by the Water Purchase Agreement; (ii) reports, notices, certificates, audited financial statements and other documents that the Project Company delivers or causes to be delivered to the Plant Trustee under or in connection with the Plant Financing Agreements, including reports prepared by the Collateral Agent's consulting engineer and continuing disclosure reports required under applicable securities laws; (iii) information supplied to any Governmental Body, including regulating reports and the information and sampling and testing results provided pursuant to "—Reports to Governmental Bodies"; (iv) periodic reports prepared by the Project Company pursuant to "—Periodic Reports"; (v) records required to be retained and maintained pursuant to "—Maintenance of Records"; (vi) the Performance Test Report delivered to the Water Authority pursuant to "—Test Report"; (vii) invoices prepared pursuant to "—Billing and Payment", including information and supporting documentation requested by the Water Authority pursuant to such Section; (viii) other than the information set forth in clause (iv) of "—Non-Disclosable Information", any information related to the maintenance, repair and replacement of the Project provided pursuant to "—Maintenance, Repair and Replacement); and (ix) photographs and videos of the exterior of the Plant, or of the interior of the Plant that provide a general overview of the interior of the Plant but do not show the details of the advanced technologies of the Project.

Prior to any public disclosure of any information described in items (iv) and (v) of this subsection, the Water Authority shall redact any information described in "—Non-Disclosable Information" so as to prevent its public disclosure.

Non-Disclosable Information. Unless disclosure is required under the California Public Records Act or permitted under "—Disclosable Information", the Water Authority shall not disclose the following information: (i) personal Information; (ii) detailed plans, drawings and specifications of the Project, including process and instrumentation diagrams of Plant systems and data sheets; (iii) detailed data and information supporting the Performance Test Report delivered to the Water Authority pursuant to "—Test Report"; (iv) detailed data and information supporting or contained in the Asset Registry, the CMMS, maintenance inspection reports, and any Exit Performance Test provided for under "—Maintenance, Repair and Replacement"; (v) detailed operating procedures plans, and readings of monitors and operating manuals and records of chemical consumption; (vi) financial information regarding Project Contractors and Subcontractors, including information regarding costs incurred by and liquidated damages payable by Project Contractors and Subcontractors; (vii) details of any Subcontracts; (viii) details of any Project Contracts, other than as specifically described herein; (ix) information provided to the Water Authority pursuant to "—Procedures Relating to Potential Tax Gross-Ups"; and (x) details of any Legal Proceedings involving a Subcontract to which the Water Authority is not a party.

Use of Confidential Project Company Information by Water Authority's Professional Advisers and Consultants. The Water Authority may disclose or grant access to Confidential Project Company Information to its professional advisers and consultants to the extent necessary to enable the Water Authority to perform (or to cause to be performed) or to enforce its rights or obligations under the Water Purchase Agreement (provided that such advisers and consultants agree not to disclose such Confidential Project Company Information and the Water Authority shall be liable to the Project Company for disclosure by such advisers and consultants which if made by the Water Authority would constitute a breach of this Section).

Procedures Upon Third Party Requests for Confidential Project Company Information. The obligation to maintain the confidentiality of Confidential Project Company Information does not apply to the extent the Water Authority is required to disclose such Confidential Project Company Information

under the California Public Records Act. The Water Authority shall deliver prompt written notice to the Project Company of any third-party request for such disclosure so that the Project Company may seek, at its sole cost, a protective order or other appropriate remedy. In the event the Project Company contests disclosure of Confidential Project Company Information pursuant to this subsection, the Project Company shall pay any attorneys' fees or costs awarded against the Water Authority in connection with such contest.

Equitable Relief. Without prejudice to any other rights and remedies that the Project Company may have, the Water Authority agrees that damages may not be an adequate remedy for a breach of this Section, and that the Project Company shall, in such case, be entitled to the remedies of injunction, specific performance or other equitable relief for any threatened or actual breach of this Section.

PROJECT COMPANY'S CONFIDENTIALITY OBLIGATIONS.

Confidential Water Authority Information. The Project Company shall treat as confidential and proprietary to the Water Authority all information obtained from the Water Authority in connection with the Contract Obligations that is not in the public domain other than through any disclosure prohibited by the Water Purchase Agreement and that (1) is Personal Information of employees or agents at the Water Authority or (2) pertains to the physical assets or operation of the Water Authority Distribution System and the disclosure of which would reasonably be expected under prudent water utility management practice to present a security risk to the Water Authority or its personnel, property or operations (the "Confidential Water Authority Information"). The Project Company shall not (a) use Confidential Water Authority Information for any purpose other than the performance of the Contract Obligations, or (b) disclose any Confidential Information to any person other than its own employees, agents, Project Contractors or Subcontractors who have a need for such information in the performance of their work relating to the Project, unless such disclosure is specifically authorized in writing by the Water Authority.

Security Plan. If requested by the Water Authority, the Project Company shall prepare a security plan to assure that Confidential Water Authority Information is not used for any unauthorized purpose or disclosed to unauthorized persons by the Project Company or any of its Project Contractors or Subcontractors. The Project Company shall advise the Water Authority of any request for disclosure of such information or of any actual or potential disclosure of such information, whether or not a security plan has been prepared by the Project Company.

Equitable Relief. Without prejudice to any other rights and remedies that the Project Company may have, the Project Company agrees that damages may not be an adequate remedy for a breach of this Section, and that the Water Authority will, in such case, be entitled to the remedies of injunction, specific performance or other equitable relief for any threatened or actual breach of this Section.

PERSONAL INFORMATION.

The Project Company shall, and will require the Project Contractors and Subcontractors to, only collect, hold, process, use, store and disclose Personal Information of employees or agents of the Water Authority: (i) with the prior consent of the Water Authority; (ii) to the extent necessary to perform the Project Company's obligations under the Water Purchase Agreement; and (iii) in accordance with Applicable Law, including the California Public Records Act as if the provisions of such Applicable Law applied directly to the Project Company, the Project Contractors and Subcontractors.

The Project Company shall allow the Water Authority on reasonable notice to inspect the measures of the Project Company and its Project Contractors and Subcontractors to protect Personal Information.

COMPLIANCE WITH MATERIAL AGREEMENTS.

The Project Company shall comply with its obligations under agreements of the Project Company which are material to the performance of its obligations under the Water Purchase Agreement. The Water Authority shall comply with its obligations under agreements of the Water Authority which are material to the performance of its obligations hereunder.

SUMMARY OF CERTAIN PROVISIONS OF CAM NO. 001

Prior to the Financial Closing Date, Cabrillo informed the Company of the potential for additional Project and Plant site development modifications which may be agreed to by the Company to accommodate Cabrillo's plans for development of adjacent and adjoining property. The Company assured Cabrillo of its commitment to cooperate with Cabrillo in this regard.

The Company acknowledged that, under the Water Purchase Agreement, and particularly as described under "Cabrillo Risk", the Company bears all compensation, schedule, and performance risks relating to the performance of any of its assurances to the Cabrillo entities described in the paragraph above. The Company acknowledged that it bears all cost risk with respect to performing its obligations under the Ground Lease, and any additional obligations under the paragraph above. Such additional obligations may entail making modifications to the Design Requirements. Such modifications shall neither constitute an Uncontrollable Circumstance nor a Compensation Adjustment Event. There shall be no adjustment to the Unit Price, direct payments or any other compensation by the Water Authority for any such modification.

The Company represents that the Ground Lease is in full force and effect and no fact, condition or circumstance exists which would give rise to a right of Cabrillo to terminate the Ground Lease. The Company will take all steps necessary to maintain the Ground Lease in full force and effect.

SUMMARY OF CERTAIN PROVISIONS OF CAM NO. 002

CAM No. 002, dated December 24, 2012, establishes that the Contract Date occurred on December 20, 2012, and the Financial Closing Date occurred on December 24, 2012.

SUMMARY OF CERTAIN PROVISIONS OF CAM NO. 003 AND WATER PURCHASE AGREEMENT AMENDMENT NO. 001

CAM No. 003 is dated May 6, 2014. The Parties accepted the terms of Change Order No. 3 and accepted a revised version of the Design-Build Agreement Appendix 4, Attachment 4J.

SUMMARY OF CERTAIN PROVISIONS OF CAM NO. 004 AND WATER PURCHASE AGREEMENT AMENDMENT NO. 002

CAM No. 004, effective February 8, 2016, confirmed the interpretation of certain defined terms, several of which are identified below, and made conforming changes to the Mechanical Completion, Performance Test and Operation Period requirements.

Definitions

Interim Operations Approval has the meaning set forth in "—Authorization of Operation and Water Introduction".

Monthly Excused Supply Shortfall Units means, for any Billing Period, the Monthly Shortfall Units (if any) that result from the failure of the Company to supply Product Water in volumes up to the Monthly Product Water Order for such Billing Period, to the extent such failure is caused by Uncontrollable Circumstances or Product Water Supply Relief Event.

Monthly Unexcused Supply Shortfall Units means, for any Billing Period, Monthly Shortfall Units (if any), other than Monthly Unscheduled Outage Units, that result from (1) the Company's failure to deliver Product Water in volumes up to the Adjusted Monthly Supply Commitment for such Billing Period, to the extent such failure is not caused by Uncontrollable Circumstances or Product Water Supply Relief Event, and (2) during the Product Water Pipeline Improvements warranty period, any Product Water that (a) is delivered to the Product Water delivery point, but is thereafter not received at the Twin Oaks water treatment plant clearwell due to water losses in the Product Water Pipeline Improvements to the extent that such losses are caused by the failure of the Product Water Pipeline Improvements to comply with the warranty applicable thereto under the Pipeline DBA, or (b) is not delivered to the Product Water delivery point on account of the inability of the Water Authority to receive Product Water due to the failure of the Product Water Pipeline Improvements to comply with such warranty, and (3) during the Plant Primary Warranty Period or Plant Secondary Warranty Period, is not delivered due to failure of the Plant to comply with the warranty applicable under the Plant EPC Contract.

Plant Primary Warranty Period has the meaning set forth in the Plant EPC Contract and the Pipeline EPC Contract.

Plant Secondary Warranty Period has the meaning set forth in the Plant EPC Contract and the Pipeline EPC Contract.

Product Water Supply Relief Event means planned shutdowns for the sole purpose of Plant warranty inspections and repairs during the Primary Warranty Period and the Secondary Warranty Period.

Downtime for Planned Warranty Inspections and Repairs

To the extent practicable, the Company shall limit Plant shutdowns for warranty inspections and repairs to 240 hours per Contract Year, and schedule such shutdowns in advance with the Water Authority. Plant warrant inspection and repairs exceeding 240 hours in any Contract Year shall be subject to the Water Authority's approval (which shall not be unreasonably withheld).

Product Water Not Delivered or Received Due to Certain Uncontrollable Circumstances; Extension of Term

If (1) an Uncontrollable Circumstance or a Product Water Supply Relief Event limits or precludes the Company from producing and delivering, or (2) a Product Water Purchase Event limits or precludes the Water Authority from taking and receiving Product Water, the volume of Product Water not delivered or received on account thereof shall be produced and delivered by the Company and taken and purchased by the Water Authority subsequent to such occurrence, based on the production capacity of the Plant, at a price per Unit equal to the sum of the Fixed Unit Price and the Variable Unit Price prevailing at the time of subsequent purchase or shall be deemed to be produced and delivered. The schedule for such subsequent deliveries, receipts and purchases shall be negotiated by the parties in developing and modifying the Projected Annual Delivery Schedules.

The Term shall be extended for a period not to exceed three years after the originally scheduled expiration date as and to the extent required to allow for all such subsequent purchases not completed as of the original expiration date, as such subsequent purchases are reflected in the balance of Units in the Excused Supply Shortfall Unit Tracking Account and the Excused Demand Shortfall Unit Tracking Account as of such unextended expiration date.

Flow Rate Limitations

Operating Mode Change Performance Test

The Company shall perform an operating mode change performance test to demonstrate the Plant's capability to produce Product Water during and after operating mode changes (the "Operating Mode Change Performance Test"). The Company shall conduct the Operating Mode Change Performance Test prior to the end of the first quarter of the first full Contract Year immediately following the Commercial Operation Date, and in case of failure may be re-performed repeatedly until the Operating Mode Change Performance Test is successfully completed. During the Operating Mode Change Performance Test and any repeated test, the Product Water Quality Guarantee, the other Performance Guarantees, and the Water Authority's rights and remedies with respect to any non-compliance therewith (including rights and remedies with respect to the delivery of Off-Specification Product Water and Unacceptable Product Water) shall apply. If the Company fails to successfully complete the Operating Mode Change Performance Test prior to the end of the first quarter of the first full Contract Year immediately following the Commercial Operation Date, all water produced during any subsequent operating mode change will be deemed either Off-Specification Product Water or Unacceptable Water until the Company passes the Operating Mode Change Performance Test. The Water Authority may exercise any of its rights and remedies available upon the delivery of Off-Specification Product Water. Such rights and remedies include those described under "Water Authority Remedies for Non-Compliance With Performance Guarantees", including the right to require the Company to make necessary capital improvements, modifications, repairs and replacements at the cost and expense of the Company. The Company shall have the right to conduct the Operating Mode Change Performance Test as often as necessary to achieve passage.

SUMMARY OF CERTAIN PROVISIONS OF CAM NO. 005

In CAM No. 005, dated August 25, 2016, the Company and the Water Authority agreed to cooperate as the Company finances, designs, constructs, operates and maintains the a water intake and discharge system necessitated by Cabrillo's impending closure of its once-through cooling water system and the State Water Resources Control Board's adoption of the Ocean Plan Amendment described below ("Intake System Modifications"). The CAM includes an expected schedule identifying the major milestones for financing, designing and constructed the Intake System Modifications; the preliminary scope of work for such Intake System Modifications; and provisions governing risk allocation between the Company and the Water Authority, allocation of responsibility for obtaining necessary Governmental Approvals, and other divisions of responsibility between the Company and the Water Authority. The CAM also reaffirms that the Company and the Water Authority will adjust the Unit Price to reflect the Intake System Modifications to the Plant.

Closure of the Power Station and the Adoption of the Ocean Plan Amendment

The intake facilities for the Plant are currently permitted and configured to draw the Plant's seawater supply off of the existing Power Station once-through cooling water system. With the State Water Resources Control Board's once-through cooling policy, adopted in 2010, effectively phasing out once-through cooling for power plants, this intake configuration was always viewed with the understanding that the Power Station would ultimately shut down. The Company was notified of the impending planned shutdown and decommissioning of the Power Station. Since the existing intake configuration and regulatory approvals for the Plant are predicated on operation of the power plant and its associated cooling water flows, the transition to a "stand-alone" operation of the desalination plant will require permit modifications and upgrades to the raw seawater intake system to be completed prior to the decommissioning of the Power Station. Beyond the intake and discharge system modifications that are

required due to Power Station's shutdown in order to transition to stand-alone operation of the Plant, additional intake and discharge system improvements will be required in order to comply with the Ocean Plan Amendment adopted by the State Water Resources Control Board in May 2015 that applies to the Plant's desalination intakes and discharges (the "Ocean Plan Amendment").

Uncontrollable Circumstances and Impact under the Water Purchase Agreement

Both the closure of the Power Station and the adoption of the Ocean Plan Amendment are Uncontrollable Circumstances under the Water Purchase Agreement and will result in increasing the Water Authority's costs. To address the effects of these Uncontrollable Circumstances, modifications need to be made to the Plant. The Water Authority's responsibility to pay for such modifications is only triggered once they have been accepted. The Water Purchase Agreement anticipated the closure of the Power Station and characterizes the event as a Change in Law Event, but with Water Authority's cost liability capped. The adoption of the Ocean Plan Amendment is a Change in Law Event which will materially increase the Company's costs of performing its obligations under the Water Purchase Agreement, and therefore also an Uncontrollable Circumstance. As a result, the Water Authority will be required to pay, through adjustments to the Unit Price, for the capital and operating costs related to the intake and discharge system modifications needed because of the closure of the Power Station and the adoption of the Ocean Plan Amendment.

Schedule Overview

The CAM sets forth the current expected schedule detailing each major milestone in financing, permitting, designing, and constructing the Intake System Modifications. This schedule will be updated as the parties learn of information or events which impact any of the listed activities.

Definition of Intake System Modifications

The CAM sets forth a preliminary scope of work, estimated costs for the Intake System Modifications, and allocation of such costs provided by the Company. Based on information provided by Company prior to the execution of the second Contract Administration Memorandum and supplement to the Water Purchase Agreement, the parties shall agree upon: (i) which elements of the Intake System Modifications would have been required if the Ocean Plan Amendment had not been adopted (the "Closure Modifications") and which elements are required as a result of adoption of the Ocean Plan Amendment (the "Compliance Modifications"); and (ii) the respective permitting, engineering, procurement, design, construction, operating, and electricity costs of the respective elements, such that all costs are allocated or prorated into one or the other category. This determination shall be the basis for the bond sizing and adjustments to Unit Price.

Risk Allocation

The risks between the Company and the Water Authority will be allocated in a manner consistent with that outlined in the Water Purchase Agreement for the Project. As was the case for the Plant, the Company will be responsible for the design, construction, financing, and operation of the Intake System Modifications, while the Water Authority shall be responsible for making payments upon acceptance of the Intake System Modifications, in each case subject to the applicable provisions of the Water Purchase Agreement. The parties agree that the Company will be compensated for constructing the Intake System Modifications through adjustments to the Capital Charge which will reflect a firm fixed design-build price and a firm fixed construction completion date.

The parties agree that the risk allocation between the Company and the design-build subcontractor selected by the Company is of material concern to the parties. The Company shall use reasonable efforts to maximize the extent to which construction and acceptance risks related to the Modifications are passed through to the design-build contractor pursuant to the design-build subcontract.

Based on: (x) information that will be provided by the Company following receipt of design/engineering/construction proposals and prior to bond issuance, and (y) the Company's right to compensation relief under the Water Purchase Agreement, the parties shall agree upon: (i) capital costs eligible for recovery; (ii) operation and maintenance costs eligible for recovery; (iii) the allocation of the construction costs, including the firm fixed design-build price and direct out-of-pocket costs of design and permitting the Intake System Modifications into costs related to the closure of the Power Station ("Closure Costs"), and costs related to the adoption of the Ocean Plan Amendment ("Compliance Costs"); and (iv) the Company's administrative, overhead, management, and risk-related costs. Once determined, the Company shall bear the responsibility for any actual costs that exceed Closure Costs or Compliance Costs.

The Company will use all reasonable efforts to ensure that the owner of the Power Station ("NRG") will operate the NRG Pumps until the Intake System Modifications have been accepted and are commercially operational. The Water Authority will reasonably cooperate with the Company in such efforts.

Procurement of Subcontractors

The Company has the obligation to undertake a competitive procurement for all subcontractors retained by the Company other than those previously approved and listed in the CAM. The Water Authority shall have the right to review any competitive procurement-related documents prepared by the Company prior to release, and to reasonably approve the selection of all subcontractors retained by the Company.

Financing

The Company will bear all responsibility for raising funds to finance the cost of constructing the Intake System Modifications. The Company will give the Water Authority and its financial advisors the opportunity to be substantially involved in all matters pertaining to the development and execution of the financing plan, including direct participation in, and review of, the structuring, maturities, interest rates and pricing of the financing.

Construction and Acceptance Testing

The parties do not know the extent to which the Plant will need to be shut down during the Intake System Modifications construction work. The parties shall work together to create and implement a shutdown schedule for the Intake System Modifications shutdowns. To the extent that the shutdown schedule permits the Modifications shutdowns to exceed or to occur at a different time than Scheduled Shutdown Hours, Product Water undelivered due to an Intake System Modifications shutdown will be considered Monthly Excused Supply Shortfall Units. Undelivered Product Water resulting from an Intake System Modifications shutdown not excused by the shutdown schedule or by an Uncontrollable Circumstance will be characterized as either Monthly Unexcused Supply Shortfall Units or Monthly Unexcused Outage Units. The Company will use reasonable efforts to mitigate the amount of undelivered Product Water due to an Intake System Modifications shutdown.

Operation and Maintenance

The parties agree to meet and discuss any adjustments that will need to be made to any of the Performance Guarantees, operational requirements, or maintenance requirements set forth in the Water Purchase Agreement.

The parties acknowledged that the operating protocol does not currently address events such as the Intake System Modifications construction work or an Intake System Modifications shutdown. The parties agree that they will update the operating protocol to: (i) address appropriate coordination and communication necessary to efficiently and effectively manage flow rate changes resulting from an Intake System Modifications shutdown; and (ii) require the Company to receive written consent from the Water Authority prior to restarting the Plant after an Intake System Modifications shutdown.

Adjustments to Unit Price

The adjustments to the Unit Price associated with the Intake System Modifications shall comprise of (i) adjustments to the Debt Service Charge and Equity Return Charge (together, the “Capital Charge Adjustments”), and (ii) adjustments to the operating charge and electricity charge (together, the “Operating and Electricity Charge Adjustments”). Each of the Capital Charge Adjustments and Operating and Electricity Charge Adjustments are subject to caps. Similar to the approach taken when originally financing the Plant, the Water Authority shall be responsible for producing quantitative schedules supporting computation of adjustments to the Unit Price for review and approval by the parties. The parties agree that neither the Capital Charge Adjustments nor the Operating and Electricity Charge Adjustments shall be owed and payable by the Water Authority until the Intake System Modifications have passed the Intake System Modifications acceptance test and have commenced commercial operation in full accordance with Applicable Law.

SUMMARY OF CERTAIN PROVISIONS OF CAM NO. 006

CAM No. 006 is dated January 5, 2017, and addresses NPDES Permit toxicity monitoring, the Company’s compliance with the Encina Wastewater Authority Sewer Discharge Permit, and includes an agreement between the Company and the Water Authority to grant the EPC Contractor additional time to demonstrate the recycling capabilities of the backwash treatment system.

NPDES Permit Discharge Toxicity

Pursuant to NPDES Permit No CA0109223 and a Toxicity Reduction Evaluation (“TRE”) Plan, an interim Toxicity Identification Evaluation (“TIE”) progress report was provided to the Regional Water Quality Control Board and the Water Authority in July and November 2016. In CAM No. 6, the Company agreed to provide the results of the TRE/TIE to the Water Authority and the Regional Water Quality Control Board, and to submit monthly reports thereafter documenting implementation of any corrective actions and monthly chronic toxicity testing results.

Sewer Discharge Permit

There was insufficient information to confirm the Company’s compliance with Encina Wastewater Authority Permit No. 2379 during Performance Testing. The Company has therefore agreed to provide the Water Authority with copies of the quarterly monitoring results and the Semiannual Compliance Status Report submitted to the Encina Wastewater Authority for the first 18 months of operation after execution of the CAM on January 5, 2017, which term expired in July 2018.

Pretreatment Filter Backwash Recycling System Performance Test Requirements

While not necessary for typical routing operation of the Plant, backwash clarifies currently do not meet certain Applicable Law requirements. The Performance Test requires the clarifier decant flow to be recycled to the headworks of the Plant. The Company and the Water Authority agree to allow the EPC Contractor additional time to demonstrate the recycling capabilities of the backwash treatment system subject to certain terms and conditions, including: (1) The EPC Contractor agrees, at its expense, to design, install, and demonstrate the capabilities of the clarifiers and any addition equipment (the “Modified Backwash Treatment System”) required to demonstrate compliance with the Performance Test in accordance with Applicable Law governing recycling of clarified backwash water. (2) The Company shall retain \$4.5 million, which is the Company’s estimate of 150% of the estimated cost of pilot testing, design, procurement, installation, and verification of the Modified Backwash Treatment System, including any anticipated costs reasonably incurred by the Company and the Water Authority in reviewing and approving the design, installation and verification of the Modified Backwash Treatment System (the “Backwash Retainage”). The Backwash Retainage shall be released after the EPC Contractor successfully completes the testing requirements for the Modified Backwash Treatment System in accordance with the Performance Test and receipt of the written confirmation from the operator that it will maintain, repair and replace the Modified Backwash Treatment System in accordance with the O&M Agreement. (3) The EPC Contract shall design, procure, install, and commission the Modified Backwash Treatment System on or before April 28, 2017 consistent with the Plant EPC Contract. After this date, the EPC Contractor shall be ready to demonstrate the capabilities of the Modified Backwash Treatment System consistent with the Performance Test. The EPC Contractor shall complete any installation and testing that requires a partial or complete Plant shutdown scheduled for the period beginning February 18 and ending February 24, 2017. (4) The EPC Contractor shall test and demonstrate the capabilities of the Modified Backwash Treatment System consistent with the requirements of the Performance Test.

SUMMARY OF CERTAIN PROVISIONS OF CAM NO. 007 AND WATER PURCHASE AGREEMENT AMENDMENT NO. 003

CAM No. 007, dated July 25, 2017, extends the deadline to achieve Project Completion to account for the EPC Contractor’s delay in demonstrating the capabilities of the backwash treatment system.

Project Completion

The Company shall achieve Project Completion on or before October 1, 2017.

Performance Test

The EPC Contractor shall complete the demonstration of the capabilities of the recycling capabilities of the backwash treatment system in accordance with this section no later than September 15, 2017.

SUMMARY OF CERTAIN PROVISIONS OF CAM NO. 008

CAM No. 008, dated December 18, 2017, revises Tables 1.3 of Appendix 10, which sets forth the value of the Operating Period Shortfall Payments in the event of a water delivery shortfall, in light of the redemption of \$2.6 million in Series 2012 Pipeline Bonds.

Decrease in Operating Period Shortfall Payment Unit Price Due to Deemed Pipeline Bond Redemptions

In accordance with the Pipeline Indenture, \$2.6 million has been transferred from the Pipeline Indenture's Construction Account to the Revenue Fund. The Water Purchase Agreement deems this transfer to have been used to redeem Pipeline Bonds. The resulting deemed reduction in Pipeline Bond debt service reduces the Operating Period Shortfall Payment Unit Price as set forth in the following updated Table 1.3 to Appendix 10 of the Water Purchase Agreement.

Table 1.3

Operating Period Shortfall Payment Unit Price

Contract	Pipeline Bond	Pipeline Bond Net Interest (\$s)	Net Deposits to DSRF	Fees (\$s)	Annual Pipeline Bond Costs	Minimum Annual Demand Commitment (AF)	Annual Operating Period Shortfall Pmt Unit Price (\$/AF)
6/30/2016		6,081,152.43	-	40,339.87	6,121,492.30	29,200.00	209.64
6/30/2018	See Table 1.3(a) of this Appendix the Contract Year ending 6/30/2018						
6/30/2019	-	9,866,661.93	314,500.00	70,728.44	10,251,890.37	48,000.00	213.58
6/30/2020	445,000.00	9,861,598.48	467,750.00	72,496.65	10,846,845.13	48,000.00	225.98
6/30/2021	935,000.00	9,831,817.70	278,250.00	74,309.07	11,119,376.77	48,000.00	231.65
6/30/2022	1,260,000.00	9,780,587.88	282,000.00	76,166.80	11,398,754.67	48,000.00	237.47
6/30/2023	1,605,000.00	9,713,047.68	289,750.00	78,070.97	11,685,868.64	48,000.00	243.46
6/30/2024	1,975,000.00	9,628,132.70	301,250.00	80,022.74	11,984,405.44	48,000.00	249.68
6/30/2025	2,375,000.00	9,524,532.58	301,250.00	82,023.31	12,282,805.88	48,000.00	255.89
6/30/2026	2,795,000.00	9,400,932.45	315,250.00	84,073.89	12,595,256.34	48,000.00	262.40
6/30/2027	3,250,000.00	9,256,106.93	-	86,175.74	12,592,282.66	48,000.00	262.34
6/30/2028	2,895,000.00	9,093,606.93	692,750.00	88,330.13	12,769,687.06	48,000.00	266.04
6/30/2029	4,250,000.00	8,937,703.65	332,500.00	90,538.39	13,610,742.04	48,000.00	283.56
6/30/2030	4,795,000.00	8,719,850.40	345,250.00	92,801.85	13,952,902.25	48,000.00	290.69
6/30/2031	5,380,000.00	8,474,541.88	356,000.00	95,121.89	14,305,663.77	48,000.00	298.03
6/30/2032	6,005,000.00	8,199,810.28	364,750.00	97,499.94	14,667,060.21	48,000.00	305.56
6/30/2033	6,670,000.00	7,893,687.80	371,500.00	99,937.44	15,035,125.24	48,000.00	313.23
6/30/2034	7,375,000.00	7,554,206.65	381,250.00	102,435.87	15,412,892.52	48,000.00	321.10
6/30/2035	8,125,000.00	7,179,318.53	388,750.00	104,996.77	15,798,065.30	48,000.00	329.13
6/30/2036	8,920,000.00	6,766,809.65	404,000.00	107,621.69	16,198,431.34	48,000.00	337.47
6/30/2037	9,770,000.00	6,314,305.25	-	110,312.23	16,194,617.48	48,000.00	337.39
6/30/2038	9,080,000.00	5,825,805.25	907,500.00	113,070.04	15,926,375.29	48,000.00	331.80
6/30/2039	11,620,000.00	5,357,194.50	434,000.00	115,896.79	17,527,091.29	48,000.00	365.15
6/30/2040	12,635,000.00	4,769,207.10	438,250.00	118,794.21	17,961,251.31	48,000.00	374.19
6/30/2041	13,705,000.00	4,130,401.28	454,750.00	121,764.06	18,411,915.34	48,000.00	383.58
6/30/2042	14,845,000.00	3,437,829.80	467,750.00	124,808.17	18,875,387.97	48,000.00	393.24
6/30/2043	16,055,000.00	2,688,049.03	472,250.00	127,928.37	19,343,227.40	48,000.00	402.98
6/30/2044	17,330,000.00	1,877,695.80	488,500.00	131,126.58	19,827,322.38	48,000.00	413.07
6/30/2045	18,685,000.00	1,003,330.95	-	134,404.74	19,822,735.69	48,000.00	412.97
11/21/2045	7,825,000.00	152,152.78	-	53,957.90	8,031,110.68	18,800.00	427.19
Any Extension Term.....							427.19

Note: This Table 1.3 sets forth the Operating Period Shortfall Payment Unit Price in accordance with the term so defined in “– Definitions”. This table may be revised: (i) if any Pipeline Bond proceeds are transferred from the Construction Account to the Revenue Fund pursuant to Section 603(e) of the Pipeline Indenture, as further described in “– Decrease in the Operating Period Shortfall Payment Unit Price Due to Certain Pipeline Bond Redemptions”, or (ii) based on the results of the Performance Test in accordance with “– Decrease to the Fixed Unit Price and the Annual Operating Period Shortfall Payment Unit Price”.

Table 1.3(a)

**Operating Period Shortfall Payment Unit Price
For the Contract Year Ending 6/30/2018**

Billing Month	Operating Period Shortfall Pmt Unit Price (\$/AF)
Jul-2017	209.71
Aug-2017	209.71
Sep-2017	209.71
Oct-2017	209.71
Nov-2017	209.71
Dec-2017	208.48
Jan-2018	206.99
Feb-2018	206.99
Mar-2018	206.99
Apr-2018	206.99
May-2018	206.99
Jun-2018	206.99

Waiver of Product Water Pipeline Completion Deadline

There was a delay in the completion of the Product Water Pipeline, and the Company did not comply with the time limit set forth in the Pipeline DBA. The Water Authority hereby waives the requirement that the Product Water Pipeline achieve completion 180 days after acceptance under the Pipeline DBA.

**SUMMARY OF CERTAIN PROVISIONS OF CAM NO. 009 AND WATER PURCHASE
AGREEMENT AMENDMENT NO. 004**

Establishment of a New Plant Completion Deadline

There has been delay in demonstrating the capabilities of the Modified Backwash Treatment System and achieving Project Completion of the Plant in accordance with Water Purchase Agreement Amendment No. 003. In CAM No. 009, dated January 4, 2019, the Water Authority waives the requirements that (i) the Modified Backwash Treatment System demonstrate that it meets the criteria set forth in the Water Purchase Agreement by no later than September 15, 2017, and (ii) the Plant achieve Project Completion on or before October 1, 2017.

Under CAM No. 009, the parties agreed that the Company shall achieve Project Completion on or before December 31, 2019. The Company shall complete the demonstration of the recycling capabilities of the backwash treatment system in accordance with the Performance Test no later than December 15, 2019.

Milestone Schedule in CAM No. 005

There have been delays under the schedule set forth in CAM No. 005 because of ongoing discussions with the San Diego Regional Water Quality Control Board regarding whether the proposed design of the intake and discharge modifications comply with the Ocean Plan Amendment. In CAM No. 009, the parties agreed that the schedule set forth in CAM No. 005 shall no longer apply and that they will cooperate to update this attachment, along with other portions of CAM No. 005, once a new National Pollutant Discharge Elimination System Permit for the Project is issued.

SUMMARY OF CERTAIN PROVISIONS OF CAM NO. 010 AND WATER PURCHASE AGREEMENT AMENDMENT NO. 005

CAM No. 010, dated January 4, 2019, contains an amendment to the Water Purchase Agreement to reflect the planned issuance of the Series 2019 Pipeline Bonds by the California Pollution Control Financing Authority and revisions to be made to Table 1.3 of Appendix 10 to reflect reductions in the value of Operation Period Shortfall Payments.

Decrease in the Operating Period Shortfall Payment Unit Due to Pipeline Bond Refunding

After the Series 2012 Pipeline Bonds are refunded, Operating Period Shortfall Payments will be calculated in reference to the costs related to the new Pipeline Bonds. As a result, Table 1.3 of the Water Purchase Agreement will need to be revised to reflect the new, reduced Operation Period Shortfall Payments.

Company's Expenses Related to the Pipeline Bond Refunding

The Company shall be responsible for all of its costs, including for third party professional services, in connection with the Pipeline Bond refunding. Such Company expenses shall include, but not be limited to, internal staff time and expenses of legal counsel.

Definitions

Additional Pipeline Bonds means one or more series of additional bonds issued, executed, authenticated and delivered under the Pipeline Indenture or pursuant to a trust indenture by and between the CPCFA and the Pipeline Trustee. 'Additional Pipeline Bonds' include bonds issued to refund some or all of the then-outstanding Pipeline Bonds.

Operating Period Shortfall Payment Unit Price means the price per Monthly Operating Period Shortfall Payment Unit set forth in the Water Purchase Agreement, adjusted if and to the extent required by the Water Purchase Agreement for (1) a decrease in the Operating Period Shortfall Payment Unit Price due to certain Pipeline Bond redemptions, (2) a decrease in the Maximum Annual Supply Commitment based on the Performance Test and the Water Authority exercises its right to reduce the Minimum Annual Demand Commitment, or (3) due to issuance of Additional Pipeline Bonds.

Adjustments to the Operating Period Shortfall Payment Unit Price Due to the Issuance of Additional Pipeline Bonds

Upon the issuance of any Additional Pipeline Bonds, the calculation of the Operating Period Shortfall Unit Price, shall be updated to reflect such issuance. The parties shall document the revised Operating Period Shortfall Unit Price in a Contract Administration Memorandum.

Issuance of Additional Pipeline Bonds

Subject to the terms and conditions of the Pipeline Indenture (including the requirements to obtain the Company's consent prior to the issuance of Additional Pipeline Bonds that would increase the amounts that could become payable as Operating Period Shortfall Payments), the Water Authority may issue Additional Pipeline Bonds from time to time. The Company shall provide reasonable assistance to the Water Authority in connection with the issuance of Additional Pipeline Bonds, including providing the Water Authority with existing relevant data regarding the Project and the Company. The Company shall not take any action which seeks to cause the delay of an issuance of Additional Pipeline Bonds.

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APPENDIX H

SUMMARIES OF CERTAIN PROJECT CONTRACTS

- I. SUMMARIES OF CERTAIN PROVISIONS OF THE PLANT ENGINEERING PROCUREMENT AND CONSTRUCTION SERVICE AGREEMENT
- II. SUMMARIES OF CERTAIN PROVISIONS OF THE OPERATION, MAINTENANCE REPAIR AND REPLACEMENT AGREEMENT
- III. SUMMARIES OF CERTAIN PROVISIONS OF THE GROUND LEASE

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I. SUMMARY OF CERTAIN PROVISIONS OF THE PLANT ENGINEERING, PROCUREMENT AND CONSTRUCTION SERVICES AGREEMENT

The following summarizes certain provisions of the Desalination Facility Engineering, Procurement and Construction Services Agreement (the “Plant EPC Contract”), dated as of December 20, 2012 (the “Effective Date”), as amended through January 16, 2019 by and between Poseidon Resources (Channelside) LP (the “Company”) and Kiewit Shea Desalination, a joint venture of Kiewit Infrastructure West Co. (“Kiewit”) and J.F. Shea Construction, Inc. (“Shea”) and collectively (the “EPC Contractor”).

Definitions

Any capitalized term used in this summary and not defined below is defined in Appendix A – Certain Definitions.

EPC Contractor’s Scope of Work

Subject to the terms of the Plant EPC Contract, EPC Contractor is to perform all acts or actions required or necessary in connection with the design, engineering and procurement of materials and equipment and the packing, transportation, assembly, installation, construction, start-up, warranting, testing and guaranteeing of the Plant (“Work”). The Work includes the following: designing the Plant; materials, equipment and systems procurement; performing and arranging for the supply, transport, delivery, installation, testing, erection and warranty of the materials, equipment and systems; designing, constructing, installing and erecting the Plant in conformance with applicable laws; obtaining and maintaining all applicable permits designated as EPC Contractor’s responsibility under the Plant EPC Contract; provision of required spares; through Provisional Acceptance, assisting the Company in obtaining and maintaining all applicable permits that the Company must obtain under the Plant EPC Contract; start-up and testing of the Plant; providing the Company with all drawings, records, manuals, registers and written procedures required to operate and maintain the Plant and training of the Company’s operational staff via classroom and hands-on sessions pursuant to the terms hereof; and other acts as may be necessary to provide the Company with a fully operational Plant which meets or exceeds the Guaranteed Performance Levels during the Performance Test and otherwise satisfies the conditions in the Plant EPC Contract. EPC Contractor’s obligations and areas of responsibilities include:

- Engineering, Design, Construction and Construction Management
- Procurement
- Nondiscrimination
- Permitting
- Utilities
- Personnel Training
- Clean-Up and Waste Disposal
- Project Schedule, Critical Path Method Schedule and Progress Reports
- Taxes
- Protection of Property
- Royalties and License Fees
- Labor Relations

- Further Assurances; Financing Requirements
- Coordination with Other Contractors
- Safety Precautions
- Data and Design Criteria
- Subcontracts

Compensation and Payment

As full compensation for the Work, the Company agreed to pay EPC Contractor \$429,856,000 (the “Plant Contract Price”) in monthly installments as the Work progresses, based on completion of specified tasks related to the design, start-up, commissioning and general construction of the Plant, as well as installation and testing of individual Plant components (the intake pump station, pretreatment filter area, reverse osmosis facility, etc.), plus equitable adjustments for changes in the Project schedule agreed by the parties, scope changes approved or implemented in accordance with the Plant EPC Contract, and post-Effective Date changes in applicable laws that change EPC Contractor’s tax costs (reduced to reflect an equitable portion of the effect of lower taxes on EPC Contractor as a result of the change in law).

The Company has retained \$4.5 million of the amounts invoiced by EPC Contractor as retainage to secure performance of the EPC Contractor’s obligations for the upgrade of the Plant’s backwash treatment system. The Company may also deduct costs resulting from EPC Contractor’s material breach of the Plant EPC Contract from any amounts owed, and may set off from its payments, and/or apply retainage against, amounts due from EPC Contractor to the Company.

Liens

Within 15 days of final payment to EPC Contractor or to any subcontractor from whom EPC Contractor obtains lien waivers, EPC Contractor must either deliver to the Company a copy of a final unconditional waiver and release or post security to fully indemnify the Company from any loss from claims of such subcontractors.

Security

The Plant EPC Contract required EPC Contractor to post a construction performance bond (“Performance Bond”) and a payment bond (“Payment Bond”) covering the Work as required under the Plant EPC Contract. The Performance Bond must be in an amount equal to the Liability Limit which, as adjusted after Provisional Acceptance, equals \$200 million, less damages incurred and paid by EPC Contractor under the Pipeline EPC Contract in excess of \$29,382,000 (proportionately adjusted to reflect any changes to the Plant Contract Price after the Effective Date) and covers EPC Contractor’s obligations under the Plant EPC Contract through Project Completion, as well as EPC Contractor’s warranty obligations. The Collateral Agent is a co-obligee on the Performance Bond and has agreed not to make, and to waive any ability to make, a claim on the Performance Bond for damages in excess of the Liability Limit. The Company has agreed to indemnify EPC Contractor for claims by such co-obligee on the Performance Bond in excess of the Liability Limit. The Payment Bond must be in an amount equal to the Plant Contract Price. EPC Contractor is also required to deliver a \$7 million performance bond (the “Restoration Bond”) to Cabrillo covering EPC Contractor’s obligations to restore the Plant Site after a termination for EPC Contractor’s default and a parent guaranty of EPC Contractor’s obligations from Kiewit Infrastructure Co. (“Guarantor”).

Commissioning and Plant Mechanical Completion

“Plant Mechanical Completion” means when, except for punch list items that do not affect the performance or operation of the Plant, such as painting, landscaping and so forth, (a) all pipelines (excluding the Pipeline), facilities, materials and equipment for the Plant have been installed in accordance with the requirements of the technical scope of services set forth in the scope book for the Plant EPC Contract, and inspected and approved for alignment, lubrication, rotation, vibration, leakage, noise, and hydrostatic and pneumatic pressure integrity; (b) all systems required to be installed by EPC Contractor have been installed and tested; (c) the Plant has been flushed and cleaned out as necessary and as required by CDPH to enable start-up and operation; (d) all the equipment and systems can be operated in a safe and prudent manner and have been installed in a manner that does not void any subcontractor or vendor warranties; (e) the Plant is ready to commence start-up, Performance Testing, and operations in accordance with the Plant EPC Contract’s standards of performance; and (f) an initial punch list is established and mutually agreed upon by Owner and Contractor. Appendix 6.1 of the Plant EPC Contract sets out the following requirements that must be met in order for the Plant to achieve Plant Mechanical Completion:

Demonstrate that all key Plant equipment, processes and systems, subsystems and the Plant as a whole function in accordance with the scope book, specifications, subcontractor warranty conditions and applicable laws, permits and standards, including:

All pumps operate through their specified design range and are verified for proper rotation, speed, flow rate, pressure and design point;

Plant systems and sub-systems meet the Plant EPC Contract’s performance standards and are installed as designed;

All required automatic, manual and remote-control features are provided and operable;

All required valves, water quality sensors and analyzers, pressure and flow sensors, liquid level sensors, indicators, alarms, leak detectors, monitors, controls, field devices and panel devices are provided, correctly calibrated and operable over their full range;

All required inlet, outlet, sensor taps and drain connections are included and operable;

All required liquid dosing metering pumps, accessories, appurtenances, and injection systems are provided, installed and operable over the full operational range for each chemical;

Software and hardware operational interlocks and startup, shutdown, control loop functions and proper sequencing within all programmable logic controllers, HMIs, SCADA and other control locations are fully functional

All equipment manufacturers’ equipment warranty, start-up and operating instructions draft standard operating procedures for

system and subsystem start-up, operating and shutdown are available on-site; and

A complete Plant start-up and shutdown cycle has been demonstrated.

Demonstrate that the Plant is ready for start-up and commissioning and submit documentation allowing the Company to confirm that start-up readiness verification has been completed; and

Perform dry and wet commissioning of the Plant; and

Provide the Company with a Plant Mechanical Completion Procedure Report with test results and documentation.

Plant Mechanical Completion was achieved following notice by EPC Contractor to the Company, the Water Authority and the financing parties' engineer and the Company's review and approval of the EPC Contractor's punch list of items of Work to be performed or corrected to ensure full compliance with the Plant EPC Contract which did not affect the performance or safe operation of the Plant.

Performance Testing

EPC Contractor submitted to owner a detailed plan setting forth the performance testing activities, monitoring, calculation methodologies, specific test instruments or equipment and applicable calibration procedures proposed for demonstration of achievement of the Minimum Performance Criteria, and commenced performance testing upon the Company's and the financing parties' engineer's approval once (i) the Plant achieved Plant Mechanical Completion, (ii) EPC Contractor during commissioning, successfully delivered enough Product Water to displace any water found in the Pipeline or the Water Authority's Pipeline 3 or Twin Oaks Valley Water Treatment Plant improvements and delivered Product Water continuously for 3 consecutive days on a 24-hours a day basis at flow rates using 3 high pressure pumps, (iii) required utilities were connected, and (iv) EPC Contractor met with the Company and the Water Authority to provide a forecast of expected Product Water.

Performance testing requirements are intended to demonstrate the ability of the Plant to operate as intended and meet contractual and regulatory requirements for capacity, water quality, chemical consumption and power consumption. The Plant EPC Contract sets forth the following criteria (the "Minimum Performance Criteria") that must be met in order for EPC Contractor to achieve Provisional Acceptance:

The total cost of chemicals consumed during the 30-day test does not exceed 120% of a maximum chemical cost (expressed as \$/Kgal of product water), determined based on the weighted average total suspended solids for the 30-day test.

The amounts of coagulant (Ferric Sulfate, FS, or $\text{Fe}_2(\text{SO}_4)$) used during the 30-day test does not exceed 120% of a maximum coagulant amount, determined based on the weighted average total suspended solids for the 30-day test.

The Plant produces a minimum of 1,400 million gallons ("MG") during the 30-day test (to be increased proportionately if the Plant consumes more than the maximum power amount during the test); provided that any excess above 57 MG in any day will not be counted towards this minimum;

The Plant produces a minimum of 378 MG (times the amount of water produced during the 30-day test divided by 1,564 MG) over a consecutive 7-day period;

The Plant complies with the Project's National Pollutant Discharge Elimination System ("NPDES") permit requirements and all other applicable laws during the performance test;

Power consumption for the water produced during the test does not exceed 110% of a specified maximum amount determined based on weighted average temperature and total dissolved solids during the 30-day performance test and accounting for energy specific to the product water pump and intake pump; and

All output of the reverse osmosis system is in compliance with applicable CDPH regulations;

The Plant EPC Contract also provides that in order to achieve Provisional Acceptance without EPC Contractor being liable for liquidated damages, the following "Guaranteed Performance Levels" must also be met:

The total chemical cost and the total amount of coagulant consumed do not exceed 100% of the maximum amounts described above;

The Plant produces at least 1,564 MG during the 30-day performance test; and

Power consumption for the water produced during the test does not exceed 100% of specified guaranteed amount described above.

The EPC Contractor demonstrated by performance testing that the Minimum Performance Criteria and the Guaranteed Performance Levels were achieved and therefore was not obligated to pay liquidated damages or otherwise perform corrective work to achieve such requirements as set forth in the Plant EPC Contract ("Performance Guarantee Payments").

Provisional Acceptance

Under the Plant EPC Contract the Company is obligated to achieve "Provisional Acceptance" of the Project when the following conditions have been met:

EPC Contractor has provided the Company with final performance test results demonstrating that the Plant meets the Minimum Performance Criteria and complies with the Plant EPC Contract's standards of performance;

Plant Mechanical Completion has been achieved; and

Pipeline Mechanical Completion (as defined in "Pipeline EPC Contract" in Appendix I) has been achieved;

Unless furnished earlier in connection with Plant Mechanical Completion, EPC Contractor has (i) protected the reverse osmosis membranes in accordance

with the manufacturer's storage requirements; (ii) tested and disinfected the pressure vessels, (iii) loaded the reverse osmosis membranes; (iv) protected the membranes from damage due to disinfectants in feedwater; (v) obtained membrane data required for normalization by the RO membrane manufacturer's methodology; and (vi) maintained the data to map reverse osmosis element placement; and

If not already passed during the performance test, EPC Contractor has completed necessary repairs and passed a test of the Plant's surge protection system ("Surge Protection System Test").

Provisional Acceptance was achieved on May 26, 2016.

Project Completion

Project Completion under the Plant EPC Contract is required to be achieved within 120 days after Provisional Acceptance. While the Company and the Water Authority have agreed, for purposes of the Water Purchase Agreement, to extend such date to December 31, 2019 including to permit installation and testing of the upgrade of the Plant's backwash treatment system, this extension does not change the deadline for the EPC Contractor to achieve Project Completion. Project Completion will be achieved when the following conditions have been satisfied:

Provisional Acceptance has been achieved;

All punch list items have been completed;

EPC Contractor has completed all Work (including correction of any known defects) other than warranty Work;

If not met at Provisional Acceptance, each reverse osmosis train has met certain output requirements;

The Company has received final lien waivers from EPC Contractor and its subcontractors;

EPC contractor has delivered copies of equipment and fixture warranties and related operating manuals received from equipment suppliers;

EPC Contractor has delivered two sets of as-built drawings to the Company;

EPC Contractor has delivered a claims statement setting forth in detail all claims known to it of every kind whatsoever of EPC Contractor connected with or arising out of the Work prior to the date of the statement; and

If the Plant failed the Surge Protection System Test during performance testing, in addition to the completion of repairs or modifications required prior to Provisional Acceptance (if any), EPC Contractor has completed all other necessary repairs or modifications.

Within 10 days after receiving notice from EPC Contractor that Project Completion has been achieved, the Company will either certify that Project Completion has been achieved or notify EPC

Contractor of the reasons why Project Completion has not been achieved, in which case EPC Contractor will take all steps necessary to achieve Project Completion and re-submit the notice, until such time as Project Completion has been achieved.

Liquidated Damages and Bonuses

The Plant achieved Provisional Acceptance by the date which was 1,065 days after the date specified by the Company for the commencement of construction, as extended for any Force Majeure Events or Scope Changes (the “Guaranteed Completion Date”). Accordingly, the EPC Contractor was not required to pay delay damages (“Late Completion Payments”) as set forth in the Plant EPC Contract.

Limitation of Liability

After Provisional Acceptance, EPC Contractor’s Liability Limit will not exceed \$200,000,000, minus (i) the Repair Credit, (ii) all damages incurred by EPC Contractor to the Company prior to Provisional Acceptance under the Pipeline EPC Contract, (iii) all damages incurred by EPC Contractor to the Company and/or the co-obligees after Provisional Acceptance under the Pipeline EPC Contract in excess of \$29,382,000 (proportionately adjusted to reflect any changes to the Plant Contract Price after the Effective Date), and (iv) all damages incurred by EPC Contractor to the Company and/or the co-obligees under the Plant EPC Contract; provided, that, to the extent that such liability results from a breach by IDE Americas under the IDE Americas Subcontract, the EPC Contractor’s liability will not exceed the IDE Americas Subcontract Price minus (a) the cost incurred by IDE Americas or the EPC Contractor (to the extent such costs of the EPC Contractor are solely attributable to IDE Americas’ breach of the IDE Americas Subcontract) of any corrective work described above under “Corrective Work”; (b) the reasonable costs incurred by IDE Americas with respect to the warranty provided and reimbursements to the Company for damages to the Water Authority pursuant to the IDE Americas Subcontract; and (c) all liabilities and damages incurred by EPC Contractor to the Company and/or the co-obligees as a result of IDE Americas’ breach of the IDE Americas Subcontract prior to Provisional Acceptance. The Liability Limit will not apply to EPC Contractor’s Plant Site restoration obligations, which are covered by the Restoration Bond.

Neither party will be liable for special or consequential damages, except for third party personal injury or property damage claims (and the performance and delay liquidated damages).

Kiewit and Shea are jointly and severally liable for all EPC Contractor obligations under the Plant EPC Contract.

Warranties

EPC Contractor warrants to the Company that the Work will be performed in accordance with the Plant EPC Contract and generally accepted professional engineering standards and practices applicable to recognized engineers performing comparable work, applicable laws and permits, standard industry practices, and codes and standards and the Work and all equipment, materials, systems and supplies will be new and of good quality, free from defects in workmanship or materials. EPC Contractor further represents and warrants that it and its subcontractors are fully qualified and capable of performing the Work in accordance with the Plant EPC Contract. The warranty will be in effect for 1 year after Provisional Acceptance. This term will be extended for any repair work for a year from the date of such repair, but in no event beyond 2 years after Plant Mechanical Completion. The Company must notify EPC Contractor of any defects within 30 days of discovery, and EPC Contractor will not be responsible for any further exacerbation or deterioration if the Company notifies EPC Contractor of the defect more than 5 days after discovery.

EPC Contractor will use commercially reasonable efforts to ensure that all subcontracts will provide that items are new and of good quality, free from defects in workmanship or materials and that subcontractors will repair subcontract items if notified of a defect within 1 year from Provisional Acceptance, and that all subcontract items will comply with the standards of performance in the Plant EPC Contract. EPC Contractor's warranty obligations do not include the pretreatment warranty provided by IDE Americas under the IDE Americas Subcontract.

The Company may direct EPC Contractor to perform tests during the first year after Provisional Acceptance to identify defects requiring correction. EPC Contractor will coordinate with the Company in correcting any defects to minimize any adverse effect on Plant operations and will comply with all warranty procedures in the Plant EPC Contract. If correcting the defect requires shutdown or reduced operation of the Plant, EPC Contractor will not be considered to be in default if the Company does not agree to shutdown the Plant and will not be responsible for additional exacerbation and extra repair costs if the Company postpones EPC Contractor's warranty work until scheduled outages or operation reductions.

EPC Contractor warrants that title to the Plant and all Work and materials provided under the Plant EPC Contract will pass to the Company free and clear of all liens and other encumbrances and not subject to any agreement under which a security interest is retained by any person.

Force Majeure

Either party will be excused from obligations, except for payment obligations, if it is unable to perform due to a "Force Majeure Event," which means an event beyond the reasonable control, and not caused by the willful or negligent acts, of the party. Force Majeure Events include strikes or labor disputes (except strikes at the Plant Site by EPC Contractor or subcontractor employees); hurricanes, floods, monsoons, typhoons, lightning, or other unusually severe weather conditions; archeological findings at the Plant Site; earthquakes; fires; shipping accidents; explosions; acts of declared or undeclared war; civil disturbance; terrorism; acts of foreign political powers; act of God or the public enemy; power supply failures or interruptions (including Power Station outages, but excluding failures caused by EPC Contractor's failure to perform its obligations); interference or interruption by Cabrillo (excluding Cabrillo's actions in connection with a breach of the Site Lease caused by EPC Contractor's performance of the Work) or the Company causing EPC Contractor to suffer delay or extra costs, or any unreasonable delay or failure to act of a governmental authority with respect to a requested action necessary for the performance of the Work (provided that such requested action is legal, customary and within such authority's jurisdiction and application therefor was made in a proper and timely manner and was diligently pursued), and any legal proceeding filed by a third party delaying the progress of the Project. Force Majeure Events do not include late delivery of or damage to equipment or materials (except if caused by a Force Majeure Event); economic hardship; known subsurface conditions at the Plant Site; manpower, materials or equipment shortages (unless caused by a Force Majeure Event); EPC Contractor's failure to obtain or maintain required permits; delay or failure in obtaining materials or equipment or Subcontractor delay, default or failure (unless caused by a Force Majeure Event); and changes in laws.

The party claiming the Force Majeure Event must provide written notice to the other party within 3 business days of discovery, and a written description of the event within 8 days after discovery. Suspension of obligations will be of no greater scope and for no longer duration than reasonably required by the Force Majeure Event. The party claiming the Force Majeure Event must use commercially reasonable efforts to continue to perform, to correct the event excusing performance and to mitigate damages to the other party, and must notify the other party when it is able to resume performance.

Indemnification

EPC Contractor will indemnify the Company, the financing parties, the engineering firm assisting the Company in Project progress review, the Company's title company, the financing parties' engineer, Water Authority and any person on whose property EPC Contractor performs Work (as well as the directors, officers, agents, successors or assigns of each of them) against losses arising from claims by third parties arising out of injury or death of persons or third party property loss or damage to the extent caused by (i) negligent acts or omissions by EPC Contractor or its subcontractors in performing the Work (except for negligence or willful misconduct of the Company or its other contractors) or (ii) failure to comply with the Plant EPC Contract; provided that the Company will bear its proportionate share of the liability.

The Company will indemnify EPC Contractor (including its subsidiaries and affiliates and the directors, officers, agents, successors or assigns of each of them) against losses arising from (i) any actions brought by owners of the Plant Site other than Cabrillo with respect to such owners' rights to the Plant Site and (ii) injury or death of persons or third party property loss or damage to the extent caused by failure to comply with the Plant EPC Contract; provided that the EPC Contractor will bear its proportionate share of the liability.

EPC Contractor will indemnify the Company from claims (except for claims pertaining to technology or intellectual property provided by IDE Americas) arising from infringement of patents or other intellectual property rights with respect to the Work or the Project. If any part of the Project is found to constitute an infringement, EPC Contractor will use commercially reasonable efforts to secure for the Company a license for continued use of the Work and, if unable to do so, will replace the affected Work or equipment at its own cost.

The Company will indemnify EPC Contractor against damages from hazardous materials existing at the Plant Site, not including the cost of removing hazardous materials that are EPC Contractor's responsibility under the Plant EPC Contract, and unless (i) the presence of such hazardous materials after the Commencement Date arises out of EPC Contractor's obligations under the Plant EPC Contract, or (ii) EPC Contractor fails to immediately notify the Company of, or intentionally aggravates, the condition. EPC Contractor will indemnify the Company against damages from hazardous materials brought onto, used or created at the site by EPC Contractor except with respect to the hazardous materials EPC Contractor is responsible for removing under the Plant EPC Contract, and unless the Company caused the release or knowingly aggravated it.

Insurance

The Plant EPC Contract contains comprehensive insurance provisions, requiring EPC Contractor to maintain Worker's Compensation Insurance, Automobile Liability Insurance, Comprehensive General Liability Insurance, Permanent Property Insurance, Pollution Insurance, Excess Liability Insurance, Professional Liability Errors and Omissions Insurance and Marine Cargo Insurance and Protection and Indemnity Insurance policies. These policies must be primary, name the Company, Cabrillo, the financing parties and Water Authority as additional insureds and contain a waiver of the right of subrogation against the Company, Cabrillo, the Water Authority and the financing parties. EPC Contractor will be responsible for all deductibles, and must require Major Subcontractors to obtain insurance as required under the Plant EPC Contract. The Company must obtain Builder's Risk Insurance.

Default and Remedies

Either party will be in default for: (i) commencement of a voluntary or involuntary bankruptcy proceeding which, in the case of an involuntary proceeding, is not dismissed or stayed within 60 days; (ii) any representation or warranty was false when made and the party fails to cure within 30 days of notice; (iii) attempting to assign or transfer without written consent; (iv) a default under the Pipeline EPC Contract; and (v) material breach of the Plant EPC Contract that is not remedied within 30 days of notice (or 180 days if the party is diligently pursuing cure, provided that such cure is effected in such a manner and within such a time that such failure to comply could not reasonably be expected to have a material adverse effect on the other party or the Project).

In addition, EPC Contractor will be in default for: (i) failure to make a payment due to the Company within 45 days (15 business days for Late Completion Payments) provided the payment is not subject to a good faith dispute; (ii) knowing failure to maintain required insurance coverages or any other failure to maintain required insurance not remedied within 5 business days of actual knowledge; (iii) its failure, or failure by a subcontractor, to comply with any provisions of applicable laws or permits that is not cured within 10 days of actual knowledge (or 120 days if EPC Contractor is diligently pursuing cure, provided that such cure is effected in such a manner and within such a time that such failure to comply could not reasonably be expected to have a material adverse effect on the Company or the Project); (iv) unexcused cessation or abandonment of the Work that is not cured within 5 business days of notice (unless due to an emergency and with reasonable justification); and (v) with respect to Guarantor: (w) a voluntary or involuntary bankruptcy proceed is commenced (which, in the case of an involuntary proceeding, is not dismissed or stayed within 60 days); (x) any representation or warranty was false when made and Guarantor fails to cure within 30 days of notice; (y) the guaranty is not in full force without the Company's written consent; or (z) Guarantor repudiates or challenges the validity of the guaranty.

If EPC Contractor defaults, the Company may: (i) immediately terminate the Plant EPC Contract in whole or in part (and, if in whole, terminate the Pipeline EPC Contract as well); (ii) request that EPC Contractor withdraw from the Plant Site and take possession of all designs and facilities necessary to complete the Work; (iii) have the Work finished; and (iv) seek recovery of damages resulting from EPC Contractor's default, subject to the limitations in the Plant EPC Contract.

The Company will also be in default for failure to pay EPC Contractor within 45 days from the date such payment is due. The Company will not be in default if (i) the payment is being disputed in good faith, (ii) the undisputed portion has been paid and (iii) the aggregate of all payments withheld by the Company and letters of credit provided by EPC Contractor in exchange for withheld payments does not exceed \$7,500,000, but will be in default if either EPC Contractor has provided a letter of credit for the disputed amount or court or dispute resolutions have found the unpaid amount to be due to EPC Contractor and the Company fails to pay within 15 business days (or within 15 business days after the first day of the following month if the letter is posted or determination is made more than 5 days after the end of the month).

If the Company defaults on its payment obligations, EPC Contractor may (prior to the expiration of the 45 day notice period) suspend performance on 10 days' written notice until the Company has paid (with a Scope Change to reflect EPC Contractor's extra costs from the suspension) and terminate the Plant EPC Contract upon 60 days' written notice. For any other the Company default, EPC Contractor may immediately terminate the Plant EPC Contract and seek recovery of damages resulting from the Company's default, subject to the limitations in the Plant EPC Contract.

Assignment

The Company may assign its rights and obligations under the Plant EPC Contract to: (i) Water Authority, upon termination or expiration of the Water Purchase Agreement, (ii) its lenders for financing or (iii) a transferee of all or a substantial portion of the Project with substantially similar financial and operational capabilities, and the assignment to whom could not otherwise reasonably be expected to have a material adverse effect on EPC Contractor. EPC Contractor may assign its rights under the Plant EPC Contract to the sureties providing the performance bond in the event that the sureties are performing the Plant EPC Contract. No other assignments are permitted without consent. However, the Company will consent to EPC Contractor assigning its right to payment to financial institutions providing credit to EPC Contractor (provided the assignment will not affect EPC Contractor's ability to perform or the Company's rights under the Plant EPC Contract). Any assignee of the Plant EPC Contract will assume all outstanding amounts owing to the remaining party and the assignor will be jointly and severally liable with the assignee to the remaining party for outstanding amounts not fully paid within 45 days after the assignment. Any party assigning the Plant EPC Contract prior to Project Completion will also assign its rights under the Pipeline EPC Contract, provided that if the Company assigns prior to Project Completion and EPC Contractor is in default, the Company may, but will not be required to, assign its rights under the Pipeline EPC Contract.

Design Documents

EPC Contractor will make all design information related to the Project available for review and comment by the Company, the engineering company retained by the Company, and the financing parties' engineer, but such review will not release EPC Contractor from any duties and EPC Contractor will retain ownership of the documents. The Company has a license to use EPC Contractor's design and engineering information for the Project and any expansion of the Plant of up to 20% of the Plant's output.

Confidentiality

Each party will hold any engineering, technical, financial or commercial information related to the Project in confidence for 3 years following Project Completion (except for information that can be shown by written records to have been previously in the public domain or receiving party's possession, or to have been received by a party free of confidentiality obligations from a third party or information that is required by law to be disclosed to a governmental authority), and will be liable to the other party for any disclosure of such information by its officers, employees and affiliates. Each party will obtain prior written consent before publishing the terms and conditions of the Plant EPC Contract or the Project, provided that the Company may disclose terms to its lenders, potential lenders, potential equity investors, rating agencies and consultants as required to obtain financing, and may disclose a summary of the Plant EPC Contract subject to EPC Contractor's approval. EPC Contractor will require its subcontractors, and the Company will require its lenders, potential lenders, potential equity investors, and rating agencies, to enter into appropriate nondisclosure agreements. The Company will also require any consultants and advisors in the business of designing, constructing and/or operating reverse osmosis desalination facilities to enter into direct nondisclosure agreements with EPC Contractor, unless the Company is disclosing only the Plant EPC Contract (without its appendices) to the consultant and requires the consultant to enter into an appropriate nondisclosure agreement. EPC Contractor will not issue any press releases regarding the Project without the Company's prior written consent.

The following information (unless it is Non-Disclosable Information, as defined in the following sentence) is not subject to the confidentiality requirements in the Plant EPC Contract:

The Water Purchase Agreement and all of its appendices;

Reports, notices, certificates, audited financial statements or other documents that the Company delivers or causes to be delivered to the Union Bank, N.A. (or any successor fiduciary institution serving as trustee under the Plant Indenture) under or in connection with the Plant's financing agreements, including reports prepared by the consulting engineer for the holders of the bonds under the Plant Indenture and continuing disclosure reports required under applicable securities laws;

Information supplied to any governmental authority, including regulating reports, information and sampling and testing results;

The report of the performance test results prepared pursuant to the Plant EPC Contract; and

Photographs or videos of the exterior of the Plant, or of the interior of the Plant that provide a general overview to the interior of the Plant but do not show the details of the advanced technologies of the Project.

The following will constitute "Non-Disclosable Information":

Detailed plans, drawings and specifications of the Plant;

Financial information regarding EPC Contractor;

Details of any subcontracts; and

Details of the Plant EPC Contract, other than as specifically permitted herein.

Dispute Resolution

If the Parties' representatives cannot resolve a dispute within 30 days, the Parties will submit the matter to mediation under the Construction Industry Mediation Rules of the American Arbitration Association for 30 days. If the matter is not resolved through mediation, either party may submit the dispute to litigation. Substantially similar disputes under the Pipeline EPC Contract may be consolidated with disputes under the Plant EPC Contract, and EPC Contractor will consent to joinder of the Water Authority, at Owner's determination, in disputes regarding whether Provisional Acceptance has been achieved. Disputes arising from IDE Americas' work under the IDE Americas Subcontract will be resolved via (i) 10 business days of executive negotiations, followed by 20 business days of mediation followed by judicial reference for disputes of \$1,000,000 or more, or (ii) arbitration for disputes of less than \$1,000,000 and, in either case, the prevailing party will be entitled to recovery reasonable attorneys' fees and costs. Disputes regarding whether repair or replacement of a portion of the Plant is within EPC Contractor's warranty obligations or IDE Americas' obligations under the O&M Agreement will be resolved through immediate joint submission to binding arbitration.

Effect of Third Party Decisions or Requirements

Where any of EPC Contractor's rights under the Plant EPC Contract are subject to consent or approval from the Company's lenders or engineer, the Company will be liable to EPC Contractor for the failure or refusal of such parties to provide such approval to the same extent, if any, that the Company would be liable under the Plant EPC Contract if it had the right to make the decision and took the action

taken by such parties. In addition, either party's requirement to comply with any determination or requirement of a third party will not excuse that party from its obligations under the Plant EPC Contract, nor affect the other party's rights under the Plant EPC Contract.

Miscellaneous

The Plant EPC Contract contains other customary provisions, including those addressing EPC Contractor's status as an independent contractor, representations and warranties, and cooperation with financing parties.

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II. SUMMARY OF CERTAIN PROVISIONS OF THE OPERATION, MAINTENANCE, REPAIR AND REPLACEMENT AGREEMENT

The following summarizes certain provisions of the Operation, Maintenance, Repair and Replacement Agreement (the “O&M Agreement”), dated as of December 20, 2012, (the “Effective Date”), as amended as of January 16, 2019, by and between Poseidon Resources (Channelside) LP (the “Company”) and IDE Americas, Inc. (“IDE Americas”).

Definitions

Any Capitalized term used in this summary and not defined below is defined in Appendix A – Certain Definitions.

Term

The Term of the O&M Agreement is 30 years from the Turnover Date.

IDE Americas’ Responsibilities

Included with IDE Americas’ responsibilities under the O&M Agreement are the following:

- Mobilize and prepare for taking over the Plant on the date on which responsibility for the Plant transfers from the Company to IDE Americas (the “Turnover Date”);

- Operate, maintain and repair the Plant, including repair or replacement of Plant components (but excluding items covered by Contractor’s warranty under the Plant EPC Contract or other Plant warranties made available to IDE Americas by the EPC Contractor), consistent with the O&M Agreement, standard industry practices, generally accepted national standards of professional care, applicable laws and permits, the operation and maintenance manual, codes and standards and the site description in the Plant EPC Contract scope book (collectively, the “Standards of Performance”);

- Pay all costs associated with operation and maintenance (“O&M”) of the Plant, except for property taxes, sales and use taxes, gross receipts taxes, and taxes resulting from transfer of the Plant, which will be paid by the Company;

- Obtain, at its expense, all materials, tools and supplies for operating and maintaining the Plant, including fuel, water, sewer, heat, security, transportation and telecommunications service, but excluding electricity;

- Implement and maintain a program of planned operation and maintenance according to an operation and maintenance plan (the “Operating Protocol”);

- Update the operation and maintenance manual (“O&M Manual”) prepared by Contractor within 60 days after the Turnover Date and annually thereafter (or within 60 days after changes to the Plant) as necessary;

- Prepare and deliver to the Company at least 10 days prior to the Turnover Date a maintenance, repair and replacement plan for inclusion in the O&M Manual establishing the minimum standards for ongoing maintenance, repair and replacements;

Coordinate with the Company for planned maintenance requiring partial or complete Plant shutdown and make all major equipment repairs and replacements in a major equipment repair and replacement schedule;

Keep maintenance logs;

Update the Operating Protocol at least 90 days before each Contract Year;

Determine and maintain appropriate staffing levels and comply with the requirements described in "Staffing" below;

Immediately notify the Company of environmental violations, serious injuries, significant equipment damage, citizen complaints or threatened or potential action;

Cooperate with the Company and the EPC Contractor in design review, O&M Manual preparation, training, start-up, commissioning and testing;

Pay all fines and costs imposed on IDE Americas and/or the Company resulting from IDE Americas' failure to comply with its obligations under the O&M Agreement and applicable laws;

Cooperate generally with the Company, the Water Authority, Cabrillo, the City of Carlsbad, the government and the general public;

Obtain the Company's written consent (not to be unreasonably withheld or delayed) before entering into any subcontract for reverse osmosis membranes or any subcontract (except for subcontractors for consumables or materials) of over \$500,000;

Immediately notify the Company if the Plant produces water that does not meet the quality or quantity standards in the O&M Agreement, if an IDE Americas event of default occurs or if IDE Americas violates any condition in an applicable permit or increases deliveries of water to make up for previous shortfalls;

Maintain the capability of the Product Water pump station at a level meeting the requirements of the performance test (but in no event higher than the level demonstrated in the performance test) under the Plant EPC Contract;

Operate the Plant in accordance with the Operating Protocol to avoid sudden, significant changes in flows rates ("Flow Rates") and pressure of Product Water beyond the Delivery Point, and compensate the Company for the costs of repairing damage to the Pipeline or the Water Authority's distribution system caused by IDE Americas' failure to do so (provided, that IDE Americas will have no liability for such costs if it operates the Plant's pressure surge control facilities and pressure control/reduction facilities in accordance with the operating manual for such facilities and the Operating Protocol and maintains such facilities in accordance with the Operation and Maintenance Manual);

Attend monthly operations meetings and any special meetings reasonably requested by the Water Authority;

Respond to, log and (if valid) promptly rectify or respond to complaints and communications;

Cooperate with the Company and Water Authority for up to 90 days after a purchase of the Plant by Water Authority (with payment of reasonable costs plus a 20% mark up);

With respect to any material non-compliance with applicable laws: respond to all inquiries, attend all meetings, provide all corrective action plans and other documentation required by governmental authorities, and promptly provide the Company with written notice of the violation and copies of notices issued by governmental authorities and provide the Company with a reasonable opportunity to comments on any proposed response to any material non-compliance prior to implementing such response;

Maintain the aesthetic quality of the Project as originally constructed, keep the grounds neat and orderly; maintain and repair signage, fencing and security systems; provide all landscaping services and maintain the on-site irrigation system; and

Comply with the Water Authority's discrimination/harassment prohibition policy.

Permitting

Obtain and maintain all permits designated as IDE Americas' responsibility in the O&M Agreement, all other permits necessary for IDE Americas and any subcontractors to do business where the Plant is located and any other permits required for the Services that are customarily maintained by operators for similar projects under similar operation and maintenance contracts, except for the permits designated as the Company's responsibility and other permits required for the Services that are customarily maintained by owners of similar projects under similar operation and maintenance contracts;

Indemnify the Company from damages if it fails to obtain any required permit;

Provide the Company with copies of draft permit applications and final permits; and

Provide permitting support to the Company, with reimbursement for reasonable out-of-pocket costs;

Records and Monitoring

Establish and maintain, and grant the Company and the Water Authority access to, a computerized information system for operations and maintenance data and process control;

Make available to the Company, upon request, copies of operation and maintenance records kept by IDE Americas in its performance of the Services; maintain cost records for 10 years;

maintain and make available to the Company upon request copies of material design documents and record drawings and update such records annually to show material changes to the Plant made by IDE Americas;

Deliver updated as-built drawings within 60 days following the end of each Contract Year;

Develop reporting procedures and submit monthly operations reports, annual operations and maintenance reports, default reports and information required to comply with greenhouse gas reporting requirements;

Provide the Company with an emergency plan 90 days before the anticipated Turnover Date, take all actions deemed in good faith to be reasonable and appropriate in the event of an emergency, and notify the Company of the emergency event and its response;

Photograph and videotape (to the extent accessible) and prepare an itemized inventory of material Plant property (the "Baseline Plant Record") and update the Baseline Plant Record and annually; update as-built drawings or other material documentation within 60 days of changes affecting such documents;

Cooperate fully with the Company's annual and biennial maintenance inspections of the Plant;

Safety

Keep the Plant free from waste and rubbish caused by operation and maintenance activities;

Take reasonable precautions for the safety of employees, visitors, the Plant, the Power Station, other property constituting part of the Project, adjacent property and Water Authority property affected by Plant operations;

Give all notices and comply with all applicable laws relating to safety of persons or protection of property;

Designate a qualified employee at the Plant to develop and implement safety requirements and coordinate safety activities with federal, state, local and Water Authority officials;

Develop and implement a health and safety program;

Make all modifications to the Plant required by OSHA;

Comply with Cabrillo's safety requirements; and

Prepare a security plan, conduct vulnerability assessments, guard against damage to property, and maintain and repair surveillance and security equipment;

Metering and Testing

Test raw source water and Product Water at state-certified laboratories in accordance with the Operating Protocol; and

Maintain, repair and replace meters for the volume of raw source water delivered to the Plant and the volume of Product Water delivered to the Delivery Point;

Maintenance of Records

Maintain the records specified in the O&M Agreement in electric and hard copy form (wherever practical) in a form capable of audit for 10 years (or such longer period required by law) and make such records available to the Company for inspection; and

Either deliver records no longer required to be maintained pursuant to the O&M Agreement to the Company or destroy such records if the Company does not elect to receive them.

Maintenance

IDE Americas must provide an annual maintenance schedule prior to the Turnover Date and 60 days prior to each Contract Year setting forth regularly scheduled repairs and maintenance, with no more than 240 hours during which the Plant is shut down during the Contract Year. Downtime will, to the extent practicable, be scheduled for December through March. IDE Americas will notify the Company of Plant shutdowns (60 days prior for scheduled maintenance and immediately for unanticipated shutdowns) and coordinate with the Company on unanticipated maintenance that could affect the quantity or quality of Product Water produced. IDE Americas may schedule from its major equipment repair and replacement schedule and reverse osmosis system replacement schedule if it provides the Company with a reasonable justification for the deviation and the deviation is consistent with the standards in the O&M Agreement. IDE Americas will use reasonable efforts to schedule repairs and maintenance during planned shutdowns of the Power Station or the Water Authority's distribution system.

Staffing

IDE Americas must staff the Plant with qualified personnel who meet California's licensing and certification requirements, including a full-time Plant Manager (the "Chief Operator"), possessing a Grade T 5 operator's certification, whose sole employment responsibility will be managing IDE Americas' performance of the Service. Collectively, the Chief Operator and those reporting directly to the Chief Operator must have experience with all of the advanced technologies utilized in the Plant. IDE Americas' senior management personnel will communicate directly with the Company and the Water Authority's Director of Engineering and Director of Operations (or management personnel senior to such positions), during normal business hours and at any time during emergencies, regarding any material aspect of the Services which the Water Authority believes has resulted or may result in a breach of the O&M Agreement. IDE Americas will respond promptly to any communications from, attend meetings reasonably called by, and furnish any information requested by the Company or such Water Authority personnel, in each case that has a bearing on the performance of the Services with respect to which IDE Americas has responsibility, involvement or knowledge. The Company Authority may, after first meeting with the Water Authority and IDE Americas to attempt to resolve the dispute, require removal of the Chief Operator for persistent failure to manage the Plant in accordance with the Standards of Performance or if an unworkable relationship has developed between the Chief Operator and the Water Authority or the Company.

Legal Compliance

IDE Americas will operate and maintain the Plant to comply with all applicable laws and use reasonable efforts to minimize noise, odors and emissions of hazardous materials and dust. IDE Americas will store, use and dispose of hazardous materials in accordance with a hazardous materials management program and emergency/spill response plan. IDE Americas must provide the Company with a written description of activities with potentially adverse environmental effects which differ materially from the description of the Plant in the Facility EPC Contract and steps taken to mitigate the effects. IDE

Americas will advise the Company of complaints received and intended responses. IDE Americas is responsible for all notification and reporting requirements associated with the release of hazardous materials from the Plant or site and to immediately notify the Company and the appropriate governmental authorities if it discovers the release of any hazardous materials. IDE Americas is responsible for remediating, at its sole cost, any release of hazardous materials caused by IDE Americas during the term.

IDE Americas will timely supply correct and complete information and take all actions in connection with the applicable permits, including requirements under the Company permits designated as IDE Americas' responsibility in the O&M Agreement. All information to be supplied with respect to the Company's New Domestic Water Supply Permit must be submitted to the Company for review and comment at least 14 days before it is submitted to the California Department of Public Health. IDE Americas will prepare all periodic reports required by all applicable permits and under applicable laws with respect to the Plant, and will provide the Company with copies of such regulatory reports for the Company's New Domestic Water Supply Permit at least 14 days before filing. Material final communications and reports will be provided to the Company simultaneously with their submittal to the applicable governmental authority. IDE Americas is responsible for any schedule or cost consequences from the submission of materially incorrect or incomplete information, and will advise the Company if it becomes aware of potential material changes in regulatory requirements.

IDE Americas will dispose of all liquid and solid byproducts and solid waste resulting from O&M activities, as well as non-compliant desalinated water.

Security

IDE Americas was required to and provided the Company with a \$10,000,000 performance bond with at least a 3 year term (to be renewed for at least another 3 years at least 6 months before its expiration). The face amount will be increased each third Contract Year, starting with February 1 of the 3rd Contract Year to match the limitation of liability in Section 13.2, but cannot be decreased. If the bond issuer falls below either a rating of A by Standard & Poor's or A by Moody's Investor Service, IDE Americas must replace the bond within 30 days with one issued or confirmed by an institution meeting the rating requirements. The Company may draw on the bond if IDE Americas fails to cure a default (after the applicable cure period for such default) within 3 days of the Company giving IDE Americas notice of the event of default and its intent to draw on the bond. If the Company assigns the agreement, IDE Americas will transfer or replace the bond within 30 days, at the Company's expense.

IDE Americas was also required to and provided a parent guaranty from I.D.E. Technologies, Ltd.

Product Water Quality

IDE Americas must deliver Product Water to the flange of the downstream side of the Product Water flowmeter (the "Delivery Point") that complies with the quality parameters, chlorination levels and monitoring frequencies set forth in the O&M Agreement (the "Product Water Quality Standards"). The Company may require IDE Americas to alter the limits for chlorine residual and chloramine/ammonia ratio set forth in the O&M Agreement to meet the Water Authority's requirements for blended water conveyed to its distribution system, subject to an adjustment in compensation. IDE Americas must report immediately (upon having actual knowledge) the delivery of any Product Water that does not meet the Product Water Quality Standards.

Energy Consumption

If the energy used to run the Plant for the first twelve months of operation is more than the guaranteed energy consumption for that period, IDE Americas was required to make such repairs, replacements and improvements as IDE Americas (in consultation with the Company) reasonably determined necessary to correct the causes of such overconsumption; provided that IDE Americas' obligations to make such improvements are deemed to have been completed when (i) IDE Americas' reasonable costs of conducting such improvement program equal \$10,000,000 or (ii) the energy used to run the Plant has met the guaranteed energy consumption for a consecutive twelve-month period, whichever occurs first.

Product Water Quantity

IDE Americas is obligated to deliver an amount of Product Water equal to (i) the amount of Product Water produced during the 30-day performance test under the Plant EPC Contract (up to 1,564 million gallons ("MG")), (ii) divided by 1,564 MG, (iii) multiplied by 18,250 MG (the "Committed Annual Volume"). If the production capacity of the Plant improves subsequent to the first Contract Year, the Company may request, subject to IDE Americas' approval, an increase in the Committed Annual Volume up to 18,250 MG.

Prior to each Contract Year, the Company and IDE Americas will prepare a proposed water production plan ("Projected Annual Delivery Schedule") setting forth proposed daily and monthly quantities of Product Water deliveries equaling, in the aggregate, the Committed Annual Volume and accounting for scheduled Plant maintenance of up to 240 hours per year, planned shutdowns of the Water Authority's distribution system and the Power Station, the timing of any planned capital modifications to be made to the Plant and other relevant considerations. Actual deliveries of Product Water will be determined by requests submitted by the Company the afternoon prior to each day of the term specifying Flow Rates (with up to 2 Flow Rate changes) for such day, which may be modified the day-of as long as (i) no modification if required to take effect less than 8 hours after the request; and (ii) the Flow Rate does not change more than twice per day (with a minimum of 8 hours between each change), 6 times per week and 12 times per month. The "Firm Daily Demand Order" is the volume of Product Water produced by the Flow Rates demanded by the Company (as adjusted for day-of modifications). IDE Americas will not be obligated to deliver more than 54 MG per day or the Committed Annual Volume per year unless it can do so consistent with applicable law and receives additional compensation. Absent express approval from the Company, IDE Americas may not deliver less than 95% or more than 105% of the current Flow Rate demanded by the Company, or volumes in excess of the volumes demanded by the Company for a month. The sum of the Firm Daily Demand Orders for a given month is the "Approved Monthly Quantity".

IDE Americas will store a 12 MGD-capacity high pressure water pump (the "Supplemental High Pressure Pump"), which the Company may direct IDE Americas to install for a period (the "Supplemental High Pressure Pump Service Period") of up to 4 months during each Contract Year.

IDE Americas may propose a schedule to deliver make-up or excess Product Water, provided that the additional volumes do not cause the amount of Product Water delivered in the year to exceed the Committed Annual Volume, and subject to the Company's reasonable approval (which may be withheld if the Water Authority declines, in its sole discretion, to accept such make-up volumes).

Product Water that IDE Americas is unable to deliver due to the following reasons will be deemed delivered for the purpose of calculating quantity shortfall liquidated damages:

A shortfall in source water meeting the influent specifications, including due to shutdowns of the Power Station;

The Company's inability to take delivery, including due to shutdowns of the Water Authority's distribution system;

A Force Majeure event;

Unavailability of sufficient electric power;

A Source Water Deviation (as described below);

Inability to comply with a request for an extraordinary Flow Rate change;

Termination or non-renewable of a permit to be obtained by the Company, or of a permit to be obtained by IDE Americas if due to the Company's acts or omissions;

Suspension of production and/or delivery of Product Water by the Company (including instructions to reduce production);

Material breach of the O&M Agreement by the Company;

Product Water in excess of 50 MGD (or its equivalent over shorter periods) during periods when the temperature of the intake seawater is between 12 degrees Celsius and 13.99 degrees Celsius;

Outage of a standard high pressure pump while operating using three pumps during a Supplemental High Pressure Pump Service Period (as long as IDE Americas is using commercially reasonable efforts to address the outage);

Outage of the Supplemental High Pressure Pump during a Supplemental High Pressure Pump Service Period (as long as IDE Americas is using commercially reasonable efforts to address the outage); and

Outage of up to 8 hours for each installation of the Supplemental High Pressure Pump in preparation for a Supplemental High Pressure Pump Service Period, and for 8 hours for each removal of the Supplemental High Pressure Pump at the end of the Supplemental High Pressure Pump Service Period.

In addition, IDE Americas will be deemed to have delivered up to the first 531,137 kgal of Firm Daily Demand Orders which it fails to deliver in any year for any unplanned production shortfall and IDE Americas will not be obligated to produce Product Water during periods of Plant maintenance or repairs in the annual maintenance schedule up to 240 hours per year.

The O&M Agreement sets forth the Flow Rates that the Plant can achieve when it is operating 1, 2 or 3 high pressure pumps ("One," "Two" or "Three Pump Mode", respectively) or the supplemental high pressure pump ("Supplemental High Pressure Pump Mode"). The Company may not direct IDE Americas to operate in Supplemental High Pressure Pump Mode unless the Plant is operating in a Supplemental High Pressure Pump Service Period. The Company may only demand Flow Rates in Three Pump Mode during the first 60 days starting on the Turnover Date (the "First Operating Period") (which

Flow Rates will be determined by the Company maintained throughout this period), except during the performance of the operating mode change performance test described below, and may demand Flow Rates in any mode (other than Supplemental High Pressure Pump Mode) during the second 60 days (the “Second Operating Period”) and in any mode thereafter, but will use reasonable efforts to order at least three Flow Rate changes requiring a change in mode during each 7 day period during the Second Operating Period. IDE Americas will conduct a performance test during the First and/or Second Operating Periods to ensure that the Plant can correctly switch between modes. If the Company demands extraordinary changes in Flow Rates outside of these parameters, IDE Americas must use reasonable efforts to make these changes (within 30 minutes for the volume of water delivered and 4 hours for the volume of water produced for downward changes, and within 4 hours for upward changes). If a problem occurs in the Water Authority’s distribution system, IDE Americas will use all reasonable efforts to permit a necessary Flow Rate change to assist the Company in responding to such problem, provided that IDE Americas can do so consistent with applicable law, standard industry practices and the Plant’s design limits.

Payment and Invoicing

The Company will make monthly payments to the Operator consisting of a fixed fee, a variable fee, a chemical fee, and any flow rate change payments and, if applicable the Excess Rate.

The monthly fixed fee will be in an amount equal to \$981,103.89, adjusted by increases in the consumer price index for the San Diego Metropolitan Statistical Area from July 2012 (currently \$1,123,396.97). The fixed fee will be reduced proportionately for shortfalls of IDE America’s Product Water delivery obligations. The fixed fee will also be reduced every two years to reflect 50% of any savings in labor costs from a base amount set forth in the O&M Agreement.

The variable fee will consist of \$0.1425 per thousand gallons (“kgal”) of Product Water delivered, adjusted by increases in the consumer price index from July 2012 (currently \$0.1631).

The chemical fee will consist of \$0.1758/kgal for Product Water delivered, adjusted by increases in the Producer Price Index (industry: chemical mfg; product: chemical mfg; series ID: PCU325---325---) published by the Bureau of Labor Statistics from July 2012 (currently \$0.1970).

IDE Americas will receive an adjustment to its monthly fee to provide compensation for complying with the Water Authority’s blended water requirements.

The O&M Agreement contains an energy adjustment, pursuant to which increases in energy costs resulting from energy consumption above a stipulated guaranteed amount are borne by IDE Americas. IDE Americas receives the benefit of savings resulting from energy consumption below the guaranteed amount as follows: (i) for the first 36 months of operation, IDE Americas receives 75% of the first 10% of any savings and 50% of any additional savings; (ii) after 36 months of operation, IDE will receive 50% of all such savings; and (iii) if IDE Americas had paid performance liquidated damages to EPC Contractor under the IDE Americas Subcontract with respect to energy consumption during the Plant’s performance test, IDE will receive 100% of all such savings until such time as IDE Americas has received savings equal to the lesser of the performance liquidated damages paid under the IDE Americas Subcontract or \$10,000,000. If energy consumption for the fourth year of operation is less than 90% of the guaranteed amount, the Company will thereafter be required to meet a reduced guaranteed amount. The reduction will be a percentage amount by which the actual energy consumption in the fourth year is less than the original guarantee minus 10%. As an example, if the consumption in the fourth year of operation is 86% of the guaranteed amount, the guarantee will be reduced by 4% to 96% of the original guarantee.

For each flow rate change outside of the O&M Agreement's standard parameters (either at the Company's request or necessitated by a problem in the Water Authority's distribution system), IDE Americas will receive a payment of \$450, \$900 or \$1,350 (each adjusted for increases in the consumer price index from the date on which the O&M Agreement is executed and set at \$487.01, \$974.02 and \$1,461.03 as of December 31, 2018), depending on the magnitude of the change in the Plant's operating mode.

If the Company expands or modifies the Plant or a change in law occurs, the O&M Agreement will be amended to reflect the consequences thereof, which may include an equitable adjustment to the amounts payable to IDE Americas as a result of any increased capital or operational expenses.

If IDE Americas produces more than 54 MG per day or the Committed Annual Volume per year at the Company's request, it will be entitled to receive an "Excess Rate" of \$0.382/kgal (adjusted for yearly changes in the consumer price index) for such water in addition to the variable and chemical fees.

IDE Americas will deliver invoices within 20 days of the end of the month showing the net amount due from either party, and the paying party must pay undisputed amounts within 15 business days (or, with respect to the Company and if the invoice is not delivered within 5 days of the end of the month, within 15 days after the first day of the next month). Late payments will be charged the lesser of 1.5% interest or the maximum amount permitted by law. Disputed amounts resolved in the non-paying party's favor will be paid with interest from the date the payment was originally due.

Damages

In addition to the reduction in the fixed fee for Product Water shortfalls described above, IDE Americas is obligated to pay liquidated damages for shortfalls below 96% of the amounts demanded by the Company for each month, quarter and 6-month period amounts at rates of \$0.61 per kgal, \$1.23 per kgal and \$1.84 per kgal, respectively. In addition, IDE Americas will be subject to payment of liquidated damages (equal to 50% of the corresponding damages owed by the Company under the Water Purchase Agreement) for failure to deliver at least 90% of Product Water required during months in which the Water Authority has activated Stage 2 of its drought response plan ("Drought Shortfall Payments").

If IDE Americas delivers water that does not meet the Product Water quality standards in the O&M Agreement, Owner may elect either to deem such water not delivered or to deem the water delivered but impose liquidated damages equal to the Water Authority's then-current Melded M&I Treatment Rate.

Payments to IDE Americas will also be reduced by \$500 (adjusted for changes in the consumer price index) per occurrence for failures (3 failures of the same obligation or 3 different failures within a year) to:

Report a material violation of an applicable law or permit;

Respond to or report a complaints and communications as required by the O&M Agreement;

Attend Water Authority meetings as reasonably requested, with advance notice from the Company;

Provide the Company with reports, records, logs or other documents as and when required under the O&M Agreement;

Respond to alarms at the Plant as required by the O&M Agreement;

Provide plans, proposals, reports or other required deliverables with respect to a Force Majeure event;

Properly sample or report testing results as required by applicable law or the O&M Agreement; and

Mitigate noise complaints as required by the O&M Agreement.

IDE Americas must also pay all fines, penalties or other levies imposed on IDE Americas and/or the Company by any governmental authority pursuant to applicable laws resulting from failure to comply with its obligations under the O&M Agreement, and all costs (including reasonable legal fees) incurred in remedying the consequences of any such failure to comply with applicable laws.

The Company's Responsibilities

The O&M Agreement requires the Company to:

Arrange for the sale of Product Water;

Give IDE Americas limited access to the Plant Site prior to the Turnover Date and access to all areas of the Plant Site necessary for IDE Americas to meet its obligations under the O&M Agreement on and after the Turnover Date;

Obtain all permits designated as the Company's responsibility in the O&M Agreement;

Provide the Plant on the Turnover Date as constructed under the EPC Contract and in a condition capable of meeting the quantity and quality standards in the O&M Agreement;

Cooperate with IDE Americas to maintain good relationships with the Water Authority, Cabrillo and the government;

Provide water, sewer, electricity and telecommunications connections;

Provide electricity for the Plant's operation;

Provide access to (i) seawater at the locations set forth in the Ground Lease and (ii) the concentrate discharge receiving point set forth in the NPDES waste discharge permit; and

Install and provide access to the Pipeline.

From and after the end of the warranty period under the Plant EPC Contract, make available to IDE Americas all warranties pertaining to the Plant and its components provided to the Company by the EPC Contractor, to the extent not expired.

Plant Site Access

The Company will grant IDE Americas access to the Plant Site sufficient to meet its obligations. IDE Americas is entitled to recover reasonable and documented costs arising from any interruption or delay of its access to the Plant Site (other than due to an IDE Americas default or its Pretreatment Warranty work) and will be entitled, starting at Plant Provisional Acceptance, to its fixed fee (and not liable for liquidated damages) if the Plant cannot be operated as a result. IDE Americas must accommodate EPC Contractor's and its subcontractors' presence on the Plant Site to perform punch list and warranty work.

Source Water Deviations

If the quality of raw intake source water exceeds the influent specifications set forth in the O&M Agreement (a "Source Water Deviation"), the parties will meet to review ways to reduce any adverse effect and IDE Americas must take reasonable corrective measures (capped at \$100,000), subject to reimbursement or an increase in its fixed fee if such corrective measures increase IDE Americas' cost of operating the Plant. If modifications to the Plant of more than \$100,000 are required to address the source water deviation (or if the Company wishes to undertake significant modifications to save the cost of corrective measures otherwise required to address the deviation), the Company may undertake the modifications at its own cost (including paying IDE Americas' fixed fee and reasonable demobilization costs if the Plant must be taken out of operation). The Plant's guaranteed unit power consumption will be increased to reflect any increase in energy consumption as a reasonable result of the source water deviation.

Insurance

The O&M Agreement contains comprehensive insurance provisions, requiring IDE Americas to maintain worker's compensation insurance, employer's liability insurance, comprehensive general liability insurance, business automobile liability insurance, excess liability insurance and sudden and accidental pollution insurance policies. These policies must name the Company, Water Authority, the City of Carlsbad, Carlsbad Housing and Redevelopment Commission and Cabrillo as additional insureds, not contain exclusions for claims arising out of these parties' negligence and contain a waiver of subrogation. IDE Americas must require all subcontractors to obtain workers' compensation, employer's liability, general liability, automobile liability, excess liability and professional liability insurance policies, including a waiver of any rights of subrogation against the Company.

The Company must maintain all risk property damage insurance (including boilers and machinery coverage), worker's compensation, commercial general liability insurance, business interruption insurance and excess liability insurance policies naming IDE Americas as an additional insured and waiving rights of subrogation.

Changes

IDE Americas may make improvements to the Plant (outside of ordinary repairs and replacements) of up to \$1,000,000 in capital costs and \$2,000,000 in aggregate costs, and may also make improvements: (i) at its own cost and subject to the Company's reasonable approval, to rectify problems with the Plant; (ii) for any other reason, with the Company's approval (in its sole discretion) and subject to agreeing on an equitable sharing of cost savings; and (iii) to install more energy efficient membranes. The Company may make improvements to the Plant with an equitable adjustment to IDE Americas' compensation.

If a change in applicable law or new law adopted after the execution of the O&M Agreement increases IDE Americas' costs or affects its obligations, IDE Americas will be entitled to an equitable adjustment of its compensation and/or obligations.

Liens

IDE Americas must discharge or bond any liens on the Plant or the Plant Site arising out of its Services within 15 days from imposition.

Custody of the Plant

The Company transferred responsibility for operation and maintenance of the Plant to IDE Americas effective on the Turnover Date (which occurred once the Plant completed the performance test and achieved the Minimum Performance Criteria under the Plant EPC Contract).

At least 350 days prior to an intended termination for convenience or 720 days prior to the end of the term, the Company will provide IDE Americas with a notice (the "Exercise Notice"), subsequent to which the Plant will be monitored for 6 months (starting no later than 60 days after delivery of the Exercise Notice) to determine if the Plant, without needing extraordinary operation or maintenance requirements: produces the Approved Monthly Quantities, does not exceed 110% of guaranteed energy consumption or 120% of a maximum chemical consumption, and meets the Product Water Quality Standards. If these standards are not met during the 6-month exit performance period, IDE Americas must run a 30-day exit performance test of the Plant (the "Exit Performance Test"), conducted in the same manner as the performance test under the Plant EPC Contract, to demonstrate that the Plant achieves the Minimum Performance Criteria set forth in the Plant EPC Contract. If the Minimum Performance Criteria are not met, IDE Americas must make all necessary repairs and replacements and re-run the Exit Performance Test until the Minimum Performance Criteria have been achieved.

In addition, upon termination of the O&M Agreement, the Plant must meet the following "Transfer Condition Requirements": (i) be in a condition consistent with IDE Americas having performed the Services in accordance with the O&M Agreement; (ii) buildings, structures and pipelines that were expected to have a useful life of more than 20 years as of the Turnover Date (excluding structures that have been abandoned in place) must be in fair functional and structural condition as assessed pursuant to the O&M Agreement; and (iii) must meet the standards in the O&M Agreement. Within 15 days after delivery of an Exercise Notice from the Company, IDE Americas and the Company will conduct a joint inspection and survey of Plant structures and a separate inspection and survey of Plant equipment over a 45-day period to determine whether the Plant meets the Transfer Condition Requirements. If any element of the Plant does not meet the Transfer Condition Requirements, IDE Americas will within 60 days deliver a plan and cost estimate for bringing such element into compliance with the Transfer Condition Requirements, and the Company may withhold retainage in an amount calculated to cover the costs of work required to meet the Transfer Condition Requirements from remaining payments to IDE Americas (provided, that IDE Americas may instead post a letter of credit in an amount equal to this retainage). At least 120 days prior to termination, IDE Americas and the Company will perform another joint inspection and survey to assess the progress of the transfer condition work. If, 90 days prior to termination, the Plant has not met the Exit Performance Test or other exit requirements or is not being operating and maintained in accordance with the Standards of Performance, the Company may increase the amount of transfer condition retainage withheld. Within 30 days after termination, the Company will either notify IDE Americas that the Transfer Condition Requirements have been met or explain why such requirements have not been met. If the Plant did not comply with Transfer Condition Requirements at termination, the Company may use the remaining retainage to complete work necessary to cause such compliance, or draw upon the performance bond.

Default and Termination

Either Party will be in default for: (i) failure to pay any amount owed to the other Party (including, with respect to IDE Americas, liquidated damages) within 30 business days after the due date; (ii) commencement of a voluntary bankruptcy proceeding or consent to a proceeding commenced against it, or general failure to pay debts as they become due; (iii) an involuntary bankruptcy proceeding which is not dismissed or stayed within 60 days; (iv) any representation or warranty was false when made, materially and adversely affects the other Party's ability to perform and the Party fails to cure within 30 days of notice; (v) attempt to assign or transfer in breach of the O&M Agreement without written consent; and (vi) material breach of the O&M Agreement that is not remedied within 30 days of notice (or 180 days if the Party is diligently pursuing cure).

In addition, IDE Americas will be in default for: (i) failure to provide an maintain in full force the performance bond; (ii) with respect to Product Water quality: (a) an exceedance of the same primary drinking water standard maximum contaminant level in 2 consecutive months or 3 times in a year or (b) the issued by CDPH of a "boil water" notice on the basis of Product Water delivered; (iii) with respect to Product Water quantity: (a) delivery of less than 85% of the aggregate Firm Daily Demand Orders in 2 consecutive years; or (b) delivery of less than 70% of the aggregate Firm Daily Demand Orders in a year; (iv) knowing failure to maintain required insurance coverages or any other failure to maintain required insurance not remedied within 14 business days of actual knowledge; and (iii) failure (or failure by a subcontractor) to comply with material provisions of applicable laws or permits that is not cured within 10 days of actual knowledge (or 120 days if IDE Americas is diligently pursuing cure). IDE Americas will also be in breach if its parent guarantor commences a voluntary bankruptcy proceeding, has an involuntary proceeding commenced against it that is not dismissed or stayed within 60 days, makes a materially misleading representation or warranty adversely affecting the Company and fails to remedy it within 30 days of written notice, fails to keep the guaranty in full force and effect, or repudiates or challenges the validity of the guaranty.

If IDE Americas defaults, the Company may: (i) terminate the O&M Agreement, in addition to any remedies available at law or in equity; (ii) upon such termination, require IDE Americas to withdraw from the Plant Site and take possession (upon payment of reasonable costs) of facilities, materials and equipment; and (iii) receive from IDE Americas all amounts payable to the Company through the effective date of the termination and draw on the performance bond.

If the Company defaults, IDE Americas may terminate the O&M Agreement and exercise any remedies at law or in equity.

The Company may terminate the O&M Agreement for convenience upon 90 days' written notice to IDE Americas. If this termination occurs prior to the commencement of construction, IDE Americas will not receive any payment. If the termination occurs after the commencement of construction, IDE Americas will be paid: (i) if prior to the 3rd anniversary of the Turnover Date, \$4,000,000; or (ii) if between the 3rd and 10th anniversaries of the Turnover Date, an amount starting at \$4,000,000 and decreasing each month. In either case, IDE Americas will also be entitled to reasonable and documented demobilization costs, cancellation charges, the fees to which IDE Americas is otherwise entitled as of the date of the termination, and the unrecovered costs of any improvements made to the Plant at IDE Americas' expense (and not made to rectify a problem with the Plant). If the Company terminates on or after the 10th anniversary of the Turnover Date, IDE Americas will only be entitled to the costs and charges in the preceding sentence.

Upon termination or expiration of the O&M Agreement, IDE Americas must: (i) remove all of its temporary equipment, machinery and facilities and repair damage caused by the removal; (ii) clean the

Plant Site and Plant; (iii) remove all employees and subcontractors; (iv) deliver copies of the subcontracts to the Company, as reasonably available, with a statement of their status; (v) transfer to the Company all special order items; (vi) offer to sell the Company or Water Authority spare parts and other moveable property at fair market value; and (vii) deliver to the Company all keys and access codes; existing designs, records and documents in IDE Americas' control; and information about legal proceedings relating to the termination.

Indemnification

Both Parties indemnify the other (including, with respect to the Company, the Water Authority, the Company's lenders and the engineering firm assisting the lenders, any person on whose property IDE Americas performs the Services and, with respect to either Party, its subsidiaries and affiliates, and the directors, officers, agents, successors or assigns of each of them) against (i) losses arising from injury or death of persons or third party property loss or damage caused by failure to comply with the O&M Agreement; provided that the other Party will bear its proportionate share of the liability or (ii) the presence, release or exacerbation of hazardous materials (prior to commencement of the Services, with respect to the Company, and due to IDE Americas fault, with respect to IDE Americas). IDE Americas also indemnifies the Company against injury or death of persons or third party property loss or damage caused by negligent acts or omissions by IDE Americas or any subcontractors in performance of the Services, with the Company bearing a proportionate share of liability. The indemnification provision is subject to the limitation on liability.

Limitation of Liability

Absent gross negligence, willful misconduct or fraud, IDE Americas' aggregate liability to the Company under the O&M Agreement will not exceed:

- For Drought Shortfall Payments in any Contract Year: \$2,000,000 (adjusted for changes in the consumer price index);
- For all other damages in any Contract Year: \$3,500,000 (adjusted for changes in the consumer price index); and
- Upon the Company's termination of the O&M Agreement for an event of default: (i) until the date (x) that is one year after the Turnover Date, if the Plant's energy consumption is below a stipulated guaranteed amount during such year or (y) on which IDE Americas has either completed improvements (or spent \$10,000,000 on improvements) to improve the Plant's energy consumption or met the guaranteed energy consumption for twelve consecutive months: \$20,000,000 (less amounts spent by IDE Americas on such energy consumption improvements), and (ii) after such date, \$10,000,000 (adjusted for changes in the consumer price index).

Force Majeure

Either Party will be excused from obligations, except for payment obligations, if it is unable to perform due to a "Force Majeure Event," which means an event beyond the reasonable control, and not caused by the willful or negligent acts, of the Party. During a Force Majeure Event, the Company will reimburse IDE Americas for reasonable and documented extra costs of producing water attributable to the Force Majeure Event. Force Majeure Events include acts of God (but not reasonably anticipated weather conditions for the Plant's area), landslide, earthquake, fire, explosion, flood, sabotage or similar occurrence; acts of a public enemy, extortion, war, blockade or insurrection, riot or civil disturbance; the

failure of a government authority or private utility to provide utilities; strikes, lock outs, work stoppages or labor disputes (other than those of IDE Americas' employees or subcontractors); underground or latent conditions not known as of execution; the presence of subsurface structures or conditions with historical geological, archaeological, religious or similar significance or endangered species habitats at the Plant; and any denial of an application to or a delay in the review, issuance or renewal of or suspension, termination or interruption of, any permit. Force Majeure Events do not include strikes of IDE Americas or its subcontractors; failure of a subcontractor or supplier to furnish labor, materials, services or equipment unless due to a force majeure event; equipment failure (unless caused by a force majeure event); source water deviations or shortfalls; or denial of an application for or delay in the review, issuance, renewal of or the suspension, termination, or interruption of, any permit or other consent if caused by a Party's failure to apply for or use commercially reasonable efforts to prosecute the application for such permit or consent.

The Party claiming a Force Majeure Event must promptly notify the other Party in writing within three days after obtaining knowledge of the Force Majeure Event, use good faith best efforts and diligence to remedy its inability to perform and provide written notice as soon as it is able to resume performance.

Confidentiality

Each Party will hold in confidence proprietary engineering, technical, financial or commercial information of the other Party (except for information in the public domain, already in the receiving Party's possession or received from a third party free of confidentiality obligations) identified as confidential in writing for 3 years after termination of the O&M Agreement, and will be liable for disclosure of such information by its officers, employees or affiliates. Where the Company or the Water Authority will have continuous on-line access to any of IDE Americas' confidential information, the requirement for identifying this information as confidential will be satisfied if IDE Americas gives the Company a written notice that all information accessible to the Company on an on-line basis is confidential. The Company may disclose the terms and a summary of the O&M Agreement (approved by IDE Americas) to obtain financing. IDE Americas will require its subcontractors and sureties to enter into nondisclosure agreements regarding the Company's confidential information and will be liable for any disclosures. The Company will require its lenders, potential lenders, equity investors and rating companies to enter into appropriate nondisclosure agreements regarding IDE Americas' confidential information and will be liable for any disclosures. The Company will also require any consultants in the desalination business to enter into direct nondisclosure agreements with IDE Americas and, if the consultant has not entered into such a direct agreement, will be liable for any disclosures.

Notwithstanding the foregoing, neither party will be breach of its confidentiality obligations under the O&M Agreement for disclosing information which it can show by written records is or has become part of the public domain or was possessed, free of confidentiality obligations, by a third party not in breach of confidentiality obligations. A party receiving confidential information will also not breach its confidentiality obligations due to disclosures required under any applicable law or regulation. The Company may disclose to the Water Authority any confidential information of IDE Americas which it is required to disclose under the Water Purchase Agreement, it being understood that the Water Authority is permitted to disclose such confidential information to the extent it is required to do so by law or under the rules of transparency applicable to public authorities in California. The Company will be in breach of its confidentiality obligations under the O&M Agreement to the extent that it discloses confidential information to the Water Authority that is not required to be disclosed under the Water Purchase Agreement or the Water Authority makes public confidential information that it is not required to disclose under applicable law or transparency rules.

Dispute Resolution

Disputes over whether EPC Contractor or IDE Americas is responsible for a certain repair or replacement will be resolved through binding arbitration by a single arbitrator, with a decision to be rendered within 5 business days of receipt of written submissions or hearing, as applicable. All other disputes will be submitted to a dispute coordination committee, comprised of 2 management representatives from each Party and an independent representative agreed upon by the Parties. If the committee fails to resolve the dispute within 10 business days, the Parties may agree to submit the dispute to arbitration or either Party may commence a legal action in court. In addition, either party may request non-binding mediation of any dispute, with the other party's agreement, by a professional mutually acceptable to, and with not relationship with, the Parties.

Assignment

The Company may assign: (i) to Water Authority upon termination of the Water Purchase Agreement, (ii) to its lenders for financing or (iii) to a transferee of all or a substantial portion of the Plant with substantially similar financial and operational capabilities, and the assignment to whom could not otherwise reasonably be expected to have a material adverse effect on IDE Americas. IDE Americas may assign its rights under the O&M Agreement to the sureties providing the performance bond in the event that the sureties are performing the O&M Agreement and may assign its right to payment to financial institutions providing credit to IDE Americas (provided the assignment will not affect IDE Americas' ability to perform or the Company's rights under the O&M Agreement). No other assignments are permitted without consent.

Effect of Third Party Decisions or Requirements

To the extent that IDE Americas' rights under the O&M Agreement are subject to consent or decision by the Company's lenders or the lenders' engineer, the Company will be liable to IDE Americas for failure to provide such consent or decision to same extent that the Company would be liable if the Company were the one with the right to make such decision. Neither the Company nor IDE Americas will be excused from performance of its obligations under the O&M Agreement by reason of being required to comply with any requirement, instruction or determination of a third party.

Intellectual Property

IDE Americas will own the intellectual property rights to any drawings, designs or other documents containing know-how or technological information prepared or procured by it for the O&M Agreement. The Company will have a royalty-free, non-exclusive interminable license (assignable to any successor in ownership of the Plant) to use these intellectual property rights to operate and maintain the Plant, and for any expansions of the Plant up to 20% of its output or any extension necessary to connect the Plant to another desalination facility.

Miscellaneous

The O&M Agreement contains other customary provisions, including those addressing IDE Americas' status as an independent contractor, representations and warranties, cooperation with the financing parties.

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III. SUMMARY OF CERTAIN PROVISIONS OF THE GROUND LEASE

The following summarizes certain provisions of the Second Amended and Restated Ground Lease and Easement Agreement, dated as of April 7, 2010 (the “Agreement Date”), as amended (the “Ground Lease”), by and between Cabrillo Power I LLC (“Cabrillo”) and Poseidon Resources (Channelside) LP (the “Company”).

The Parties originally entered into a Ground Lease and Easement Agreement on July 11, 2003 (the “Original Effective Date”), which was amended on August 25, 2009 to reconfigure the Leased Premises, and further amended on the Agreement Date to modify certain easements and other rights under the Ground Lease. The Ground Lease has subsequently been amended to extend the construction commencement and completion deadlines and to make additional changes to the terms. Also see Summary of Certain Provisions of the Eleventh Amendment to the Ground Lease below.

Definitions

Any capitalized term used in this summary and not defined below is defined in Appendix A – Certain Definitions.

Term

The initial term of the Ground Lease expires 35 years from the date that the Plant achieves commercial operation, with the option to extend for 2 consecutive 10 year terms. Cabrillo may terminate the Ground Lease if construction has not commenced by December 31, 2012, or if Substantial Completion has not occurred by June 30, 2016, provided that the latter deadline will be extended for 2 years if a mortgagee with rights in the Company’s improvements is diligently pursuing Substantial Completion.

Basic Obligations

Under the Ground Lease, the Company is leasing a portion of the Power Station property (“Leased Premises”) to construct and operate the Plant, and has acquired easements appurtenant to the Leased Premises, including easements for:

Constructing, operating and maintaining a water intake pipeline and pump station, water discharge pipeline and retaining walls between the Leased Premises and the Power Station’s cooling water discharge facilities;

Constructing, operating and maintaining a water transmission pipeline;

Constructing, using and maintaining a sanitary discharge pipeline and potable water pipeline;

Ingress and egress;

The use of Cabrillo’s existing seawater intake/outfall facilities, intake/discharge tunnel and discharge pond Intake and outfall (“Existing Seawater Facilities”) and constructing and maintaining New Pumping Facilities (defined below) following a Permanent Pump Shutdown (as described below);

Five temporary construction easement areas (the “Temporary Construction Easement Areas”) as described in “Construction” below; and

Dredging the portion of the Agua Hedionda Lagoon west of the North County Transit District railroad tracks (“Outer Lagoon”), should Cabrillo fail to perform such dredging following a Permanent Pump Shutdown (as described below).

The Company’s activities may not have a “Material Adverse Effect” (defined as any current or prospective interference with, impairment of, delay affecting, increase in the cost of, or any other adverse impact or effect on any specified condition, asset, property, circumstance, event, activity or other matter which, on a single occurrence basis or when cumulated with other interferences on the same conditions, etc., directly or indirectly results in, causes or contributes to a Party incurring any cost, expense, loss or liability that exceeds \$200,000 in any 12-month period and is not reimbursed within 30 days) on an enumerated risk factor, including the lateral and subjacent support for the Power Station, the avoidance of threat, damage or injury to health, safety, life or property, any increased costs, expenses or liability in connecting with the Power Station, the environmental condition of Cabrillo’s properties, and Cabrillo’s ability to obtain permits and comply with applicable law (each, a “Cabrillo Risk Factor”), and Cabrillo reserves the right to modify or shut down the Power Station, with the limitations discussed below. In addition to other rights reserved under the Ground Lease, Cabrillo reserves rights of ingress and egress on roadways across the Leased Premises, the right to install underground utilities, and the right to construct and maintain an overhead 138 kV power line. Cabrillo may also undertake the demolition, removal and relocation of its wastewater treatment plant, and the Company will reimburse Cabrillo for the reasonable and documented costs of such demolition activities upon the later to occur of 30 days after the Company makes its first draw of the construction financing funds (“Financial Closing Date”) or the date on which Cabrillo provides documentation of incurred costs, unless (i) the Financial Closing Date does not occur, in which case the demolition will be at Cabrillo’s sole expense; or (ii) the demolition is not completed by December 31, 2012, in which case the Company may elect to complete these activities itself only reimburse Cabrillo for costs incurred prior to notification of this election.

The Water Authority will have the right to enter the Leased Premises and easements to perform or enforce any of its rights under the Water Purchase Agreement, as long as it complies with all applicable provisions of the Ground Lease.

The Company must submit various materials, including a site plan, the scope book to the Plant EPC Contract, permitting materials, operating procedures for the Plant’s intake/discharge facilities, laydown and staging plan, etc. for review and comment by Cabrillo according to the schedule in the Ground Lease, and must also submit any other regulatory or legal filings that could reasonably be expected to have a material adverse effect on Cabrillo (collectively, “Submittal Items”). The Company will design the improvements generally according to the preliminary site plan to enable the Power Station to operate independently from the Plant.

The Company will deliver to Cabrillo an ALTA/ACSM survey and a complete set of as-built drawings within 120 days of the earlier to occur of (a) the date on which potable water is first sold from the Plant or (b) the date on which the performance guarantees have been achieved under the Plant EPC Contract (“Substantial Completion”).

Cabrillo must use reasonable efforts to provide the Company with the ability to interconnect to the Power Station’s auxiliary electrical system, telephone, water and sewer utilities and information data system.

Maintenance, Compliance with Law and Inspection

The Company will be responsible for maintenance of its improvements, the Leased Premises and easement areas in accordance with prudent industry practices for similar facilities. The Company must conduct its operations in a workmanlike and commercially reasonable manner, regularly clean up any litter it deposits on Cabrillo's property, provide adequate security and protection for its improvements and personal property on the Leased Premises and easement areas, and properly and promptly install, maintain or repair any component of its improvements that is necessary for the normal operation of the Power Station. The Company must comply with all applicable laws and any covenants, restrictions or other matters of title that are senior to its rights under the Ground Lease. Cabrillo and its consultants have the right to enter the Leased Premises and easement areas and the Company's improvements for inspection, at Cabrillo's expense (unless the inspection is ordered by a governmental authority or a violation of law or imminent default is found), at any time in the case of an emergency, and otherwise at reasonable times.

Rent and Payment

The Company pays a fixed annual rent of \$340,000, which will increase to \$1,287,000 per year on June 30, 2017 and is subject to adjustment based on the change in the consumer price index from August 2009. The rent will be adjusted by \$0.67 per square foot (or \$1.96 per square foot after June 30, 2017) if after Substantial Completion the total area of the Leased Premises and easement areas is different from the area calculated as of the execution of the Ground Lease. Rent during any extended term will be the fair market rental value adjusted for changes in the consumer price index from the date this value is determined (but no lower than the previous year's rent).

The Company must also pay the following as additional rent:

Reimbursement for costs Cabrillo incurs because of the Company's activities, including increased costs of running the Power Station and any costs of compliance with Clean Water Act Section 316(b) incurred due to the Company's operation of the Plant;

Reimbursement for increases in Cabrillo's costs of operating or maintain the Power Station due to the Company's operation of the Plant;

Reimbursement for Cabrillo's reasonable expenses incurred in cooperating or assisting the Company, at the Company's request, with any transaction pursuant to the Ground Lease;

During construction of the Plant, \$331,000 per year for use of temporary construction easement areas (reduced for any month when Cabrillo is unable to provide a total of 6.5 acres of temporary construction easement space);

In the event of a Permanent Pump Shutdown, the cost of dredging the Outer Lagoon, as well as any other dredging required by a governmental body in connection with the Company's operations; and

Taxes and other charges or fees from governmental authorities on the Leased Premises, its operations or improvements, as well as any such charges imposed on Cabrillo as a result of the Company's actions.

The Company will also be responsible for (i) all taxes and assessments imposed on the Leased Premises or the Company's improvements, result from execution of the Ground Lease or arise out of the

Company's use of the Leased Premises or development of its improvements and (ii) a proportionate share of any such taxes and assessments that are not taxed separately from Cabrillo's property.

Construction

The Company shall have the right to construct its improvements so long as (i) no breach by the Company has occurred and is not then fully cured and (ii) such construction (a) does not disturb or interfere with any existing taxes and assessments, covenants, conditions, restrictions, rights of way, easements, licenses, laws and other matters affecting title, matters that would be disclosed by an inspection or accurate ALTA/ACSM survey or rights reserved by Cabrillo under the Ground Lease ("Permitted Exceptions") that are senior to the Company's rights under the Ground Lease and (b) could not reasonably be expected to have, and does not have, a Material Adverse Effect on a Cabrillo Risk Factor.

Upon 60 days' notice to Cabrillo, the Company will have use of the Temporary Construction Easement Areas for: (i) material/soil storage, receiving/warehousing, delivery/receiving; (ii) equipment and vehicle storage, maintenance, fuel/oil storage (contained), crane set-up; (iii) offices, worker break areas, employee parking, staging construction equipment; (iv) excavation/shoring for temporary utility trenches and/or adjacent structures, dewatering systems; and (v) fabrication yards and concrete washout. The Company must provide a laydown and staging plan showing the timing and sequence of its usage of the Temporary Construction Easement Areas at least 60 days prior to commencing construction. Cabrillo may provide substitute acreage on 60 days' notice if it reasonably determines that it needs these areas for its own use. The Company may also temporarily excavate from and store soil in the areas adjacent to the Temporary Construction Easement Areas as reasonably necessary.

Priority

Except to the extent inconsistent with the Company's specific rights under the Ground Lease, the operation, maintenance and use of the Power Station, as well as changes to the Power Station, will have priority over the construction, operation, maintenance, use and alteration of the Company's improvements. Cabrillo will not be obligated to alter or shut down the Power Station in connection with the construction, operation, use, repair, removal, dismantling or demolition of any of the Company's improvements, although Cabrillo will use reasonable efforts to accommodate the Company's construction plans, schedules and routine maintenance.

Plant Alterations

After Substantial Completion, the Company will not obtain permits or commence construction for any alteration to its improvements without first delivering charts detailing all Submittal Items associated with the alterations for Cabrillo's review and approval within 30 business days. The Company may not make any alterations to its improvements that will have a Material Adverse Effect on a Cabrillo Risk Factor. The Ground Lease does not contemplate any expansions of the Plant, and would require new consideration and contractual arrangements for any such expansions, except for expansions of the Plant within the Leased Premises and consistent with local land use laws that do not require additional connections to the Power Station.

Changes to the Power Station

Subject to the exceptions described below, Cabrillo generally reserves the right to alter or expand, change its methods for operation, or shut down the Power Station without reimbursing the Company for

any costs of accommodating these changes. Cabrillo will provide reasonable notice and keep the Company informed of changes to the Power Station that it reasonably believes will have a Material Adverse Effect on the Plant. If these changes involve relocating the Power Station's cooling water discharge facilities, the Parties will modify the easements to allow the Company to relocate its intake/discharge facilities and electrical lines accordingly. Cabrillo will not use any portion of the Leased Premises for Power Station changes, but may use the easement areas, as long as the changes do not (i) require the Company to obtain any new or amended permit (unless Cabrillo pays to obtain the permit with no unreasonable delay to the Company) or (ii) require relocation of the Company's sewer or product water pipeline easements within the North County Transit District railroad right of way. Cabrillo will give the Company advance notice of Power Station changes affecting the easement areas, and the Parties will attempt in good faith to agree to appropriate changes to the Ground Lease (provided that if agreement is not reached after 60 days, Cabrillo may nevertheless make the alteration).

Cabrillo will not be required to reimburse the Company for changes to the easement areas that are not voluntary (including changes made due to Force Majeure Events or to comply with applicable law) or do not have a Material Adverse Effect on the Plant. If Cabrillo makes a change to the easement areas for its own gain that has a Material Adverse Effect on the Plant, Cabrillo will reimburse the Company for the reasonable and verifiable out-of-pocket costs of relocating the easements. If the relocation causes the Plant to stop operating for more than 7 days, but less than 31 days, in an 18-month period, Cabrillo will reimburse the Company, in addition to relocation costs, for out-of-pocket Plant fixed operation and maintenance costs for the period starting after the first 7 days and ending when operations recommence or at the end of the 30th day. If the relocation causes the Plant to stop operating for more than 15 but less than 31 days in an 18-month period, Cabrillo will reimburse the Company, in addition to relocation and operation and maintenance costs, for verified scheduled debt service payments actually made for the period from the 15th to the end of the 30th day. If the relocation causes the Plant to stop operating for 31 or more days in an 18-month period, Cabrillo will reimburse the Company, in addition to relocation costs, for verified lost revenue under the water sales agreements for the period from the 31st day until the Plant recommences operations, but will not reimburse the Company for operation and maintenance or debt service costs during this period.

Operation of the Power Station's Circulating Water System

Cabrillo will use reasonable efforts to notify the Company if Cabrillo's operation of its once-through cooling system pumps (the "Pumps") would result in a flow below the flow needed to allow operation of the Plant in compliance with the Company's permits. As long as the Power Station is operating (and unless prevented by a Force Majeure Event or the shut down or reduction of daily average intake flow of the Power Station), Cabrillo will use reasonable efforts to operate the Pumps to reflect the level of flow needed for the Plant (provided that the Company must reimburse Cabrillo for the cost of running the Pumps in excess of Power Station requirements). Cabrillo will not be required to run the Pumps on the Company's behalf if the Pumps are inoperable/inaccessible, if the Company is in breach of the Ground Lease, or if operating the Pumps will have a Material Adverse Effect on a Cabrillo Risk Factor.

Permanent Pump Shutdown

Cabrillo was required to and has provided at least 36 months' notice before the Pumps are permanently shut down. Cabrillo may require the Company to relocate its connections to the Power Station's cooling water discharge facilities at the end of such 36-month period. Unless and until Cabrillo requires the Company to do so, Cabrillo must either operate the Pumps on the Company's behalf or allow

the Company to relocate its connections in order to construct and operate its own intake pumps and screens (“New Pumping Facilities”), in either case at the Company’s sole expense.

If Cabrillo elects to operate the Pumps for the Company, the Company will be responsible for all costs and the operation will only continue for so long as: (i) the Company is not in default under the Ground Lease, (ii) the Company indemnifies Cabrillo for all costs and liabilities arising from such operation, (iii) the Company obtains all necessary permits for the operation and (iv) operating the Pumps will not have a Material Adverse Effect on a Cabrillo Risk Factor. If Cabrillo requires the Company to relocate its connections or does not operate the Pumps for the Company, the Company has an easement to use Cabrillo’s Existing Seawater Facilities, and to construct New Pumping Facilities, and its current connection easement will be deemed deleted. In addition, in the event the Pumps are permanently shut down, the Company will reimburse Cabrillo for dredging the Outer Lagoon. If Cabrillo fails to dredge the Outer Lagoon, the Company may utilize its easement to perform such dredging. The Company will be responsible for the cost of maintaining the portion of the Existing Seawater Facilities it uses and for maintaining required permits and entitlements. Cabrillo may continue to use seawater from the Existing Seawater Facilities as long its use does not have a Material Adverse Effect on the Company’s use and provided that Cabrillo reimburses the Company for an equitable portion of the costs of maintaining the equipment and, if Cabrillo uses more than 5% of the seawater from the Existing Seawater Facilities, for an equitable portion of the cost of dredging the Outer Lagoon.

Liens

The Company will not permit any liens arising out of its use of the Leased Premises and easements to be recorded against its interest in the Ground Lease (except by mortgaging or otherwise encumbering its rights under the Ground Lease with Cabrillo’s approval), the Power Station or Cabrillo’s property, and will promptly remove any such liens at its own expense. The Company will remove any mechanic’s or materialman’s liens recorded against Cabrillo’s property or the Power Station by the earlier of 90 days after receiving actual notice of the lien, 30 days before the date the lien could lead to a foreclosure on the property, or 45 days after receiving written notice from Cabrillo. If the Company fails to remove the lien, it will be responsible for all related costs incurred by Cabrillo as additional rent.

Insurance

The Ground Lease contains comprehensive requirements regarding the insurance coverages that the Company is obligated to obtain and maintain. The Company is responsible for all premiums, deductibles or charges in relation to procuring certain insurance and will name Cabrillo as an additional insured on all policies. If Cabrillo wants to construct new improvements in the easement areas or perform work other than usual and customary maintenance in those areas, it will procure and maintain customary insurance coverage on commercially reasonable terms.

Environmental Matters

Cabrillo must disclose to the Company any environmental work done on its property and make available any environmental reports and site assessments. The Parties will share equally the costs of remediation for hazardous materials existing prior to the Original Effective Date, provided that either Party may terminate the Ground Lease if its share will be more than \$5,000,000 (unless the other Party voluntarily contributes more than its share to reduce the other Party’s share below \$5,000,000). Cabrillo will not be responsible for any delay caused by remediation.

In the Ground Lease, Cabrillo represents that, among other things, as of the Agreement Date, Cabrillo has no knowledge of: (i) pending or threatened actions relating to the Lease Premises or concerning hazardous materials or environmental laws with respect to the Leased Premises that would reasonably be expected to have a Material Adverse Effect on the Company's intended use of the Leased Premises; (ii) requests for information, notices, complaints or claims by governmental bodies concerning any release of hazardous materials on the Leased Premises, nor liens imposed against the Leased Premises in connection with hazardous materials; and (iii) hazardous materials located on or under the Leased Premises that could reasonably be expected to have a Material Adverse Effect on the Company's intended use of the Leased Premises (except for certain materials identified in the Ground Lease).

The Company may use hazardous materials on the Leased Premises and easement areas only as approved by Cabrillo in advance and in accordance with environmental law, and will be responsible for remediating any contamination it causes. If the Company does not commence and diligently pursue any such remediation within 60 days of Cabrillo's approval of a remediation plan, Cabrillo may undertake remediation itself and recover its costs from the Company as additional rent. The Parties will immediately notify each other of hazardous material actions, claims or reports and will provide copies of relevant materials within 5 business days of sending/receiving them.

The Company will indemnify Cabrillo from damages arising from the Company's contamination of the property, failure to comply with environmental law, or breach of covenant or representation with respect to its environmental obligations under the Ground Lease. Cabrillo will indemnify the Company against damages from contamination it causes after the Original Effective Date or breach of its representations regarding hazardous materials.

The Company will not disturb or permit disturbance of any wetland or other environmentally sensitive land or destroy, injure or move any species of endangered or threatened animal or place unless it does so in compliance with applicable law.

Title, Quiet Enjoyment

The Company acknowledges that its interest in the Leased Premises and easement areas is subject to the Permitted Exceptions and that it may need to obtain consents from third parties for its intended use of the property. Subject to these interests, Cabrillo covenants quiet enjoyment of the Leased Premises during the term of the Ground Lease. Cabrillo reserves the right to grant additional easements, rights of way, licenses, etc. to others as it deems reasonably necessary (provided that it cannot grant additional rights over the easement areas if these rights will have a Material Adverse Effect on the Company's intended use of those areas), but will make reasonable efforts to obtain the additional grantees' written agreement not to cause a Material Adverse Effect on the Company's improvements and to name the Company as a third party beneficiary. The Company's rights under the Ground Lease will, at Cabrillo's option, be subordinated to any security interest subsequently placed on Cabrillo's property, provided that Cabrillo will obtain non-disturbance rights for any interests placed on the Leased Premises or easement areas after the Agreement Date.

Other than having no knowledge of any unrecorded liens on the Leased Premises or easement areas, Cabrillo makes no warranties concerning its title to the property or the Company's right to use the water and expressly disclaims any warranties regarding the condition of the property and its fitness for the Company's intended use, compliance with the law, third party consents, etc. The Company acknowledges that certain title and permit matters as of the Original Effective Date may be inconsistent with its intended use, and that its use may be subject to limitations, including limitations in favor of SDG&E and the State Lands Commission. The improvements will be the Company's property, except

for any improvements connected to the operation of the Power Station, which may, at Cabrillo's option, become Cabrillo's property upon termination of the Ground Lease.

Assignment

The Company must obtain Cabrillo's consent (not to be unreasonably withheld) for any assignment other than assignments for financing or to an entity with extensive experience operating similar facilities and financial ability comparable to the Company's (in Cabrillo's sole and reasonable judgment). The direct transfer of more than 50% of the equity in the Company, or of a controlling interest in the Company, will constitute an assignment for purposes of the Ground Lease. The Company's rights under the Ground Lease may also be assigned to the buyer at a foreclosure sale, by deed in lieu of foreclosure, to a subsidiary of a mortgagee subject to the Ground Lease, or to the Water Authority upon expiration of the Water Purchase Agreement. Cabrillo may freely assign its interest in its property (including the Leased Premises and easement areas).

Condemnation, Damage

In the event that a governmental body (other than the City of Carlsbad or the San Diego County Water Authority) condemns or acquires title to substantially all of the Leased Premises and easement areas or the Company's improvements (such that the Company would not be able to continue operating its business on the remaining portions), the Company may terminate the Ground Lease on written notice to Cabrillo and the Company will only pay rent until the earlier of the Plant ceasing commercial operation or title vesting in the government body. Any sum awarded for the governmental body's taking of the property will be split between the Parties according to whether it is attributable to that Party's lost revenues, improvements to, or interest in the property and according to California law.

If all or part of the Company's improvements are destroyed by a risk covered by insurance, or if the Company's improvements are destroyed by a risk not covered by insurance but the cost to repair is 25% or less than the then-replacement value of the improvements, the Company will repair them to substantially the same condition they were in before the destruction. If all or part of the Company's improvements are destroyed by a risk not covered by insurance and the cost of repair is more than 25% of their then-replacement value, or if the improvements are destroyed during the last 3 years of the term, then the Company may either repair the improvements or terminate the Ground Lease on 30 days' written notice. If the risk causing the destruction is not covered by insurance and the Company chooses to repair the improvements, rent will be reduced while the improvements are repaired to reflect the extent to which the damage interferes with the Company's use of the improvements.

Default by the Company and Remedies

The Ground Lease sets forth the following events of default with respect to the Company: (i) failure to pay rent when due; (ii) failure to comply with any material term of the Ground Lease; (iii) material breach of any warranty or representation under the Ground Lease; (iv) abandonment of the Leased Premises and easement areas; and (v) discovery that any financial statement given by the Company to Cabrillo was materially false.

Upon written notice from Cabrillo, the Company has 20 days (for a monetary breach) or 30 days, extended to 180 days as reasonably necessary (for a non-monetary breach), to cure such breach. Cabrillo may but is not obligated cure a non-monetary breach at the Company's expense: (i) without notice, in an emergency; or (ii) if the Company does not immediately begin curing after notice of a breach which could reasonably be expected to have a Material Adverse Effect on a Cabrillo Risk Factor, places Cabrillo in

violation of any law, constitutes an imminent threat to life or property or threatens contamination. In addition to any rights available in law or equity, Cabrillo may (i) re-let the Leased Premises and easement areas at the Company's expense and require the Company to remove its improvements (rent received from the re-letting will be applied to amounts owed by the Company); and (ii) terminate the Ground Lease and recover unpaid rent, including any unpaid rent for the balance of the term that the Company does not prove could have been reasonably avoided, and other costs.

Cabrillo Default and Remedies

Cabrillo will be in breach of the Ground Lease for violation of any material term. Upon written notice from the Company, Cabrillo has 20 days (for a monetary breach) or 30 days, extended to 180 days as reasonably necessary (for a non-monetary breach), to cure such breach. Thereafter, the Company will have all rights and remedies available in law or equity, including the right, but not the obligation, to cure the breach at Cabrillo's expense upon 10 days' written notice, provided that the Company waives the right to pursue actions seeking termination or reformation of the Ground Lease as a remedy. Specific performance will only be available if damages would not adequately compensate the Company for Cabrillo's default.

Lender and Water Authority Protections

If Cabrillo notifies the Company of an event of default, it will also notify the Collateral Agent, as the Company's mortgagee, and the Water Authority. The Water Authority will have the same rights under the Ground Lease as the Collateral Agent to cure defaults by the Company. Cabrillo will not terminate the Ground Lease for the Company's default so long as the Collateral Agent pays any rent due within 50 days of notice and cures any non-monetary defaults within 60 days (to be extended if the Collateral Agent is diligently pursuing a cure not capable of being performed within 60 days). The Collateral Agent may step in to assume the Company's rights and obligations under the Ground Lease after a breach by the Company upon notice to Cabrillo and payment of amounts owed to Cabrillo, and may step back out upon 30 days' written notice. Within 90 days after the Ground Lease being rejected in bankruptcy, the Collateral Agent may request to enter into a new agreement with Cabrillo on the same terms as the Ground Lease. Cabrillo will not consent to assignment or amendment of the Ground Lease unless (i) the Collateral Agent has been given 30 days' notice and has not given notice that the proposed assignment or amendment is not permitted under the financing documents, or (ii) the Company has confirmed in writing that the assignment or amendment is permitted under the financing documents.

Indemnification, Limitation of Liability and Release

The Company indemnifies Cabrillo from damages (except to the extent caused by Cabrillo) caused by the Company's actions with respect to Cabrillo's property, the acts of any person on the Leased Premises (except for persons acting in accordance with rights provided by Cabrillo), water used by the Plant, the Company's failure to perform its obligations under the Ground Lease, or the failure of any of the Company's representations or warranties. The Company has the right to assume the defense of such a claim with lawyers reasonably satisfactory to Cabrillo; provided that the Company must obtain Cabrillo's consent (not to be unreasonably withheld) for any settlement. The Company will not be relieved of its indemnification obligations by virtue of its right to contest Permitted Exceptions, liens or laws, or by virtue of the fact that a Permitted Exception may be junior to the Ground Lease, the easements or the Company's rights under the Ground Lease.

Cabrillo indemnifies the Company from damages (except to the extent caused by the Company) arising from death, personal injury or property loss caused by Cabrillo's negligent activity or willful

misconduct on the property or failure to perform its obligations under the Ground Lease. Cabrillo has the right to assume the defense of such a claim with lawyers reasonably satisfactory to the Company; provided that Cabrillo must obtain the Company's consent (not to be unreasonably withheld) for any settlement. Cabrillo's indemnification obligations do not apply to any hazardous materials on the property prior to the Original Effective Date or to environmental remediation activities for which Cabrillo and the Company share the costs equally pursuant to the Ground Lease.

Except for Cabrillo's indemnification obligations, Cabrillo will have no liability except for damages to the Company's improvements or injury to persons on the Leased Premises or easements areas caused by its negligence, willful misconduct or failure to perform its obligations under the Ground Lease. Neither party will be liable for special or consequential money damages. The Company releases Cabrillo from all liability (except for material breaches of express covenants and warranties in the Ground Lease) relating to Cabrillo's property, title to, use of or quality of water, documentation furnished by Cabrillo, title matters as of the Original Effective Date and matters expressly disclaimed in the Ground Lease.

Restoration Security

As security for its obligation to restore the Leased Premises at the end of the term of the Ground Lease, the Company is obligated to provide a prepaid and irrevocable bond, irrevocable letter of credit, guaranty or cash collateral (if Cabrillo determines that such cash collateral will not be part of the Company's bankruptcy estate) in an amount equal to the future cost (estimated as of December 31, 2015) of performing the Company's obligation to restore the property at the end of the term or earlier termination of the Ground Lease. The Company will prepare a good faith estimate of these costs. If Cabrillo disagrees with the Company's estimate, the parties will negotiate in good faith for 45 days and then submit the dispute to arbitration if necessary.

This security must be maintained until the earlier to occur of (i) 12 months after commercial operation, (ii) the Plant has produced at least 45 MGD for at least 90 days; or (iii) if the Plant does not reach commercial operation, until the Company performs all of its obligations with respect to termination of the Ground Lease. The security must be posted again before the 20th anniversary of the commercial operation date and maintained until the end of the term. Cabrillo may draw on the initial and subsequent restoration security if the Company defaults on its obligations under the Ground Lease.

Force Majeure

Either Party will be excused from obligations it is unable to perform due to a "Force Majeure Event," which means any act of God or similar cause beyond the reasonable control of the Party, including strikes, riots, shortages or labor/materials, theft, fire, acts of public enemy, injunction, insurrection, court order, war, the effect of changes to the Power Station (if the Company is the claiming Party), changes in law after the Original Effective Date, or denial of, or delay in obtaining, one of the Company's permits (in each case, where the Company is the claiming party). Force Majeure Events do not include matters which could reasonably have been overcome by due diligence or avoided and matters prior to construction commencement. The Party claiming the Force Majeure Event must provide written notice to the other Party within 10 days of the event, attempt in good faith to remedy its inability to perform, and give notice as soon as it is able to resume its obligations. Any suspension of obligations shall be of no greater scope and for no longer duration than reasonably required by the Force Majeure Event, capped at an aggregate of 36 months except for Force Majeure Events caused by changes to the Power Station, and will not extend the term of the Ground Lease. The Company must continue to pay rent during a Force Majeure Event.

SUMMARY OF CERTAIN PROVISIONS OF THE ELEVENTH AMENDMENT TO THE GROUND LEASE

The following summarizes the Eleventh Amendment to Second Amended and Restated Ground Lease and Easement Agreement (the “Eleventh Amendment”) by and between Company and Cabrillo, dated as of February 16, 2018.

Under the Eleventh Amendment the Company has acquired additional easements on the Power Plant Property for the purpose of constructing, operating and maintaining the Intake System Modifications. These include easements for constructing, operating and maintaining a system of intake screens and pipelines in the Lagoon and fish return system. The locations of certain existing easements have also been revised.

The fixed annual rent was increased to \$1,362,736 until January 1, 2019, and thereafter through the last day of the Initial Term such rent will be \$1,816,677 (inclusive of payments owed by the Company to Cabrillo related to an SDG&E easement). Rent is subject to upward adjustment based on the change in the consumer price index from August 2009. To the extent the Company no longer needs certain easements the Company will relinquish its rights to such easements and the rent will be reduced in accordance with values for each easement set forth in the Eleventh Amendment.

Cabrillo and the Company have agreed to negotiate to locate certain areas for the Company’s use during the construction of the Intake System Modifications. The Company shall pay Cabrillo \$25,500 per acre annually for use of such areas during construction.

Upon a permanent shut down of the Pumps, the Company will be responsible for the dredging the Outer Lagoon.

Cabrillo’s obligation to operate the Pumps on the Company’s behalf expires on the earlier of (i) commercial operation of the interim portion of the Intake System Improvements and (ii) December 31, 2019. Cabrillo will operate the Pumps after December 31, 2019 (but in no event beyond December 31, 2021) only if Carlsbad has consented to such operation and the Company has agreed to hold Cabrillo harmless from all damages, losses and liabilities arising out of such operation, including any amounts payable by Cabrillo to Carlsbad in connection with the settlement agreement dated January 12, 2014 between Cabrillo, Carlsbad and certain other parties.

The Company shall not oppose Cabrillo’s redevelopment of the Power Plant for a use that does not involve the generation of electricity unless such redevelopment will have a Material Adverse Effect on the Company’s operation or maintenance of the Plant.

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APPENDIX I

**SUMMARIES OF CERTAIN PROVISIONS OF THE PLANT LOAN AGREEMENT AND THE
PLANT INDENTURE**

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**SUMMARY OF CERTAIN PROVISIONS OF THE
PLANT LOAN AGREEMENT**

The following summarizes certain provisions of the Plant Loan Agreement dated December 24, 2012, as amended (the “**Plant Loan Agreement**”), by and between the California Pollution Control Financing Authority, a political subdivision and public instrumentality of the State of California (the “**Issuer**”), and Poseidon Resources (Channelside) LP, a limited partnership duly organized and existing under the laws of the State of Delaware (the “**Company**”).

CERTAIN DEFINITIONS

Acceptable Credit Provider means a bank or trust company authorized to engage in the banking business having a combined capital and surplus of at least \$500,000,000 or the equivalent thereof whose long-term unsecured debt is rated “A” or higher by S&P and Fitch Ratings and “A2” or higher by Moody’s or a surety provider or other financial institution whose long-term unsecured debt is rated “A-” or higher by S&P and Fitch Ratings and “A3” or higher by Moody’s; provided if any of such rating agencies are no longer in business or are no longer rating unsecured debt of banks, trust companies, surety providers or similar financial institutions, such bank or trust company, surety provider, or similar financial institution shall have a comparable rating of another nationally recognized rating service.

Account means a fund or account established under the Collateral Trust Agreement or the Plant Indenture.

Account Collateral means, collectively, (a) each Account, except the Contractor Security Account, and (b) all cash, instruments, investment property, securities, “security entitlements” (as defined in Section 8-102(a)(17) of the UCC) and other Financial Assets at any time on deposit in any such Account, including all income, earnings and distributions thereon and all proceeds, products and accessions of and to any and all of the foregoing, including whatever is received or receivable upon any collection, exchange, sale or other disposition of any of the foregoing and any property into which any of the foregoing is converted, whether cash or non-cash proceeds, and any and all other amounts paid or payable under or in connection with any of the foregoing; provided that (i) any amounts disbursed from the Distribution and Stabilization Fund in accordance with the Collateral Trust Agreement do not constitute Account Collateral, and (ii) the Lien on all of the Company’s right, title and interest in, to and under a Debt Service Reserve Fund established for Additional Plant Senior Debt issued by an Additional Plant Lender is solely for the benefit of such Additional Plant Lender.

Account Letter of Credit means an irrevocable, unconditional, direct pay letter of credit: (a) in a form reasonably acceptable to the Collateral Agent; (b) issued by an Acceptable Credit Provider and in respect of which the Company is not the account party; (c) the Collateral Agent is the beneficiary and holder thereof; (d) which clearly identifies which Account such letter of credit shall be credited to; and (e) which has been issued for the sole purposes of either (i) satisfying the Company’s obligations under the Collateral Trust Agreement to fund a Debt Service Reserve Fund, the Working Capital Reserve Fund or any other Account established under the Collateral Trust Agreement which is designated as a reserve fund or account or (ii) securing the Limited Partner’s obligations under the Equity Contribution Agreement.

Act means the California Pollution Control Financing Authority Act (Chapter 1 (commencing with Section 44500) of Division 27 of the Health and Safety Code), as now in effect and as it may from time to time hereafter be amended.

Actual Monthly Pipeline Purchase Payment means for any calendar month (a) the Scheduled Monthly Pipeline Purchase Payments for such months, minus, for any completed calendar month, (b)(i) the Contracted Shortfall Payments payable by the Company with respect to its failure to deliver Product Water during such month times (ii) the sum of the Pipeline Interest Payment Factor and the Pipeline Principal Payment Factor for such month.

Actual Pipeline Purchase Payment means: (a) for any calendar month, the Actual Monthly Pipeline Purchase Payment for such month; (b) for any Fiscal Year or Budget Year, the sum of the Actual Monthly Pipeline Purchase Payments for the months included in such year; and (c) for any period less than a calendar year but greater

than a month, the sum of the Actual Monthly Pipeline Purchase Payments for each full calendar month included in such period.

Additional Plant Bonds means any bonds issued under the Plant Indenture other than the Series 2012 Plant Bonds.

Additional Plant Lender means a holder of Additional Plant Senior Debt (other than Additional Plant Bonds) or any trustee or similar agent thereof.

Additional Plant Senior Debt means Additional Plant Bonds and Debt that was issued after the Series 2012 Closing Date that is secured on a parity with the Series 2012 Plant Bonds and the Contracted Shortfall Payments.

Additional Payments means the amounts payable to the Issuer, the Plant Trustee or other Persons pursuant to the section captioned “REPAYMENT OF LOANS; ADDITIONAL PAYMENTS – Additional Payments.”

Additional Project Contract means any material contract or agreement related to the construction of the Pipeline or the construction, operation or use of the Plant entered into by the Company and any other Person, or assigned to the Company, subsequent to the Series 2012 Closing Date, excluding any such contract or agreement (i) providing for the payment by the Company of less than \$1,000,000 (Escalated) per annum individually, (ii) providing for the delivery by the Company of less than \$1,000,000 (Escalated) per annum individually in value of goods or services, (iii) having a term no greater than one year, (iv) having a term of greater than one year, if the Company has the right to terminate such contract or agreement upon no more than 90 days’ notice, or (v) entered into in respect of Eligible Investments or Additional Plant Senior Debt.

Affiliate of any Person means any other Person who, directly or indirectly, Controls or is Controlled by or is under common Control with such other Person.

Applicable Law means any law, regulation, requirement or order of any federal, state or local government agency, court or other governmental body, including any building code or the terms and conditions of any Permit, license or governmental approval, applicable from time to time to the Project or, with respect to any Person, the performance by such Person of any obligation under the Transaction Documents.

Authorized Representative means, with respect to any party to any Financing Document, any Person or Persons at the time designated to act on behalf of such party by a written certificate, containing a specimen signature of such person or persons, which is duly executed on behalf of such party; provided that, with respect to the Issuer, such term means Chair, Executive Director or any other person designated by the Chair as aforesaid.

Available Construction Funds means, as of any Construction Disbursement Date, the sum of amounts on deposit (a) in the Construction Account, (b) in the Poseidon Project Account (but excluding (i) the Construction Contingency Amount unless permitted to be expended pursuant to the Collateral Trust Agreement and (ii) the Estimated Reserve Deposit) and (c) in the Contractor Security Account, together with anticipated investment earnings thereon. Available Construction Funds include any Net Capital Proceeds and proceeds of Additional Plant Senior Debt, in each case deposited or reasonably anticipated to be deposited in the Construction Account, and other amounts deposited or reasonably anticipated to be deposited by or on behalf of the Company to the foregoing Accounts or to any other account established in connection with Additional Plant Senior Debt for the purpose of paying Project Costs or Poseidon Pipeline Costs, and any amounts available to be drawn by the Company under any letter of credit for Retainage described in the Collateral Trust Agreement and any letter of credit in connection with disputed payments under an EPC Contract.

Bankruptcy Law means Title 11 of the United States Code entitled “Bankruptcy”, as now and hereafter in effect, or any successor statute, and any similar federal, state or foreign law for the relief of debtors.

Base Case Financial Projections means the Financial Projections identified as such final Limited Offering Memorandum for the Series 2012 Plant Bonds.

Beneficial Owner or **Beneficial Owners** has the meaning set forth the Plant Indenture.

Bond Counsel means Orrick, Herrington & Sutcliffe LLP or such other firm of attorneys of nationally recognized standing in the field of law relating to municipal bond law and the excludability of interest on state or local bonds from gross income of the owners of the Plant Bonds for purposes of federal income taxation, selected by the Issuer and acceptable to the Plant Trustee and the Company.

Bond Insurance Policy means, for any Additional Plant Bonds, a financial guarantee insurance policy guaranteeing the scheduled payment of all principal of and interest on such Additional Plant Bonds when due or an irrevocable letter of credit issued for the purpose of guaranteeing the Company's obligation to pay scheduled principal, or sinking fund redemption price of and interest on such Additional Plant Bonds, in each case, with administrative provisions reasonably satisfactory to the Collateral Agent or the agent or fiduciary for the corresponding Additional Plant Bonds(as applicable, in each case, issued by an Acceptable Credit Provider).

Bond Insurer means any issuer of a Bond Insurance Policy.

Bond Payment Date has the meaning set forth in the section captioned "REPAYMENT OF LOANS; ADDITIONAL PAYMENTS".

Budget Year is defined in the section captioned "PARTICULAR COVENANTS – Budgets – Review and Adjustment of Operating Budgets".

Business Day means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in Los Angeles, California or New York, New York close, or in the city where the Payment Office or Principal Office of the Plant Trustee or the Collateral Agent is located are authorized or obligated by law or executive order to close, or The New York Stock Exchange is authorized or obligated by law or executive order to close or is actually closed.

Calculation Period means as the context requires (a) a calendar month, (b) a twelve month year, including a Fiscal Year or a Budget Year, or (c) for any period greater than a calendar month and less than a full twelve-month year, the aggregate of the full calendar months contained in such period; provided that for any Calculation Period beginning on the Commercial Operation Date, the first two full calendar months following the Commercial Operation Date will be omitted.

Calculation Date has the meaning set forth in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Capital Lease Obligations of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

Capital Proceeds means (i) proceeds of property and casualty insurance or other insurance protecting against loss or damage to the Plant or any portion thereof (excluding the proceeds of delay in start-up insurance or business interruption insurance); (ii) proceeds of any title insurance respecting a defect of title or Lien on the Company's interest in the Plant or the Company Real Property or portion thereof; (iii) any condemnation awards or proceeds of an eminent domain proceeding relating to a taking of any portion of the Plant or the Company Real Property; (iv) any Performance Guarantee Payments pursuant to the Plant EPC Contract; (v) any cash settlement of a warranty claim by the Company arising under any construction contract, including the Plant EPC Contract (including warranties by any subcontractor or supplier) and the Pretreatment Warranty but excluding the Pipeline EPC Contract; (vi) any damage awards or indemnity payments received by the Company or the Collateral Agent on its behalf with respect to loss or damage to the Plant or the Company Real Property or any portion thereof; (vii) any contributions in aid of construction for any Capital Project received by the Company from the Water Authority or other third parties; (viii) any payments by the Plant EPC Contract Guarantor in respect of items (iv), (v) or (vi)

above; (ix) any equity contribution received by or on behalf of the Company for any Capital Project; (x) the proceeds of Additional Plant Senior Debt issued to fund a Capital Project as permitted under the Collateral Trust Agreement (except capitalized interest, Costs of Issuance and Debt Service Reserve Fund deposits); and (xi) the net proceeds received by the Company or the Collateral Agent from any sale of assets constituting all or a portion of the Plant other than any sale of assets permitted under the section captioned “PARTICULAR COVENANTS – Limitation on Disposition of Assets”. For the avoidance of doubt, “Capital Proceeds” excludes proceeds of insurance compensating third parties for injuries or personal property claims.

Capital Project means (i) replacement or renewal of all or a portion of the Plant following an Event of Loss or Event of Eminent Domain, or (ii) a modification or expansion of the Plant after the Commercial Operation Date that is permitted under the Collateral Trust Agreement; for which, in each of the foregoing cases, the costs of which are required in accordance with GAAP to be capitalized on the Company’s balance sheet.

Capitalized Interest Account means the account by that name created and established in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Carlsbad means the City of Carlsbad, California.

CERCLA means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. § 9601 et seq.).

Change in Project Scope means:

- (a) a Change Order Amendment;
- (b) entering into an Additional Project Contract or an amendment to a Principal Project Contract to be performed in whole or in part prior to the Commercial Operation Date; or
- (c) any other change in the scope or cost of work required to achieve Completion, including the incurrence of any Poseidon Pipeline Costs, as compared to the initial Project Construction Budget.

Change Order Amendments has the meaning set forth in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Closing Date means, for a Series of Plant Bonds, the date of delivery of such Series of Plant Bonds.

Closing Date Project Payments means the amounts payable by the Company to other Persons (including the Limited Partner) on the Series 2012 Closing Date (excluding Costs of Issuance) and identified as “Closing Date Project Payments” in the Project Construction Budget.

Code means the Internal Revenue Code of 1986, as amended, from time to time. A reference to any specific section of the Code shall be deemed also to be a reference to the comparable provisions of any enactment that supersedes or replaces the Code.

Collateral has the meaning set forth in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Collateral Agent means MUFG Union Bank, N.A., as collateral agent under the Collateral Trust Agreement, and any successor collateral agent or co-agent thereunder.

Collateral Agent’s Remedies Agreement means the Collateral Agent’s Remedies Agreement, as amended, between the Water Authority and the Collateral Agent.

Collateral Documents means the Deed of Trust, the Pledge Agreements, the Equity Contribution Agreement, the Equity Security Instruments, the Security Agreement, the Collateral Trust Agreement, the Control

Agreement, each Consent, any fixture filings, financing statements, or other similar documents filed, recorded or delivered in connection with the foregoing, and any other agreement, document or instrument pursuant to which a Lien is granted securing any Secured Obligations or under which rights or remedies with respect to any such Lien are governed.

Collateral Trust Agreement means the Collateral Trust Agreement, dated as of December 20, 2012, as amended, among the Collateral Agent, the Company and the Secured Parties identified therein.

Collection Expenses means all reasonable and documented out-of-pocket costs and expenses (if any) and, if applicable, reasonable transaction costs (including legal and accounting fees and expenses, and taxes paid or payable as a result thereof), incurred by the Company in connection with the collection, enforcement, negotiation, consummation, settlement, proceedings, administration or other activity related to the receipt or collection of any Capital Proceeds.

Commercial Operation Date means the date on which the Provisional Acceptance Conditions (as defined in the Water Purchase Agreement) have been satisfied.

Commodity Hedging Arrangements means any interest rate, other financial or commodity swap, cap or collar agreement or similar arrangement between the Company (or its agent or nominee) and one or more banks or other financial institutions providing for the transfer or mitigation of commodity risks either generally or under specific contingencies (including confirmations thereunder) that (i) contain terms, and are otherwise in form and substance, customary for similar transactions; and (ii) cover Transactions (as defined therein) having a notional principal amount in the aggregate less than or equal to the aggregate principal amount of hedged loans or other obligations (if necessary, as the same may be reasonably estimated by the Company for such date).

Company means Poseidon Resources (Channelside) LP, a Delaware limited partnership.

Company Interest Hedging Payment means a regularly scheduled payment (after any payment netting against any Counterparty Interest Hedging Payment on a given payment date) under an Interest Hedging Arrangement (excluding (i) any termination payment (whether as a result of optional, elective, early or mandatory termination) relating to the Interest Hedging Arrangement and (ii) any payment in respect of fees, costs, indemnities or expenses with respect to such Interest Hedging Arrangement) required to be made by or on behalf of the Company to an Interest Hedging Counterparty pursuant to an Interest Hedging Arrangement.

Company Real Property means (a) the Plant Site and the easements, rights and interests in real property granted to the Company pursuant to the Ground Lease and any other agreements granting the Company the right to use real property to construct the Plant and (b) rights to access the Pipeline route granted to the Company in the Pipeline DBA.

Completion means the satisfaction of all conditions set forth under subsection (a) of the section captioned “THE PROJECT – Establishment of Completion Date; Obligation of Company to Complete”.

Completion Date means the date on which Completion has occurred and the Company has delivered the certifications as provided in the section captioned “THE PROJECT – Establishment of Completion Date; Obligation of Company to Complete”.

Consents means the Collateral Agent’s Remedies Agreement and the individual agreements among the Collateral Agent and one of the following Persons in which such Person agrees, among other things, to the assignment to the Collateral Agent by the Company of the Principal Project Contract to which it is a party: the Ground Lessor, the EPC Contractor (with respect to both EPC Contracts), the EPC Guarantor, Poseidon Resources IP LLC, the Operator, Carlsbad, SDG&E, the California State Lands Commission, Poseidon Water LLC and each counterparty to an Additional Project Contract.

Control Agreement means the Collateral Account Control Agreement, dated as of December 20, 2012 among the Company, the Collateral Agent and Union Bank N.A, in its capacity as securities intermediary.

Construction Account or **Plant Construction Account** means the account by that name created and established in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Construction Contingency Amount has the meaning given to it in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Construction Disbursement Date means the 20th Business Day of each month beginning in the month following the Series 2012 Closing Date and ending in the month in which Completion occurs.

Contracted Shortfall Payments means the payments required to be made by the Company under the Pipeline DBA and the Water Purchase Agreement.

Contractor Security Account means the account of such name established pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Control means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and the terms “Controlling” and “Controlled” and “under common control with” shall have meanings correlative thereto.

Cost of Issuance means all items of expense directly or indirectly payable by or reimbursable to the Issuer or the Company and related to the authorization, issuance, sale and delivery of the Plant Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Plant Trustee and the Collateral Agent, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution and safekeeping of the Plant Bonds and any other cost, charge or fee in connection with the original issuance of the Plant Bonds which constitutes a “cost of issuance” within the meaning of Section 147(g) of the Code.

Counterparty Interest Hedging Payment means any payment (after giving effect to any netting on a given payment date) to be made to, or for the benefit of, the Company, under any Interest Hedging Arrangement.

Current Case Financial Projections means at any time, the Financial Projections most recently updated pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Debt of any Person at any date means, without duplication:

(a) indebtedness created, issued or incurred by such Person for borrowed money (whether by loan or the issuance and sale of debt securities or the sale of Property of such Person to another Person subject to an understanding or agreement, contingent or otherwise, to repurchase such Property of such Person from such Person);

(b) notes payable and drafts accepted by such Person representing extensions of credit whether or not representing obligations for borrowed money;

(c) any obligation owed by such Person for all or any part of the deferred purchase price of property or services (excluding any such obligations incurred under ERISA), which purchase price is due more than six months from the date of incurrence of the obligation in respect thereof;

(d) the face amount of any letter of credit or similar instrument issued for the account of such Person or as to which such Person is otherwise liable for reimbursement of drawings;

(e) the direct or indirect Guarantee, endorsement (otherwise than for collection or deposit in the ordinary course of business), co-making, discounting with recourse or sale with recourse by such Person of the obligation of another (provided that such obligation of such Person shall be “Debt” under the Collateral Trust Agreement only if and to the extent that the assurance such Person is providing to such obligee is in respect of an obligation that otherwise constitutes “Debt” under the Collateral Trust Agreement);

(f) any obligation of such Person the primary purpose or intent of which is to provide assurance to an obligee that the obligation of the obligor thereof will be paid or discharged or the holders thereof will be protected (in whole or in part) against loss in respect thereof (provided that such obligation of such Person shall be “Debt” under the Collateral Trust Agreement only if and to the extent that the assurance such Person is providing to such obligee is in respect of an obligation that otherwise constitutes “Debt” under the Collateral Trust Agreement);

(g) any liability of such Person for an obligation of another through any agreement (contingent or otherwise) (i) to purchase, repurchase or otherwise acquire such obligation or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise) or (ii) to maintain the solvency or any balance sheet item, level of income or financial condition of another if, in the case of any agreement described under subclauses (i) or (ii) of this clause (g), the primary purpose or intent thereof is as described in clause (f) above (provided that such liability of such Person shall be “Debt” under the Collateral Trust Agreement only if and to the extent that the related obligation otherwise constitutes “Debt” under the Collateral Trust Agreement);

(h) all ordinary course trade payables which are more than 90 days overdue;

(i) all obligations of such person in respect of any exchange traded or over the counter derivative transaction or any interest rate protection or commodity hedging transaction, including any transaction under any Interest Hedging Arrangement or Commodity Hedging Arrangement; and

(j) Capital Lease Obligations.

Debt Service means, for any period under review, (a) for any Plant Senior Debt, the sum of (i) interest payable on such Plant Senior Debt during such period (except interest to be paid from amounts on deposit in the related Capitalized Interest Account) and (ii) the total amount of principal of, on premium on, such Plant Senior Debt payable, or for which provision for payment must be made, during such period whether at stated maturity or upon sinking fund redemption thereof and (b) Company Interest Hedging Payments required to be made during such period; provided that, with respect to any Company Interest Hedging Payments or Senior Debt bearing interest at a variable rate, the determination of Plant Debt Service will be made as provided in the related Financing Documents.

Debt Service Coverage Ratio means, as calculated in accordance with the Collateral Trust Agreement, for any Calculation Period following the Commercial Operation Date:

(a) the total of (i) Net Cash Flow for such Calculation Period plus (ii) the Actual Pipeline Purchase Payments for such Calculation Period; divided by

(b) the total of (i) Debt Service paid or payable for such Calculation Period, net of any Counterparty Interest Hedging Payments paid or payable for such Calculation Period, plus (ii) the Scheduled Pipeline Purchase Payments for such Calculation Period.

Debt Service Reserve Fund or **Plant Debt Service Reserve Fund** means the fund of that name established pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Debt Service Reserve Requirement or **Plant Debt Service Reserve Requirement** means, with respect to any 12-month period (a) for the Series 2012 Plant Bonds, (i) prior to the Commercial Operation Date \$26,517,250, and (ii) thereafter an amount equal to the Revenues to be transferred by the Collateral Agent to the Plant Trustee during such 12-month period with respect to principal, premium, if any, and interest pursuant to the Collateral Trust Agreement, and (b) for any Additional Plant Senior Debt, the amount set forth in the related Financing Documents.

Deed of Trust means that certain Leasehold Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing executed by the Company, as trustor, in favor of the deed of trust trustee for the benefit of the Collateral Agent, as beneficiaries.

Default or default means any event which with the giving of notice, the passage of time, or both, would become an Event of Default.

Development Agreement means the Amended and Restated Development Agreement, by and between Carlsbad and the Company.

Distribution and Stabilization Fund means the Fund of such name established pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Eligible Investments means any investment set forth below that matures (or is redeemable at the option of the owner thereof or is marketable prior to maturity) at such time or times as to enable disbursements to be made from the Fund or Account in which such investment is held in accordance with the terms of the Collateral Trust Agreement or the Plant Indenture:

- (i) Governmental Obligations;
- (ii) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies or such other like governmental or government-sponsored agencies which may be hereinafter created: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Federal Home Loan Bank System; Export Import Bank of the United States; Farmers Home Administration; Small Business Administration; Inter-American Development Bank; International Bank for Reconstruction and Development; Federal Land Banks; the Federal National Mortgage Association; the Government National Mortgage Association; or the Tennessee Valley Authority;
- (iii) Debt obligations of any state of the United States or any political subdivision of any state, or of any agency or instrumentality of any state or of any political subdivision thereof, if at the time of their purchase such obligations are rated at the time of investment in any of the three highest Rating Categories by any Rating Agency;
- (iv) Negotiable or non-negotiable certificates of deposit, time deposits, demand deposits, including interest bearing money market accounts, trust funds, trust accounts, bankers acceptances or other similar banking arrangements, issued by any bank or trust company (including the Collateral Agent, the Plant Trustee and their respective affiliates) the deposits of which to the extent uninsured, by the Federal Deposit Insurance Corporation, are to be secured as to principal by the securities listed in subsections (i), (ii), or (iii) above;
- (v) Repurchase agreements or similar arrangements: (x) with any banking institutions or other financial services company, including the Collateral Agent, the Plant Trustee and their respective Affiliates if applicable, having or the parent company of which shall be rated at the time of investment in any of the three highest Rating Categories by any Rating Agency, pursuant to which has been delivered to the Collateral Agent, or its designee, investments of the types set forth in subsections (i) and/or (ii) above having at all times a fair market value of at least 100% of the value of such agreement; or (y) with any banking institutions or other financial services company, including the Collateral Agent, the Plant Trustee and their respective Affiliates if applicable, not meeting the rating requirements of (x) above pursuant to which there shall have been delivered to the Collateral Agent or its designee, investments of the types set forth in subsections (i) and/or (ii) above and at all times having a fair market value of at least 102% of the value of such agreement;
- (vi) Shares of an open-end, diversified investment company that is qualified under Rule 2a-7 promulgated under the Investment Company Act of 1940, the shares of which are registered under the Securities Act of 1933, and having aggregate net assets of not less than \$50,000,000 on the date of purchase (including any such mutual fund for which the Collateral Agent, the Plant Trustee or an affiliate of either of them, serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (A) the Collateral Agent, the Plant Trustee or an affiliate of either of them, receives fees from such funds for services rendered, (B) the Collateral Agent and the Plant Trustee charge and collect fees for services rendered pursuant to the Collateral Trust Agreement and the Plant Indenture, respectively, which fees are separate from the fees received from such funds, and (C) services performed for such funds and pursuant to the Collateral Trust Agreement or the

Plant Indenture may at times duplicate those provided to such funds by the Collateral Agent, the Plant Trustee of an affiliate of either of them;

(vii) Redeemable securities of a “unit investment trust” as defined in the Investment Company Act of 1940, each of which represents an undivided interest in a unit of specified Qualified Investments of the types set forth in subsections (i), (ii) or (iii) above;

(viii) Commercial paper rated at the time of investment in the highest Rating Category by any Rating Agency, and having a maturity at the time of purchase not to exceed six months; and

(ix) guaranteed investment contracts with any bank or investment banking firm or other financial services company the long-term debt of which is rated at the time of investment in any of the three highest Rating Categories by any Rating Agency.

Environmental Laws means all Applicable Laws relating to the environment or to any Hazardous Substance, including CERCLA, the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., as now or hereafter amended, the Clean Water Act, 33 U.S.C. Section 1251 et seq., as now or hereafter amended, the Clean Air Act, 42 U.S.C. Section 7401 et seq., as now or hereafter amended, the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., as now or hereafter amended, the Safe Drinking Water Act, 42 U.S.C. Section 300f et seq., as now or hereafter amended, the Hazardous Waste Control Law, Ca. Health & Safety Code Section 25100, et seq., as now or hereafter amended, the Porter-Cologne Water Quality, Ca. Water Code Section 13000 et seq., as now or hereafter amended, and the Safe Drinking Water and Toxic Enforcement Act of 1986, Ca. Health and Safety Code Section 24249.5 et seq., as now or hereafter amended.

Environmental Regulations, as used in the Plant Indenture, means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to dangerous, toxic or hazardous pollutants, Hazardous Substances, chemical waste, materials or substances.

EPC Contractor means Kiewit Shea Desalination, a joint venture.

EPC Contracts means the Plant EPC Contract and the Pipeline EPC Subcontract, together.

EPC Guarantee means the Guarantee Dated December 20, 2012 from the EPC Guarantor in favor of the Company with respect to the EPC Contractor’s obligations under the EPC Contract.

EPC Guarantor means Kiewit Infrastructure Co.

Equity Contribution Agreement means the Equity Contribution Agreement, dated as of December 20, 2012, between the Company, the Limited Partner and the Collateral Agent.

Equity Interests means shares of the stock of a corporation, partnership interests in a partnership (including all rights and privileges of a partner pertaining to such interests) and units of membership interests in a limited liability company (including all rights and privileges of a member pertaining to such interests).

Equity Security Instrument means an Account Letter of Credit securing the obligations of the Limited Partner under the Equity Contribution Agreement.

ERISA means the Employee Retirement Income Security Act of 1974 as amended from time to time.

ERISA Affiliate means any trade or business (whether or not incorporated) that together with the Company, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

ERISA Event means (a) a Reportable Event with respect to a Pension Plan of which the Company has notice; (b) a withdrawal by the Company or withdrawal by any ERISA Affiliate of which the Company has notice

from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA of which the Company has notice; (c) notification to the Company of a complete or partial withdrawal by the Company or any ERISA Affiliate from a Multiemployer Plan or notification to the Company that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate by the Company, notice to the Company of the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or notice to the Company of the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) notice to the Company from the PBGC of an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) notice to the Company of the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon either the Company or any ERISA Affiliate.

Escalated means, with respect to any amount, such amount escalated at the rate of 2.5% beginning on the first anniversary of the Commercial Operation Date and on each anniversary of the Commercial Operation Date thereafter.

Estimated Cost to Complete means the amount needed to achieve Completion (including any Poseidon Pipeline Costs and Contracted Shortfall Payments) based on the original Project Construction Budget as modified to reflect all Changes in Project Scope (and shall exclude any costs of Debt Service other than Contracted Shortfall Payments). In the event of any dispute regarding the amount of the Estimated Cost to Complete, the Collateral Agent may rely on the opinion of the Independent Engineer.

Estimated Reserve Deposit means the sum of (a) the estimated initial Working Capital Reserve Requirement, (b) the estimated Wetlands Mitigation Reserve Requirement, (c) \$3.7 million to provide the security required under the State Lands Commission Lease and (d) \$11.5 million for deposit to the Project Reserve Account of the Working Capital Reserve Fund. Prior to the delivery of the initial Operating Budget, the estimated Working Capital Reserve Requirement will be \$4,339,925.81, as such estimated amount may be modified in connection with any Change in Project Scope; and after the acceptance of the initial Operating Budget, the estimated initial Working Capital Reserve Requirement will be based on the O&M Costs set forth in the initial Operating Budget. In the event of any dispute regarding the estimated reserve requirements, the Collateral Agent may conclusively rely on the opinion of the Independent Engineer.

Event of Default means an occurrence or event specified in and defined as such by the Plant Indenture, a Loan Default Event specified in and defined as such by the section captioned “LOAN DEFAULT EVENTS AND REMEDIES – Loan Default Events” or an event of default identified in any other Financing Document entered into in respect of Additional Plant Senior Debt that permits the exercise of remedies under such document.

Event of Eminent Domain means any compulsory transfer or taking by condemnation, eminent domain or exercise of a similar power, or transfer under threat of such compulsory transfer or taking, of any part of the Collateral, by any Governmental Authority having jurisdiction.

Event of Loss means an event which causes any material part of the Collateral or a material part of the Plant to be damaged, destroyed or rendered unfit for normal use for any reason whatsoever, other than an Event of Eminent Domain.

Favorable Opinion of Bond Counsel means, with respect to any action relating to any Tax Exempt Series of Plant Bonds, the occurrence of which requires such an opinion, a written legal opinion of Bond Counsel to the effect that such action, in and of itself, is permitted under the Plant Indenture and will not have an adverse effect on the exclusion of interest on such Tax Exempt Series of Plant Bonds from gross income for purposes of federal income taxation.

Fiduciary means the Plant Trustee, the Collateral Agent, the Paying Agent or any or all of them, as may be appropriate, and any other fiduciary with respect to Additional Plant Senior Debt as specified in the related Financing Documents, which may include a remarketing agent, tender agent, auction agent or broker-dealer for Plant Bonds bearing interest at variable or auction rates.

Financial Assets has the meaning set forth in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Financial Model means the financial formulas that were audited by the Independent Engineer prior to the Series 2012 Closing Date, which financial formulas were used to prepare the Base Case Financial Projections, but which do not include the data and information used by or incorporated into the Base Case Financial Projections or any Current Case Financial Projections, as such financial formulas may be revised from time to time in accordance with the Collateral Trust Agreement.

Financial Projections means the projections for the financial performance of the Plant from the date as of which they were prepared to the latest maturity date of the then Outstanding Senior Debt.

Financing Documents or **Plant Financing Documents** means (a) the Plant Bonds, the Plant Loan Agreement, the Plant Indenture, the Tax Agreement, (b) any purchase agreement or remarketing agreement entered into in connection with the Plant Senior Debt, (c) any agreement, document, indenture or instrument providing for or evidencing Secured Obligations owing to any Additional Plant Lender, and (d) the Collateral Documents.

Fiscal Year means the period beginning on January 1 of each year and ending on the next succeeding December 31, or any other twelve-month period hereafter designated by the Company as the fiscal year of the Company.

GAAP means generally accepted accounting principles in the United States or, when used in the context of financial statements of a Person organized or operating under the laws of a foreign jurisdiction, in such jurisdiction.

General Partner means Poseidon Resources Channelside GP, Inc., a Delaware corporation and any subsequent general partner of the Company.

Governmental Authority means the government of the United States of America or any other nation, any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

Ground Lease means the Second Amended and Restated Ground Lease and Easement Agreement, dated as of April 7, 2011, between Cabrillo Power I LLC and the Company, as amended pursuant to the First Amendment, dated as of October 5, 2010; the Second Amendment, dated as of December 14, 2011; the Third Amendment, dated as of February 10, 2012; the Fourth Amendment, dated as of March 23, 2012; the Fifth Amendment, dated as of April 24, 2012; the Sixth Amendment, dated as of May 15, 2012; the Seventh Amendment, dated as of June 29, 2012; the Eighth Amendment, dated as of July 31, 2012; the Ninth Amendment, dated as of August 9, 2012; and the Tenth Amendment, dated as of December 11, 2012.

Ground Lessor means Cabrillo Power I LLC.

Guarantee of or by any Person (the “guarantor”) means any obligation, contingent or otherwise, of (a) the guarantor or (b) another Person (including any bank under a letter of credit) to induce the creation of which the guarantor has issued a reimbursement, counterindemnity or similar obligation, in either case guaranteeing or having the economic effect of guaranteeing any Debt or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation, contingent or otherwise, of the guarantor, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Debt or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt or other obligation of the payment of such Debt or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt or other obligation, (iv) as an account party in respect of any letter of credit or letter of guaranty issued to support such Debt or obligation or (v) to otherwise assure or hold harmless the owner of

such Debt or other obligation against loss in respect thereof; provided, however, that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business.

Hazardous Substance means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Pipeline or to persons on or about facilities relating to the Pipeline or (ii) cause the Pipeline to be in violation of any Environmental Regulation; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of “waste,” “hazardous substances,” “hazardous wastes,” “hazardous materials,” “extremely hazardous waste,” “restricted hazardous waste,” or “toxic substances” or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act (“RCRA”), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Hazardous Waste Control Law (“HWCL”), Cal. Health & Safety Code §§ 25100 et seq.; the Hazardous Substance Account Act (“HSAA”), Cal. Health & Safety Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety Code §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the “Porter-Cologne Act”), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of users and consumers of water delivered by the Pipeline or the owners and/or occupants of property adjacent to or surrounding the Pipeline, or any other person coming into contact with the Pipeline or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

IDE means IDE Technologies, Ltd.

IDE Americas means IDE Americas, Inc.

IDE Guarantees means each of the Guarantees by IDE in favor of the Company of IDE Americas’ obligations to the Company under (i) the Process Service Agreement and (ii) the O&M Agreement.

Independent Accountant means Friedberg Smith P.C. and any successor independent firm of certified public accountants engaged by the Company.

Independent Engineer means Black & Veatch and any successor consulting engineering firm engaged by the Company, and reasonably acceptable to a Senior Debt Majority, to perform the duties of the Independent Engineer under the Financing Documents; provided that any successor Independent Engineer shall be a nationally recognized consulting engineering firm in the field of reverse osmosis and independent of and not under the direct or indirect control of the Company or any Secured Party.

Independent Insurance Consultant means Willis of New York, Inc. and any successor firm engaged by the Company, and reasonably acceptable to a Senior Debt Majority, provided that any successor firm shall be independent of and not under the direct or indirect control of the Company or any Secured Party.

Insured Bonds means any Plant Bonds that are insured by a Bond Insurance Policy.

Interest Hedging Arrangement means any interest rate swap similar arrangement between the Company (or its agent or nominee) and one or more banks or other financial institutions providing for the transfer or mitigation of interest risks either generally or under specific contingencies (including confirmations thereunder) that (i) require Counterparty Interest Hedging Payments to be made directly to the Collateral Agent, (ii) contain terms, and are otherwise in form and substance, customary for similar transactions; and (iii) cover transactions (as identified therein) having a notional principal amount in the aggregate less than or equal to the aggregate principal amount of hedged Plant Senior Debt (if necessary, as the same may be reasonably estimated by the Company and confirmed by a Senior Debt Majority).

Interest Hedging Counterparty means a Person that is a counterparty to any Interest Hedging Arrangement.

IP Sublicense means the Patent License Agreement, dated as of January 30, 2006, among Poseidon Resources IP LLC, as licensor, and Poseidon Resources, LLC, Poseidon Resources (Channelside) LP and Poseidon Resources (Surfside) LLC, as licensees.

Issuer means the California Pollution Control Financing Authority created pursuant to, and as defined in, the Act.

Lien means, with respect to any Property, (a) any mortgage, deed of trust, lien (statutory or otherwise), pledge, hypothecation, encumbrance, collateral assignment, charge or security interest in, on or of such Property, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such Property and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

Limited Partner means Poseidon Resources Channelside Holdings LLC, a Delaware limited liability company and any subsequent or additional limited partners of the Company.

Plant Loan Agreement means the Plant Loan Agreement by and between the Issuer and the Company, as from time to time amended and supplemented including for the purpose of evidencing a loan of the proceeds of Additional Plant Bonds.

Loan Default Event has the meaning specified in the section captioned “LOAN DEFAULT EVENTS AND REMEDIES – Loan Default Events”.

Loan Repayments or **Plant Loan Repayments** means the payments so designated and required to be made by the Company pursuant to the Plant Loan Agreement, as further described in the section captioned “REPAYMENT OF LOANS; ADDITIONAL PAYMENTS – Deposit of Revenues Repayment of Loans”.

Local Governmental Obligation means a bond, note or other evidence of indebtedness issued by the State or any agency or political subdivision of the State or any local agency, which is described by Sections 103 and 141-150 of the Code.

Management Services Agreement means the Management Services Agreement, dated as of December 20, 2012, among the Company, the General Partner and Poseidon Water LLC.

Material Adverse Effect means any event or occurrence of whatever nature which has resulted or would reasonably be expected to result in a material adverse change in (a) the business, operations or financial condition of the Company, (b) the ownership, use or operation of the Plant (c) the ability of the Company to perform its obligations under the Financing Documents or the Principal Project Contracts or (d) the validity or enforceability of the Financing Documents, Principal Project Contracts or the IP Sublicense or the remedies of the holders of Plant Senior Debt or the Collateral Agent under the Financing Documents. For purposes of this definition, an act, event or condition is deemed to have a material adverse effect if it delays the Commercial Operation Date by delaying critical tasks on the critical path schedule. For purposes of giving notice pursuant to subsection (g) of the section captioned “PARTICULAR COVENANTS – General Affirmative Covenants”, “Material Adverse Effect” will not include any adverse change, event, development, or effect arising from or relating to (i) general business or economic conditions, (ii) national or international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack upon the United States, or any of its territories, possessions, or diplomatic or consular offices or upon any military installation, equipment or personnel of the United States, (iii) financial, banking or securities markets (including any disruption thereof and any decline in the price of any security or any market index), or (iv) changes in GAAP, except, in each case, to the extent that any such event or occurrence has had or

would reasonably be expected to have a materially disproportionate impact on the business, financial condition or results of operations of the Company relative to other industry participants.

Moody's means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Moody's shall be deemed to refer to any other nationally recognized securities rating agency designated by the Company, with notice to the Collateral Agent and the Secured Parties.

MUFG Union Bank means (a) MUFG Union Bank, N.A., in its individual capacity and not as the Collateral Agent, the Plant Trustee or the Pipeline Trustee or (b) any institution acting as a successor Collateral Agent or a successor trustee, in such institution's individual capacity.

Multiemployer Plan means a "multiemployer plan" as defined in Section 3(37) or 4001(a)(3) of ERISA to which the Company or one of its ERISA Affiliates has an obligation to contribute.

Net Capital Proceeds means, with respect to any item of Capital Proceeds, such Capital Proceeds (a) net of any Collection Expenses related to such Capital Proceeds, or (b) if such Capital Proceeds are proceeds of Additional Plant Senior Debt issued to fund a Capital Project, the proceeds of Additional Plant Senior Debt issued to fund a Capital Project, net of costs incurred by the Company in the issuance thereof.

Net Cash Flow means for any Calculation Period, computed without duplication, (a) Revenues received by the Company for the Calculation Period, minus (b) O&M Costs payable for such Calculation Period (except to the extent paid from an Account in the Working Capital Reserve Fund or the Special Maintenance Reserve Fund or the Distribution and Stabilization Fund) and the amount of Fiduciary Fees payable for such period.

O&M Agreement means the Facility Operation, Maintenance, Repair and Replacement Agreement between the Company and the Operator.

O&M Costs means, without duplication, all actual cash maintenance and operation costs for the Plant paid or reimbursed by the Company in any calendar or fiscal year or period to which said term is applicable, and all payments made by the Company:

- (a) under any Permit or Project Contract, excluding Contracted Shortfall Payments and Annual Adjusted Supply Commitment True Up Payments;
- (b) for energy, additives or chemicals and transportation costs related thereto;
- (c) for the costs of obtaining any other materials, supplies, utilities, or services for the Plant;
- (d) for employee salaries, wages, and other employee-related costs;
- (e) for fees, expenses and other amounts paid by the Company for accounting, business, tax and financial management, and administrative services;
- (f) for capital maintenance expenditures (other than in connection with Capital Projects to the extent funded from the Plant Restoration Fund);
- (g) for Taxes (other than those based upon the Company's income), and any payments in lieu of taxes;
- (h) for insurance, consumables, spare parts, equipment, material, repair and maintenance services;
- (i) in the form of lease, easement, license and similar payments;

(j) for fees, expenses, indemnity payments and other amounts (including reimbursement amounts) payable to the provider of any surety bond, letter of credit (except a Plant Letter of Credit) or similar instrument provided to a counterparty to a Project Contract or issuer of a Permit as security for the performance of the Company's obligations thereunder, and any cash collateral required to be provided in connection therewith and security deposits made to applicable counterparties to the Project Contracts (to the extent not paid out of any Account designated as a reserve for such payments under the Collateral Trust Agreement);

(k) under any parts or services agreement;

(l) for legal fees and consulting fees and expenses paid by the Company in connection with the financing, management, maintenance or operation of the Plant;

(m) for fees and other costs paid in connection with obtaining, transferring, maintaining or amending any Permits (including the costs of any required wetlands mitigation or acquisition of RECs and VERs, unless paid out of the REC/VER Reserve Fund or the Wetlands Mitigation Reserve Fund) but excluding any Permits required to be obtained in connection with a Permanent Pump Shutdown;

(n) for amounts paid to the Operator;

(o) for reasonable general and administrative expenses, including all expenses incurred to prevent the occurrence of any default under any Transaction Document and/or to keep the Collateral free and clear of all Liens (other than Permitted Encumbrances) and for all other fees and expenses necessary for the continued operation and maintenance of the Plant and the conduct of business of the Plant;

(p) for fees and expenses of the Issuer; and

(q) for other amounts to the extent specified in the then effective Operating Budget for the Plant.

Notwithstanding anything to the contrary herein, O&M Costs shall not include (i) Restricted Payments, (ii) non-cash charges, including depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, (iii) Project Costs, (iv) payments for Capital Projects from the Plant Restoration Fund, (v) payments in respect of Debt of the Company (other than Debt of the type referred to in clause (h) of the definition thereof and referred to in clause (j) of this definition and clauses (iii), (iv) or (vi) of the definition of Permitted Debt), or (vi) any income taxes of the Company.

Operating Budget has the meaning specified in the section captioned "PARTICULAR COVENANTS – Budgets – Review and Adjustment of Operation Budgets".

Operating Fund means the fund of such name established pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Operator means IDE Americas, Inc.

Organizational Documents means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

Outstanding in connection with the Plant Bonds means, as of the time in question, all Plant Bonds authenticated and delivered under the Plant Indenture, except:

(A) Plant Bonds theretofore canceled or required to be canceled under the section captioned “THE PLANT BONDS – Cancellation of Surrendered Plant Bonds” under “SUMMARY OF CERTAIN PROVISIONS OF THE PLANT INDENTURE” or described in the section captioned “ACCOUNTS; APPLICATION OF PROCEEDS – Non-Presentation of Plant Bonds” under “SUMMARY OF CERTAIN PROVISIONS OF THE PLANT INDENTURE”;

(B) Plant Bonds which are deemed to have been paid in accordance with the section captioned “DEFEASANCE” under “SUMMARY OF CERTAIN PROVISIONS OF THE PLANT INDENTURE”;

(C) Plant Bonds (including Plant Bonds which are deemed to have been purchased pursuant to the section captioned “TENDER AND PURCHASE OF PLANT BONDS; REMARKETING; REMARKETING AGENT – Irrevocable Notice Deemed to be Tender of Plant Bond; Undelivered Plant Bonds” under “SUMMARY OF CERTAIN PROVISIONS OF THE PLANT INDENTURE”) in substitution for which other Plant Bonds have been authenticated and delivered pursuant to the section captioned “THE PLANT BONDS” under “SUMMARY OF CERTAIN PROVISIONS OF THE PLANT INDENTURE”; and

(D) Plant Bonds paid pursuant to the section captioned “THE PLANT BONDS – Mutilated, Destroyed, Lost or Stolen Plant Bonds” under “SUMMARY OF CERTAIN PROVISIONS OF THE PLANT INDENTURE”.

In determining whether the Owners of a requisite aggregate principal amount of Outstanding Plant Bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of the Plant Indenture, Plant Bonds that are owned of record by the Company or any Affiliate thereof or held by the Plant Trustee for the account of the Company shall be disregarded and deemed not to be Outstanding under the Plant Indenture for the purpose of any such determination (except that, in determining whether the Plant Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Plant Bonds which the Plant Trustee knows to be so owned or held shall be disregarded) unless all Plant Bonds are owned by the Company or any Affiliate thereof and/or held by the Plant Trustee for the account of the Company, in which case such Plant Bonds shall be considered Outstanding for the purpose of such determination.

Outstanding in connection with the Pipeline Bonds means, as of the time in question, all Pipeline Bonds authenticated and delivered under the Pipeline Indenture, except:

(A) Pipeline Bonds theretofore canceled or required to be canceled under the Pipeline Indenture;

(B) Pipeline Bonds which are deemed to have been paid in accordance with the defeasance provisions of the Pipeline Indenture; and

(C) Pipeline Bonds in substitution for which other Pipeline Bonds have been authenticated and delivered pursuant to the Pipeline Indenture.

In determining whether the Owners of a requisite aggregate principal amount of Outstanding Pipeline Bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of the Pipeline Indenture, Pipeline Bonds that are owned of record by the Water Authority or any Affiliate thereof or held by the Pipeline Trustee for the account of the Water Authority shall be disregarded and deemed not to be Outstanding under the Pipeline Indenture for the purpose of any such determination (except that, in determining whether the Pipeline Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Pipeline Bonds which the Pipeline Trustee knows to be so owned or held shall be disregarded) unless all Pipeline Bonds are owned by the Water Authority or any Affiliate thereof and/or held by the Pipeline Trustee for the account of the Water Authority, in which case such Pipeline Bonds shall be considered Outstanding for the purpose of such determination.

Outstanding Plant Debt means the aggregate principal amount of the Outstanding Plant Bonds and Outstanding Additional Plant Senior Debt that is not Plant Bonds.

Outstanding Senior Debt means total of the Outstanding Plant Debt plus the Outstanding Pipeline Bonds.

Owner means Registered Owner.

Participating Affiliate means, with respect to the Company, each Person (i) that directly or indirectly, through one or more intermediaries or other Persons, controls, or is controlled by, or is under common control with, the Company, and (ii) that is itself, or with its affiliates described in clause (i), a “participating party” within the meaning of the Act. For purposes of this definition a “Person” who is an individual includes the spouse, children or parents of such Person (collectively, “relatives”), and includes any trust of which such Person or his or her relatives is the trustee or a beneficiary. For the purpose of this definition, the “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of a majority of voting securities or membership interests, as trustee, by contract or otherwise.

Partners means the General Partner and the Limited Partner.

Paying Agent means the Plant Trustee.

Payment Office means the corporate trust office of the Plant Trustee where payment of principal, premium, if any, and interest on the Plant Bonds is made, as designated by the Plant Trustee from time to time. The initial Payment Office shall be the office of the Plant Trustee in Los Angeles, California.

PBGC means the Pension Benefit Guaranty Corporation.

Pension Plan means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by Company, or any ERISA Affiliate or to which Company or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

Performance Guarantee Payments means the payments, if any, payable by the Plant EPC Contractor under the Plant EPC Contract.

Permanent Pump Shutdown has the meaning given to it in the Ground Lease.

Permits means any and all franchises, licenses, leases, permits, approvals, notifications, certifications, registrations, authorizations, exemptions, qualifications, easements, rights of way, Liens and other rights, privileges and approvals required to be granted or entered into by, or filed or made with, any Governmental Authority under Applicable Law.

Permitted Debt means (i) Debt under the Financing Documents, the Project Contracts and the Permits, (ii) Additional Plant Senior Debt, (iii) trade payables, (iv) purchase money indebtedness or Capital Lease Obligations incurred to finance discrete items of equipment with a principal amount or capitalized portion not exceeding \$5,000,000 (Escalated) in the aggregate (in each case not exceeding the purchase price plus reasonable expenses), (v) Debt subordinate to the Senior Debt on terms set forth in the Financing Documents and payable solely out of funds disbursed to the Company from the Distribution and Stabilization Account in accordance with the Collateral Trust Agreement, and (vi) obligations in respect of surety bonds, letters of credit, cash security deposits or similar instruments which the Company is required to deliver to other Persons under any Project Contract or Permit.

Permitted Encumbrances means

(1) undetermined Liens and charges incident to construction or maintenance, and Liens and charges incident to construction or maintenance now or hereafter filed of record which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), provided that the Company shall have delivered a surety bond therefor to the Collateral Agent in form and substance acceptable to a Senior Debt Majority;

(2) notices of lis pendens or other notices of or Liens with respect to pending actions which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), provided that the Company shall have set aside reserves with respect thereto in accordance with GAAP;

(3) the Lien of taxes, assessments, or other governmental charges which are not delinquent, or if delinquent are payable without penalty or are being contested in good faith; provided that the Company shall have set aside reserves with respect to any taxes, assessments or other governmental charges which are being contested which, in the opinion of its governing board, are adequate;

(4) minor defects and irregularities in the title to the Plant which in the aggregate do not materially adversely affect the value or operation of the Plant for the purposes for which it is or may reasonably be expected to be used;

(5) easements, exceptions or reservations for the purpose of ingress and egress, parking, pipelines, telephone lines, telegraph lines, power lines and substations, roads, streets, alleys, highways, railroad purposes, drainage and sewerage purposes, dikes, canals, laterals, ditches, the removal of oil, gas, coal or other minerals, and other like purposes, or for the joint or common use of real property, facilities and equipment, which in the aggregate do not materially interfere with or impair the operation of the Plant;

(6) rights reserved to or vested in any municipality or governmental or other public authority to control or regulate or use in any manner any portion of the Plant which do not materially impair the operation of the Plant for the purposes for which they are or may reasonably be expected to be used;

(7) present or future valid zoning laws and ordinances;

(8) the rights of the Issuer, the Company, the Collateral Agent and the Secured Parties under the Financing Documents and the Lien and charge of the Plant Indenture and the Collateral Documents;

(9) Liens securing indebtedness for the payment, redemption or satisfaction of which money (or evidences of indebtedness) in the necessary amount shall have been deposited in trust with a trustee or other holder of such indebtedness;

(10) purchase money security interests and security interests existing on any personal property prior to the time of its acquisition by the Company through purchase, merger, consolidation or otherwise, whether or not assumed by the Company, or placed upon property being acquired by the Company to secure a portion of the purchase price thereof, or lessor's interests in leases required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP;

(11) statutory Liens (including mechanics Liens) arising in the ordinary course of business, or during the construction of the Plant or any Capital Project, which are (i) not delinquent, (ii) being contested in good faith by the Company or (iii) subject in full to surety bonds, performance bonds or similar arrangements with third party sureties or indemnitors or similar Persons or are fully insured by the Title Insurance Policy issued by Fidelity National Title Company on the Series 2012 Closing Date;

(12) the lease or license of the use of a part of the Plant for use in performing professional or other services necessary for the development, construction, operation and maintenance of the Plant in accordance with customary business practices in the industry;

(13) Liens of the Plant EPC Contractor in respect of the Contractor Security Account and the rights of the counterparties to the Project Contracts under the terms thereof;

(14) any exceptions to title existing as of the date of issuance of the Series 2012 Plant Bonds listed in the Title Insurance Policy issued by Fidelity National Title Company on the Series 2012 Closing Date (including on Part II of Schedule B);

(15) ordinary course Liens, or those arising during the construction of the Plant or any Capital Project, in connection with worker's compensation and unemployment insurance or other social security or pension obligations;

(16) Liens associated with trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business, or during the construction of the Plant or any Capital Project, so long as such trade accounts are payable within 90 days of the date the related goods are delivered or the related services are rendered;

(17) Liens on accounts or deposits containing cash or other Property dedicated to providing security for surety bonds, letters of credit or similar instruments which the Company is required to deliver to other Persons under any Project Contract or Permit; other deposits or pledges to secure statutory obligations or appeals; releases of attachments, stays of execution or injunctions; performance bids, tenders, contracts (other than for the repayment of borrowed money) or leases; or for purposes of like general nature in the ordinary course of business, or during the construction of the Plant or any Capital Project;

(18) judgment Liens if an appeal thereof is being prosecuted and for which reserves required in accordance with GAAP have been provided;

(19) Liens granted (i) under the Subordinated Deed of Trust and Subordinated Security Agreement made by the Company in favor of the City of Carlsbad pursuant to the Development Agreement and any other rights granted to the City of Carlsbad under the Development Agreement which constitute Liens; and (ii) in favor of the Plant EPC Contractor in the Contractor Security Account, any funds therein and proceeds thereof;

(20) rights granted to the Ground Lessor under the Ground Lease that constitute Liens;

(21) any Liens granted to the Ground Lessor's lenders to the extent such lenders provide the Company with non-disturbance rights in accordance with the Ground Lease and any Liens granted by the Ground Lessor that are subordinate to the Ground Lease;

(22) any involuntary Liens not described in clauses (1) through (21) above of less than \$100,000 (Escalated) in the aggregate; and

(23) any other Liens not described in clauses (1) through (22) above on assets which have a fair market value of less than \$500,000 (Escalated) in the aggregate.

Person means any natural person, corporation, trust, business trust, joint venture, joint stock company, association, company, limited liability company, partnership, Governmental Authority or other entity.

Pipeline means, collectively, the pipelines, pumps, connectors and related equipment and structures required to deliver product water from the outlet flange of the product water pump station at the Plant Site to Water Authority's aqueduct.

Pipeline Bond Related Payments means, for any month, one-twelfth of the applicable "Annual Pipeline Bond Costs" set forth in Table 1.3 of Appendix 10 to the Water Agreement for the applicable Budget Year.

Pipeline Bonds means the Series 2019 Pipeline Bonds and any additional bonds issued under the Pipeline Indenture.

Pipeline DBA means the Design-Build Agreement for the Product Water Pipeline Improvements Relating to the Carlsbad Seawater Desalination Project, dated December 20, 2012, between the Water Authority and the Company.

Pipeline EPC Contract means the Product Water Delivery System Engineering, Procurement and Construction Services Agreement between the Company and the Pipeline EPC Contractor.

Pipeline EPC Contractor means Kiewit Shea Desalination, a joint venture of Kiewit Infrastructure West Co. and J.F. Shea Construction, Inc.

Pipeline Indenture means the Trust Indenture by and between the California Pollution Control Financing Authority and MUFG Union Bank, N.A.

Pipeline Interest Payment Factor means, for any Budget Year or any month in a Budget Year, a fraction the numerator of which is the aggregate of the applicable amounts of “Pipeline Bond Net Interest” set forth in Table 1.3 of Appendix 10 to the Water Purchase Agreement for the applicable Budget Year and the denominator of which is the Pipeline Bond Related Payments for such Budget Year.

Pipeline Principal Payment Factor means, for any Budget Year or any month in a Budget Year, a fraction the numerator of which is of the applicable amount of “Pipeline Bond Principal” set forth in Table 1.3 of Appendix 10 to the Water Purchase Agreement for such Budget Year and the denominator of which is the Pipeline Bond Related Payments for such month.

Pipeline Trustee means MUFG Union Bank, N.A., in its capacity as trustee under the Pipeline Indenture.

Plant means the reverse osmosis seawater desalination facility together with related pumps, pipelines, connectors and other equipment and structures to be constructed, operated and maintained on the Company Real Property in Carlsbad, California pursuant to the Plant EPC Contract, and all ancillary facilities, equipment and infrastructure in connection therewith.

Plant Bond Fund means the fund created by the Plant Indenture.

Plant Bonds means the Series 2012 Plant Bonds and any Additional Plant Bonds.

Plant EPC Contract means the Desalination Facility Engineering, Procurement and Construction Services Agreement between the Company and the Plant EPC Contractor.

Plant EPC Contractor means between Kiewit Infrastructure West Co. and J.F. Shea Construction, Inc.

Plant Indenture means the Trust Indenture between the Issuer and the Plant Trustee pursuant to which the Series 2012 Plant Bonds were issued, including any indentures supplemental to the Plant Indenture or amendatory of the Plant Indenture.

Plant Letter of Credit means any letter of credit securing obligations of the Company that is issued under a letter of credit and reimbursement facility described in the Collateral Trust Agreement, including the WPA Letter of Credit if issued under such facility.

Plant Restoration Fund means the fund of such name established pursuant to the Collateral Trust Agreement.

Plant Senior Debt means the Plant Bonds, any Additional Plant Senior Debt that is not Plant Bonds and the Company’s obligations to make Contracted Shortfall Payments.

Plant Site means the real property subject to the Ground Lease and all easements and rights or interests in real property granted to the Company pursuant to the Ground Lease.

Plant Trustee means MUFG Union Bank, N.A., in its capacity as trustee under the Plant Indenture.

Pledge Agreements means (a) the Pledge and Security Agreement, dated as of the Closing Date, as amended, between the General Partner, the Company and the Collateral Agent and (b) the Pledge and Security Agreement, dated as of the Closing Date, as amended, between the Limited Partner, the Company and the Collateral Agent.

Poseidon Pipeline Costs means costs relating to the development, design, engineering, permitting, construction, financing, installation, equipping, assembly, inspection, start-up and testing of the Pipeline incurred by or on behalf of the Company in performing its obligations under the Pipeline DBA (other than amounts payable under the Pipeline Indenture).

Poseidon Project Account means the account of such name established pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Pretreatment Warranty is defined in the Process Services Agreement.

Principal Office means, with respect to the Plant Trustee or the Pipeline Trustee, the corporate trust office of Union Bank located in Los Angeles, California, which office at the time of the issuance of the Series 2012 Plant Bonds and the Pipeline Bonds was located at the address specified in the Plant Indenture and the Pipeline Indenture, or any other corporate trust office of the Plant Trustee or the Pipeline Trustee identified in a notice sent in accordance with the Plant Indenture or the Pipeline Indenture, as applicable.

Principal Project Contracts means the O&M Agreement, the Water Purchase Agreement, the Pipeline DBA, the EPC Contracts (prior to the Commercial Operation Date), the Ground Lease, the Management Services Agreement, the Process Services Agreement, the IDE Guarantees, the EPC Guarantee, the State Lands Commission Lease, the SDG&E Contracts, the Development Agreement and any Additional Project Contracts.

Process Services Agreement means the Process Services Agreement dated December 20, 2012 between the EPC Contractor and IDE Americas.

Product Water has the meaning given to it in the Water Purchase Agreement.

Project means the Plant and the Pipeline, together.

Project Construction Budget means a budget prepared by the Company and delivered to the Independent Engineer on the Closing Date identifying all (a) Project Costs anticipated to be incurred through the Completion Date, including all construction and non-construction costs, working capital costs, interest, taxes and other carrying costs, and such other information as the Independent Engineer may require, together with a statement of then-anticipated uses of proceeds of the Project Fund and any other moneys necessary to complete the Plant and (b) all anticipated Poseidon Pipeline Costs.

Project Completion is defined in the section captioned “THE PROJECT – Establishment of Completion Date; Obligation of Company to Complete”.

Project Contracts means the Principal Project Contracts and any other contracts or agreements relating to the development or construction of the Pipeline or the development, construction, operation or use of the Plant to which the Company is a party, excluding the Financing Documents.

Project Costs means, without duplication, costs and expenses incurred by the Company on or prior to the Completion Date in connection with the development, design, engineering, permitting, construction, financing, management, installation, equipping, assembly, inspection, start-up, testing and initial operations of the Plant and leasing and preparation of the Plant Site and the other Company Real Property, together with an adequate contingency, which costs and expenses shall include: (a) all amounts payable under the Plant EPC Contract and the other Project Contracts (other than the Pipeline EPC Contract) relating to any of the foregoing activities, any state sales taxes on equipment or other goods or services, amounts payable for chemicals, supplies, power and other utilities and services relating to construction, start-up and testing, and all project development expenses and fees incurred by the Company or any of its Affiliates constituting Closing Date Project Payments; (b) interest incurred on or in respect of the loan made to the Company pursuant to the Plant Loan Agreement and any other amounts required to be paid by the Company under the Financing Documents, including Fiduciary Fees and Issuer’s fees and expenses; (c) Bond Insurer Payments and payments contemplated by the Bond Insurance Policy, and the fees and expenses and other reimbursement of the Issuer, the Plant Trustee, the Collateral Agent and any other agent or

trustee party to the Financing Documents; (d) legal, accounting, consulting, financial advisory and other transaction fees and expenses incurred by the Company and its Affiliates prior to the Commercial Operation Date; (e) O&M Costs due and payable on or prior to the Commercial Operation Date; (f) the costs of obtaining surety bonds, letters of credit or other security required to be delivered under a Project Contract or Permit on or prior to the Commercial Operation Date (including any cash collateral required to be provided in connection therewith and security deposits made to applicable counterparties to the Project Contracts) and (g) all amounts payable to SDG&E under the SDG&E Contract. For the avoidance of doubt, Project Costs shall not include (i) Restricted Payments, (ii) non-cash charges, including depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, (iii) payments for restoration or repair of the Plant, or for any Capital Project, from the Plant Restoration Fund in accordance with the terms of the Collateral Trust Agreement, (iv) any income taxes of the Company and (v) other amounts which are not provided for in the Project Construction Budget, including in the contingency line-item therein, as amended from time to time in accordance with the Financing Documents.

Project Fund means the fund of such name established pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Project Reserve Account means the Account of such name established in the Working Capital Reserve Account pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Property means any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible. For the avoidance of doubt, for purposes of the Financing Documents, Property includes all Renewable Energy Certificates and Verified Emissions Reductions notwithstanding any provision of Applicable Law.

Rating Agency means each of the following: (a) Moody's; (b) S&P; (c) Fitch Ratings; and (d) if none of the foregoing is providing rating services, any nationally recognized rating agency designated in writing by the Company and acceptable to a Senior Debt Majority.

Rating Category means any of the principal rating categories assigned to investment securities or credit facilities by any Rating Agency, without regard to any gradation or distinction within any Rating Category (such as may be identified by numerical symbols or the symbols "+" or "-").

Rebate Fund means the Fund of that name created pursuant to the Plant Indenture.

REC/VER Reserve Fund means the fund of such name established pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Register means the books for the registration and the transfer of the Bonds kept by the Plant Trustee pursuant to the Plant Indenture.

Registered Owner means the Person or Persons in whose name or names a Plant Bond is registered on the Plant Bond Register or a Pipeline Bond is registered on the Pipeline Bond Register.

Remarketing Agent means any remarketing agent qualified under the Plant Indenture and identified as such in a supplemental indenture.

Reportable Event means any of the events set forth in Section 4043(c) of ERISA or the regulations issued thereunder, other than events for which the thirty (30) day notice period has been waived.

Restricted Payment means all distributions of the Company (in cash, Property of the Company or obligations) on, or other payments or distributions on account of, or the setting apart of money for a sinking or other analogous fund for, or the purchase, redemption, retirement or other acquisition by the Company of, any portion of any Equity Interest in the Company or any other payments to the Partners or their Affiliates except those (a)

permitted under the section captioned “PARTICULAR COVENANTS – Transactions with Affiliates” and (b) the payment to such Persons of Closing Date Project Payments.

Retainage is defined in the Plant EPC Contract.

Retained Rights or **Plant Retained Rights** of the Issuer means (i) the Issuer’s right to obtain notices, reports and opinions and Additional Payments and indemnification; (ii) the Issuer’s right to provide approvals and consents; and (iii) the Issuer’s nonexclusive right to enforce the provisions of the Tax Agreement, provided, that the Issuer shall retain the exclusive right, as the taxpayer pursuant to the Internal Revenue Service Form 8038, which shall be completed by or on behalf of the Issuer in connection with the issuance of the Plant Bonds, to communicate with the Internal Revenue Service in any investigation of the Plant Bonds by the Internal Revenue Service.

Revenue Fund or **Plant Revenue Fund** means the fund of such name established pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Revenues or **Plant Revenues** means, for any period, the sum of the following amounts attributable to that period (without duplication) and received by (or credited to the account of) the Company on a cash basis during such period:

- (a) all revenues under the Water Purchase Agreement and all other revenues from the operation of the Plant;
- (b) all performance damages payable by the Operator;
- (c) investment income on amounts on deposit in the Accounts held by the Plant Trustee or the Collateral Agent;
- (d) proceeds of any insurance policy maintained by the Company pursuant to the Financing Documents, except Net Capital Proceeds;
- (e) any cash security delivered by the Company under a Project Contract and returned to the Company;
- (f) receipts derived from the sale of any property pertaining to the Plant or incidental to the operation of the Plant, except Net Capital Proceeds;
- (g) Counterparty Interest Hedging Payments (but only to the extent that such payments are (x) not taken into account when calculating Debt Service, whether through netting them against Company Interest Hedging Payments or otherwise or (y) are not termination payments used by the Company to replace any Interest Hedging Arrangement with a new Interest Hedging Arrangement);
- (h) any completion bonus or other payment to the Company under the Pipeline DBA that is not payable to the EPC Contractor pursuant to the Pipeline EPC Contract;
- (i) all performance damage payments made by IDE Americas under the O&M Agreement; and
- (j) refunds received from SDG&E pursuant to the SDG&E Contract.

Notwithstanding the foregoing, the following amounts shall be excluded from Revenues: (i) the proceeds of any drawings made under any Reserve Surety, (ii) proceeds from any Additional Plant Senior Debt, (iii) payments to the Company from the Operating Fund or the Working Capital Reserve Fund, (iv) amounts disbursed to the Company from the Distribution and Stabilization Fund, (v) Net Capital Proceeds, (vi) moneys received from the Company representing equity contributions or loans from its Partners, and (vii) Retained Rights.

S&P means Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc., its successors and their assigns, and, if Standard & Poor's Ratings Group shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, S&P shall be deemed to refer to any other nationally recognized securities rating agency designated by the Company, with notice to the Collateral Agent and a Senior Debt Majority.

Scheduled Monthly Pipeline Purchase Payments means, for any calendar month, one-twelfth of the aggregate amounts of "Pipeline Bond Net Interest" and "Pipeline Bond Principal" set forth in Table 1.3 of Appendix 10 to the Water Purchase Agreement for the Budget Year that includes such month.

Scheduled Pipeline Purchase Payments means: (a) for any month, the Scheduled Monthly Pipeline Purchase Payment; (b) for any twelve month year, including any Fiscal Year or Budget Year, the sum of the Scheduled Monthly Pipeline Purchase Payments for the months included in such year; and (c) for any period less than a calendar year but greater than a month, the sum of the Scheduled Monthly Pipeline Purchase Payments for each full calendar month included in such period.

SDG&E means San Diego Gas and Electric Company.

SDG&E Contract mean the Special Conditions Contract dated October 1, 2009, between the Company and SDG&E.

Secured Obligations means, collectively, without duplication: (i) with respect to the holders of Senior Debt, (a) all of the Company's financial liabilities and obligations, of whatsoever nature and however evidenced (including, but not limited to, principal, interest, premium, Contracted Shortfall Payments, fees, reimbursement obligations, penalties, termination payments, settlement amounts, amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Law, indemnities and legal and other expenses, whether due after acceleration, termination or otherwise) to the Secured Parties in their capacity as such under the Financing Documents or any other agreement, document or instrument evidencing, securing or relating to such financial liabilities or obligations, in each case, direct or indirect, primary or secondary, fixed or contingent, now or hereafter arising out of or relating to any such agreements; (b) any and all sums advanced by any of the Secured Parties in order to preserve the Collateral or preserve its security interest in the Collateral; and (c) in the event of any proceeding for the collection or enforcement of the obligations described in clauses (a) and (b) above, after an Event of Default has occurred and is continuing and unwaived, the expenses of retaking, holding, preparing for sale or lease, selling or otherwise disposing of or realizing on the Collateral, or of any exercise by any of the Secured Parties of its rights under the Collateral Documents, together with reasonable attorneys' fees and court costs, (ii) with respect to Union Bank, the Company's obligations to pay any amounts due to the Collateral Agent or the Plant Trustee under the Collateral Trust Agreement or the Plant Indenture, (iii) with respect to the Issuer, the Company's obligation with respect to the Retained Rights, and (iv) with respect to the Plant EPC Contractor, the Company's obligation to make payments to the Plant EPC Contractor from the Contractor Security Account in accordance with the Collateral Trust Agreement.

Secured Parties means the Issuer, the Plant Trustee (for the benefit of the registered owners of the Plant Bonds), the Pipeline Trustee (for the benefit of the registered owners of the Pipeline Bonds), the Bond Insurer, in respect of Insured Bonds, the Plant EPC Contractor in respect of the Contractor Security Account and the Additional Plant Lenders; provided that, notwithstanding anything to the contrary in the Collateral Trust Agreement or any other Financing Document, MUFJ Union Bank, in its individual capacity, is a Secured Party solely for purpose of having a security interest in the Collateral with respect to amounts payable by the Company to the Collateral Agent or the Plant Trustee under the Collateral Trust Agreement or the Plant Indenture, the Issuer is a Secured Party solely for the purpose of having a security interest in the Retained Rights and the Plant EPC Contractor is a Secured Party solely for the purpose of having a security interest in the Contractor Security Account, and none of the Bank, the Issuer or the Plant EPC Contractor will have any rights of a Secured Party with respect to giving approvals and consents, receiving notices or anything else except to the extent that any such rights relate to the payments due to the Collateral Agent or the Plant Trustee, Retained Rights or the disposition of amounts held in the Contractor Security Account.

Securities Act means the Securities Act of 1933, as amended.

Security Agreement means the Security Agreement between the Company and the Collateral Agent.

Senior Debt means the Plant Bonds, the Contracted Shortfall Payments and any Additional Plant Senior Debt that is not Plant Bonds.

Senior Debt Majority has the meaning set forth in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Separate Project Modification has the meaning set forth in subsection (j) of the section captioned “PARTICULAR COVENANTS – General Negative Covenants”.

Series means all Plant Bonds of a designated series.

Series 2012 Closing Date means the date of the issuance of the Series 2012 Plant Bonds.

Series 2019 Pipeline Bonds means the Issuer’s Water Furnishing Revenue Refunding Bonds (San Diego County Water Authority Desalination Project Pipeline), Series 2019, authorized and issued under the Pipeline Indenture.

Series 2012 Plant Bonds means the Issuer’s Water Furnishing Revenue Bonds, (Poseidon Resources (Channelside) LP Desalination Project) Series 2012 authorized and issued under the Plant Indenture.

Special Maintenance Reserve Fund means the fund of that name to be established by the Collateral Agent pursuant to the Collateral Trust Agreement if a 10-Year Coverage Shortfall occurs. (See Appendix E to this Limited Offering Memorandum.)

Special Maintenance Reserve Fund Release Date is defined in the Collateral Trust Agreement if a 10-Year Coverage Shortfall occurs. (See Appendix E to this Limited Offering Memorandum.)

State means the State of California.

State Lands Commissions Lease means the Lease PRC 8727.1, executed by Cabrillo and the State of California State Lands Commission (the “Commission”) on May 31, 2007 and August 14, 2007, respectively, together with the State Lands Commission Lease Amendment.

State Lands Commission Lease Amendment means the Amendment of Lease PRC 8727.1, effective as of August 22, 2008, among the Commission, Cabrillo and the Company.

Tax Agreement means any tax certificate and agreement, entered in connection with the issuance of any Plant Bonds of a Tax-Exempt Series or in connection with a conversion of a Taxable Rate Plant Bond to a Tax-Exempt Plant Bond, between the Issuer and the Company, as the same may be amended or supplemented in accordance with its terms.

Tax Exempt means, with respect to interest on any obligations of a state or local government, including any Tax Exempt Series, that such interest is excluded from gross income of the Owners or Beneficial Owners thereof for federal income tax purposes (other than in the case of an Owner or Beneficial Owner of any Plant Bonds who is a substantial user of the Project or a related person within the meaning of Section 147(a) of the Code) whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax or environmental tax, under the Code.

Tax Rate means the interest rate or rates applicable to Plant Bonds of a Taxable Series during any Taxable Rate Period or Taxable Rate Segment, established pursuant to the supplemental indenture authorizing such Plant Bonds.

Taxable Rate Period means any period during which the Plant Bonds of a Taxable Series bear interest at one or more Taxable Rates.

Taxable Rate Segment means any period within a Taxable Rate Period during which the Plant Bonds of a Taxable Series (or any part thereof) bear interest at a Taxable Rate established at the commencement of such Taxable Rate Segment and continuing until such Taxable Rate is re-set at the commencement of the next Taxable Rate Segment, all as provided in the supplement indenture authorizing such Plant Bonds.

Taxes means any and all present or future taxes, levies, imposts, duties, deductions, charges, liabilities or withholdings imposed by any Governmental Authority (including any ad valorem, sales, use or property taxes) and any and all interest and penalties related thereto.

Transaction Documents means, collectively, the Financing Documents and the Project Contracts.

Trust Indenture Act means the Trust Indenture Act of 1939, as amended.

UCC means the Uniform Commercial Code as the same may, from time to time, be in effect in the State; provided, however, in the event that, by reason of mandatory provisions of law, any or all of the perfection or priority of the security interest in any Collateral (including the Account Collateral) is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State, the term "UCC" means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions of the Collateral Trust Agreement relating to such perfection or priority and for purposes of definitions related to such provisions.

Water Authority means the San Diego County Water Authority.

Water Purchase Agreement means the Water Purchase Agreement, dated as of December 20, 2012, as amended, between the Company and the Water Authority.

Wetlands Mitigation Reserve Fund means the fund of such name established pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Wetlands Mitigation Reserve Requirement means the aggregate costs reasonably expected to be incurred by the Company after the Commercial Operation Date in completing the wetlands restoration work which the Company is required to complete in accordance with the terms of the State Lands Commission Lease (taking into account funds available to pay such costs upon the partial release of security the Company is required to provide to the State Lands Commission in respect of such wetlands mitigation obligations), as set forth in a certificate signed by an Authorized Officer of the Company, and concurred in by the Independent Engineer, delivered to the Collateral Agent on or before the Commercial Operation Date.

Working Capital Reserve Fund means the fund of such name established pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Working Capital Reserve Requirement means an amount equal to one-twelfth of the Company's projected O&M Costs to be incurred during (a) as such term is used in respect of the Commercial Operation Date, the first twelve months of operations following the Commercial Operation Date, as set forth in the Operating Budget for such period; and (b) as such term is used in respect of any Budget Year commencing on the first July 1 after the Commercial Operation Date, such Budget Year, as set forth in the Operating Budget for such Budget Year.

WPA Letter of Credit means the letter of credit that the Company is required to deliver to the Water Authority under the Water Purchase Agreement.

10-Year Coverage Shortfall is defined in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

REPRESENTATIONS AND WARRANTIES OF THE COMPANY; FINDINGS OF THE ISSUER

Representations and Warranties of the Company

The Company represents and warrants to the Issuer and the Plant Trustee that, as of the date of execution of the Plant Loan Agreement, the date of execution of the Collateral Trust Agreement and the Series 2012 Closing Date (such representations and warranties to remain operative and in full force and effect regardless of the issuance of the Series 2012 Plant Bonds or any investigations by or on behalf of the Issuer or the results thereof):

(a) The Company (i) is a limited partnership duly organized in the State of Delaware and is registered as a foreign corporation in the State of California and is in good standing under the laws of each such jurisdiction; (ii) has full limited partnership power and authority to enter into the Transaction Documents to which it is party, and to carry out and consummate all transactions contemplated by the Transaction Documents; and (iii) by proper limited partnership action has duly authorized the execution, delivery and performance of such Transaction Documents.

(b) The officers of the General Partner executing the Plant Loan Agreement and the other Transaction Documents to which the Company is party are, as of the date of such execution and as of the Series 2012 Closing Date, duly and properly in office and fully authorized to execute the same.

(c) The Transaction Documents to which it is party have been duly authorized by the Company, and duly executed and delivered by the General Partner on behalf of the Company.

(d) The Plant Loan Agreement, when assigned to the Plant Trustee pursuant to the Plant Indenture, will constitute the legal, valid and binding agreement of the Company enforceable against the Company by the Plant Trustee in accordance with its terms for the benefit of the holders of the Plant Bonds, to the extent of its interests therein, and any rights of the Issuer and obligations of the Company not so assigned to the Plant Trustee constitute the legal, valid, and binding agreements of the Company enforceable against the Company by the Issuer in accordance with their terms; except in each case as enforcement may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, by the application of equitable principles regardless of whether enforcement is sought in a proceeding at law or in equity and by public policy.

(e) The execution and delivery by the General Partner on behalf of the Company of the Transaction Documents to which the Company is party, the consummation on the part of the Company of the transactions herein and therein contemplated and the compliance by the Company with the terms and conditions of the Plant Loan Agreement and thereof, will not (i) conflict with or constitute a violation or breach of or default under the Organizational Documents of the Company, Applicable Law, or any indenture, mortgage, deed of trust, loan agreement, lease, contract or other agreement or instrument to which the Company is a party or by which it or its properties are otherwise subject or bound, or (ii) result in the creation or imposition of any Lien upon any of the property or assets of the Company (other than Permitted Encumbrances), which conflict, violation, breach, default or Lien would reasonably be expected to have a Material Adverse Effect.

(f) No consent or approval of the Plant Trustee or any holder of any Debt of the Company or any guarantor of indebtedness of or other provider of credit or liquidity to the Company, and no consent, permission, authorization, order or license of, or filing or registration with, any Governmental Authority (except with respect to any state securities or "blue sky" laws, and except for Project-related Permits within the scope of subsection (g)) is required to be obtained by the Company or, in the case of clause (b) below, the Partners, in connection with (a) the execution and delivery by the Company of the Financing Documents to which it is party, the consummation on its part of the transactions herein or therein contemplated, or compliance by the Company with the terms of the Plant Loan Agreement or thereof, (b) the grant by each of the Company and the Partners of the Liens granted by such Person pursuant to the Collateral Documents, or (c) the perfection or maintenance of the perfection or priority of the Liens created under the Collateral Documents, except, in the case of clauses (a), (b) and (c) above, for (i) filings and other recordations and actions necessary to perfect and maintain the perfection and priority of the Liens on the Collateral granted by each of the Company and the Partners in favor of the Collateral Agent, (ii) approvals, consents, exemptions, authorizations, actions, notices and filings which have been duly obtained, taken, given or made and are in full force and effect, and (iii) in the case of clause (a) only, those approvals, consents, exemptions, authorizations,

actions, notices or filings, the failure of which to obtain or make would not reasonably be expected to result in a Material Adverse Effect.

(g) No Permit of any Governmental Authority is required by Applicable Law to be obtained by the Company in connection with the execution and delivery by the Company of the Project Contracts, or the performance of its obligations thereunder, or the ability of the Company to own, construct and operate the Plant, or to lease the Plant Site, in accordance with the Project Contracts, in each case, other than (i) such Permits as have been obtained and are in full force and effect, (ii) those Permits which are not required to be in place on or prior to the Series 2012 Closing Date and would not customarily be obtained in connection with the ownership, construction and/or operation of the Project given the stage of construction on or prior to the Series 2012 Closing Date and (iii) those Permits that have been disclosed to the Issuer in writing and the failure of which to obtain would not reasonably be expected to result in a Material Adverse Effect. All certificates, approvals, authorizations and other Permits of applicable local Governmental Authorities of the State of California and the United States federal government which are required by Applicable Law to be obtained by the Company prior to the commencement of the construction of the Plant and the Pipeline have been obtained and are in full force and effect or are expected by the Company to be obtained prior to the time required.

(h) The Plant Costs set forth in the Tax Agreement represent the Company's estimate as of the date thereof, based on the provisions of the Project Contracts executed on or prior to such date and assumptions as to legal and factual matters material to such estimate which as of such date the Company believes to be reasonable and have been determined in accordance with commercially acceptable engineering/construction and accounting principles. The Plant consists of those facilities and equipment described in the Plant Loan Agreement.

(i) There is no action, suit, proceeding, inquiry or investigation, before or by any court or federal, state, municipal or other Governmental Authority, pending, or to the knowledge of the Company, after reasonable investigation, threatened, against or affecting the Company or the assets, properties or operations of the Company, other than (i) those disclosed in the Plant Loan Agreement, (ii) routine or administrative proceedings before any Governmental Authority in connection with any pending application for a Permit (or the renewal or extension thereof, or the satisfaction of any condition subsequent set forth therein) necessary for the construction of the Plant or the Pipeline or the operation of the Plant which could not have a Material Adverse Effect, and (iii) those which would not reasonably be expected to have a Material Adverse Effect. The Company is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other Governmental Authority, which default would reasonably be expected to have a Material Adverse Effect. All tax returns (federal, state and local) required to be filed by or on behalf of the Company have been filed, and all taxes shown thereon to be due and payable, including interest and penalties, except such, if any, as are being contested by the Company in good faith by appropriate legal, administrative or other proceedings diligently conducted, have been paid or adequate reserves have been established with respect thereto in accordance with GAAP. The Company enjoys the peaceful and undisturbed possession of all of the "Leased Premises" as defined in the Ground Lease.

(j) Neither the Limited Offering Memorandum, dated December 21, 2012, nor any written information, exhibit or report furnished after December 14, 2012 to the Issuer or the Plant Trustee by the Company in connection therewith (excluding any financial projections and other financial forecasts and forward-looking information, and any information other than Company Information (as such term is used in the Bond Purchase Agreement relating to the Series 2012 Plant Bonds)), as of their respective dates, contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(k) The Company is, and the Plant, if constructed in accordance with the plans and specifications therefor contained in the Plant EPC Contract will have been constructed and can be operated, in compliance with all Applicable Laws, except for any failure to comply which would not reasonably be expected to result in a Material Adverse Effect. At the Project Completion, the Plant will consist of land, buildings, equipment and facilities described in the Plant Loan Agreement.

(l) None of the Company, the Plant or the Plant Site is the subject of any ongoing investigation by any federal, state or local Governmental Authority evaluating whether any remedial action is needed to respond to any alleged violation of or condition regulated by applicable Environmental Laws or to respond to a release of any

Hazardous Substances into the environment, except for (i) any such investigation in connection with any proceeding disclosed in the Plant Loan Agreement and (ii) any such investigation which would not reasonably be expected to have a Material Adverse Effect.

(m) The Company does not have any material contingent liability in connection with any release of any Hazardous Substances into the environment.

(n) (i) The Company is not in default under or with respect to any material term of any Financing Document to which it is a party, and (ii) no Default or Event of Loss has occurred and is continuing.

(o) The consolidated financial statements of the Company for the years ended December 31, 2010 and 2011 are true, complete and correct in all material respects and fairly present in all material respects the financial condition of Company, as of the dates thereof and its results of operations for the periods covered thereby in accordance with GAAP, consistently applied throughout the periods covered thereby. As of the date of such financial statements, (i) no sale, transfer or other disposition by the Company of any material part of its business or property, (ii) no purchase or other acquisition by the Company of any business or property (including any Equity Interests of any other Person) material in relation to the financial condition of the Company and (iii) no material contingent liabilities, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments, had occurred with respect to or been incurred by the Company, in each case, which is not reflected in the foregoing financial statements or in the notes thereto or has not otherwise been disclosed in the offering document for the Series 2012 Plant Bonds.

(p) The Base Case Financial Projections of the Company for each fiscal year ending after the Series 2012 Closing Date until the final maturity date for the Series 2012 Plant Bonds, and the other financial forecasts and forward-looking information furnished by the Company in the offering document for the Series 2012 Plant Bonds or contained in the Project Construction Budget, have been prepared in good faith on the basis of the assumptions stated therein, which assumptions are believed by the Company to be reasonable as of the Series 2012 Closing Date.

(q) The Company has (A) no Debt, other than Permitted Debt; and (B) no other material obligations or liabilities, direct or contingent, other than the Closing Date Project Payments and those obligations and liabilities incurred under the Transaction Documents to which it is a party.

(r)

(i) The Company owns or leases and (to the extent applicable) has good and valid, and marketable title to its Property and to the Collateral (other than after-acquired Property contemplated by the Collateral Documents) purported to be covered by Liens granted by the Company under the Collateral Documents, in each case free and clear of all Liens, other than Permitted Encumbrances. The Company has valid leasehold interests in, or easements or other limited property interests in, all real property necessary for the conduct of its business as currently conducted or proposed to be conducted in accordance with the Project Contracts, free and clear of all Liens, other than Permitted Encumbrances.

(ii) The provisions of the Collateral Documents are effective to create, in favor of the Collateral Agent, a legal, valid, enforceable and continuing Lien on and security interest in all of the Collateral purported to be covered thereby. Upon the due and proper recordation of the Deed of Trust in the recording offices specified therein, the Liens granted thereunder to the Collateral Agent will constitute valid first priority liens of record on all of the real property Collateral described in the Deed of Trust, subject to no other Liens except Permitted Encumbrances. Upon the due and proper filing of the applicable UCC financing statements and fulfilling other requirements of the UCC, as applicable, contemplated in the Collateral Documents, the Liens granted thereunder to the Collateral Agent will constitute a first priority perfected security interest in (x) all of the personal property Collateral described in the Collateral Documents (other than the Deed of Trust) in which security interests may be perfected by filing under the UCC and (y) the Accounts, in each case subject to no other Liens except Permitted Encumbrances. The provisions of the Collateral Trust Agreement are sufficient to create a first priority, perfected security interest in the Account Collateral subject to the lien of the EPC Contractor in the Contractor Security Account.

(iii) Other than the security interest granted to the Collateral Agent pursuant to the Collateral Documents, and other than as contemplated by the Transaction Documents, the Company has not pledged, assigned, sold, granted a Lien on or security interest in, or otherwise conveyed any of the Collateral subject to Liens granted by the Company under the Collateral Documents, except for Permitted Encumbrances and Liens that have been terminated. The Company has not authorized the filing of and is not aware of any financing statements filed against it that include a description of collateral covering the Collateral subject to the Liens granted by the Company under the Collateral Documents other than any financing statements relating to the security interest granted to the Collateral Agent under the Collateral Documents or the other Financing Documents or that has been terminated. There are no judgment or tax lien filings against the Company.

(iv) Except for escrows and cash collateral arrangements required pursuant to the Project Contracts, no creditor of the Company, other than the Collateral Agent for the benefit of the Secured Parties, has in its possession any property that constitutes or evidences the Collateral subject to Liens granted by the Company under the Collateral Documents.

(v) The Company, or its Participating Affiliates have or will have title to or the right to acquire or use real property for the construction and operation of the Plant sufficient to carry out the purposes of the Plant Loan Agreement.

(s) All insurance required to be obtained by the Company pursuant to subsection (c) of the section captioned "PARTICULAR COVENANTS – General Affirmative Covenants" has been obtained and is in full force and effect, and all premiums due and payable on all such insurance have been paid.

(t) The General Partner has no Subsidiaries other than the Company. The Limited Partner has no Subsidiaries other than the Company and the General Partner. The Partners are the sole partners in the Company and have good and indefeasible title to their respective partnership interests in the Company free and clear of all Liens except those created under the Collateral Documents and other Permitted Encumbrances. The Company has no Subsidiaries.

(u) Neither the Company nor any ERISA Affiliate sponsors or maintains a Pension Plan.

(v) No labor dispute between the Company and any employee or employees of the Company exists that, individually or in the aggregate, would reasonably be expected to result in a Material Adverse Effect.

(w) To the knowledge of the Company, the Company owns, licenses or possesses the right to use, all of the United States and foreign trademarks, service marks, logos, trade names, domain names, copyrights, patents, patent rights, licenses, trade secrets, proprietary information, technology, software, know-how database rights, design rights and other intellectual property rights (collectively, "IP Rights") that are reasonably necessary for the operation of its business as currently conducted, or proposed to be conducted in accordance with the Project Contracts, and, without conflict with the rights of any Person, except to the extent such conflicts, either individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect. To the knowledge of the Company, no IP Rights, advertising, product, process, method, substance, part or other material used by the Company in the operation of its business as currently conducted, or proposed to be conducted in accordance with the Project Contracts, infringes upon any rights held by any Person and no Person infringes upon any rights of the Company except for such infringements, individually or in the aggregate, which would not reasonably be expected to result in a Material Adverse Effect. No claim or litigation regarding any of the IP Rights is pending or, to the knowledge of the Company, threatened against it, which, either individually or in the aggregate, would reasonably be expected to result in a Material Adverse Effect.

(x) Except as described in the Plant Loan Agreement, the Company is not, directly or indirectly, a party to any transaction that is otherwise permitted under the Plant Loan Agreement with or for the benefit of an Affiliate (including guarantees and assumptions of obligations of an Affiliate) upon terms less favorable to the Company than would be obtained in a comparable arm's length transaction with a Person that is not an Affiliate.

(y) Except as described in the Plant Loan Agreement, the Company does not have, nor has it instructed the Plant Trustee or the Collateral Agent to make, any investments except in accordance with the Plant Indenture and the Collateral Trust Agreement.

(z) All utility services necessary for the operation of the Plant, including, as necessary, fuel supply, water supply, storm and sanitary sewer, gas, electric and telephone services and facilities, are, or to the knowledge of the Company will be when needed, available on commercially reasonable terms.

(aa) The Company has not entered into any material contracts or agreements other than the Transaction Documents to which it is party and contracts or agreements that have terminated.

(bb) The Company is not an “investment company”, as defined in, or subject to regulation under, the Investment Company Act of 1940, as amended.

(cc) The Company has not conducted any business other than the business contemplated by the Transaction Documents.

(dd) The chief executive office or chief place of business (as such term is used in Article 9 of the Uniform Commercial Code as in effect in the State of California) of the Company is located at 5780 Fleet Street, Suite 140, Carlsbad, CA 92008.

(ee) All of the Collateral (other than the Accounts, the Equity Interests delivered to the Collateral Agent pursuant to the Pledge Agreement, investment property and general intangibles), including all such Collateral covered by the Deed of Trust, is located on the Company Real Property or at the address set forth in subsection (dd) above.

(ff) The Company and all Persons anticipated by the Company to be an owner or operator of the Plant or a portion thereof are engaged in operations within California that require financing pursuant to the Plant Loan Agreement and the Act to aid and assist in the providing of clean water in the State of California.

(gg) The Plant constitutes a “project” and the Company together with its Participating Affiliates is a “participating party,” as such terms are defined in the Act.

(hh) The Company is a “Small Business” as classified pursuant to Title 13 Code of Federal Regulations, Part 121, Subpart A (1994 Edition) or, together with any affiliates (as such term is used in 4 California Code of Regulations Section 8020(l)) employing no more than 500 employees, and is otherwise eligible for assistance from the Small Business Assistance Fund, as defined in the Act.

(ii) No disbursement to be paid or reimbursed from proceeds of the Series 2012 Plant Bonds shall have been previously paid or reimbursed from the proceeds of any other Local Governmental Obligations, whether issued by the Issuer or any other party.

(jj) No event has occurred and no condition exists which would constitute an Event of Default (as defined in the Plant Indenture) or which, with the passing of time or with the giving of notice or both, would become such an Event of Default.

(kk) No member, officer, or other official of the Water Authority has any financial, ownership or managerial interest in the Company, any affiliate of the Company, or any such interest to which the Company is a party relating to the Plant Loan Agreement, the Plant Indenture or in the transactions contemplated by the Plant Loan Agreement or the Plant Indenture.

Representations of the Issuer

(a) The Issuer is a public instrumentality and political subdivision of the State. Under the provisions of the Act, the Issuer has the power to enter into the transactions contemplated by the Plant Loan Agreement and the

Plant Indenture (the “Issuer Documents”) and to carry out its obligations under the Plant Loan Agreement. By proper action, the Issuer has duly authorized the execution, delivery and the Issuer Documents and the performance of its obligations thereunder.

(b) The representations of the Issuer in the Tax Certificate are true and correct as of the date of the Plant Loan Agreement (subject to the qualifications set forth, and in reliance upon the sources of information described, in the Tax Certificate).

(c) The Issuer will issue the Series 2012 Plant Bonds under, and the Series 2012 Plant Bonds will be secured by, the Plant Indenture, pursuant to which the Issuer’s interest in the Plant Loan Agreement (except certain rights of the Issuer to payment for fees and expenses and its rights to indemnification, inspection, enforcement; and consent and receipt of notices, certificates and opinions) will be pledged to the Plant Trustee as security for payment of the principal of, premium, if any, and interest on the Series 2012 Plant Bonds and then to the Collateral Agent as security for the Senior Debt.

(d) The Issuer has not pledged and will not pledge its interest in the Plant Loan Agreement for any purpose other than as provided in the Plant Indenture.

(e) The Issuer is not in default under any of the provisions of the laws of the State of California, which default would affect its existence or its powers referred to in subsection (a) of this section captioned “Representations of the Issuer”.

Findings of the Issuer

(a) On October 25, 2011, the Issuer gave its preliminary approval for the financing of the Plant. On September 18, 2012, the Issuer further amended this preliminary approval for the financing of the Plant. On November 30, 2012, the Issuer adopted its resolution approving financing of the Plant. On November 8, 2012, a public hearing with respect to the Series 2012 Plant Bonds and the Plant was held in accordance with the provisions of the Code.

(b) (i) The Company is a “participating party” as such term is defined in the Act; (ii) the Plant is a “project” as such term is defined in the Act; (iii) the loan to be made under the Plant Loan Agreement with the proceeds of the Series 2012 Plant Bonds will promote the purposes of the Act by providing funds to finance the acquisition, construction, rehabilitation, renovation, improvement, installation and equipping of the Plant; (iv) said loan is in the public interest, serves the public purposes and meets the requirements of the Act; and (v) the portion of such loan allocable to the Plant Costs does not exceed the total cost thereof as determined by the Company and approved by the Issuer.

(c) No member of the Issuer, or any officer or employee of the Issuer who participated in the making of the Plant Loan Agreement, is financially interested (within the meaning of Government Code Section 1090) in the Company or in the Issuer Documents.

ISSUANCE OF BONDS; LOAN OF PROCEEDS

The Plant Bonds

The Issuer has authorized the issuance of the Series 2012 Plant Bonds pursuant to the Plant Indenture in the aggregate principal amount of \$530,345,000.

Loan of Proceeds

The Issuer lends and advances to the Company, and the Company borrows and accepts from the Issuer a loan in the amount of the aggregate principal amount of the Series 2012 Plant Bonds, the net proceeds of which loan shall be equal to the net proceeds of the sale of the Series 2012 Plant Bonds, to be applied under the terms and conditions of the Plant Loan Agreement, the Plant Indenture and the Collateral Trust Agreement. The Company

agrees to repay to the Issuer the principal amount of the Series 2012 Plant Bonds with interest as provided in the Plant Loan Agreement, and to execute and deliver the Collateral Documents to which it is a party, including the Security Agreement, to secure the Company's obligations under the Plant Loan Agreement and under any Additional Plant Senior Debt, all in accordance in the provisions of the Financing Documents. The Company approves the Plant Indenture, the assignment thereunder to the Plant Trustee of the right, title and interest of the Issuer (with certain exceptions set forth therein) in the Plant Loan Agreement and the issuance by the Issuer of the Series 2012 Plant Bonds pursuant to the Plant Indenture.

REPAYMENT OF LOANS; ADDITIONAL PAYMENTS

Deposit of Revenues; Repayment of Loan

(a) On or before the Business Day prior to each Bond Payment Date (as hereinafter defined), until the principal of, premium, if any, and interest on, and purchase price of, the Series 2012 Plant Bonds (sometimes referred to in the Plant Loan Agreement as the "Plant Bonds") shall have been fully paid or provision for such payment shall have been made as provided in the Plant Indenture, the Company covenants and agrees to pay to the Plant Trustee or cause to be paid pursuant to the Collateral Trust Agreement as a repayment on the loan made to the Company from Plant Bond proceeds pursuant to the section captioned "ISSUANCE OF BONDS; LOAN OF PROCEEDS – Loan of Proceeds", a sum equal to the amount payable on such Bond Payment Date as principal of and premium, if any, and interest on, the Plant Bonds as provided in the Plant Indenture and the Collateral Trust Agreement. Such Plant Loan Repayments shall be made in federal funds or other funds immediately available at the Corporate Trust Office of the Plant Trustee. The term "Bond Payment Date" as used in this section captioned "Deposit of Revenues; Repayment of Loan" shall mean any date upon which any amounts payable with respect to the Series 2012 Plant Bonds shall become due, whether upon redemption (including without limitation sinking fund redemption), purchase, acceleration, maturity or otherwise.

Each payment made on any Bond Payment Date pursuant to this subsection (a) shall at all times be sufficient to pay the total amount of interest and principal (whether upon redemption (including without limitation sinking fund redemption), acceleration, maturity or otherwise) and purchase price and premium, if any, becoming due and payable on the Plant Bonds on such Bond Payment Date; provided, however, that:

- (1) all amounts transferred to the Plant Trustee by the Collateral Agent from the Capitalized Interest Account, the Revenue Fund, the Debt Service Reserve Fund and any other Account or Fund in accordance with the Collateral Trust Agreement, which are designated by the Collateral Agent for deposit into the Plant Bond Fund, shall be credited against the Company's obligations to pay installments of Plant Loan Repayments, including installments of principal, interest, purchase price or premium, due on the next succeeding Bond Payment Date(s); and
- (2) subject to the provisions of the last sentence of this subsection (a), if at any time the amounts held by the Plant Trustee in the Plant Bond Fund are sufficient to pay all of the principal of and interest and premium, if any, on, the Plant Bonds as such payments become due, the Company shall be relieved of any obligation to make any further payments under the provisions of this section captioned "Deposit of Revenues; Repayment of Loan".

Notwithstanding the foregoing provisions of this subsection (a), so long as the Plant Loan Agreement shall remain in full force and effect, if on any date the amount held by the Plant Trustee in the Plant Bond Fund is insufficient to make any required payments of principal of (whether upon redemption (including without limitation sinking fund redemption), acceleration, maturity or otherwise) and interest and premium, if any, on, the Plant Bonds then due, the Company shall forthwith pay or cause the Collateral Agent to pay such deficiency as a Plant Loan Repayment under the Plant Loan Agreement.

(b) In consideration of the loan of the proceeds from the sale of the Plant Bonds to the Company pursuant to the section captioned "ISSUANCE OF BONDS; LOAN OF PROCEEDS – Loan of Proceeds", the Company agrees that on each Business Day it shall deposit or cause to be deposited all of the Revenues with the Collateral Agent to be applied in accordance with the provisions of the Collateral Trust Agreement.

(c) The Company shall direct all parties that are obligated to provide any Revenues to the Company to transfer all Revenues directly by wire transfer of immediately available funds or by mail to the Collateral Agent for deposit in the Revenue Fund and otherwise as set forth in the Collateral Trust Agreement. The Company will deposit with the Collateral Agent any Revenues that it receives directly within 2 Business Days of receipt.

Additional Payments

In addition to the Plant Loan Repayments, the Company shall cause to be paid to the Issuer or to the Plant Trustee, as the case may be, "Additional Payments," as follows:

(1) All taxes and assessments of any type or character charged to the Issuer or the Plant Trustee affecting the amount available to the Issuer or the Plant Trustee from payments to be received under the Plant Loan Agreement or in any way arising due to the transactions contemplated by the Plant Loan Agreement (including taxes and assessments assessed or levied by any Governmental Authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the Plant Trustee and taxes based upon or measured by the net income of the Plant Trustee; provided, however, that the Company shall have the right to protest any such taxes or assessments and to require the Issuer or the Plant Trustee, at the Company's expense, to protest and contest any such taxes or assessments levied upon them and that the Company shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Issuer or the Plant Trustee; and provided further that the Plant Trustee shall have no obligation to make available to the Company any proprietary or confidential tax or other information of the Plant Trustee by reason of or in connection with such protest or contest;

(2) The Company also agrees to pay (i) the annual fee of the Plant Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the Plant Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses (including reasonable legal fees and expenses) of the Plant Trustee, as bond registrar and paying agent, the reasonable fees of any other paying agent on the Plant Bonds as provided in the Plant Indenture, as and when the same become due, (iii) the reasonable fees, charges and expenses of the Plant Trustee for the necessary extraordinary services rendered by it and extraordinary expenses (including, but not limited to reasonable attorneys' fees and expenses) incurred by it under the Plant Indenture, as and when the same become due, (iv) the cost of printing any Plant Bonds required to be furnished by the Issuer at the expense of the Issuer, (v) the cost of printing and typesetting any preliminary official statement, official statement or other offering circular used in connection with the sale or remarketing of any Plant Bonds and any amendment or supplement thereto and (vi) the Issuer's Administrative Fee either at the Series 2012 Closing Date or from time to time thereafter, as set forth in the Tax Certificate. The Plant Trustee's compensation shall not be limited by any provision of law regarding the compensation of a Trustee of an express trust;

(3) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Collateral Agent, the Issuer or the Plant Trustee to prepare audits, financial statements, reports, opinions or provide such other services required for the performance by the Collateral Agent, the Issuer or the Plant Trustee of its respective responsibilities under the Financing Documents; and

(4) Any rebate obligation owing pursuant to the section captioned "PARTICULAR COVENANTS – Tax Covenants" and the Plant Indenture.

Such Additional Payments may be made from Revenues pursuant to the Collateral Trust Agreement. In the event the Company should fail to make any of the payments required by this section captioned "Additional Payments", such payments shall continue as obligations of the Company until such amounts shall have been fully paid. The Company agrees to pay such amounts, together with interest thereon, following a delinquency of 30 days until such amount and all interest thereon have been paid in full. Interest thereon shall be at the rate of four percent (4%) per annum or, if four percent (4%) is greater than the rate then permitted by law, at the maximum rate so permitted.

Security for Company's Obligations

(a) In consideration of the issuance of the Plant Bonds and the loan of the proceeds thereof to the Company under the Plant Loan Agreement and to secure the payment of Plant Loan Repayments and the performance of the other obligations of the Company under the Plant Loan Agreement, the Company has entered into the Collateral Trust Agreement and the other Collateral Documents to which it is a party in which the Company pledges and grants a security interest to the Collateral Agent in the Collateral identified therein.

(b) The Company shall cause to be filed Uniform Commercial Code financing statements and shall execute and deliver such other documents as may be necessary or reasonably requested by the Collateral Agent in order to perfect or maintain the perfection of such security interest in the Collateral. The Company shall file or cause to be filed any financing statements and amendments as may be required to continue the perfection of such security interest in the Collateral. The Company covenants that it will not change its name or entity structure unless (i) it gives the Plant Trustee, the Collateral Agent and a Senior Debt Majority at least thirty (30) days advance written notice of such change and (ii) before such change occurs, it takes all actions as may be directed by the Collateral Agent or a Senior Debt Majority or as are otherwise necessary or advisable to maintain and continue the first priority perfected security interest of the Collateral Agent in the Collateral.

(c) The Company covenants and agrees that the Deed of Trust shall be subject only to (i) conditions, covenants and restrictions of record set forth as exceptions to the ALTA title insurance policy on the Plant, the Plant Site and the other Company Real Property identified therein delivered by the Company to the Collateral Agent simultaneously with the issuance of the Series 2012 Plant Bonds, and (ii) other Permitted Encumbrances.

(d) [Reserved.]

(e) Subject to the Collateral Trust Agreement, in order to further secure the Company's obligations under the Plant Loan Agreement, the Company has entered into the Collateral Documents in which it has granted to the Collateral Agent a Lien on all of the Company's right, title and interest, whether now existing or hereafter arising, in and to the Project Contracts; provided, however, that nothing in this subsection (e) or in the Collateral Documents shall (i) impair, diminish or otherwise affect the Company's obligations under the Project Contracts and the related Consents or (ii) unless a Loan Default Event shall have occurred and be continuing under the Plant Loan Agreement, impair, diminish or otherwise affect (except with respect to the Company's covenants regarding amendments to or substitutions for Project Contracts and the related Consents, which are set forth in the Collateral Trust Agreement and except as provided in the next succeeding sentence) the Company's ability to exercise its rights under, or require the performance of the other parties to, the Project Contracts or the Consents. The Company also agrees to assign all of its right, title and interest in and to any Additional Project Contracts to the Collateral Agent.

Obligations of the Company Unconditional; Net Contract

The obligations of the Company to make the Plant Loan Repayments required under the Plant Loan Agreement and to perform and observe the other payment obligations on its part contained in the Plant Loan Agreement shall be absolute and unconditional, and shall not be abated, rebated, set off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever, while any Plant Bonds remain Outstanding, regardless of any contingency, act of God, event or cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Company's facilities, commercial frustration of purpose, any change in the laws of the United States of America or of the State of California or any political subdivision of either or in the rules or regulations of any Governmental Authority, or any failure of the Issuer, the Plant Trustee or the Collateral Agent to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Plant Loan Agreement, the Plant Indenture or the Collateral Trust Agreement. The Plant Loan Agreement shall be deemed and construed to be a "net contract" and the Company shall pay absolutely the Plant Loan Repayments required under the Plant Loan Agreement, regardless of any rights of setoff, recoupment, abatement or counterclaim that the Company might otherwise have against the Issuer or the Plant Trustee or any other party or parties.

Prepayment

The Company shall have the right at any time or from time to time to prepay all or any part of the Plant Loan Repayments (in amounts corresponding to the redemption price of the Series 2012 Plant Bonds) to the same extent as Series 2012 Plant Bonds may be redeemed under the Plant Indenture and the Issuer agrees that the Issuer and the Plant Trustee shall accept such prepayments when the same are tendered by or on behalf of the Company. All such prepayments (and the additional payment of any amount necessary to pay the applicable premiums, if any, payable upon the redemption of Series 2012 Plant Bonds) shall be deposited upon receipt in the Plant Bond Fund and, as specified in a request of the Company, (i) credited against Plant Loan Repayments and used to pay the principal of or interest on Series 2012 Plant Bonds, or (ii) used for the redemption of Outstanding Series 2012 Plant Bonds and credited against the Plant Loan Repayments which would be required, but for such redemption, to pay principal of or interest on such Series 2012 Plant Bonds, in each case as specified in such Request of the Company and in the manner and subject to the terms and conditions set forth in the Plant Indenture. The Company also shall have the right to surrender Series 2012 Plant Bonds acquired by the Company in any manner whatsoever to the Plant Trustee, for cancellation, and such Series 2012 Plant Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired. Notwithstanding any such prepayment or surrender of Series 2012 Plant Bonds, as long as any Series 2012 Plant Bonds remain Outstanding, the Company shall not be relieved of its obligations under the Plant Loan Agreement.

THE PROJECT

Acquisition, Installation and Construction of the Plant

The Company shall proceed with commercially reasonable diligence with the acquisition, installation and construction of the Plant and the Pipeline in accordance with the applicable Project Contracts. Subject to the terms and restrictions of the Ground Lease and the other Project Contracts conveying to the Company interests in the Company Real Property, the O&M Agreement and the Plant EPC Contract, the Company grants to the Issuer all rights of access to the Plant reasonably necessary for the Issuer to carry out its obligations and to enforce its rights under the Plant Loan Agreement. It is expressly understood and agreed that the Issuer shall not be under any liability of any kind or character whatsoever for the payment of any Plant Costs and that all such costs shall be paid by the Company from proceeds of the Series 2012 Plant Bonds and from other funds received by the Company. Subject to the Plant EPC Contract and any applicable Additional Project Contracts, the acquisition, installation and construction of the Plant and any modification thereof or other improvement of the Plant shall be substantially in accordance with all applicable zoning, planning and building regulations, and the Company shall obtain or cause to be obtained in due course all Permits which are required to be obtained by or on behalf of the Company pursuant to Applicable Law for such acquisition, installation, construction, modification or improvement, and for operation of the Plant, other than Permits which, if not so obtained, would not reasonably be expected to have a Material Adverse Effect.

Application of Proceeds of the Series 2012 Plant Bonds

(a) The Company will authorize and direct the Plant Trustee, in accordance with the Plant Indenture, to transfer moneys on deposit in the Series 2012 Plant Bond Holding Fund (as defined in the Plant Indenture) to the Series 2012 Costs of Issuance Account therein, and to disburse the balance of moneys on deposit in the Series 2012 Plant Bond Holding Fund to the Collateral Agent for application in accordance with the Collateral Trust Agreement. The Company will authorize and direct the Collateral Agent to disburse moneys on deposit in the Construction Account to or on behalf of the Company only for Plant Costs (not including Costs of Issuance) and Poseidon Pipeline Costs except as specifically provided in the Collateral Trust Agreement and only as permitted by the Tax Agreement.

(b) The Company shall authorize and direct the Plant Trustee, in accordance with the Plant Indenture, to disburse the moneys in the Series 2012 Costs of Issuance Fund to pay Costs of Issuance or to reimburse the Company therefor. Each of the payments referred to in this subsection (b) shall be made upon receipt by the Plant Trustee of a written requisition in the form prescribed by the Plant Indenture, signed by an Authorized Representative of the Company.

Establishment of Completion Date; Obligation of Company to Complete

- (a) Completion will be achieved when:
- (i) the Company has delivered a certificate to the Collateral Agent (with copies to the Issuer and the Plant Trustee), executed by an Authorized Representative of the Company, in which he or she certifies, on behalf of the Company, that the following criteria have been satisfied:
- (A) “Project Completion” has occurred under and as defined in the Plant EPC Contract and the “Project Completion” has occurred under the Water Purchase Agreement;
- (B) the acquisition, equipping and construction of the Plant has been completed substantially in accordance with the plans, specifications and work orders therefor (taking into account all change orders and other modifications thereto permitted under the Plant Loan Agreement), in each case, as provided under the Plant EPC Contract, and all labor, services, materials and supplies used in the permitting, acquisition, equipping and construction of the Plant have been paid or provided for; and
- (C) the Plant has been connected to the upgraded SDG&E power substation as provided under the SDG&E Contracts and any other facilities required for the commercial operation of the Plant in accordance with the Water Purchase Agreement have been acquired, constructed and installed and all costs and expenses incurred in connection therewith have been paid or provided for in accordance with the applicable Project Contracts relating to such other facilities.

The certificate delivered by the Company pursuant to this subsection (a)(i) shall also set forth a final description of the Plant and the total Plant Costs and Poseidon Pipeline Costs incurred; and

- (ii) the Independent Engineer has delivered a certificate to the Collateral Agent (with copies to the Company, the Issuer and the Plant Trustee) executed by an authorized representative of the Independent Engineer, in which he or she certifies, on behalf of the Independent Engineer, that the criteria set forth in clauses (A) through (C) in subsection (a)(i) above have been satisfied.
- (iii) In addition upon Completion, an Authorized Representative of the Company, on behalf of the Company, shall provide a Final Project Account Disbursement Certificate to the Plant Trustee and the Issuer.
- (b) The Issuer makes no express or implied warranty that the moneys deposited in the Construction Account, the Capitalized Interest Account, the Poseidon Project Account and the Contractor Security Account available for payment of Plant Costs and Poseidon Pipeline Costs under the provisions of the Plant Loan Agreement and the Collateral Trust Agreement will be sufficient to pay all the amounts which may be incurred for such purposes. The Company agrees that it will not be entitled to any reimbursement of any amounts deposited by the Company into the Poseidon Project Account pursuant to the Collateral Trust Agreement from the Issuer, from the Plant Trustee or from the Owners of any of the Series 2012 Plant Bonds, nor shall it be entitled to any diminution of the amounts of Plant Loan Repayments payable under the section captioned “REPAYMENT OF LOANS; ADDITIONAL PAYMENTS – Deposit of Revenues; Repayment of Loan” as a result of any such deposit.
- (c) The Company further agrees to proceed with commercially reasonable diligence to achieve Completion.

PARTICULAR COVENANTS

General Affirmative Covenants

The Company covenants and agrees that it will at all times, unless a Senior Debt Majority shall otherwise approve:

(a) if the Company undertakes a Capital Project pursuant to the Collateral Trust Agreement, pay all costs of such Capital Project that exceed amounts deposited to the applicable account of the Plant Restoration Fund; provided that the Company may abandon any Capital Project it has commenced to undertake if it delivers to the Collateral Agent a certificate executed by an Authorized Representative of the Company (such certification to be confirmed by the Independent Engineer) stating that the failure to complete such Capital Project would not reasonably be expected to subject the Plant to any permanent, material adverse change from the condition of the Plant immediately prior to the commencement of the Capital Project or otherwise have a Material Adverse Effect.

(b) [Reserved];

(c) deposit any Revenues that may be received directly by the Company with the Collateral Agent;

(d) timely invoice the Water Authority for water delivered to the Water Authority in accordance with the Water Purchase Agreement and use commercially reasonable efforts to cause the timely payment of rates, fees and charges required to be paid to the Company under the Project Contracts;

(e)

(1) obtain and maintain insurance required by the Project Contracts as and when required; and maintain or cause to be maintained such insurance with respect to the Plant, in such amounts and with such deductibles and on such other terms as shall be consistent with the Plant Loan Agreement, unless such coverage is no longer obtainable in the marketplace on terms which, in the opinion of an Independent Insurance Consultant set forth in its annual report to be delivered to the Collateral Agent, a Senior Debt Majority and the Company, are commercially reasonable for companies of similar size, type, operation and location and as otherwise required by any other Financing Documents providing for or evidencing Additional Plant Senior Debt;

(2) also maintain, if applicable, worker's compensation coverage as required by the laws of the State; and

(3) within 30 days after the Commercial Operation Date, the Company shall send a notice to the Collateral Agent stating the annual renewal date for all insurance policies carried; and at least 30 days before the annual renewal date contained in such notice, the Company shall provide to the Independent Insurance Consultant summaries or other evidence of its insurance coverage, and deliver to a Senior Debt Majority, the Collateral Agent and the Plant Trustee a certificate (on which such Persons may conclusively rely) stating that all insurance required by this subsection (e) is in full force and effect;

(f) prior to Completion, use commercially reasonable efforts to provide to a Senior Debt Majority, the Plant Trustee and the Collateral Agent, as soon as available, audited annual financial statements of the EPC Guarantor and IDE, together with an explanation of any changes in the basis of preparation, prepared in accordance with relevant GAAP; provided, however, that upon the request of any such Person that is not a public company, a Senior Debt Majority, Trustee and Collateral Agent shall enter into such non-disclosure or confidentiality agreement with respect to such counterparty's financial statements to be delivered under this subsection (f), on usual and customary terms for similar agreements, as reasonably requested by the counterparty;

(g) provide promptly, and in any event within 10 Business Days (unless a different requirement for the timing of delivery is expressly provided below), to the Collateral Agent and a Senior Debt Majority:

- (1) promptly after becoming aware thereof, notice of any deposit that the Company anticipates that it will be required to make to the Poseidon Project Account pursuant to the Collateral Trust Agreement;
 - (2) copies of all written notices received or given by the Company under the Project Contracts of any condition or event which would reasonably be expected to result in a Material Adverse Effect;
 - (3) promptly after becoming aware thereof, notice of any written communication received by the Company from any Governmental Authority giving notice that the Company, the Plant, the Plant EPC Contractor or the Pipeline EPC Contractor has failed in any material respect to comply with Applicable Law;
 - (4) notice if the Company becomes aware that there may be a Hazardous Substance on the Plant Site or migrating from the Plant Site, in each case in violation of applicable Environmental Laws;
 - (5) after becoming aware thereof, notice of the occurrence of any Material Adverse Effect;
 - (6) after becoming aware thereof, notice of any disputes, litigation, arbitrations, investigations and similar proceedings which would reasonably be expected to have a Material Adverse Effect;
 - (7) after becoming aware thereof, notice of any Event of Loss or claim against any insurer of the Company, where the actual or estimated amount of a loss or claim exceeds \$1,000,000, net of deductible;
 - (8) notice of the occurrence of any Uncontrollable Circumstance or discovery of any latent defects or other issues that, in each case, would reasonably be expected to have a Material Adverse Effect;
 - (9) copies of any material written notice received from a Rating Agency;
 - (10) notice of the commencement by any Governmental Authority of condemnation or similar proceedings involving the Company or the Plant;
 - (11) copies of any written notices received by the Company, or of which it obtains knowledge, of (i) any ERISA Events relating to the Company, or (ii) the imposition of any Liens (other than Permitted Encumbrances) on the Collateral;
 - (12) promptly after becoming aware thereof, notice of any Default;
 - (13) within two Business Days of becoming aware of it, notice of the Company's failure to comply with any of its material obligations under any Project Contract or the IP Sublicense if such noncompliance would reasonably be expected to have a Material Adverse Effect.
- (h) use commercially reasonable efforts to maintain and protect its IP Rights, subject to the provisions of the Project Contracts, except where the failure to do so would not reasonably be expected to have a Material Adverse Effect;
- (i) promptly following the breach of any negative covenant or material affirmative covenant of the Company under the Plant Loan Agreement, to provide appropriate personnel of the Company satisfactory to the Collateral Agent and Senior Debt Majority for a meeting (whether conducted over the telephone or otherwise) with such Persons at a mutually acceptable time and place to discuss the Company's breach of covenant and its plan to rectify such breach within the allotted grace period;

(j) semi-annually, to deliver compliance certificates by an officer of the Company and a calculation of the Debt Service Coverage Ratio to the Collateral Agent in accordance with the Collateral Trust Agreement;

(k) maintain ongoing rate surveillance agreements with at least one Rating Agency;

(l) acquire and preserve all such property, rights and interests as are necessary for the performance of its obligations under the Principal Project Contracts, except for any failure to acquire or preserve that would not reasonably be expected to have a Material Adverse Effect;

(m) at all times take such actions as are commercially reasonable to remain as a pass-through entity for tax purposes, unless a Senior Debt Majority consents otherwise;

(n)

(1) If the Company delivers a notice to a Senior Debt Majority and the Collateral Agent pursuant to clause (13) of subsection (g) above and the Company determines, with the concurrence of the Independent Engineer, that such default is curable but is not capable of being cured within the usual cure period for such default and if and for so long as such Project Contract permits an extension to the usual cure period, the Company shall deliver to a Senior Debt Majority and the Independent Engineer a proposed plan to remedy the default within the applicable extension period. Any plan proposed pursuant to this subsection (n)(1) shall include a schedule for its implementation. Within 30 days after receipt of any such proposed plan, the Independent Engineer shall give notice to the Company stating that such plan is approved or that the plan is not approved and, in the latter case, giving the reason therefor. If such notice is not delivered within such 30-day period, any such plan will be deemed to have been approved. If a plan delivered pursuant to this subsection (n)(1) is not approved, or if an approved plan is thereafter required to be amended, the Company shall use all commercially reasonable efforts to work with the Independent Engineer in good faith to develop a plan, or an amended plan, that is acceptable to both of them. After any such plan is approved, the Company shall proceed with due diligence to implement it within the applicable extension period. Until any such plan is fully implemented, the Company shall provide weekly progress reports to the Independent Engineer.

(2) The Company shall deliver notice to a Senior Debt Majority of an Operator Event of Default as described in and pursuant to the O&M Agreement within five days after becoming aware of it. Within 30 days after the delivery of such notice, the Company shall deliver a proposed plan to improve Plant performance so as to prevent Project Company Remedial Breach as defined in the Water Purchase Agreement.

(o) The Company shall deliver notice to a Senior Debt Majority of a material default by a counterparty under a Principal Project Contract that would reasonably be expected to have a Material Adverse Effect within two Business Days after the Company learns of such default.

(p) The Company agrees that throughout the term of the Plant Loan Agreement it, or any successor or assignee as permitted by the section captioned "PARTICULAR COVENANTS – Maintenance of Existence of the Company; Consolidation, Merger, Sale or Transfer of Assets Under Certain Conditions", will be qualified to do business in the State of California.

General Negative Covenants

The Company covenants and agrees that it shall not, unless a Senior Debt Majority shall otherwise approve:

(a) amend or modify its Organizational Documents except where such amendment or modification would not reasonably be expected to have a Material Adverse Effect;

(b) enter into any Additional Project Contract or amend, modify or terminate any Principal Project Contract unless any such action is taken in accordance with the applicable provisions of the Collateral Trust Agreement;

(c) open or maintain bank accounts other than (i) the Funds and the Accounts, and (ii) any accounts established to hold cash collateral with respect to any letter of credit, bond or similar arrangement in connection with any permit or any Project Contract, and (iii) any account maintained by the Company as a deposit account (within the meaning of 9-102(a)(29) of the UCC), provided that the balance thereof shall not at any time exceed \$50,000, and the Collateral Agent shall have a perfected security interest in such account for the benefit of the Secured Parties;

(d) enter into any Guarantee of the obligations of any other Person, except for contingent liabilities relating to (i) the acquisition of goods, supplies or merchandise in the normal course of business or normal trade credit, (ii) the endorsement of negotiable instruments received in the normal course of its business, and (iii) contingent liabilities incurred with respect to any Permit or Project Contract;

(e) incur, grant or permit to exist any Liens on or with respect to any of its Property, other than Permitted Encumbrances;

(f) make investments in the securities of any other Person, other than Eligible Investments;

(g) purchase, lease or acquire assets other than assets required for the construction, operation and maintenance, repair or modification of the Plant (or any Capital Project permitted under the Plant Loan Agreement and the Collateral Trust Agreement), or for the performance of its obligations under the WA Pipeline Agreement, in each case in accordance with the Project Contracts and generally accepted prudent industry practice for facilities comparable to the Plant (or if pursuant to the WA Pipeline Agreement, the Pipeline), or as otherwise permitted under the Plant Loan Agreement or the Collateral Trust Agreement;

(h) prior to the second anniversary of the Commercial Operation Date, (i) issue or agree to issue or transfer or agree to transfer any Equity Interests in the Company to any Person other than the Persons that were the Partners on the Series 2012 Closing Date, (ii) permit the General Partner to issue or agree to issue or transfer or agree to transfer any Equity Interests in the General Partner to any Person that was not the Limited Partner on the Series 2012 Closing Date or (iii) permit the Limited Partner to issue or agree to issue or transfer or agree to transfer any Equity Interests in the Limited Partner to any Person that was not a member or an Affiliate of a member of the Limited Partner on the Series 2012 Closing Date, if, in any of the foregoing cases, such issuance would result in a change of Control of the Company, provided that the issuance of or agreement to issue or the transfer of or agreement to transfer up to 50% of the Equity Interests to an Affiliate of any member of the Limited Partner or to any fund or entity under the control of such member or its Affiliates shall not be a change of Control;

(i) change its Fiscal Year; or

(j) undertake a Capital Project for the construction, installation and operation of one or more modifications or enhancements to any part of the Plant in connection with a new desalination project located on, or adjacent to, the Plant Site (“Separate Project Modification”).

General Financial Covenants

The Company covenants and agrees that it will at all times, unless a Senior Debt Majority shall otherwise approve:

(a) not give any direction with respect to the Funds and Accounts established under the Collateral Trust Agreement that would cause the application of moneys on deposit therein to be in conflict with the provisions of the Collateral Trust Agreement;

(b) not revise the Financial Model, the Base Case Financial Projections or the Current Case Financial Projections except as contemplated in the Collateral Trust Agreement;

(c) not grant any credit, pay any fee or give any indemnity to any other Person except for any Guarantee permitted under subsection (d) of the section captioned “PARTICULAR COVENANTS – General Negative Covenants” or pursuant to the terms of the Project Contracts or otherwise in the ordinary course of business; and

(d) not enter into any agreement whereby the Company’s income or profits are shared with any third party except pursuant to the terms of the Project Contracts.

Additional Debt

The Company may incur Additional Plant Senior Debt and subordinated Debt only pursuant to the provisions of the Collateral Trust Agreement.

Maintenance of Existence of the Company; Consolidation, Merger, Sale or Transfer of Assets Under Certain Conditions

The Company covenants and agrees that it will maintain its existence as a Delaware limited partnership, and will not dissolve or liquidate, or sell or otherwise dispose of all or substantially all of its assets, or consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it; except in accordance with the section captioned “PARTICULAR COVENANTS – Limitation on Disposition of Assets”, or unless in each case it receives the prior written consent of a Senior Debt Majority and the Issuer.

Revenue Covenant

The Company shall, to the extent such action is within its power and control, operate the Plant, or cause the Plant to be operated, as a revenue-producing facility.

Financial Statements; Notices

The Company further covenants and agrees to furnish to a Senior Debt Majority and the Plant Trustee, within one hundred twenty (120) days after the end of each Fiscal Year, copies of the complete financial statements of the Company, together with (1) the report and opinion of an Independent Accountant stating that the financial statements have been prepared in accordance with GAAP and that such Independent Accountant’s examination of the Company’s records was performed in accordance with generally accepted auditing standards, and (2) a Certificate of an Authorized Representative of the Company stating that no event which constitutes a Loan Default Event has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of any such Loan Default Event that has occurred and is continuing and the actions taken and proposed to be taken by the Company to cure such default.

Tax Covenants

The Company covenants and agrees that it will at all times do and perform all acts and things permitted by Applicable Law and the Plant Loan Agreement and necessary in order to assure that interest paid on any Tax Exempt Series of Plant Bonds will be excluded from gross income for federal income tax purposes, and will take no action that would result in such interest not being so excluded and will take any action necessary to preserve and defend such exclusion. Without limiting the generality of the foregoing, the Company agrees to comply with the provisions of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Tax Exempt Plant Bonds.

The Company acknowledges that it has read the sections regarding the Rebate Fund and Arbitrage Covenants of the Plant Indenture and that it will comply with the requirements of those sections as if they were set forth in full in the Plant Loan Agreement. The Company shall calculate, or cause to be calculated, its rebate liability

at such times as are required by Section 148(f) of the Code and any temporary, proposed or final Regulations as may be applicable to the Bonds from time to time. The Company shall provide to the Plant Trustee a copy of each calculation of rebate liability prepared by or on behalf of the Company, which documentation shall be made available to the Issuer upon request.

Limitation on Disposition of Assets

(a) The Company covenants and agrees not to sell, lease or otherwise dispose of any of its Property, in any Fiscal Year with an aggregate net book value in excess of \$2,500,000 (Escalated), except that such limitation shall not apply to any sale, lease or other disposition of (i) product water pursuant to the terms of the Project Contracts, (ii) cash deposited in any Account or Fund established under the Collateral Trust Agreement which is disbursed in accordance with the provisions thereof, (iii) other Property in the ordinary course of business on commercial terms (unless prohibited by the Project Contracts), (iv) obsolete, worn out or replaced Property not used or useful in its business and (v) easements, licenses, rights-of-way, assignments and other rights or privileges in the nature of easements, undivided ownership interests and leasehold estates over, in or with respect to the Plant or the Company Real Property as required pursuant to any Project Contract.

(b) In addition to the limitations contained in subsection (a), the Company shall not sell, transfer, lease or otherwise dispose of, or permit the sale, transfer, lease or disposal of the Plant or, in any Fiscal Year, any portion of the Plant with an aggregate net book value in excess of \$2,500,000 (Escalated) other than (i) equipment that has reached the end of its useful life and (ii) transfers described in subsection (a)(v), unless such sale, transfer, lease or disposal also complies with one of the following subsections of this paragraph:

(i) The Company may sell, transfer, lease or otherwise dispose (including operating arrangements) of any portion of the Plant to a Participating Affiliate if, the purchaser, transferee, lessee, operator or other recipient, as the case may be, has covenanted in a written instrument for the benefit of the Issuer and the Company to comply with the instructions of the Company issued for the purpose of assuring that the Plant be operated in conformance with the Plant Loan Agreement, the Act, the Tax Certificate and federal tax law; provided that nothing in the foregoing shall diminish the Company's obligation to cause the Plant to be operated in conformance with the Plant Loan Agreement, the Act, the Tax Certificate and federal tax law, including without limitation, the operation of the sold, transferred, disposed or leased portion of the Plant. Any lease pursuant to the foregoing shall not permit sublease or assignment by the lessee unless such sublease or assignment would otherwise satisfy the requirements of this subsection.

(ii) The Company may sell, transfer or otherwise dispose of (including operating arrangements) any portion of the Project that constitutes equipment if (A) such equipment has reached the end of its useful life or (B) such equipment is replaced by the Company with equipment of substantially equal or greater value and utility that is used in substantially the same manner and for the same purposes as the equipment so sold, transferred or otherwise disposed of, has a useful life at least equal to the remaining useful life of the equipment so sold, transferred or otherwise disposed of and is in the same location as the equipment so sold, transferred or disposed of, to the extent identified in the Plant Loan Agreement and the Issuer shall have received a Favorable Opinion of Bond Counsel with respect to such replacement.

(iii) The Company may sell, transfer, lease or otherwise dispose of any portion of the Plant to a Person if,

(A) the purchaser, transferee, lessee, operator or other recipient, as the case may be, has covenanted in a written instrument for the benefit of the Issuer and the Company to comply with the instructions of the Company issued for the purpose of assuring that the Plant be completed and operated in conformance with the Plant Loan Agreement, the Act, the Tax Certificate and federal tax law; provided that nothing in the foregoing shall diminish the Company's obligation to cause the Plant to be completed and operated in conformance with the Plant Loan Agreement, the Act, the Tax Certificate and federal tax law;

(B) (1) the credit rating on the Series 2012 Plant Bonds, as determined by any Rating Agency then rating the Series 2012 Plant Bonds, shall be no lower than the rating level of

the Series 2012 Plant Bonds immediately prior to the effective date of such sale, transfer, lease, disposition (or operating arrangements) or (2) if the foregoing clause (1) is not satisfied, any reduction in rating occurs concurrently with a mandatory tender for purchase of all the Series 2012 Plant Bonds; and

(C) the Issuer shall have received a certificate of good standing of the purchaser, transferee, lessee or operator, as the case may be, from the California Secretary of State and Franchise Tax Board, a copy of the document evidencing such sale, transfer, lease, disposition or a Favorable Opinion of Bond Counsel with respect to such sale, transfer, lease, disposition (or operating arrangements) and an Opinion of Counsel to the effect that the surviving, resulting, or transferee Person is a “participating party” as defined in the Act.

(c) Within 10 days after the consummation of a transaction described in subsection (a) above, the Company shall provide the Issuer and the Plant Trustee with (i) counterpart copies of the documents constituting the transaction, and (ii) a certificate of the Company stating that such transaction complies with the provisions of this section captioned “Limitation on Disposition of Assets”. The Company shall give the Issuer at least 30 days’ written notice prior to the effective date of any merger or other transaction described above, together with drafts of the documents of assumption and such other instruments (other than good standing certificates) as would be required to be delivered in connection therewith. The Company agrees to provide such other information as the Issuer may reasonably request in order to assure compliance with this section captioned “Limitation on Disposition of Assets”.

(d) Notwithstanding any other provisions of this section captioned “Limitation on Disposition of Assets”, the Company need not comply with any of the provisions of this section captioned “Limitation on Disposition of Assets” if, at the time of such transaction described in subsection (a) above, the Series 2012 Plant Bonds will be defeased as provided in the Plant Indenture or in the case of a sale of less than all of the assets acquired or constructed with proceeds of the Series 2012 Plant Bonds, the Series 2012 Plant Bonds will be defeased or retired in an amount proportional to the percentage of the original cost of such assets to the original net proceeds of the Series 2012 Plant Bonds. The Company shall provide to the Issuer a certificate of the Company setting forth the calculations evidencing that the amount of Series 2012 Plant Bonds defeased or retired is proportional to the percentage of the original cost of such assets to the original net proceeds of the Series 2012 Plant Bonds.

Continuing Disclosure

The Company covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Plant Loan Agreement, failure of the Company to comply with the Continuing Disclosure Agreement or this section captioned “Continuing Disclosure” shall not be considered a Loan Default Event; however, the Plant Trustee, at the written request of the Owners of at least twenty-five percent (25%) of the aggregate principal amount in Outstanding Series 2012 Plant Bonds, shall (but only to the extent indemnified to its satisfaction from any cost, expense or liability arising from or related thereto), or any Owner or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Company to comply with its obligations under this section captioned “Continuing Disclosure”. The Company acknowledges and agrees that the Issuer will have no liability with respect to these obligations.

Limited Business Company

(a) The Company covenants that it will remain a sole purpose entity existing solely for the purpose of financing, acquiring, developing, constructing, leasing, managing, rehabilitating and operating a reverse osmosis seawater desalination plant and associated pipelines and other equipment and facilities as contemplated by the Project Contracts, and conducting or performing any ancillary or related activity in furtherance of the construction and operation of the Plant and the construction of the Pipeline, including (i) issuing debt or borrowing funds to finance the Plant or to perform its obligations under the Project Contracts, (ii) performing its obligations in accordance with the Project Contracts and (iii) jointly owning, using or operating certain common facilities and equipment with another Person in connection with a Separate Project Modification. The Company covenants that it will continue to be engaged solely in the business specified in the previous sentence and shall not change the nature of its business or expand its business beyond the business contemplated in the Transaction Documents.

(b) Except as permitted under the Transaction Documents and except (i) to cure any ambiguity or (ii) to convert or supplement any provision in a manner consistent with the intent of the Company's Limited Partnership Agreement and the Transaction Documents, the Company shall not and it shall not permit the General Partner or the Limited Partner to amend, alter, change or repeal the Company's Limited Partnership Agreement without the prior written consent of the Collateral Agent.

(c) The Company covenants that it shall not (a) incur, create, or assume any indebtedness, obligations or liabilities, secured or unsecured, direct or contingent, other than those permitted under the Transaction Documents.

(d) The Company covenants that it shall at all times have an Independent Director. The Company shall not take any action which requires the consent of the Independent Director unless at the time of such action there shall be an Independent Director then serving. On any matter which requires the consent of the Independent Director, the Independent Director shall consider only the interests of the Company, including its creditors. No Independent Director of the Corporation may be removed or replaced unless the Company provides the Collateral Agent with not less than three (3) Business Days' prior written notice of (i) any proposed removal of an Independent Director, together with a statement as to the reasons for such removal, and (ii) the identity of the proposed replacement Independent Director, together with a certification that such replacement satisfies the requirements set forth in the Company's Limited Partnership Agreement for an Independent Director. No resignation or removal of an Independent Director shall be effective until a successor Independent Director is appointed and has accepted his or her appointment. No Independent Director may be removed other than for Cause. "Cause" means, with respect to an Independent Director, (i) acts or omissions by such Independent Director that constitute willful disregard of such Independent Director's duties, (ii) that such Independent Director has engaged in or has been charged with, or has been convicted of, fraud or other acts constituting a crime under any law applicable to such Independent Director, (iii) that such Independent Director is unable to perform his or her duties as Independent Director due to death, disability or incapacity, or (iv) that such Independent Director no longer meets the definition of Independent Director.

(e) The Company covenants that it shall not, without the unanimous consent of the entire Board of Directors of the General Partner and the Independent Director of the Company institute proceedings to have the Company be adjudicated bankrupt or insolvent, or consent to the institution of bankruptcy or insolvency proceedings against the Company or file a voluntary petition seeking, or consent to, reorganization or relief with respect to the Company under any applicable federal or state law relating to bankruptcy, or consent to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or a substantial part of its property, or make any assignment for the benefit of creditors of the company, or admit in writing the Company's inability to pay its debts generally as they become due, or, to the fullest extent permitted by law, dissolve or liquidate the Company.

(f) The Company represents and warrants that since its formation and at all times thereafter, the Company has complied with the following provisions, and covenants that it shall (and the General Partner shall cause the Partnership to):

- (i) maintain separate books and records and bank accounts;
- (ii) at all times hold itself out to the public and all other Persons as a legal entity separate from the General Partner and any other Person;
- (iii) not commingle its assets with assets of any other Person;
- (iv) conduct its business in its own name and strictly comply with all organizational formalities to maintain its separate existence;
- (v) pay its own liabilities and expenses only out of its own funds (to the extent of such funds);

(vi) maintain an arms-length relationship with its Affiliates and the partners and will only enter into any transaction or contract or agreement with any Affiliate upon terms and conditions that are intrinsically fair and substantially similar to those that would be available on an arms-length basis with unrelated third parties;

(vii) pay from its own funds (to the extent of such funds) the salaries of its own employees, and maintain a sufficient number of employees in light of its contemplated business operations;

(viii) not guarantee or become obligated for the debts of any other entity or hold out its credit or assets as being available to satisfy the obligations of others;

(ix) allocate fairly and reasonably any overhead for shared office space;

(x) use separate stationery, invoices and checks;

(xi) not pledge its assets for the benefit of any other Person;

(xii) correct any known misunderstanding regarding its separate identity;

(xiii) intend to maintain adequate capital in light of its contemplated business purpose, transactions and liabilities;

(xiv) not make or permit to remain outstanding any loan or advance to, and avoid acquiring any obligations or securities of the General Partner or any Limited Partner;

(xv) maintain its assets in such a manner that is not costly or difficult to segregate, ascertain or identify its individual assets from those of any other person or entity;

(xvi) maintain accurate financial statements, accounting records and other company documents, separate from each other and from those of any of the Affiliates, or any other person or entity, provided however the Company may be part of a consolidated financial statement which acknowledges that the Company is a separate entity and indicates that the Company's assets are not available to any other person's creditors;

(xvii) file its own tax returns, if any, as may be required under applicable law, to the extent (A) not part of a consolidated group filing a consolidated return or returns or (B) not treated as a division for tax purposes of another taxpayer, and pay from its own funds (to the extent of such funds) any taxes so required to be paid under applicable law; and

(xviii) cause the agents and all other representatives of the Company to act at all times with respect to the Company consistently and in furtherance of the foregoing and in the best interests of the Company.

Zoning

The Company shall not take any action to initiate any change with respect to the zoning of the Plant Site, and shall vigorously contest any action by Carlsbad to rezone the Plant Site, if such change or rezoning is inconsistent with operating the Plant.

Pay Officers or Directors

The Company shall not pay any compensation or make any distribution of income or other assets to any of its officers or directors other than as reasonable compensation to such Persons in their capacities as employees, contractors or suppliers of the Company or the reimbursement of ordinary and reasonable out-of-pocket expenses and indemnification of officers, directors and employees as permitted by the section captioned "PARTICULAR

COVENANTS – Transactions with Affiliates”; provided, however, the Company may pay its directors a reasonable fee for their services to the Company, as provided in its Organizational Documents.

Maintenance of the Plant

The Company shall maintain, preserve and keep the Plant in good repair, working order and condition and, if all or a portion of the Plant is damaged destroyed or condemned, shall diligently repair, replace, rebuild or restore the Plant (except to the extent that the Company may elect not to rebuild, restore or repair the Plant pursuant to the Collateral Trust Agreement), all in accordance with generally accepted prudent industry practices for facilities comparable to the Plant; provided that, if all or any of the Plant shall be destroyed or damaged by an Event of Loss or taken by an Event of Eminent Domain, the Net Capital Proceeds derived from such event shall be applied in accordance with the terms of the Collateral Trust Agreement.

Net Capital Proceeds

Except as otherwise permitted under the Collateral Trust Agreement, the Company shall deposit all Net Capital Proceeds into the Plant Restoration Fund.

Budgets

Adjustment of Project Construction Budget. The Company shall submit the Project Construction Budget (together with a certificate of an Authorized Representative of the Company to the effect that the budget was prepared in good faith and based on reasonable assumptions) to the Collateral Agent on the Series 2012 Closing Date. The Project Construction Budget may be amended to reflect the costs of a Change in Project Scope or an increase in the Plant Costs or Poseidon Pipeline Costs to be incurred by the Company (other than payments under the Plant EPC Contract or the Pipeline EPC Contract or payments approved in accordance with the Collateral Trust Agreement) over the amounts provided in the then current Project Construction Budget only if the Available Construction Funds (including the remaining Construction Contingency Amount to the extent permitted by the Collateral Trust Agreement) equal or exceed the Estimated Cost to Complete after giving effect to such amendment. Any amendment to the Project Construction Budget to reflect a change or cost increase specified in this subsection captioned “PARTICULAR COVENANTS – Adjustment of Project Construction Budget” shall be reviewed and approved by the Independent Engineer.

Review and Adjustment of Operating Budgets. The Company shall submit its initial operating budget for the period from the Commercial Operation Date through the next June 30, and for the following Budget Year (such part-year operating budget and each subsequent annual operating budget, the “Operating Budget”) (together with a certificate of an officer of the Company that the budget was prepared in good faith and based on reasonable assumptions) for the review and approval of the Independent Engineer prior to the Commercial Operation Date. No less than 15 days in advance of each twelve-month period ending June 30 (a “Budget Year”) the Company shall also adopt an Operating Budget for the succeeding Budget Year, which Operating Budget shall be subject to the prior review (and, in the event that (i) such Operating Budget reflects O&M Costs (after adjustment for escalation contemplated by the Project Contracts) in excess of 110% of the O&M Costs reflected in the current Operating Budget or (ii) any line item in such Operating Budget reflects particular O&M Costs (after adjustment for escalation contemplated by the Project Contracts) in excess of 120% of such particular O&M Costs in the current Operating Budget, approval) of the Independent Engineer. Any amendments to the Operating Budget shall be subject to review (and if required, approval) in accordance with the standards and procedures set forth in the preceding sentence for the adoption of Operating Budgets. The Company shall operate or cause the operation of the Plant substantially in accordance with the applicable annual Operating Budget as amended from time to time.

Filing of Approved Budgets. The Company shall file or cause to be filed with the Collateral Agent the approved Operating Budget prior to the commencement of the applicable Budget Year.

Reports

The Company shall deliver to the Collateral Agent, a Senior Debt Majority, the Plant Trustee, and the Independent Engineer on the last Business Day of each month until the Commercial Operation Date, a report of an Authorized Representative of Company (such report, a "Construction Report") setting forth in reasonable detail: (i) the estimated date on which the Commercial Operation Date will be achieved; (ii) if the Commercial Operation Date is not anticipated to be achieved prior to the Guaranteed Completion Date (as defined in the Plant EPC Contract), the reasons therefor; (iii) the status of construction of the Plant; and (iv) the amount of Plant Costs and Poseidon Pipeline Costs incurred to date and during the most recent monthly period, and in the event of a material variance, the reasons therefor.

The Company shall deliver to the Collateral Agent, a Senior Debt Majority, the Plant Trustee and the Independent Engineer copies of all progress reports delivered to the Water Authority pursuant to the Pipeline DBA.

Following the Commercial Operation Date, as soon as practicable but no later than 45 days after the close of each quarterly period of its Fiscal Year, the Company shall deliver to the Collateral Agent and a Senior Debt Majority a quarterly summary operating report which shall include (i) a six-month and year-to-date numerical and narrative assessment of (A) the variance analysis of the Plant's compliance with each material category in the applicable Operating Budget, (B) all Revenues received and all O&M Costs paid during such period and all cash balances, distributions to the Partners, Debt Service payments and Contracted Shortfall Payments made during such period, (C) casualty losses with respect to the Plant with a value in excess of \$250,000 (Escalated) for any one casualty or loss, or an aggregate of \$500,000 (Escalated) in any Fiscal Year of the Company, (D) replacement of equipment not contemplated by the then current Operating Budget of value in excess of \$500,000 (Escalated) and (E) material disputes with contractors, materialmen, suppliers or others and any related claims against the Company.

The Company shall provide to the Plant Trustee, the Issuer, the Collateral Agent or the Independent Engineer promptly upon reasonable request such information concerning the Plant as such Person reasonably requests.

Obligations

The Company shall pay all of its obligations as and when due and payable, including trade payables in the ordinary course of business and taxes and tax claims, except (a) such obligations as may be contested in good faith by the Company or as to which a bona fide dispute may exist and against which adequate reserves are reflected in the Company's financial statements to the extent required by GAAP and (b) any obligation, if not paid when due, would not have a Material Adverse Effect.

Books, Records, Access

The Company shall maintain adequate books, accounts and records with respect to the Company and the Plant and the construction of the Pipeline and prepare all financial statements required under the Plant Loan Agreement in conformity with GAAP and in material compliance with the regulations of any Governmental Authority having jurisdiction thereof, and, subject to the terms and restrictions of the Project Contracts, permit employees or agents of Trustee, the Issuer, the Collateral Agent and the Independent Engineer at any reasonable time during Company's normal business hours and upon reasonable prior notice to Company, without undue disturbance to the Company's operations and at all times in reasonable compliance with the Company's health, safety, and environmental policies (assuming that the Company has provided adequate training to such person), to inspect all of the Company's properties including the Plant Site, to examine or audit all of the Company's books, accounts and records and make copies and memoranda thereof.

The Company shall, subject to the terms and restrictions of the Ground Lease and the other Project Contracts conveying to the Company its interests in the Company Real Property, the O&M Agreement, the Plant EPC Contract and the Pipeline EPC Contract, upon reasonable notice from the Independent Engineer provide the Independent Engineer with reasonable access to the Plant Site at all times during the Company's normal business hours, and access to and copies of such of the Plant's engineering drawings and civil and electrical designs and

interconnection facilities and project manuals so as to enable the Independent Engineer to deliver such certificates and written reports to the Plant Trustee, the Collateral Agent and a Senior Debt Majority as such Persons may request, including with regard to (a) the adequacy of the civil engineering and electrical designs of the Plant; (b) the compliance of said designs with all applicable standards and codes; (c) the projected life of selected components of the Plant; and (d) all required pre-operational, performance and other such tests with respect to the Plant as a whole.

Preservation of Rights; Further Assurances

The Company shall use all commercially reasonable efforts (i) to preserve, protect and defend its material rights under each and every Project Contract, including prosecution of suits to enforce any material rights of the Company thereunder and enforcement of any material claims with respect thereto, and (ii) to defend any material action, claim (other than claims with respect to Permitted Encumbrances) or other proceeding commenced or levied against it, except in each case where the failure to preserve, protect or defend would not reasonably be expected to have a Material Adverse Effect. The Company shall provide regular reports of such efforts to a Senior Debt Majority and the Plant Trustee.

From time to time as reasonably requested by the Plant Trustee or the Collateral Agent, the Company shall execute, acknowledge, record, register, deliver and/or file all such notices, statements, instruments and other documents (including any memorandum of lease or other agreement, financing statement, continuation statement, fixture filing, certificate of title or estoppel certificate) relating to the obligations of the Company under the Plant Loan Agreement stating the interest and charges then due and any known defaults, and take such other steps as may be necessary or reasonably advisable to render fully valid and enforceable under all applicable laws the rights, Liens and priorities of the Collateral Agent with respect to all Collateral and any security from time to time furnished under the Plant Loan Agreement and the other Financing Documents or intended to be so furnished, in each case in such form, together with such legal opinions as may reasonably be requested by the Collateral Agent and at such times as shall be reasonably satisfactory to Collateral Agent, and pay all reasonable fees and expenses of the Collateral Agent (including reasonable attorneys' fees) incident to compliance with this section captioned "Preservation of Rights; Further Assurances".

If the Company shall at any time acquire any real property or leasehold, easement or other interest in real property not covered by the Deed of Trust, promptly upon such acquisition, the Company shall execute, deliver and record a supplement to the Deed of Trust, reasonably satisfactory in form and substance to the Collateral Agent, subjecting such real property or leasehold, easement or other interests to the Lien and security interest created by the Deed of Trust.

Taxes, Other Government Charges and Utility Charges

The Company shall pay, or cause to be paid, as and when due and prior to delinquency, all taxes, assessments and governmental charges of any kind that may at any time be lawfully assessed or levied against or with respect to the Company or the Plant, all utility and other charges incurred in the construction, operation, maintenance, use, occupancy and upkeep of the Plant, and all assessments and charges lawfully made by any Governmental Authority for public improvements that may be secured by a Lien on the Plant. Notwithstanding the immediately preceding sentence, the Company may contest in good faith any such taxes, assessments and other charges and, in such event, may permit the taxes, assessments or other charges so contested to remain unpaid during any period, including appeals, when the Company is in good faith contesting the same, so long as, with respect to any such dispute or disputes involving taxes, assessments or other charges in amounts greater in the aggregate than \$750,000 (Escalated) (a) reasonable reserves in accordance with GAAP have been established in an amount sufficient to pay any such taxes, assessments or other charges, accrued interest thereon, potential penalties, additions to tax or other costs relating thereto, or other adequate provision for the payment thereof shall have been made; (b) enforcement of the contested tax, assessment or other charge is effectively stayed for the entire duration of such contest; and (c) any tax, assessment or other charge determined to be due, together with any interest, additions to tax or penalties thereon, is paid when due after resolution of such contest by final non-appealable judgment.

Compliance With Laws; Permits

At its expense, the Company shall (a) comply, or cause compliance, with Applicable Law; (b) procure, maintain and comply with, or cause to be procured, maintained and complied with, all Permits required under Applicable Law for any use of the Plant, or any part thereof, then being made (except, in the case of both the foregoing clause (a) and this clause (b), for any failure to comply, or procure and maintain, that would not reasonably be expected to have a Material Adverse Effect); and (c) in the case of a change of name or corporate reorganization involving the Company, take such actions, including the filing of appropriate notices with all Governmental Authorities that have issued applicable Permits, to maintain in full force and effect each applicable Permit, as may be required by Applicable Law. Notwithstanding the immediately preceding sentence, the Company may, at its expense, contest by appropriate proceedings conducted in good faith the validity or application of Applicable Law or any Permit and, in such event, may fail to comply with such provision of Applicable Law or any Permit or to procure or maintain any Permit so contested during any period, including appeals, when the Company is in good faith contesting the same, so long as, with respect to any such dispute or disputes, enforcement of the contested Applicable Law or Permit against the Company or the Plant shall have been effectively stayed for the entire duration of such contest.

Debt

The Company shall not incur, create, assume or permit to exist any Debt except Permitted Debt.

Distributions

The Company shall not, directly or indirectly, (a) make or declare any distribution (in cash, property or obligation) on, or make any other payment on account of, any interest in the Company or (b) make any Restricted Payment, unless otherwise permitted under the section captioned “PARTICULAR COVENANTS – Transactions with Affiliates” or the Collateral Trust Agreement.

Transactions With Affiliates

Except for (a) any noncompetition or confidentiality agreement entered into by the Company with any of its officers or directors, and typical indemnifications for officers and directors of the Company and of its General Partner for the performance of their duties as officers and directors in the ordinary course of business (b) those transactions otherwise expressly permitted or contemplated by the Plant Loan Agreement and the other Financing Documents, (c) any transaction permitted pursuant to subsection (j) of the section captioned “PARTICULAR COVENANTS – General Negative Covenants”, (d) arms-length transactions in the ordinary course of business not to exceed in the aggregate \$500,000 (Escalated) in any calendar year, (e) those transactions in place on the Series 2012 Closing Date, (f) payments for administrative or management services and overhead in any Fiscal Year in the amounts set forth therefor in the Operating Budget (or if prior to the Commercial Operation Date, the Project Construction Budget) for such year not to exceed three percent of the Operating Budget for any Budget Year after the Commercial Operation Date (or \$2,500,000 prior to the Commercial Operation Date), and (g) agreements for reasonable and customary indemnification and advancement of expenses with (i) any officer, director or employee of the Company, or (ii) any officer or director of any Partner, or (iii) any officer or director of Orion Water Partners LLC or any other Affiliate of the Company for so long as any entity described in clause (iii) is formed for the purpose of, and such entity’s assets consist solely of, a direct or indirect investment in the Company, the Company shall not directly or indirectly enter into any transaction or series of transactions with or for the benefit of an Affiliate.

Partnerships

The Company shall not become a general or limited partner in any partnership, a joint venturer in any joint venture or a member in any limited liability company. The Company shall not form or acquire any Subsidiaries.

Compliance With Transaction Documents

The Company shall (i) perform and observe all of its covenants and obligations contained in each of the Financing Documents and (ii) perform and observe all its covenants, and use reasonable commercial efforts to enforce its rights under, each of the Project Contracts, except to the extent that any failure to perform, observe or enforce such covenants or obligations in a Project Contract would not reasonably be expected to have a Material Adverse Effect. The Company shall take all reasonable and necessary action (to the extent within its control and permitted by the Transaction Documents) to prevent the termination or cancellation of any Project Contract in accordance with the terms thereof or otherwise, except to the extent that the cancellation or termination of such Project Contract by the Company would be permitted in accordance with the terms of the Collateral Trust Agreement or otherwise would not reasonably be expected to have a Material Adverse Effect.

Use of Plant Site

The Company shall not use, or permit to be used, the Plant Site for any purpose other than for the construction, operation and maintenance of the Plant and performance of the Project Contracts, including any Capital Project (including a Separate Project Modification) undertaken in accordance with the Collateral Trust Agreement, and the conduct of its business in accordance with the section captioned “PARTICULAR COVENANTS – Limited Business Company” and as contemplated by the Transaction Documents, without the prior written consent of a Senior Debt Majority.

Assignment

Except as contemplated by the Financing Documents, the Company shall not assign its rights under the Plant Loan Agreement or under any other Transaction Document to any Person.

Abandonment of Plant

The Company shall not abandon the operation of the Plant for a continuous period of more than 90 days, except when such interruption is caused by any Uncontrollable Circumstance, provided that neither (i) the scheduled or unscheduled maintenance of the Plant, (ii) the scheduled or unscheduled repairs to the Plant, nor (iii) a forced outage or scheduled outage of the Plant shall constitute abandonment of the Plant.

Environmental Matters

The Company shall not release, emit or discharge into the environment any Hazardous Substances in violation of applicable Environmental Laws or engage in any other action or omission in violation of any applicable Environmental Laws or other Applicable Law or applicable Permits that would reasonably be expected to have a Material Adverse Effect.

Cooperation With Collateral Agent

The Company shall cooperate with the Collateral Agent in sharing information required to calculate, ascertain or apply Revenues pursuant to the Collateral Trust Agreement.

Notice and Certificates to Trustee

The Company agrees to provide the Issuer, the Plant Trustee and the Remarketing Agent with the following:

(i) On or before June 15 and December 15 of each year during which any of the Series 2012 Plant Bonds are Outstanding, commencing June 15, 2013, a Certificate of the Company that all payments required under the Plant Loan Agreement have been made;

(ii) Within 120 days of the end of its fiscal year, a Certificate of the Company that it has complied with the requirements to make reports, including the reports concerning financial statements pursuant to the section captioned “PARTICULAR COVENANTS – Financial Statements; Notices”;

(iii) Promptly upon knowledge of an Event of Default, a written notice of such Event of Default, such notice to include a description of the nature of such event and what steps are being taken to remedy such Event of Default; and

(iv) On or before December 15 of each year during which any of the Series 2012 Plant Bonds are Outstanding, (i) a written disclosure of any significant change known to the Company which would adversely impact the Plant Trustee’s ability to perform its duties under the Plant Indenture, or of any conflicts which may result because of other business dealings between the Plant Trustee and the Company, and (ii) a representation of the Company that all certificates, approvals, permits and authorizations described in Section 2.1(g) that are necessary for the construction, as applicable, use or operation of the Plant continue in full force and effect, provided that with respect to any such certificate, approval, permit or authorization that must issue without discretion on the part of the issuer thereof, the Company need only disclose the absence of such certificate, approval, permit or authorization and the Company’s plan to acquire it.

Refund off Small Business Assistance Fund Contributions

The Company agrees to return to the Issuer amounts provided from its Small Business Assistance Fund upon the events and in the amounts set forth in the Plant Loan Agreement.

Changes to the Plant

The Company shall not make any changes to the Plant or to the operation thereof which would affect the qualification of the Plant under the Act or impair the exemption from federal income taxation of the interest on the Tax Exempt Series.

Right of Access to the Plant

The Company agrees that, during the term of the Plant Loan Agreement, the Issuer, the Plant Trustee and the duly authorized agents of any of them will have the right at all reasonable times during normal business hours to enter upon the site of the Plant to examine and inspect the Plant in conformance with industry practice; provided that reasonable notice shall be given to the Company prior to such examination or inspection and, except in cases of emergency, risk of personal injury or death, catastrophic property loss, or imminent risk of other property damage, any examination or inspection which would materially impair the performance of the Plant will be limited to scheduled maintenance periods as determined by the Water Authority in order to minimize impacts on Plant operations. The rights of access reserved to the Issuer and the Plant Trustee may be exercised only after such agent has executed release of liability and secrecy agreements if requested by the Company in the form then currently used by the Company, and nothing in this section captioned “Right of Access to the Plant” or in any other provision of the Plant Loan Agreement shall be construed to entitle the Issuer or the Plant Trustee to any information or inspection involving the confidential trade or proprietary knowledge, expertise or know-how of the Company.

NONLIABILITY OF ISSUER; EXPENSES, INDEMNIFICATION

Nonliability of Issuer

The Issuer shall not be obligated to pay the principal of, premium, if any, or interest on the Plant Bonds, except from Revenues and the amounts in the Accounts held by the Plant Trustee under the Plant Indenture and the amounts in the Accounts held by the Collateral Agent under the Collateral Trust Agreement which are pledged to such payment. Neither the faith and credit nor the taxing power of the State or of any political subdivision thereof shall be pledged to the payment of the principal of, premium, if any or interest on the Plant Bonds. The issuance of the Plant Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The

Issuer has no taxing power. Neither the members of the Issuer nor any official thereof nor any person executing the Plant Bonds shall be liable personally on the Plant Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

The Company acknowledges that the Issuer's sole source of moneys to repay the Plant Bonds will be provided by the payments made by the Company pursuant to the Plant Loan Agreement, together with other Revenues and amounts in the Accounts held by the Plant Trustee under the Plant Indenture and the amounts in the Accounts held by the Collateral Agent under the Collateral Trust Agreement which are pledged to such payment, and agrees that if the payments made under the Plant Loan Agreement shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Plant Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Plant Trustee, the Company shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Plant Trustee, the Company, the Issuer, or any third party.

Expenses

The Company covenants and agrees to pay the Issuer and the Plant Trustee all reasonable costs, expenses and charges, including fees and disbursements of attorneys, accountants, employees, consultants and other experts, incurred or paid by them, incurred in good faith in connection with the Plant Loan Agreement, any Plant Bonds or the Plant Indenture.

Indemnification

The Company releases the Issuer and the Plant Trustee from, and covenants and agrees that neither the Issuer nor the Plant Trustee, shall be liable for, and covenants and agrees to indemnify and hold harmless the Issuer, the Plant Trustee and their members, directors, officers, employees and agents from and against, any and all losses, claims, damages, liabilities or expenses (including without limitation, reasonable attorneys' fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments), of every conceivable kind, character and nature whatsoever (including, without limitation, federal and state securities laws) arising out of, resulting from or in any way connected with: (1) the Plant, or the conditions, occupancy, use, possession, conduct or management, or work done in or about the Plant or the Pipeline by or for the Company, or from the ownership, title to, planning, design, installation or construction of the Plant or the Pipeline or any part thereof; (2) the issuance, sale or resale, of the Plant Bonds or the Pipeline Bonds, or any certifications, covenants or representations made in connection therewith, the execution and delivery of the Plant Loan Agreement, the Plant Indenture or the Tax Certificate or any amendment thereto and the carrying out of any of the transactions contemplated by the Plant Bonds, the Pipeline Bonds, the Plant Loan Agreement and the Tax Agreement; (3) the Plant Trustee's acceptance or administration of the trusts under the Plant Indenture, or the exercise or performance of any of its powers or duties under the Plant Indenture; (4) the Issuer's acceptance of its responsibilities under the Plant Loan Agreement and under the Tax Agreement and the Plant Indenture; (5) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact required to be stated or necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, in the Limited Offering Memorandum (as defined in the Bond Purchase Agreement relating to the Series 2012 Plant Bonds) other than information that is not Company Information (as defined in the Bond Purchase Agreement relating to the Series 2012 Plant Bonds); (6) any violation of any Environmental Regulations or the release of any Hazardous Substance from, on or near the Plant or any other facilities of the Company; (7) the defeasance or redemption, in whole or in part, of the Plant Bonds; or (8) any declaration of taxability of interest on the Plant Bonds, or allegations that interest on the Plant Bonds is taxable or any regulatory audit or inquiry regarding whether interest in the Plant Bonds is taxable; provided that with respect to indemnification of the Issuer and its members, officers, employees and agents, such indemnity shall not be required for damages that result from gross negligence or willful misconduct on the part of the party seeking such release or indemnity and with respect to any other indemnified party, such indemnity shall not be required for damages that result from the negligence or willful misconduct on the part of the party seeking such indemnity. The Company further covenants and agrees, to the extent permitted by law, to pay or to reimburse the Issuer, the Plant Trustee, and their respective members, officers, employees, consultants and agents for any and all costs, reasonable attorneys' fees and expenses, liabilities or other expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities,

expenses or actions, except to the extent that the same arise out of the gross negligence or willful misconduct of the party claiming such payment or reimbursement. The provisions of this section captioned “Indemnification” shall survive the discharge of the Plant Indenture, the Plant Loan Agreement, the Tax Agreement, the retirement of the Plant Bonds and the Pipeline Bonds and with respect to the Plant Trustee, the resignation and removal of the Plant Trustee.

The Company shall indemnify, hold harmless and, at the option of the Plant Trustee, defend the Plant Trustee against any and all liability arising out of, or alleged to arise out of, the Plant Trustee’s agreement to indemnify, hold harmless and, at the option of the State Lands Commission of the State of California (the “Lands Commission”), defend the Lands Commission, its officers, agents, and employees against any and all liability arising out of, or alleged to arise out of, a failure by Trustee to inform prospective purchasers of the Company’s interest in Lease No. PRC 8727.1, dated August 14, 2007, among the Lands Commission, Cabrillo Power I, LLC and the Company, as amended, that they must be approved by the Lands Commission (absent the Plant Trustee’s gross negligence or willful misconduct).

LOAN DEFAULT EVENTS AND REMEDIES

Loan Default Events

The following events shall be “Loan Default Events”:

(a) If the Company shall fail to pay any Plant Loan Repayment when due and payable in accordance with the section captioned “REPAYMENT OF LOANS; ADDITIONAL PAYMENTS – Deposit of Revenues; Repayment of Loan”;

(b) An Event of Default under and as defined in the Plant Indenture occurs as a result of the Company’s failure to make any Contracted Shortfall Payment when due;

(c) If any representation or warranty made by the Company in the Plant Loan Agreement or in any document, instrument or certificate furnished to the Plant Trustee, the Issuer or the Collateral Agent in connection with the issuance of any Series of Plant Bonds shall at any time prove to have been incorrect in any material respect as of the time made and the Company fails to bring itself into material compliance with such representation as of a date within the 30-day period after written notice thereof from the Collateral Agent or a Senior Debt Majority; provided that, if the Company fails to bring itself into such compliance within such 30-day period, it will not be a Loan Default Event if the failure is correctable without a Material Adverse Effect, and corrective action is instituted by the Company within such period and diligently pursued until completion and, provided further, that any such failure is cured within 90 days of receipt of notice of such failure (unless the Company is diligently pursuing such cure and a Senior Debt Majority (in its sole discretion) has consented to the extension of such cure period);

(d) The Company fails to comply with its obligations under the Collateral Trust Agreement;

(e) The Company fails to comply with its obligations under subsection (n) of the section captioned “PARTICULAR COVENANTS – General Affirmative Covenants”;

(f) (i) If the Company shall fail to observe or perform any other covenant, condition, agreement or provision in the Plant Loan Agreement or any other Financing Document on its part to be observed or performed for a period of 60 days after written notice specifying such failure or breach and requesting that it be remedied, has been given to the Company by the Issuer, the Collateral Agent or the Plant Trustee; except that, if such failure can be remedied but not within such 60 day period and the Company has commenced action to remedy such failure within such 60 day period, such failure shall not become a Loan Default Event until 180 days after such notice (or with respect to a Permit the applicable time period in subsection (q) of this section captioned “Loan Default Events” so long as the Company shall diligently proceed to remedy same), or (ii) if any Financing Document (other than a Collateral Document) shall cease to be in full force and effect or be terminated except upon fulfillment of all obligations of the Company thereunder;

(g) If the Company files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of its facilities;

(h) If a court of competent jurisdiction shall enter an order, judgment or decree declaring the Company an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Company or of the whole or any substantial part of its facilities, or approving a petition filed against the Company seeking reorganization of the Company under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 90 days from the date of the entry thereof;

(i) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Company or of the whole or any substantial part of its facilities, and such custody or control shall not be terminated within 90 days from the date of assumption of such custody or control;

(j) A final judgment or judgments shall be entered against Company in the aggregate amount of \$2,000,000 (Escalated) or more individually and in the aggregate (other than (i) a judgment which is fully covered by insurance or discharged within 30 days after its entry, or (ii) a judgment, the execution of which is effectively stayed within 30 days after its entry but only for 30 days after the date on which such stay is terminated or expires);

(k) The Company shall default for a period beyond any applicable grace period (i) in the payment of any principal, interest or other amount due under any agreement (other than the Financing Documents) involving the borrowing of money or the advance of credit and the outstanding amount or amounts payable under all such defaulted agreements equals or exceeds \$2,000,000 (Escalated) in the aggregate;

(l) An ERISA Event shall occur and, as a result of such event, the Company shall incur a liability to a Pension Plan, a Multiemployer Plan or PBGC (or any combination of the foregoing) which could reasonably be expected to result in a Material Adverse Effect;

(m) (i) Except as provided in subsection (ii) below, the Company shall be in breach of, or default under, any Project Contract and any applicable cure period thereunder shall have expired with respect to such breach or default, if such breach or default could reasonably be expected to have a Material Adverse Effect; provided that such breach or default shall not be a Loan Default Event if such breach or default can be remedied and the Company has commenced action to remedy such breach or default, for so long as the Company shall diligently proceed to remedy the same and the other party to such Project Contract shall not have exercised any right to terminate or suspend performance thereunder, or (ii) the Company shall be in breach or default of its obligations to achieve the Commercial Operation Date under the Water Purchase Agreement;

(n) If any Principal Project Contract ceases to be valid and binding and in full force and effect (other than by reason of the termination of such Principal Project Contract at the end of the stated term thereof or upon the full and complete performance by each party thereto of all obligations thereunder, or the termination of the O&M Agreement by the Company, a termination of an EPC Contract after the Commercial Operation Date or any other termination or cancellation of such Principal Project Contract permitted under the Collateral Trust Agreement), or any counterparty thereto denies that it has any liability or obligation under any Principal Project Contract and such counterparty ceases performance thereunder; provided that such cessation of performance shall cease to be a Loan Default Event if, within 90 days from any such occurrence such counterparty resumes performance under the affected Principal Project Contract;

(o) The Company fails to comply with its obligations under Section 6.30, provided that any abandonment or cessation as described therein shall not constitute a Loan Default Event during the pendency of a good faith dispute with respect to the Plant; and provided further that any such abandonment or cessation that is caused by an Uncontrollable Circumstance shall not constitute a Loan Default Event so long as (i) such Uncontrollable Circumstance is reasonably susceptible to being cured by the Company and, (ii) if such abandonment or cessation due to an Uncontrollable Circumstance continues for more than 120 consecutive days, the Company

shall have demonstrated that amounts on deposit in the Capitalized Interest Account, together with delay damages under the Plant EPC Contract and the proceeds of delay in start-up and business interruption insurance and other sources, will be sufficient to make Plant Loan Repayments when due and payable;

(p) If (i) any of the Collateral Documents, once executed and delivered, shall, in any material respect fail to provide the Collateral Agent with the Liens, security interest, rights, titles, interest, remedies, powers or privileges intended to be created thereby or cease to be in full force and effect with respect to the Collateral, or the validity thereof or the applicability thereof to Secured Obligations purported to be secured or guaranteed thereby or any material part thereof, shall be disaffirmed by or on behalf of the Company or the Partners; or (ii) there shall occur an Event of Default (however defined) under any of the Collateral Documents, which Event of Default shall not have been cured within thirty (30) days after its occurrence; or

(q) Any applicable Permit shall be materially modified, revoked or cancelled by the issuing agency or other Governmental Authority having jurisdiction; provided that such modification, revocation or cancellation could reasonably be expected to have a Material Adverse Effect after taking into account any available proceeds from business interruption insurance or other sources; and provided further, that such modification, revocation or cancellation shall not be a Loan Default Event so long as it shall have been effectively stayed during the period in which the Company is contesting it in accordance with the section captioned "PARTICULAR COVENANTS – Compliance with Laws; Permits".

Remedies on Default

If a Loan Default Event shall occur, then, and in each and every such case during the continuance of such Loan Default Event, Collateral Agent, as assignee of the Issuer and the Plant Trustee may take any one or more of the following remedial steps:

(a) The Collateral Agent or the Issuer, may, if the Plant Bonds have been accelerated pursuant to Section 902 of the Plant Indenture and upon notice in writing to the Company, declare all installments of Plant Loan Repayments payable for the remainder of the term of the Plant Loan Agreement to be immediately due and payable, subject in all respects to the provisions of the Plant Indenture, whereupon the same shall be immediately due and payable, anything in the Plant Loan Agreement to the contrary notwithstanding. "All installments" as used in this subsection shall mean an amount equal to the entire principal amount of the then Outstanding Plant Bonds, together with any applicable redemption premiums and all interest accrued or to accrue on and prior to the next redemption date or dates on which the Plant Bonds can be redeemed after giving notice to the Owners thereof as required by the Plant Indenture (less moneys available for such purpose then held by the Plant Trustee) plus any other payments due or to become due under the Plant Loan Agreement, including, without limitation, any unpaid fees and expenses of the Plant Trustee (including reasonable attorneys' fees) which are then due or will become due prior to the time that the Plant Bonds are paid in full and the trust established by the Plant Indenture is terminated; provided, however, that if acceleration of the Plant Bonds has been rescinded and annulled pursuant to the Plant Indenture, acceleration of the Plant Loan Repayments required under the Plant Loan Agreement shall similarly be rescinded and annulled and the Loan Default Event occasioning such acceleration shall automatically be deemed to be waived; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

(b) The Collateral Agent (in its sole discretion), as assignee of the Issuer, may take whatever action, at law or in equity, as may appear necessary or desirable to collect the Plant Loan Repayments then due and thereafter to become due under the Plant Loan Agreement or to enforce the performance and observance of any obligation, covenant, agreement or provision contained in the Plant Loan Agreement to be observed or performed by the Company, including instituting foreclosure proceedings under the Deed of Trust in accordance with the Plant Indenture and taking any action to realize proceeds from the sale of any Collateral.

Remedies Not Exclusive; No Waiver of Rights; Collateral Agent

(a) No remedy in the Plant Loan Agreement conferred upon or reserved to the Issuer or the Plant Trustee, as assignee of the Issuer, is intended to be exclusive of any other available remedy or remedies, but each and every such remedy, to the extent permitted by law, shall be cumulative and shall be in addition to every other

remedy given under the Plant Loan Agreement or now or hereafter existing at law or in equity or otherwise. In order to entitle the Plant Trustee to exercise any remedy, to the extent permitted by law, reserved to it contained in the Plant Loan Agreement, it shall not be necessary to give any notice, other than such notice as may be expressly required in the Plant Loan Agreement. Any rights and remedies as are given to the Issuer under the Plant Loan Agreement shall also extend to the Plant Trustee, as assignee of the Issuer, and the Plant Trustee, in its sole discretion, may exercise any rights and will be charged with the obligations of the Issuer under the Plant Loan Agreement, and the Plant Trustee and, subject to subsection (c) below, the Owners of the Plant Bonds shall be deemed third party beneficiaries of all covenants and conditions contained in the Plant Loan Agreement.

(b) No delay in exercising or omitting to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

(c) Notwithstanding anything to the contrary in the section captioned “LOAN DEFAULT EVENTS AND REMEDIES – Remedies on Default” and this section captioned “Remedies Not Exclusive; No Waiver of Rights; Collateral Agent”, the Issuer acknowledges and agrees that, in the Collateral Trust Agreement, the Plant Trustee has (i) granted to a Senior Debt Majority the sole right to direct the exercise of remedies under the Plant Loan Agreement and the Plant Indenture, (ii) granted to the Collateral Agent the sole right to enforce such remedies, including an acceleration of the Plant Bonds and (iii) agreed that it will not pursue any remedy under the Plant Loan Agreement or the Plant Indenture with respect to an Event of Default.

Expenses on Default

In the event the Company should default under any of the provisions of the Plant Loan Agreement and the Issuer, the Plant Trustee or the Collateral Agent should employ attorneys or incur other expenses for the collection of the payments due under the Plant Loan Agreement, the Company agrees that it will on demand therefor pay to the Issuer, the Plant Trustee or the Collateral Agent the reasonable fees of such attorneys and such other reasonable expenses so incurred by the Issuer or the Plant Trustee.

MISCELLANEOUS

Further Assurances

The Company agrees that it will execute and deliver any and all such further agreements, instruments or other assurances as may be reasonably necessary or requested by the Issuer or the Plant Trustee to carry out the intention or to facilitate the performance of the Plant Loan Agreement.

Amendment of Plant Indenture

The Issuer covenants that, except as may be necessary to protect the Tax Exempt status of any Tax Exempt Plant Bonds, it will take no action to amend or supplement the Plant Indenture or any supplement thereto in any manner that would adversely affect the interests of the Company without obtaining the prior written consent of the Company to such amendment or supplement.

Notices

All notices, certificates or other communications shall be deemed sufficiently given upon actual receipt thereof when the same have been mailed by first class mail or by overnight mail, postage prepaid, addressed to the Issuer, the Company, the Plant Trustee, or the Rating Agencies, as the case may be, at the addresses set forth in, or changed pursuant to the Plant Indenture. A duplicate copy of each notice, certificate or other communication given under the Plant Loan Agreement by either the Issuer or the Company to the other shall also be given to the Plant Trustee. Unless otherwise requested by the Issuer, the Plant Trustee, the Company, any notice required to be given under the Plant Loan Agreement in writing may be given by any form of Electronic notice capable of making a written record. Each such party shall file with the Plant Trustee information appropriate to receiving such form of Electronic notice. The Issuer, the Company and the Plant Trustee may, by notice given under the Plant Loan

Agreement, designate any different addresses to which subsequent notices, certificates or other communications shall be sent.

Waiver of Personal Liability

No member, officer, agent or employee of the Issuer or any director, officer, shareholder, agent or employee of the Company shall be individually or personally liable for the payment of any principal of (or redemption price) or interest on the Bonds or any sum under the Plant Loan Agreement or under the Plant Indenture be subject to any personal liability or accountability by reason of the execution and delivery of the Plant Loan Agreement; but nothing contained in the Plant Loan Agreement shall relieve any such member, director, officer, shareholder, agent or employee from the performance of any official duty provided by law or by the Plant Loan Agreement.

Governing Law; Venue

The Plant Loan Agreement shall be construed in accordance with and governed by the Constitution and laws of the State applicable to contracts made and performed in the State. The Plant Loan Agreement shall be enforceable in the State, and any action arising out of the Plant Loan Agreement shall be filed and maintained in the Sacramento County Superior Court, Sacramento, California, unless the Issuer waives this requirement.

Binding Effect

The Plant Loan Agreement shall inure to the benefit of and shall be binding upon the Issuer and the Company and its respective successors and assigns, subject, however, to the limitations contained in the Plant Loan Agreement.

Severability of Invalid Provisions

If any one or more of the provisions contained in the Plant Loan Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in the Plant Loan Agreement and such invalidity, illegality or unenforceability shall not affect any other provision of the Plant Loan Agreement, and the Plant Loan Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Issuer and the Company each declares that it would have entered into the Plant Loan Agreement and each and every other section, paragraph, sentence, clause or phrase of the Plant Loan Agreement irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of the Plant Loan Agreement may be held illegal, invalid or unenforceable.

Agreement Represents Complete Agreement; Amendments

The Plant Loan Agreement represents the entire contract between the parties with respect to the matters in the Plant Loan Agreement. The Plant Loan Agreement may not be effectively amended, waived, changed, modified, altered or terminated except by the written agreement of the Company and the Issuer and the concurring written consent of the Plant Trustee, given in accordance with the provisions of the Plant Indenture.

Execution of Counterparts

The Plant Loan Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be original and all of which shall together constitute but one and the same instrument.

Term of Loan Agreement

Except as otherwise provided in the Plant Loan Agreement, the Plant Loan Agreement shall remain in full force and effect from the date of execution until no Plant Bonds remain Outstanding under the Plant Indenture.

Liability of Issuer Limited to Revenues

Notwithstanding anything in the Plant Loan Agreement or in the Series 2012 Plant Bonds contained, the Issuer shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Plant Indenture for any of the purposes mentioned in the Plant Indenture, whether for the payment of the principal of or interest on the Series 2012 Plant Bonds or for any other purpose of the Plant Indenture. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OR ANY LOCAL AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2012 PLANT BONDS. The Issuer shall not be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with the Plant Loan Agreement, the Series 2012 Plant Bonds or the Plant Indenture, except only to the extent amounts are received for the payment thereof from the Company under the Plant Loan Agreement.

The Company acknowledges that the Issuer's sole source of moneys to repay the Series 2012 Plant Bonds will be provided by the payments made by the Company to the Plant Trustee pursuant to the Plant Loan Agreement, together with investment income on certain funds and accounts held by the Plant Trustee under the Plant Indenture, and agrees that if the payments to be made under the Plant Loan Agreement shall ever prove insufficient to pay all principal (or redemption price) and interest on the Series 2012 Plant Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Plant Trustee, the Company shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal (or redemption price) or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Plant Trustee, the Company, the Issuer or any third party, subject to any right of reimbursement from the Plant Trustee, the Issuer or any such third party, as the case may be, therefor.

Survival of Fee Obligation; No Prevailing Party

The right of the Issuer and the Plant Trustee, to receive any fees or to be reimbursed for any expenses incurred pursuant to the Plant Loan Agreement, and the right of the Issuer and the Plant Trustee to be protected from any liability as provided in the Plant Loan Agreement, shall survive the retirement of the Plant Bonds and the termination of the Plant Loan Agreement. Nothing in the Plant Loan Agreement shall be construed to provide for the award of attorneys' fees and costs to the Issuer or the Company for the enforcement of the Plant Loan Agreement, as described in Section 1717 of the California Civil Code. Nothing in this section captioned "Survival of Fee Obligation; No Prevailing Party" affects the rights of the Plant Trustee as provided in the Plant Loan Agreement.

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**SUMMARY OF CERTAIN PROVISIONS OF THE
PLANT INDENTURE**

The following summarizes certain provisions of the Plant Trust Indenture dated December 24, 2012, as amended (the “**Plant Indenture**”), by and between the California Pollution Control Financing Authority, a political subdivision and public instrumentality of the State of California (the “**Issuer**”) and MUFG Union Bank, N.A., as trustee (the “**Plant Trustee**”).

CERTAIN DEFINITIONS

Acceptable Credit Provider means a bank or trust company authorized to engage in the banking business having a combined capital and surplus of at least \$500,000,000 or the equivalent thereof whose long-term unsecured debt is rated “A” or higher by S&P and Fitch Ratings and “A2” or higher by Moody’s or a surety provider or other financial institution whose long-term unsecured debt is rated “A-” or higher by S&P and Fitch Ratings and “A3” or higher by Moody’s; provided if any of such rating agencies are no longer in business or are no longer rating unsecured debt of banks, trust companies, surety providers or similar financial institutions, such bank or trust company, surety provider, or similar financial institution shall have a comparable rating of another nationally recognized rating service.

Account Letter of Credit means an irrevocable, unconditional, direct pay letter of credit: (a) in a form reasonably acceptable to the Collateral Agent; (b) issued by an Acceptable Credit Provider and in respect of which the Company is not the account party; (c) the Collateral Agent is the beneficiary and holder thereof; (d) which clearly identifies which Account such letter of credit shall be credited to; and (e) which has been issued for the sole purposes of either (i) satisfying the Company’s obligations under the Collateral Trust Agreement to fund a Debt Service Reserve Fund, the Working Capital Reserve Fund or any other Account established under the Collateral Trust Agreement which is designated as a reserve fund or account or (ii) securing the Limited Partner’s obligations under the Equity Contribution Agreement.

Act means the California Pollution Control Financing Authority Act (Chapter 1 (commencing with Section 44500 of Division 27 of the Health and Safety Code), as now in effect and as it may from time to time hereafter be amended.

Additional Payments means the amounts payable to the Issuer, the Plant Trustee or other Persons pursuant to the section captioned “REPAYMENT OF LOANS; ADDITIONAL PAYMENTS – Additional Payments” under “SUMMARY OF CERTAIN PROVISIONS OF THE PLANT LOAN AGREEMENT”.

Additional Plant Bonds means any bonds issued under the Plant Indenture other than the Series 2012 Plant Bonds.

Additional Plant Lender means a holder of Additional Plant Senior Debt (other than Additional Plant Bonds) or any trustee or similar agent thereof.

Additional Plant Senior Debt means Additional Plant Bonds and Debt that was issued after the Series 2012 Closing Date that is secured on a parity with the Series 2012 Plant Bonds and the Contracted Shortfall Payments.

Additional Project Contract means any material contract or agreement related to the construction of the Pipeline or the construction, operation or use of the Plant entered into by the Company and any other Person, or assigned to the Company, subsequent to the Series 2012 Closing Date, excluding any such contract or agreement (i) providing for the payment by the Company of less than \$1,000,000 (Escalated) per annum individually, (ii) providing for the delivery by the Company of less than \$1,000,000 (Escalated) per annum individually in value of goods or services, (iii) having a term no greater than one year, (iv) having a term of greater than one year, if the Company has the right to terminate such contract or agreement upon no more than 90 days’ notice, or (v) entered into in respect of Eligible Investments or Additional Plant Senior Debt.

Affiliate of any Person means any other Person who, directly or indirectly, Controls or is Controlled by or is under common Control with such other Person.

Alternate Liquidity Facility means any bond purchase agreement, letter of credit or other liquidity facility delivered to the Plant Trustee pursuant to the Plant Indenture and may include any combination of such facilities.

Applicable Law means any law, regulation, requirement or order of any federal, state or local government agency, court or other governmental body, including any building code or the terms and conditions of any Permit, license or governmental approval, applicable from time to time to the Project or, with respect to any Person, the performance by such Person of any obligation under the Transaction Documents.

Authorized Denominations means \$250,000 and any integral multiple of \$5,000 in excess of \$250,000.

Authorized Representative means, with respect to any party to any Financing Document, any Person or Persons at the time designated to act on behalf of such party by a written certificate, containing a specimen signature of such person or persons, which is duly executed on behalf of such party; provided that, with respect to the Issuer, such term means Chair, Executive Director or any other person designated by the Chair as aforesaid.

Bank Bonds means any Series of Plant Bonds purchased by the Liquidity Facility Provider or its assignee pursuant to a Liquidity Facility.

Beneficial Owner or **Beneficial Owners** has the meaning set forth the Plant Indenture.

Bond Counsel means Orrick, Herrington & Sutcliffe LLP or such other firm of attorneys of nationally recognized standing in the field of law relating to municipal bond law and the excludability of interest on state or local bonds from gross income of the owners of the Plant Bonds for purposes of federal income taxation, selected by the Issuer and acceptable to the Plant Trustee and the Company.

Bond Insurance Policy means, for any Additional Plant Bonds, a financial guarantee insurance policy guaranteeing the scheduled payment of all principal of and interest on such Additional Plant Bonds when due or an irrevocable letter of credit issued for the purpose of guaranteeing the Company's obligation to pay scheduled principal, or sinking fund redemption price of and interest on such Additional Plant Bonds, in each case, with administrative provisions reasonably satisfactory to the Collateral Agent or the agent or fiduciary for the corresponding Additional Plant Bonds(as applicable, in each case, issued by an Acceptable Credit Provider).

Bond Insurer means any issuer of a Bond Insurance Policy.

Bondholder or **Holder** means a Registered Owner.

Business Day means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in Los Angeles, California or New York, New York close, or in the city where the Payment Office or Principal Office of the Plant Trustee or the Collateral Agent is located are authorized or obligated by law or executive order to close, or The New York Stock Exchange is authorized or obligated by law or executive order to close or is actually closed.

Capital Lease Obligations of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

Capital Project means (i) replacement or renewal of all or a portion of the Plant following an Event of Loss or Event of Eminent Domain, or (ii) a modification or expansion of the Plant after the Commercial Operation Date that is permitted under the Collateral Trust Agreement; for which, in each of the foregoing cases, the costs of which are required in accordance with GAAP to be capitalized on the Company's balance sheet.

Carlsbad means the City of Carlsbad, California.

Code means the Internal Revenue Code of 1986, as amended, from time to time. A reference to any specific section of the Code shall be deemed also to be a reference to the comparable provisions of any enactment that supersedes or replaces the Code.

Collateral has the meaning set forth in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Collateral Agent means MUFG Union Bank, N.A., as collateral agent under the Collateral Trust Agreement, and any successor collateral agent or co-agent thereunder.

Collateral Agent's Remedies Agreement means the Collateral Agent's Remedies Agreement between the Water Authority and the Collateral Agent.

Collateral Documents means the Deed of Trust, the Pledge Agreements, the Equity Contribution Agreement, the Equity Security Instruments, the Security Agreement, the Collateral Trust Agreement, the Control Agreement each Consent, any fixture filings, financing statements, or other similar documents filed, recorded or delivered in connection with the foregoing, and any other agreement, document or instrument pursuant to which a Lien is granted securing any Secured Obligations or under which rights or remedies with respect to any such Lien are governed.

Collateral Trust Agreement means the Collateral Trust Agreement, dated as of December 20, 2012, as amended, among the Collateral Agent, the Company and the Secured Parties identified therein.

Commercial Operation Date means the date on which the Provisional Acceptance Conditions (as defined in the Water Purchase Agreement) have been satisfied.

Commodity Hedging Arrangements means any interest rate, other financial or commodity swap, cap or collar agreement or similar arrangement between the Company (or its agent or nominee) and one or more banks or other financial institutions providing for the transfer or mitigation of commodity risks either generally or under specific contingencies (including confirmations thereunder) that (i) contain terms, and are otherwise in form and substance, customary for similar transactions; and (ii) cover Transactions (as defined therein) having a notional principal amount in the aggregate less than or equal to the aggregate principal amount of hedged loans or other obligations (if necessary, as the same may be reasonably estimated by the Company for such date).

Company means Poseidon Resources (Channelside) LP, a Delaware limited partnership.

Company Real Property means (a) the Plant Site and the easements, rights and interests in real property granted to the Company pursuant to the Ground Lease and any other agreements granting the Company the right to use real property to construct the Plant and (b) rights to access the Pipeline route granted to the Company in the Pipeline DBA.

Consents means the Collateral Agent's Remedies Agreement and the individual agreements among the Collateral Agent and one of the following Persons in which such Person agrees, among other things, to the assignment to the Collateral Agent by the Company of the Principal Project Contract to which it is a party: the Ground Lessor, the EPC Contractor (with respect to both EPC Contracts), the EPC Guarantor, Poseidon Resources IP LLC, the Operator, Carlsbad, SDG&E, the California State Lands Commission, Poseidon Water LLC and each counterparty to an Additional Project Contract.

Construction Account or Plant Construction Account means the account by that name created and established in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Contracted Shortfall Payments means the payments required to be made by the Company under the Pipeline DBA and the Water Purchase Agreement.

Contractor Security Account means the account of such name established pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Control means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and the terms “Controlling” and “Controlled” and “under common control with” shall have meanings correlative thereto.

Control Agreement means the Collateral Account Control Agreement, dated as of December 20, 2012 among the Company, the Collateral Agent and MUFG Union Bank, N.A., in its capacity as securities intermediary.

Cost of Issuance means all items of expense directly or indirectly payable by or reimbursable to the Issuer or the Company and related to the authorization, issuance, sale and delivery of the Plant Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Plant Trustee and the Collateral Agent, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution and safekeeping of the Plant Bonds and any other cost, charge or fee in connection with the original issuance of the Plant Bonds which constitutes a “cost of issuance” within the meaning of Section 147(g) of the Code.

Counsel means an attorney at law or a firm of attorneys (who may be an employee of or counsel to the Issuer, the Plant Trustee, the Collateral Agent, the Bond Insurer, the Liquidity Facility Provider or the Company) duly admitted to the practice of law before the highest court of any state of the United States of America or of the District of Columbia knowledgeable about the relevant law and reasonably acceptable to the Plant Trustee, the Collateral Agent and the Company.

Counterparty Interest Hedging Payment means any payment (after giving effect to any netting on a given payment date) to be made to, or for the benefit of, the Company, under any Interest Hedging Arrangement.

Daily Rate means the variable interest rate on Plant Bonds of a Tax-Exempt Series established in accordance with the Plant Indenture.

Daily Rate Period means each period during which Plant Bonds bear interest at the Daily Rate.

Debt of any Person at any date means, without duplication:

(a) indebtedness created, issued or incurred by such Person for borrowed money (whether by loan or the issuance and sale of debt securities or the sale of Property of such Person to another Person subject to an understanding or agreement, contingent or otherwise, to repurchase such Property of such Person from such Person);

(b) notes payable and drafts accepted by such Person representing extensions of credit whether or not representing obligations for borrowed money;

(c) any obligation owed by such Person for all or any part of the deferred purchase price of property or services (excluding any such obligations incurred under ERISA), which purchase price is due more than six months from the date of incurrence of the obligation in respect thereof;

(d) the face amount of any letter of credit or similar instrument issued for the account of such Person or as to which such Person is otherwise liable for reimbursement of drawings;

(e) the direct or indirect Guarantee, endorsement (otherwise than for collection or deposit in the ordinary course of business), co-making, discounting with recourse or sale with recourse by such Person of the obligation of another (provided that such obligation of such Person shall be “Debt” under the Collateral Trust Agreement only if and to the extent that the assurance such Person is providing to such obligee is in respect of an obligation that otherwise constitutes “Debt” under the Collateral Trust Agreement);

(f) any obligation of such Person the primary purpose or intent of which is to provide assurance to an obligee that the obligation of the obligor thereof will be paid or discharged or the holders thereof will be protected (in whole or in part) against loss in respect thereof (provided that such obligation of such Person shall be “Debt” under the Collateral Trust Agreement only if and to the extent that the assurance such Person is providing to such obligee is in respect of an obligation that otherwise constitutes “Debt” under the Collateral Trust Agreement);

(g) any liability of such Person for an obligation of another through any agreement (contingent or otherwise) (i) to purchase, repurchase or otherwise acquire such obligation or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise) or (ii) to maintain the solvency or any balance sheet item, level of income or financial condition of another if, in the case of any agreement described under subclauses (i) or (ii) of this clause (g), the primary purpose or intent thereof is as described in clause (f) above (provided that such liability of such Person shall be “Debt” under the Collateral Trust Agreement only if and to the extent that the related obligation otherwise constitutes “Debt” under the Collateral Trust Agreement);

(h) all ordinary course trade payables which are more than 90 days overdue;

(i) all obligations of such person in respect of any exchange traded or over the counter derivative transaction or any interest rate protection or commodity hedging transaction, including any transaction under any Interest Hedging Arrangement or Commodity Hedging Arrangement; and

(j) Capital Lease Obligations.

Debt Service Reserve Fund or Plant Debt Service Reserve Fund means the fund of that name established pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Deed of Trust means that certain Leasehold Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing executed by the Company, as trustor, in favor of the deed of trust trustee for the benefit of the Collateral Agent, as beneficiaries.

Defeasance Obligations means the obligations described in clauses (a) and (b) of the definition of “Eligible Investments” and any other direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by the United States of America, including the interest portion of obligations of the Resolution Funding Corporation to the extent so guaranteed.

Development Agreement means the Amended and Restated Development Agreement, by and between Carlsbad and the Company.

DTC means The Depository Trust Company acting as the securities depository as set forth in the Plant Indenture or any successor securities depository under the Plant Indenture.

Eligible Investments means any investment set forth below that matures (or is redeemable at the option of the owner thereof or is marketable prior to maturity) at such time or times as to enable disbursements to be made from the Fund or Account in which such investment is held in accordance with the terms of the Collateral Trust Agreement or the Plant Indenture:

(i) Governmental Obligations;

(ii) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies or such other like governmental or government-sponsored agencies which may be hereinafter created: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Federal Home Loan Bank System; Export Import Bank of the United States; Farmers Home Administration; Small Business Administration; Inter-American Development Bank; International Bank for Reconstruction and Development; Federal Land Banks; the Federal National Mortgage Association; the Government National Mortgage Association; or the Tennessee Valley Authority;

(iii) Debt obligations of any state of the United States or any political subdivision of any state, or of any agency or instrumentality of any state or of any political subdivision thereof, if at the time of their purchase such obligations are rated at the time of investment in any of the three highest Rating Categories by any Rating Agency;

(iv) Negotiable or non-negotiable certificates of deposit, time deposits, demand deposits, including interest bearing money market accounts, trust funds, trust accounts, bankers acceptances or other similar banking arrangements, issued by any bank or trust company (including the Collateral Agent, the Plant Trustee and their respective affiliates) the deposits of which to the extent uninsured, by the Federal Deposit Insurance Corporation, are to be secured as to principal by the securities listed in subsections (i), (ii), or (iii) above;

(v) Repurchase agreements or similar arrangements: (x) with any banking institutions or other financial services company, including the Collateral Agent, the Plant Trustee and their respective Affiliates if applicable, having or the parent company of which shall be rated at the time of investment in any of the three highest Rating Categories by any Rating Agency, pursuant to which has been delivered to the Collateral Agent, or its designee, investments of the types set forth in subsections (i) and/or (ii) above having at all times a fair market value of at least 100% of the value of such agreement; or (y) with any banking institutions or other financial services company, including the Collateral Agent, the Plant Trustee and their respective Affiliates if applicable, not meeting the rating requirements of (x) above pursuant to which there shall have been delivered to the Collateral Agent or its designee, investments of the types set forth in subsections (i) and/or (ii) above and at all times having a fair market value of at least 102% of the value of such agreement;

(vi) Shares of an open-end, diversified investment company that is qualified under Rule 2a-7 promulgated under the Investment Company Act of 1940, the shares of which are registered under the Securities Act of 1933, and having aggregate net assets of not less than \$50,000,000 on the date of purchase (including any such mutual fund for which the Collateral Agent, the Plant Trustee or an affiliate of either of them, serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (A) the Collateral Agent, the Plant Trustee or an affiliate of either of them, receives fees from such funds for services rendered, (B) the Collateral Agent and the Plant Trustee charge and collect fees for services rendered pursuant to the Collateral Trust Agreement and the Plant Indenture, respectively, which fees are separate from the fees received from such funds, and (C) services performed for such funds and pursuant to the Collateral Trust Agreement or the Plant Indenture may at times duplicate those provided to such funds by the Collateral Agent, the Plant Trustee or an affiliate of either of them;

(vii) Redeemable securities of a “unit investment trust” as defined in the Investment Company Act of 1940, each of which represents an undivided interest in a unit of specified qualified investments of the types set forth in subsections (i), (ii) or (iii) above;

(viii) Commercial paper rated at the time of investment in the highest Rating Category by any Rating Agency, and having a maturity at the time of purchase not to exceed six months; and

(ix) guaranteed investment contracts with any bank or investment banking firm or other financial services company the long-term debt of which is rated at the time of investment in any of the three highest Rating Categories by any Rating Agency.

EPC Contracts means the Plant EPC Contract and the Pipeline EPC Contract, together.

EPC Contractor means Kiewit Shea Desalination, a joint venture.

EPC Guarantee means the Guarantee Dated December 20, 2012 from the EPC Guarantor in favor of the Company with respect to the EPC Contractor’s obligations under the EPC Contract.

EPC Guarantor means Kiewit Infrastructure Co.

Equity Contribution Agreement means the Equity Contribution Agreement, dated as of December 20, 2012, between the Company, the Limited Partner and the Collateral Agent.

Equity Security Instrument means an Account Letter of Credit securing the obligations of the Limited Partner under the Equity Contribution Agreement.

ERISA means the Employee Retirement Income Security Act of 1974 as amended from time to time.

Event of Default means an occurrence or event specified in and defined as such by the Plant Indenture, a Loan Default Event specified in and defined as such by the section captioned “LOAN DEFAULT EVENTS AND REMEDIES – Loan Default Events” under “SUMMARY OF CERTAIN PROVISIONS OF THE PLANT LOAN AGREEMENT” or an event of default identified in any other Financing Document entered into in respect of Additional Plant Senior Debt that permits the exercise of remedies under such document.

Event of Eminent Domain means any compulsory transfer or taking by condemnation, eminent domain or exercise of a similar power, or transfer under threat of such compulsory transfer or taking, of any part of the Collateral, by any Governmental Authority having jurisdiction.

Event of Loss means an event which causes any material part of the Collateral or a material part of the Plant to be damaged, destroyed or rendered unfit for normal use for any reason whatsoever, other than an Event of Eminent Domain.

Favorable Opinion of Bond Counsel means, with respect to any action relating to any Tax Exempt Series of Plant Bonds, the occurrence of which requires such an opinion, a written legal opinion of Bond Counsel to the effect that such action, in and of itself, is permitted under the Plant Indenture and will not have an adverse effect on the exclusion of interest on such Tax Exempt Series of Plant Bonds from gross income for purposes of federal income taxation.

Financing Documents or Plant Financing Documents means (a) the Plant Bonds, the Plant Loan Agreement, the Plant Indenture, the Tax Agreement, (b) any purchase agreement or remarketing agreement entered into in connection with the Plant Senior Debt, (c) any agreement, document, indenture or instrument providing for or evidencing Secured Obligations owing to any Additional Plant Lender, and (d) the Collateral Documents.

Flexible Rate means, with respect to any Plant Bond, the non-variable interest rate associated with such Plant Bond established in accordance with the Plant Indenture.

Flexible Rate Period means with respect to any Plant Bond, each period, comprised of Flexible Segments, during which such Plant Bond bears interest at Flexible Rates.

Flexible Segment means, with respect to any Plant Bond bearing interest at a Flexible Rate, the period established in accordance with the Plant Indenture.

GAAP means generally accepted accounting principles in the United States or, when used in the context of financial statements of a Person organized or operating under the laws of a foreign jurisdiction, in such jurisdiction.

General Partner means Poseidon Resources Channelside GP, Inc., a Delaware corporation and any subsequent general partner of the Company.

Governmental Authority means the government of the United States of America or any other nation, any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

Ground Lease means the Second Amended and Restated Ground Lease and Easement Agreement, dated as of April 7, 2011, between Cabrillo Power I LLC and the Company, as amended pursuant to the First Amendment, dated as of October 5, 2010; the Second Amendment, dated as of December 14, 2011; the Third Amendment, dated as of February 10, 2012; the Fourth Amendment, dated as of March 23, 2012; the Fifth Amendment, dated as of April 24, 2012; the Sixth Amendment, dated as of May 15, 2012; the Seventh Amendment, dated as of June 29,

2012; the Eighth Amendment, dated as of July 31, 2012; the Ninth Amendment, dated as of August 9, 2012; and the Tenth Amendment, dated as of December 11, 2012.

Ground Lessor means Cabrillo Power I LLC.

Guarantee of or by any Person (the “guarantor”) means any obligation, contingent or otherwise, of (a) the guarantor or (b) another Person (including any bank under a letter of credit) to induce the creation of which the guarantor has issued a reimbursement, counterindemnity or similar obligation, in either case guaranteeing or having the economic effect of guaranteeing any Debt or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation, contingent or otherwise, of the guarantor, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Debt or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt or other obligation of the payment of such Debt or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt or other obligation, (iv) as an account party in respect of any letter of credit or letter of guaranty issued to support such Debt or obligation or (v) to otherwise assure or hold harmless the owner of such Debt or other obligation against loss in respect thereof; provided, however, that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business.

IDE Guarantees means each of the Guarantees by IDE in favor of the Company of IDE Americas’ obligations to the Company under (i) the Process Service Agreement and (ii) the O&M Agreement.

Insured Bonds means any Plant Bonds that are insured by a Bond Insurance Policy.

Interest Hedging Arrangement means any interest rate swap similar arrangement between the Company (or its agent or nominee) and one or more banks or other financial institutions providing for the transfer or mitigation of interest risks either generally or under specific contingencies (including confirmations thereunder) that (i) require Counterparty Interest Hedging Payments to be made directly to the Collateral Agent, (ii) contain terms, and are otherwise in form and substance, customary for similar transactions; and (iii) cover transactions (as identified therein) having a notional principal amount in the aggregate less than or equal to the aggregate principal amount of hedged Plant Senior Debt (if necessary, as the same may be reasonably estimated by the Company and confirmed by a Senior Debt Majority).

Interest Payment Date means (a) with respect to the Series 2012 Plant Bonds, each July 1 and January 1, and (b)(i) with respect to any Daily Rate Period or Weekly Rate Period, the first Business Day of each calendar month, (ii) with respect to any Term Rate Period or any Taxable Rate Segment of more than 180 days, the first day of the sixth calendar month following the effective date of such Term Rate Period or Taxable Rate Segment, as the case may be, and the first day of each successive sixth calendar month, if any, of such Term Rate Period or Taxable Rate Segment, as the case may be, (iii) with respect to any Flexible Segment, the Business Day next succeeding the last day thereof; (iv) with respect to any Taxable Rate Segment of 180 days or less, the Business Day next succeeding the last day of such Taxable Rate Segment; (v) with respect to each Rate Period, the Business Day next succeeding the last day thereof, each Conversion Date and the final Stated Maturity of the Plant Bonds; and for Bank Bonds, each day specified as an Interest Payment Date for Bank Bonds in the Liquidity Facility and any day on which Bank Bonds are remarketed. The Interest Payment Date for any Additional Plant Bonds shall be the dates set forth in the supplemental indenture authorizing the issuance of such Additional Plant Bonds, and the Interest Payment Date for any Additional Plant Senior Debt (other than Additional Plant Bonds) shall be the dates set forth in the related Financing Documents for such Additional Plant Senior Debt.

Issue Date means, with respect to any Series of Plant Bonds, the date on which such Series of Plant Bonds is issued and delivered.

Issuer means the California Pollution Control Financing Authority created pursuant to, and as defined in, the Act.

Lien means, with respect to any Property, (a) any mortgage, deed of trust, lien (statutory or otherwise), pledge, hypothecation, encumbrance, collateral assignment, charge or security interest in, on or of such Property, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such Property and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

Limited Partner means Poseidon Resources Channelside Holdings LLC, a Delaware limited liability company and any subsequent or additional limited partners of the Company.

Liquidity Facility means the Standby Bond Purchase Agreement and any Alternate Liquidity Facility.

Liquidity Facility Provider means the bank or banks or other financial institution or other Person or Persons issuing a Liquidity Facility, an Alternate Liquidity Facility, subject to the approval of the Bond Insurer, if any. If any Alternate Liquidity Facility is issued by more than one bank, financial institution or other Person, notices required to be given to the Liquidity Facility Provider may be given to the bank, financial institution or other Person under such Alternate Liquidity Facility appointed to act as agent for all such banks, financial institutions or other Persons.

Liquidity Facility Purchase Account means the Liquidity Facility Purchase Account within the Purchase Fund created pursuant to the Plant Indenture.

Loan Default Event has the meaning specified in the section captioned “LOAN DEFAULT EVENTS AND REMEDIES – Loan Default Events” under “SUMMARY OF CERTAIN PROVISIONS OF THE PLANT LOAN AGREEMENT”.

Loan Repayments or Plant Loan Repayments means the payments so designated and required to be made by the Company pursuant to the Plant Loan Agreement, as further described in the section captioned “REPAYMENT OF LOANS; ADDITIONAL PAYMENTS – Deposit of Revenues Repayment of Loans” under “SUMMARY OF CERTAIN PROVISIONS OF THE PLANT LOAN AGREEMENT”.

Management Services Agreement means the Management Services Agreement, dated as of December 20, 2012, among the Company, the General Partner and Poseidon Water LLC.

O&M Agreement means the Facility Operation, Maintenance, Repair and Replacement Agreement between the Company and the Operator.

Operator means IDE Americas, Inc.

Outstanding in connection with the Plant Bonds means, as of the time in question, all Plant Bonds authenticated and delivered under the Plant Indenture, except:

(A) Plant Bonds theretofore canceled or required to be canceled under the section captioned “THE PLANT BONDS – Cancellation of Surrendered Plant Bonds” or described in the section captioned “ACCOUNTS; APPLICATION OF PROCEEDS – Non-Presentment of Plant Bonds”;

(B) Plant Bonds which are deemed to have been paid in accordance with the section captioned “DEFEASANCE”;

(C) Plant Bonds (including Plant Bonds which are deemed to have been purchased pursuant to the section captioned “TENDER AND PURCHASE OF PLANT BONDS; REMARKETING; REMARKETING AGENT – Irrevocable Notice Deemed to be Tender of Plant Bond; Undelivered Plant Bonds”) in substitution for which other Plant Bonds have been authenticated and delivered pursuant to the section captioned “THE PLANT BONDS”; and

(D) Plant Bonds paid pursuant to the section captioned “THE PLANT BONDS – Mutilated, Destroyed, Lost or Stolen Plant Bonds”.

In determining whether the Owners of a requisite aggregate principal amount of Outstanding Plant Bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of the Plant Indenture, Plant Bonds that are owned of record by the Company or any Affiliate thereof or held by the Plant Trustee for the account of the Company shall be disregarded and deemed not to be Outstanding under the Plant Indenture for the purpose of any such determination (except that, in determining whether the Plant Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Plant Bonds which the Plant Trustee knows to be so owned or held shall be disregarded) unless all Plant Bonds are owned by the Company or any Affiliate thereof and/or held by the Plant Trustee for the account of the Company, in which case such Plant Bonds shall be considered Outstanding for the purpose of such determination.

Owner means Registered Owner.

Participant means a member of, or a participant in, the Securities Depository.

Paying Agent means the Plant Trustee.

Payment Office means the corporate trust office of the Plant Trustee where payment of principal, premium, if any, and interest on the Plant Bonds is made, as designated by the Plant Trustee from time to time. The initial Payment Office shall be the office of the Plant Trustee in Los Angeles, California.

Permits means any and all franchises, licenses, leases, permits, approvals, notifications, certifications, registrations, authorizations, exemptions, qualifications, easements, rights of way, Liens and other rights, privileges and approvals required to be granted or entered into by, or filed or made with, any Governmental Authority under Applicable Law.

Person means any natural person, corporation, trust, business trust, joint venture, joint stock company, association, company, limited liability company, partnership, Governmental Authority or other entity.

Pipeline means, collectively, the pipelines, pumps, connectors and related equipment and structures required to deliver product water from the outlet flange of the product water pump station at the Plant Site to Water Authority’s aqueduct.

Pipeline Bonds means the Series 2019 Pipeline Bonds and any additional bonds issued under the Pipeline Indenture.

Pipeline DBA means the Design-Build Agreement for the Product Water Pipeline Improvements Relating to the Carlsbad Seawater Desalination Project, dated December 20, 2012, between the Water Authority and the Company.

Pipeline EPC Contract means the Product Water Delivery System Engineering, Procurement and Construction Services Agreement between the Company and the Pipeline EPC Contractor.

Pipeline Indenture means the Trust Indenture by and between the California Pollution Control Financing Authority and MUFG Union Bank, N.A.

Pipeline Trustee means MUFG Union Bank, N.A., in its capacity as trustee under the Pipeline Indenture.

Plant means the reverse osmosis seawater desalination facility together with related pumps, pipelines, connectors and other equipment and structures to be constructed, operated and maintained on the Company Real Property in Carlsbad, California pursuant to the Plant EPC Contract, and all ancillary facilities, equipment and infrastructure in connection therewith.

Plant Bond Fund means such fund created by the Plant Indenture.

Plant Bonds means the Series 2012 Plant Bonds and any Additional Plant Bonds. Plant EPC Contract means the Desalination Facility Engineering, Procurement and Construction Services Agreement between the Company and the Plant EPC Contractor.

Plant EPC Contractor means Kiewit Infrastructure West Co. and J.F. Shea Construction, Inc.

Plant Indenture means the Trust Indenture between the Issuer and the Plant Trustee pursuant to which the Series 2012 Plant Bonds were issued, including any indentures supplemental to the Plant Indenture or amendatory of the Plant Indenture.

Plant Loan Agreement means the Plant Loan Agreement by and between the Issuer and the Company, as from time to time amended and supplemented including for the purpose of evidencing a loan of the proceeds of Additional Plant Bonds.

Plant Senior Debt means the Plant Bonds, any Additional Plant Senior Debt that is not Plant Bonds and the Company's obligations to make Contracted Shortfall Payments.

Plant Site means the real property subject to the Ground Lease and all easements and rights or interests in real property granted to the Company pursuant to the Ground Lease.

Plant Trustee means MUFG Union Bank, N.A., in its capacity as trustee under the Plant Indenture.

Pledge Agreements means (a) the Pledge and Security Agreement, dated as of the Closing Date between the General Partner, the Company and the Collateral Agent and (b) the Pledge and Security Agreement, dated as of the Closing Date between the Limited Partner, the Company and the Collateral Agent.

Prepayment Fund means the fund of such name established pursuant to the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Principal Office means, with respect to the Plant Trustee or the Pipeline Trustee, the corporate trust office of MUFG Union Bank, N.A. located in Los Angeles, California, which office at the time of the issuance of the Series 2012 Plant Bonds and the Pipeline Bonds was located at the address specified in the Plant Indenture and the Pipeline Indenture, or any other corporate trust office of the Plant Trustee or the Pipeline Trustee identified in a notice sent in accordance with the Plant Indenture or the Pipeline Indenture, as applicable.

Principal Project Contracts means the O&M Agreement, the Water Purchase Agreement, the Pipeline DBA, the EPC Contracts (prior to the Commercial Operation Date), the Ground Lease, the Management Services Agreement, the Process Services Agreement, the IDE Guarantees, the EPC Guarantee, the State Lands Commission Lease, the SDG&E Contracts, the Development Agreement and any Additional Project Contracts.

Process Services Agreement means the Process Services Agreement dated December 20, 2012 between the EPC Contractor and IDE Americas.

Project means the Plant and the Pipeline, together.

Project Contracts means the Principal Project Contracts and any other contracts or agreements relating to the development or construction of the Pipeline or the development, construction, operation or use of the Plant to which the Company is a party, excluding the Financing Documents.

Property means any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible. For the avoidance of doubt, for purposes of the Financing Documents, Property includes all Renewable Energy Certificates and Verified Emissions Reductions notwithstanding any provision of Applicable Law.

Purchase Fund means such fund created by the Plant Indenture.

Rate Period means any Daily Rate Period, Weekly Rate Period, Flexible Rate Period, Taxable Rate Period or Term Rate Period.

Rebate Fund means such fund created by the Plant Indenture.

Registered Owner means the Person or Persons in whose name or names a Plant Bond is registered on the Plant Bond Register or a Pipeline Bond is registered on the Pipeline Bond Register.

Registrar means the Plant Trustee.

Remarketing Account means such account created by the Plant Indenture.

Remarketing Agent means any remarketing agent qualified under The Plant Indenture and identified as such in a supplemental indenture.

Retained Rights or **Plant Retained Rights** of the Issuer means (i) the Issuer's right to obtain notices, reports and opinions and Additional Payments and indemnification; (ii) the Issuer's right to provide approvals and consents; and (iii) the Issuer's nonexclusive right to enforce the provisions of the Tax Agreement, provided, that the Issuer shall retain the exclusive right, as the taxpayer pursuant to the Internal Revenue Service Form 8038, which shall be completed by or on behalf of the Issuer in connection with the issuance of the Plant Bonds, to communicate with the Internal Revenue Service in any investigation of the Plant Bonds by the Internal Revenue Service.

SDG&E means San Diego Gas and Electric Company.

SDG&E Contract mean the Special Conditions Contract dated October 1, 2009, between the Company and SDG&E.

Secured Obligations means, collectively, without duplication: (i) with respect to the holders of Senior Debt, (a) all of the Company's financial liabilities and obligations, of whatsoever nature and however evidenced (including, but not limited to, principal, interest, premium, Contracted Shortfall Payments, fees, reimbursement obligations, penalties, termination payments, settlement amounts, amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Law, indemnities and legal and other expenses, whether due after acceleration, termination or otherwise) to the Secured Parties in their capacity as such under the Financing Documents or any other agreement, document or instrument evidencing, securing or relating to such financial liabilities or obligations, in each case, direct or indirect, primary or secondary, fixed or contingent, now or hereafter arising out of or relating to any such agreements; (b) any and all sums advanced by any of the Secured Parties in order to preserve the Collateral or preserve its security interest in the Collateral; and (c) in the event of any proceeding for the collection or enforcement of the obligations described in clauses (a) and (b) above, after an Event of Default has occurred and is continuing and unwaived, the expenses of retaking, holding, preparing for sale or lease, selling or otherwise disposing of or realizing on the Collateral, or of any exercise by any of the Secured Parties of its rights under the Collateral Documents, together with reasonable attorneys' fees and court costs, (ii) with respect to MUFU Union Bank, N.A., the Company's obligations to pay any amounts due to the Collateral Agent or the Plant Trustee under the Collateral Trust Agreement or the Plant Indenture, (iii) with respect to the Issuer, the Company's obligation with respect to the Retained Rights, and (iv) with respect to the Plant EPC Contractor, the Company's obligation to make payments to the Plant EPC Contractor from the Contractor Security Account in accordance with the Collateral Trust Agreement.

Secured Parties means the Issuer, the Plant Trustee (for the benefit of the registered owners of the Plant Bonds), the Pipeline Trustee (for the benefit of the registered owners of the Pipeline Bonds), the Bond Insurer, in respect of Insured Bonds, the Plant EPC Contractor in respect of the Contractor Security Account and the Additional Plant Lenders; provided that, notwithstanding anything to the contrary in the Collateral Trust Agreement or any other Financing Document, MUFU Union Bank, N.A., in its individual capacity, is a Secured Party solely for purpose of having a security interest in the Collateral with respect to amounts payable by the Company to the

Collateral Agent or the Plant Trustee under the Collateral Trust Agreement or the Plant Indenture, the Issuer is a Secured Party solely for the purpose of having a security interest in the Retained Rights and the Plant EPC Contractor is a Secured Party solely for the purpose of having a security interest in the Contractor Security Account, and none of the Bank, the Issuer or the Plant EPC Contractor will have any rights of a Secured Party with respect to giving approvals and consents, receiving notices or anything else except to the extent that any such rights relate to the payments due to the Collateral Agent or the Plant Trustee, Retained Rights or the disposition of amounts held in the Contractor Security Account.

Securities Depository means initially The Depository Trust Company, New York, New York, and its successors and assigns, or a successor clearing agency designated pursuant to the Plant Indenture.

Security Agreement means the Security Agreement between the Company and the Collateral Agent.

Senior Debt means the Plant Bonds, the Contracted Shortfall Payments and any Additional Plant Senior Debt that is not Plant Bonds.

Senior Debt Majority has the meaning set forth in the Collateral Trust Agreement. (See Appendix E to this Limited Offering Memorandum.)

Series means all Plant Bonds of a designated series.

Series 2012 Closing Date means the date of the issuance of the Series 2012 Plant Bonds.

Series 2012 Plant Bond Holding Fund means such fund created by the Plant Indenture.

Series 2012 Plant Bonds means the Issuer's Water Furnishing Revenue Bonds (Poseidon Resources (Channelside) LP Desalination Project), Series 2012 authorized and issued under the Plant Indenture.

Series 2019 Pipeline Bonds means the Issuer's Water Furnishing Revenue Refunding Bonds (San Diego County Water Authority Desalination Project Pipeline), Series 2019, authorized and issued under the Pipeline Indenture.

Standby Bond Purchase Agreement means any Standby Bond Purchase Agreement among the Company, the Liquidity Facility Provider and the Plant Trustee.

State means the State of California.

State Lands Commissions Lease means the Lease PRC 8727.1, executed by Cabrillo and the State of California State Lands Commission on May 31, 2007 and August 14, 2007, respectively, together with the State Lands Commission Lease Amendment.

State Lands Commission Lease Amendment means the Amendment of Lease PRC 8727.1, effective as of August 22, 2008, among the Commission, Cabrillo and the Company.

Stated Maturity means as to any Plant Bond the date specified in such Plant Bond as the fixed date on which the principal is due and payable.

Tax Agreement means any tax certificate and agreement, entered in connection with the issuance of any Plant Bonds of a Tax-Exempt Series or in connection with a conversion of a Taxable Rate Plant Bond to a Tax-Exempt Plant Bond, between the Issuer and the Company, as the same may be amended or supplemented in accordance with its terms.

Tax Exempt means, with respect to interest on any obligations of a state or local government, including any Tax Exempt Series, that such interest is excluded from gross income of the Owners or Beneficial Owners thereof for federal income tax purposes (other than in the case of an Owner or Beneficial Owner of any Plant Bonds

who is a substantial user of the Project or a related person within the meaning of Section 147(a) of the Code) whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax or environmental tax, under the Code.

Tax Rate means the interest rate or rates applicable to Plant Bonds of a Taxable Series during any Taxable Rate Period or Taxable Rate Segment, established pursuant to the supplemental indenture authorizing such Plant Bonds.

Taxable Rate Period means any period during which the Plant Bonds of a Taxable Series bear interest at one or more Taxable Rates.

Taxable Rate Segment means any period within a Taxable Rate Period during which the Plant Bonds of a Taxable Series (or any part thereof) bear interest at a Taxable Rate established at the commencement of such Taxable Rate Segment and continuing until such Taxable Rate is re-set at the commencement of the next Taxable Rate Segment, all as provided in the supplement indenture authorizing such Plant Bonds.

Tender Agent means each Person qualified under the Plant Indenture to act as Tender Agent and so appointed by the Company, and so acting from time to time, and its successors.

Tender Date means the date on which Plant Bonds are required to be purchased pursuant to the Plant Indenture.

Tender Price means the purchase price to be paid to the Owners of the Plant Bonds purchased pursuant to the Plant Indenture, which shall be equal to the principal amount thereof tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Payment Date; provided, however, that in the case of a Conversion or attempted Conversion from a Term Rate Period on a date on which the Plant Bonds being converted would otherwise be subject to optional redemption pursuant to the Plant Indenture if such Conversion did not occur, the Tender Price shall also include the optional redemption premium, if any, provided for such date under the Plant Indenture.

Term Rate means a nonvariable interest rate on the Plant Bonds established in accordance with the Plant Indenture.

Term Rate Period means each period of 12 months or more during which a Term Rate is in effect.

Transaction Documents means, collectively, the Financing Documents and the Project Contracts.

Trust Estate or Plant Trust Estate means the property interests conveyed to the Plant Trustee pursuant to the granting clauses of the Plant Indenture, excluding Retained Rights.

Water Authority means the San Diego County Water Authority.

Water Purchase Agreement means the Water Purchase Agreement, dated as of December 20, 2012, as amended, between the Company and the Water Authority.

Weekly Rate means the variable interest rate on the Plant Bonds of a Tax-Exempt Series established in accordance with the Plant Indenture.

Weekly Rate Period means each period during which the Plant Bonds of a Tax-Exempt Series bear interest at Weekly Rates.

Working Capital Reserve Fund means the fund of such name established pursuant to the Collateral Trust Agreement.

Written Order of the Issuer and **Written Request of the Issuer** mean, respectively, a written consent, order, request or requisition signed by or on behalf of the Issuer by an Authorized Representative of the Issuer.

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THE PLANT BONDS

Authorization of Plant Bonds

Plant Bonds may be issued in Series from time to time under the Plant Indenture in an unlimited amount under the conditions set forth in the Plant Indenture.

Authorization and Issuance of Plant Bonds

The Issuer shall issue the Plant Bonds following the execution of the Plant Indenture and the Plant Trustee shall, at the Issuer's written request, authenticate such Plant Bonds and deliver them as specified in such request. The Series 2012 Plant Bonds shall be issued in the original aggregate amount of \$530,345,000 and shall be designated "Water Furnishing Revenue Bonds, Series 2012 (Poseidon Resources (Channelside) LP Desalination Project)" and shall be numbered separately from R-1 upwards. The Series 2012 Plant Bonds shall be issued as Term Bonds in substantially the form set forth in the Plant Indenture, in Authorized Denominations only and dated their Issue Date. The Series 2012 Plant Bonds shall bear interest at the annual rate or rates and mature on the final maturity date or dates as are set forth in the Plant Indenture and shall be subject to redemption as provided in the Plant Indenture.

Plant Bonds of a Series shall be dated the Issue Date for such Series, shall mature, subject to prior redemption upon the terms and conditions hereinafter set forth, on the Stated Maturity, and shall bear interest as provided in the Plant Indenture from the Issue Date. The Plant Bonds shall bear interest from and including the Issue Date until payment of the principal or redemption price thereof shall have been made or provided for in accordance with the provisions hereof, whether at Stated Maturity, upon prior redemption or otherwise. Interest on each Plant Bond shall be payable on each Interest Payment Date for each such Plant Bond for the period commencing on the next preceding interest Payment Date (or if no interest has been paid thereon, commencing on the Issue Date) and ending on the day next preceding such Interest Payment Date; provided, however, that if, as shown by the records of the Plant Trustee, interest on the Plant Bonds shall be in default, Plant Bonds shall bear interest from the last date to which interest has been paid in full or duly provided for on the Plant Bonds or, if no interest has been paid or duly provided for on the Plant Bonds, from the Issue Date thereof. Each Plant Bond shall bear interest on overdue principal at the rate borne by the Plant Bonds on the date on which such principal became due and payable. The Plant Trustee shall insert the date of authentication of each Plant Bond in the place provided for such purpose in the form of certificate of authentication of Plant Trustee to be printed on each Plant Bond except for the initial Plant Bond of each Series.

The principal of and premium, if any, and interest on the Plant Bonds shall be payable in any coin or currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts, and such principal and premium, if any, shall be payable at the Payment Office of the Plant Trustee. Unless otherwise provided by a supplemental indenture authorizing a Series of Additional Plant Bonds, payment of interest on any Interest Payment Date on any Plant Bond shall be made to the Owner thereof as of the close of business on the Record Date immediately prior thereto and shall be (i) made by check or draft mailed on the Interest Payment Date to the Owner as of the close of business on the Record Date immediately preceding the interest Payment Date, at his or her address as it appears on the registration books of the Issuer or at such other address as is furnished to the Plant Trustee in writing by such Owner not later than the close of business on the Record Date for such Interest Payment Date, or (ii) transmitted by wire transfer to the accounts with members of the Federal Reserve System located within the continental United States of America of those Owners which own at least \$1,000,000 in aggregate principal amount of the Plant Bonds and which shall have provided wire transfer instructions to the Plant Trustee prior to the close of business on such Record Date, but, in the case of interest payable in respect of a Flexible Segment and a Taxable Rate Segment, only upon presentation of such Plant Bond for exchange or transfer (unless the Plant Bonds are in the book-entry registration system) in accordance with the provisions hereof.

During any Daily Rate Period, Flexible Rate Period or Weekly Rate Period, interest on Plant Bonds bearing interest at the Daily Rate, the Flexible Rate or the Weekly Rate shall be computed upon the basis of a 365 or 366 day year, as applicable, for the number of days actually elapsed. During any Term Rate Period or any Taxable Rate Segment of more than 180 days, interest on Plant Bonds bearing interest at the Term Rate or Taxable Rate shall be

computed upon the basis of a 360 day year, consisting of 30 day months. During any Taxable Rate Segment of 180 days or less, interest on Plant Bonds bearing interest at the Taxable Rate shall be computed upon the basis of a 360 day year consisting of the number of days actually elapsed. Separate CUSIP numbers may be obtained to identify Plant Bonds with nonidentical characteristics.

Each Series of any Additional Plant Bonds shall rank equally and on a parity with the Plant Bonds of any other Series and shall be equally and ratably secured under the Plant Indenture with the Plant Bonds and any other Additional Plant Bonds, without preference, priority or distinction, and shall be co-equal as to the lien of the Plant Indenture regardless of the time of delivery thereof. Nothing in this section captioned "Authorization and Issuance of Plant Bonds" shall require (i) that any Additional Plant Bonds bear interest at the same rate, have the same or an earlier or later Stated Maturity, or be subject to redemption prior to Stated Maturity on the same basis as Outstanding Plant Bonds; (ii) that any revenue bonds or other obligations (referred to in this sentence as "related bonds") which may be issued by the Issuer must be issued as Additional Plant Bonds under the Plant Indenture; (iii) that the Plant Bonds must rank equally and on a parity with any such related bonds not issued as Additional Plant Bonds; or (iv) that the Plant Bonds must be secured by a pledge of the revenues derived from any enlargements, improvements or expansions financed with the proceeds of related bonds. The Issuer shall not incur any indebtedness or issue any bonds or other obligations of any sort (other than the Plant Bonds) secured by a pledge of the Trust Estate.

Determination of Rate Periods and Interest Rates

In the manner provided in the Plant Indenture, the term of the Plant Bonds will be divided into consecutive Rate Periods during which Plant Bonds of a Tax Exempt Series shall bear interest at the Daily Rate, the Weekly Rate, the Flexible Rate or the Term Rate, and Plant Bonds of a Taxable Series shall bear interest at the Taxable Rate. The Plant Bonds shall bear interest at the rate or rates per annum established from time to time in accordance with the provisions of the Plant Indenture. Prior to the first Tax Exempt Conversion Date, any Plant Bonds of a Taxable Series shall be in a Taxable Rate Period. Any Plant Bond of a Taxable Series shall bear interest only at a Taxable Rate, but Plant Bonds of a Taxable Series may be in different Taxable Rate Segments and may bear interest at different Taxable Rates. Any Tax Exempt Series may be in a different Rate Period from Plant Bonds of a different Tax Exempt Series. The initial Rate Period for each Series of Additional Plant Bonds shall be set forth in the supplemental indenture for such Series of Additional Plant Bonds. Additional Plant Bonds may be in a different Rate Period from Plant Bonds of a different Series.

(a) ***Determination of Daily Rate.*** During each Daily Rate Period for any Tax Exempt Series of Plant Bonds, such Plant Bonds shall bear interest at the Daily Rate, which shall be determined by the Remarketing Agent on each Business Day no later than 10:00 a.m. (New York City time) on such Business Day. The Daily Rate shall be the lowest rate determined by the Remarketing Agent to be the interest rate which would enable the Remarketing Agent to sell the Plant Bonds of such Tax Exempt Series on the effective date of such rate at a price equal to 100% of the principal amount thereof (without regard to accrued interest); provided, however, that with respect to any day which is not a Business Day and any other day for which the Remarketing Agent shall not have determined a Daily Rate, the Daily Rate for such day shall be the same as the Daily Rate for the immediately preceding day. In no event shall the Daily Rate exceed the Maximum Rate. The Remarketing Agent shall provide the Plant Trustee with immediate notice by telecopy or other electronic means as may be agreed upon (at both its Principal Office and its Payment Office) of each Daily Rate, as determined.

(i) ***Adjustment to Daily Rate.*** At any time (but only to be effective on or after any Tax Exempt Conversion Date with respect to any Taxable Series of Plant Bonds), the Company, by written direction to the Issuer, the Plant Trustee, the Bond Insurer and the Remarketing Agent, and subject to subsection (h) under this section captioned "Determination of Rate Periods and Interest Rates", may elect that the Plant Bonds of a Tax Exempt Series shall bear interest at a Daily Rate. Such direction shall specify the Tax Exempt Series of Plant Bonds and the effective date of such adjustment to a Daily Rate, which shall be a Business Day not earlier than the 15th day following the fifth Business Day after the date of receipt by the Plant Trustee of such direction, and (1) in the case of an adjustment from a Term Rate Period shall be the day immediately following the last day of the then current Term Rate Period or on any day that the Issuer, at the direction of the Company, would be permitted to redeem the Plant Bonds pursuant to, and at the price described in, subsection (a)(iv) under the section captioned "REDEMPTION OF PLANT

BONDS BEFORE MATURITY – Redemption Dates and Prices”, and (2) in the case of an adjustment from a Flexible Rate Period or a Taxable Rate Segment, shall be the day immediately following the last day of the then current Flexible Rate Period or the applicable Taxable Rate Segment with respect to the Plant Bonds to be converted, as the case may be, as determined in accordance with subsection (d)(iv) or subsection (e)(ii) under this section captioned “Determination of Rate Periods and Interest Rates”. During each Daily Rate Period commencing on a date so specified or determined and ending on the day immediately preceding the effective date of the next succeeding Rate Period, the interest rate borne by such Plant Bonds shall be a Daily Rate.

(ii) **Notice of Adjustment to Daily Rate.** Except with respect to adjustment to a Daily Rate Period occurring on a Tax Exempt Conversion Date with respect to a Taxable Series, the Plant Trustee (upon written instruction provided by the Company) shall give notice of an adjustment to a Daily Rate Period to Owners not less than 15 days prior to the effective date of such Daily Rate Period. Such notice shall state (1) that the interest rate on the Plant Bonds of a Tax Exempt Series will be adjusted to a Daily Rate (subject to compliance with subsection (h) of this section captioned “Determination of Rate Periods and Interest Rates” and to the Company’s ability to rescind its election as described in subsection (g) of this section captioned “Determination of Rate Periods and Interest Rates”), (2) the effective date of such Daily Rate Period, (3) that all such Plant Bonds are subject to mandatory purchase on such effective date, and (4) the procedures of such purchase and payment of the purchase price. The Issuer shall provide the Plant Trustee with written notice of any information required to enable the Plant Trustee to give the foregoing notice at least 18 days prior to the effective date of such Weekly Rate Period.

(b)

(i) **Determination of Weekly Rate.** During each Weekly Rate Period for any Tax Exempt Series of Plant Bonds, such Plant Bonds shall bear interest at the Weekly Rate, which, in the case of the first Weekly Rate determined for each Weekly Rate Period, shall be determined by the Remarketing Agent no later than 5:00 p.m. (New York City time) on the first day of such Weekly Rate Period and thereafter no later than the Business Day next preceding the Wednesday of each week during such Weekly Rate Period. The Weekly Rate shall be the rate determined by the Remarketing Agent to be the lowest interest rate which would enable the Remarketing Agent to sell the Plant Bonds of such Tax Exempt Series on the effective date of such rate at a price equal to 100% of the principal amount thereof (without regard to accrued interest); provided, however, that if the Remarketing Agent shall not have determined a Weekly Rate for any period, the Weekly Rate for such period shall be the same as the Weekly Rate for the immediately preceding period. In no event shall the Weekly Rate exceed the Maximum Rate. The first Weekly Rate determined for each Weekly Rate Period shall apply to the period commencing on the first day of such period and ending on the next succeeding Tuesday. Thereafter, each Weekly Rate shall apply to the period commencing on each Wednesday and ending on the next succeeding Tuesday; provided, however, if a Weekly Rate Period shall end on a day other than Tuesday, the last Weekly Rate for such Weekly Rate Period shall apply to the period commencing on the Wednesday preceding the last day of such Weekly Rate Period and ending on such last day. The Remarketing Agent shall provide the Plant Trustee with immediate notice by telecopy or other electronic means as may be agreed upon of each Weekly Rate, as determined.

(ii) **Adjustment to Weekly Rate.** At any time but only to be effective on or after the Tax Exempt Conversion Date with respect to any Taxable Series of Plant Bonds, the Company, by written direction to the Issuer, the Plant Trustee, the Bond Insurer and the Remarketing Agent, and subject to subsection (h) of this section captioned “Determination of Rate Periods and Interest Rates”, may elect that the Plant Bonds of a Tax Exempt Series shall bear interest at a Weekly Rate. Such direction shall specify the Tax Exempt Series of Plant Bonds and the effective date of such adjustment to a Weekly Rate which shall be a Business Day not earlier than the 15th day following the fifth Business Day after the date of receipt by the Plant Trustee of such direction, and (1) in the case of an adjustment from a Term Rate Period, shall be the day immediately following the last day of the then current Term Rate Period or on any day that the Issuer at the direction of the Company would be permitted to redeem the Plant Bonds pursuant to, and at the price described in, subsection (a)(iv) of the section captioned “REDEMPTION OF PLANT BONDS BEFORE MATURITY – Redemption Dates and Prices”, and (2) in the case of an adjustment from

a Flexible Rate Period or a Taxable Rate Segment, shall be the day immediately following the last day of the then current Flexible Rate Period or the applicable Taxable Rate Segment with respect to the Plant Bonds to be converted, as the case may be, as determined in accordance with subsections (d)(iv) or (e)(ii) under this section captioned "Determination of Rate Periods and Interest Rates". During each Weekly Rate Period commencing on a date so specified or determined and ending on the day immediately preceding the effective date of the next succeeding Rate Period, the interest rate borne by the Plant Bonds shall be a Weekly Rate.

(iii) **Notice of Adjustment to Weekly Rate.** Except with respect to adjustment to a Weekly Rate Period occurring on a Tax Exempt Conversion Date with respect to any Taxable Series of Plant Bonds, the Plant Trustee (upon written instruction provided by the Company) shall give notice of an adjustment to a Weekly Rate Period to Owners not less than 15 days prior to the effective date of such Weekly Rate Period. Such notice shall state (1) that the interest rate on the Plant Bonds of a Tax Exempt Series will be adjusted to a Weekly Rate (subject to compliance with subsection (h) of this section captioned "Determination of Rate Periods and Interest Rates" and to the Company's ability to rescind its election as described in subsection (g) of this section captioned "Determination of Rate Periods and Interest Rates"), (2) the effective date of such Weekly Rate Period, (3) that all such Plant Bonds are subject to mandatory purchase on such effective date, and (4) the procedures for such purchase and payment of the purchase price. The Issuer, upon written request of the Company, shall provide the Plant Trustee with written notice of any information required to enable the Plant Trustee to give the foregoing notice at least 18 days prior to the effective date of such Daily Rate Period.

(c) **Term Bonds.** This subsection (c) shall not apply to any Term Bonds with the Term Rate Period ending at the Stated Maturity thereof.

(i) **Determination of Term Rate.** During each Term Rate Period for any Series of Tax Exempt Plant Bonds, such Plant Bonds shall bear interest at the Term Rate determined by the Remarketing Agent on a Business Day selected by the Remarketing Agent, but not more than 45 days prior to the first day of such Term Rate Period. The Term Rate shall be the rate determined by the Remarketing Agent on such date, and filed on such date with the Plant Trustee and the Company, by written notice or by telephone promptly confirmed by facsimile or other writing, as being the lowest rate which would enable the Remarketing Agent to sell the Plant Bonds of such Series on the effective date of such Term Rate at a price equal to 100% of the principal amount thereof. In the event that the Term Rate is not or cannot be determined by the Remarketing Agent for whatever reason, the interest rate mode of such Plant Bond shall be converted automatically to the Weekly Rate (without the necessity of complying with the requirements of subsection (b)(ii) of this section captioned "Determination of Rate Periods and Interest Rates", including the requirement of mandatory purchase) and the Weekly Rate shall be equal to the 110% of the SIFMA Swap Index; provided that such Plant Bonds shall bear interest at a Weekly Rate, but only if there is delivered to the Issuer, the Plant Trustee, the Tender Agent, the Bond Insurer, the Company and the Remarketing Agent a Favorable Opinion of Bond Counsel to the effect that so determining the interest rate to be borne by Plant Bonds at a Weekly Rate is authorized or permitted by the Act and will not adversely affect the exclusion from gross income of interest on the Plant Bonds for federal income tax purposes. If such opinion is not delivered, such Plant Bonds will bear interest for a Rate Period of the same length as the immediately preceding Rate Period at the interest rate which was in effect for the preceding Rate Period (or, if shorter, a Rate Period ending on the day before the Stated Maturity). In no event shall any Term Rate be greater than the Maximum Rate.

(ii) **Adjustment to or Continuation of Term Rate.** At any time, but only to be effective on or after the Tax Exempt Conversion Date with respect to any Taxable Series of Plant Bonds, the Company, by written direction to the Issuer, the Plant Trustee, the Bond Insurer and the Remarketing Agent, and subject to subsection (h) of this section captioned "Determination of Rate Periods and Interest Rates", may elect that the Plant Bonds of any Series shall bear, or continue to bear, interest at a Term Rate, and if it shall so elect, shall determine the duration of the Term Rate Period during which such Plant Bonds shall bear interest at such Term Rate. As a part of such election, the Company also may determine that the initial Term Rate Period shall be followed by successive Term Rate Periods and, if the Company so elects, shall specify the duration of each such successive Term Rate Period as provided in this paragraph (ii). Such

direction shall (A) specify the Tax Exempt Series of Plant Bonds and the effective date of each Term Rate Period which shall be a Business Day not earlier than the 15th day following the fifth Business Day after the date of receipt by the Plant Trustee of such direction, and (1) in the case of an adjustment from a Flexible Rate Period or a Taxable Rate Segment, shall be the day immediately following the last day of the then current Flexible Rate Period or the applicable Taxable Rate Segment with respect to the Plant Bonds to be converted, as the case may be, as determined in accordance with subsections (d)(iv) or (e)(ii) of this section captioned "Determination of Rate Periods and Interest Rates" and (2) in the case of an adjustment from a Term Rate Period, shall be the day immediately following the last day of the then current Term Rate Period or on any day that the Issuer at the direction of the Company would be permitted to redeem the Plant Bonds of such Tax Exempt Series pursuant to, and at the price described in, subsection (a)(iv) under the section captioned "REDEMPTION OF PLANT BONDS BEFORE MATURITY – Redemption Dates and Prices"; (B) specify the last day of such Term Rate Period or, if successive Term Rate Periods shall have been designated, the last day of each such Term Rate Period (which shall be for each Term Rate Period either the Stated Maturity, or a day which both immediately precedes a Business Day and is at least 180 days after the effective date thereof.). If the Company shall designate successive Term Rate Periods, but shall not, with respect to the second or any subsequent Term Rate Period, specify any of the information described in clause (A) above, the Company, by written direction to the Issuer, the Plant Trustee and the Remarketing Agent, given not later than the fifth Business Day preceding the 15th day prior to the first day of such successive Term Rate Period, may specify any of such information not previously specified with respect to such Term Rate Period which information shall be accompanied by a Favorable Opinion of Bond Counsel as described above, if required. During the Term Rate Period commencing and ending on the dates so determined and during each successive Term Rate Period, if any, the interest rate borne by the Plant Bonds shall be a Term Rate.

If, by the fifth Business Day preceding the 14th day prior to the last day of any Term Rate Period, the Plant Trustee shall not have received notice of the Company's election that, during the next succeeding Rate Period, the Plant Bonds of a Tax Exempt Series shall bear interest at a Daily Rate, a Weekly Rate, a Flexible Rate or a Term Rate, the next succeeding Rate Period shall be a Term Rate Period of the same duration as the immediately preceding Term Rate Period; provided, however, that if the last day of any successive Term Rate Period shall not be a day immediately preceding a Business Day, then such successive Term Rate Period shall end on the first day immediately preceding the Business Day next succeeding such day or, if such Term Rate Period would end after the day prior to the Stated Maturity for such Series, the next succeeding Rate Period shall be a Term Rate Period ending on the day prior to the Stated Maturity for such Series.

(iii) ***Notice of Adjustment to or Continuation of Term Rate.*** Except with respect to adjustment to a Term Rate Period occurring on a Tax Exempt Conversion Date with respect to any Taxable Series of Plant Bonds, the Plant Trustee (upon written instruction provided by the Company containing all necessary information) shall give notice of an adjustment to a (or the continuation of another) Term Rate Period to Owners not less than 15 days prior to the effective date of such Term Rate Period. Such notice shall state (1) that the interest rate on the Plant Bonds of a Tax Exempt Series will be adjusted to, or continue to be, a Term Rate (subject to compliance with subsection (h) of this section captioned "Determination of Rate Periods and Interest Rates" and to the Company's ability to rescind its election as described in subsection (g) of this section captioned "Determination of Rate Periods and Interest Rates", (2) the effective date and the last day of such Term Rate Period, (3) that the Term Rate for such Term Rate Period will be determined on or prior to the effective date thereof, (4) how such Term Rate may be obtained from the Remarketing Agent, (5) the Interest Payment Dates after such effective date, (6) that all such Plant Bonds are subject to mandatory purchase on such effective date, (7) the procedures of such purchase and payment of the purchase price, (8) that, during such Term Rate Period, Owners will not have the right to require the purchase of Plant Bonds, except on the day following the last day of such Term Rate Period and (9) the redemption provisions set forth in the section captioned "REDEMPTION OF PLANT BONDS BEFORE MATURITY – Redemption Dates and Prices" which will apply during such Term Rate Period. The Issuer, upon written request of the Company, shall provide the Plant Trustee with written notice of any information required to enable the Plant Trustee to give the foregoing notice at least 18 days prior to the effective date of such Term Rate Period.

(d)

(i) ***Determination of Flexible Segments and Flexible Rates.*** During each Flexible Rate Period for any Tax Exempt Series of Plant Bonds, each Plant Bond shall bear interest during each Flexible Segment for such Plant Bond at the Flexible Rate for such Plant Bond as described in the Plant Indenture. Different Flexible Segments may apply to different Plant Bonds of such Tax Exempt Series at any time and from time to time. The Flexible Segment for each such Plant Bond shall be a period of at least one day and not more than 270 days, ending on a day that immediately precedes a Business Day, determined by the Remarketing Agent to be the period which, together with all such other Flexible Segments for all Plant Bonds of such Tax Exempt Series then Outstanding, the Remarketing Agent expects will result in the lowest overall interest expense on the Plant Bonds of such Tax Exempt Series over the next succeeding 270 days. The Flexible Rate for each Flexible Segment for each Plant Bond shall be determined by the Remarketing Agent no later than the first day of such Flexible Segment (and in time to enable the Remarketing Agent to give to the Plant Trustee the notice required by subsection (c) of the section captioned “TENDER AND PURCHASE OF PLANT BONDS; REMARKETING; REMARKETING AGENT – Remarketing of Plant Bonds; Notice of Interest Rates”) to be the lowest interest rate which would enable the Remarketing Agent to sell such Plant Bond on the effective date of such rate at a price equal to 100% of the principal amount thereof. If a Flexible Segment or a Flexible Rate for a Flexible Segment is not determined or effective, the Flexible Segment for such Plant Bond shall be a Flexible Segment of one day, and the interest rate for such Flexible Segment of one day shall be 3 month U.S. Dollar LIBOR. In no event shall the Flexible Rate for any Flexible Segment exceed the Maximum Rate. The Remarketing Agent shall provide the Plant Trustee with notice by telecopy or other electronic means as may be agreed upon, of each Flexible Segment and Flexible Rate, as provided in subsection (c) of the section captioned “TENDER AND PURCHASE OF PLANT BONDS; REMARKETING; REMARKETING AGENT – Remarketing of Plant Bonds; Notice of Interest Rates”.

(ii) ***Adjustment to Flexible Rates.*** At any time but only to be effective on or after the Tax Exempt Conversion Date with respect to any Taxable Series of Plant Bonds, the Company, by written direction to the Issuer, the Plant Trustee, the Bond Insurer and the Remarketing Agent, and subject to subsection (h) of this section captioned “Determination of Rate Periods and Interest Rates”, may elect that the Plant Bonds of a Tax Exempt Series shall bear interest at Flexible Rates. Such direction shall (A) specify the Tax Exempt Series of Plant Bonds and the effective date of the Flexible Rate Period during which such Plant Bonds shall bear interest at Flexible Rates, which shall be a Business Day not earlier than the 15th day following the fifth Business Day after the date of receipt by the Plant Trustee of such direction, and, in the case of an adjustment from a Term Rate Period, shall be the day immediately following the last day of the then current Term Rate Period or on any day that the Issuer at the direction of the Company would be permitted to redeem such Plant Bonds pursuant to, and at the price described in, subsection (a)(iv) of the section captioned “REDEMPTION OF PLANT BONDS BEFORE MATURITY – Redemption Dates and Prices”. During each Flexible Rate Period commencing on the date so specified and ending on the day immediately preceding the effective date of the next succeeding Rate Period, each Plant Bond shall bear interest at a Flexible Rate during each Flexible Segment for such Plant Bond. In no event shall the Flexible Rate exceed the Maximum Rate.

(iii) ***Notice of Adjustment to Flexible Rates.*** The Plant Trustee (upon written instruction provided by the Company containing all necessary information) shall give notice of an adjustment to a Flexible Rate Period to Owners not less than 15 days prior to the effective date of such Flexible Rate Period. Such notice shall state (1) that the interest rate on the Plant Bonds of a Tax Exempt Series will be adjusted to the Flexible Rate (subject to compliance with subsection (h) of this section captioned “Determination of Rate Periods and Interest Rates” and to the Company’s ability to rescind its election as described in subsection (g) of this section captioned “Determination of Rate Periods and Interest Rates”), (2) the effective date of such Flexible Rate Period, (3) that all such Plant Bonds are subject to mandatory purchase on such effective date, and (4) the procedures for such purchase and payment of the purchase price. The Issuer, upon written request of the Company, shall provide the Plant Trustee with written notice of any information required to enable the Plant Trustee to give the foregoing notice at least 18 days prior to the effective date of such Flexible Rate Period.

(iv) **Adjustment From Flexible Rate Period.** As an additional condition precedent to the election during a Flexible Rate Period to adjust to a different Rate Period for the Plant Bonds of any Series pursuant to subsections (a)(ii), (b)(ii) or (c)(ii) of this section captioned “Determination of Rate Periods and Interest Rates”, the Remarketing Agent shall determine, not later than the 24th day following the fifth Business Day after the receipt by the Plant Trustee of the direction of the Company effecting such election, Flexible Segments of such duration that, as soon as possible, all Flexible Segments shall end on the same date. The date on which all Flexible Segments so determined shall end shall be the last day of the then current Flexible Rate Period and the day next succeeding such date shall be the effective date of the Daily Rate Period, the Weekly Rate Period or the Term Rate Period elected by the Company. The Remarketing Agent, promptly upon the determination thereof, shall give written notice of such last day and such effective dates to the Issuer, the Company and the Plant Trustee.

(e)

(i) **Determination of Taxable Rates.** Plant Bonds of a Taxable Series shall bear interest during each Taxable Rate Segment as described in the Plant Indenture. Different Taxable Rate Segments may apply to different Plant Bonds of a Taxable Series at any time and from time to time. The Taxable Rate Segment for each such Plant Bond shall be a period of at least one day and not more than the number of days remaining to the Stated Maturity. For any Taxable Rate Segment of less than 270 days, the Taxable Rate Segment shall end on a day that immediately precedes a Business Day. The Taxable Rate for each Taxable Rate Segment shall be effective from and including the commencement date of such Taxable Rate Segment to and including the last day thereof. The Company shall determine the length of each Taxable Rate Segment. Each Taxable Rate shall be determined by the Remarketing Agent in connection with the sale of the Taxable Plant Bond or Plant Bonds to which it relates. After the initial issuance of Plant Bonds of a Taxable Series, each Taxable Rate and Taxable Rate Segment shall be determined in consultation by the Remarketing Agent and the Company for each such Plant Bond on or prior to 12:30 p.m., New York time, on the first day of each Taxable Rate Segment with respect to such Plant Bond. By the offer and acceptance of purchase commitments for such Plant Bond (at a price equal to 100% of the principal amount) for such Taxable Rate Segment, the Remarketing Agent shall determine the rate which will provide the lowest overall interest expense on such Plant Bonds during the Taxable Rate Period and it shall be a rate that is the lowest interest rate which would enable the Remarketing Agent to sell such Plant Bonds on the effective date of such rate and Taxable Rate Segment at a price equal to 100% of the amount thereof. In no event shall the Taxable Rate for any Taxable Rate Segment exceed the Maximum Rate. If the Company has given notice of a Tax Exempt Conversion Date with respect to any Taxable Series of Plant Bonds, no new Taxable Rate Segment for such Plant Bonds shall be established unless the last day of such Taxable Rate Segment occurs prior to the Conversion Date.

If the Remarketing Agent should fail to set the length of a Taxable Rate Segment for any Plant Bond of a Taxable Series, then such Plant Bond shall be in a Taxable Rate Segment of one day and shall bear interest at a per annum rate equal to 110% of the 15 day Federal Reserve Composite Rate until a new Taxable Rate Segment and Taxable Rate are established with respect to such Plant Bond.

(ii) **Adjustment From Taxable Rate Period; Failure to Convert to Tax Exempt Series.** All or a portion of a Taxable Series of Plant Bonds shall be converted to Plant Bonds of a Tax Exempt Series in accordance with the Plant Indenture. If the conditions to Conversion do not occur on a Tax Exempt Conversion Date with respect to any Taxable Series of Plant Bonds, such Plant Bonds shall continue to bear interest at a Taxable Rate on and after the date of such failed Conversion until a Tax Exempt Conversion Date, if any, occurs with respect to such Taxable Series of Plant Bonds, and they shall be in Taxable Rate Segments and bear interest at the Taxable Rates established in accordance with paragraph (e)(i) above. If the Remarketing Agent fails or is unable to establish the Taxable Rate Segment and Taxable Rate for such Plant Bonds, the applicable Taxable Series of Plant Bonds shall be in a Taxable Rate Segment of one day and shall bear interest at a per annum rate equal to 110% of the 15-day Federal Reserve Composite Rate until a new Taxable Rate Segment is established with respect to such Plant Bonds.

(f) The determination of each Daily Rate, Weekly Rate and Term Rate, each Taxable Rate Segment and Taxable Rate and each Flexible Segment and Flexible Rate by the Remarketing Agent shall be conclusive and

binding upon the Remarketing Agent, the Plant Trustee, the Tender Agent, the Bond Insurer, the Issuer, the Company, the Owners and the Beneficial Owners.

(g) Notwithstanding anything in the Plant Indenture to the contrary, the Company may rescind any election by it to adjust to or, in the case of a Term Rate Period, continue a Rate Period pursuant to subsections (a)(ii), (b)(ii), (c)(ii) or (d)(ii) of this section captioned "Determination of Rate Periods and Interest Rates" prior to the effective date of such adjustment or continuation by giving written notice thereof to the Issuer, the Plant Trustee, the Bond Insurer and the Remarketing Agent prior to such effective date. If the Plant Trustee receives notice of such rescission prior to the time the Plant Trustee has given notice to the Owners of the Plant Bonds pursuant to subsections (a)(iii), (b)(iii), (c)(iii) or (d)(iii) of this section captioned "Determination of Rate Periods and Interest Rates", then such notice shall be of no force and effect and shall not be provided to the Owners. If the Plant Trustee receives notice of such rescission after the Plant Trustee has given notice to the Owners of the Plant Bonds pursuant to subsections (a)(iii), (b)(iii), (c)(iii) or (d)(iii) of this section captioned "Determination of Rate Periods and Interest Rates" or an attempted adjustment from one Rate Period to another Rate Period does not become effective for any other reason, then the Rate Period for the Plant Bonds shall automatically adjust to or continue in a Daily Rate Period and the Plant Trustee shall immediately give notice thereof to the Owners of the Plant Bonds. If a Daily Rate for the first day of any Daily Rate Period (without any liability to the Plant Trustee) to which a Rate Period is adjusted under this subsection (g) is not determined as provided in subsection (a)(i) of this section captioned "Determination of Rate Periods and Interest Rates", the Daily Rate for the first day of such Daily Rate Period shall be 110% of the SIFMA Index. The Plant Trustee shall immediately give written notice of each adjustment to a Rate Period under this Section 203(g) to the Owners in the form provided in subsection (a)(iii) of this section captioned "Determination of Rate Periods and Interest Rates".

Notwithstanding the rescission of any notice to adjust or continue a Rate Period, if notice has been given to Owners pursuant to subsections (a)(iii), (b)(iii), (c)(iii) or (d)(iii) of this section captioned "Determination of Rate Periods and Interest Rates", the Plant Bonds shall continue to be subject to mandatory purchase on the date specified in such notice.

(h) ***Certain Additional Conditions.*** No Conversion from one Interest Rate Period to another shall take effect under the Plant Indenture unless each of the following conditions, to the extent applicable, shall have been satisfied.

(i) With respect to the new Interest Rate Period, there shall be in effect a Liquidity Facility if and as required under the section captioned "TENDER AND PURCHASE OF PLANT BONDS; REMARKETING; REMARKETING AGENT – Liquidity Facility". If such a Liquidity Facility is in effect:

(A) no new Flexible Rate Period shall be established for any Plant Bond unless the final Interest Payment Date for such Flexible Rate Period occurs on or prior to the second Business Day preceding expiration or cancellation of the then-current Liquidity Facility; and

(B) no Flexible Rate Period shall be longer than the interest coverage period less five days.

(ii) The Plant Trustee shall have received a Favorable Opinion of Bond Counsel with respect to such Conversion dated the effective date of such Conversion.

(iii) In the case of any Conversion with respect to which there shall be no Liquidity Facility in effect to provide funds for the purchase of any Tax Exempt Series of Plant Bonds on the Conversion Date, the remarketing proceeds available on the Conversion Date shall not be less than the amount required to purchase all of such Tax Exempt Series of Plant Bonds at the Tender Price (not including any premium).

Ownership, Transfer, Exchange and Registration of Plant Bonds

The Plant Trustee is constituted and appointed the Registrar and transfer agent for the Plant Bonds and the Plant Trustee shall keep books for the registration and for the transfer of the Plant Bonds as provided in the Plant Indenture. If the Plant Bonds are not in the book-entry registration system, the Issuer shall prepare and deliver to the Plant Trustee, and the Plant Trustee shall keep custody of, a supply of unauthenticated Plant Bonds duly executed by the Issuer, as provided in the section captioned "Execution of Plant Bonds" for use in the transfer and exchange of Plant Bonds. The Plant Trustee is authorized and directed to complete such forms of Plant Bonds as to principal amounts and Registered Owners, in accordance with the provisions hereof, in effecting transfers and exchanges of Plant Bonds as provided in the Plant Indenture.

Upon surrender for transfer of any Plant Bond at the Payment Office of the Plant Trustee duly endorsed for transfer or accompanied by a written instrument or instruments of transfer in form satisfactory to the Plant Trustee duly executed by the registered Owner or such Owner's attorney duly authorized in writing, at the Issuer's written request, the Plant Trustee shall date and execute the certificate of authentication on and deliver in the name of the transferee or transferees a new Plant Bond or Plant Bonds duly executed by the Issuer of Authorized Denominations and for a like aggregate principal amount.

Any Plant Bond or Plant Bonds may be exchanged at the Payment Office of the Plant Trustee for a new Plant Bond or Plant Bonds of like Series and aggregate principal amount of other Authorized Denominations. Upon surrender of any Plant Bond or Plant Bonds for exchange, at the Issuer's written request, the Plant Trustee shall date and execute the certificate of authentication on and deliver a new Plant Bond or Plant Bonds duly executed by the Issuer which the Owner making the exchange is entitled to receive.

Except in connection with the remarketing of Plant Bonds or the conversion of any of the Plant Bonds of a Taxable Series to Plant Bonds of a Tax Exempt Series, the Plant Trustee shall not be required to transfer or exchange any Plant Bond after the mailing of notice calling such Plant Bond or portion thereof for redemption, nor during the period of ten days next preceding the mailing of such notice of redemption with respect to the Plant Bonds.

The Person in whose name any Plant Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of the principal of, premium, if any, or interest on any Plant Bond shall be made only to or upon the written order of the Registered Owner thereof or such owner's legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effective to satisfy and discharge the liability upon such Plant Bond to the extent of the sum or sums so paid.

The Issuer and the Plant Trustee shall require the payment by the Owner requesting exchange or transfer (other than an exchange upon a partial redemption of a Plant Bond) of any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, but otherwise no charge shall be made to the Owner for such exchange or transfer.

The Series 2012 Bonds are subject to certain transfer restrictions as provided in the section captioned "Restrictions on Transfer of the Series 2012 Bonds".

Execution of Plant Bonds

The Plant Bonds shall be executed in the name and on behalf of the Issuer with the manual or facsimile signature of its Chairman, under the seal of the Issuer. Such seal may be in the form of a facsimile of the Issuer's seal and may be reproduced, imprinted or impressed on the Plant Bonds. The Plant Bonds shall then be delivered to the Plant Trustee for authentication by it. In case the officer who shall have signed any of the Plant Bonds shall cease to be such officer of the Issuer before the Plant Bonds so signed shall have been authenticated or delivered by the Plant Trustee or issued by the Issuer, such Plant Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Issuer as though the officer who signed the same had continued to be such officer of the Issuer, and also any Plant Bonds may be signed on behalf of the Issuer by such individual as at the actual date of execution of such Plant Bonds shall be the proper officer of the

Issuer although at the nominal date of such Plant Bonds any such individual shall not have been such officer of the Issuer.

Only such of the Plant Bonds as shall bear thereon a certificate of authentication substantially in the form set forth in the Plant Indenture, with the manual signature of the Plant Trustee or the Tender Agent as authenticating agent, shall be valid or obligatory for any purpose or entitled to the benefits of the Plant Indenture, and such certificate of the Plant Trustee or Tender Agent shall be conclusive evidence that the Plant Bonds so authenticated have been duly executed, authenticated and delivered under the Plant Indenture and are entitled to the benefits of the Plant Indenture.

THE PLANT BONDS SHALL NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION OR ANY LOCAL AGENCY THEREOF OTHER THAN THE LIMITED OBLIGATION OF THE ISSUER PAYABLE SOLELY FROM THE TRUST ESTATE, OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION OR ANY LOCAL AGENCY THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR IN THIS INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF OR ANY LOCAL AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE PLANT BONDS; AND NO REGISTERED OWNER OR BENEFICIAL OWNER OF ANY PLANT BOND SHALL HAVE ANY RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE PLANT BONDS BY THE ISSUER, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF OR ANY LOCAL AGENCY, OUT OF ANY FUNDS TO BE RAISED BY TAXATION OR APPROPRIATION. THE ISSUANCE OF THE PLANT BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF OR ANY LOCAL AGENCY TO LEVY OR TO PLEDGE ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE ISSUER HAS NO TAXING POWERS.

Authentication

No Plant Bond shall be valid for any purpose until the certificate of authentication on such Plant Bond shall have been duly executed by the Plant Trustee, and such authentication shall be conclusive proof that such Plant Bond has been duly authenticated and delivered under the Plant Indenture and that the Owner thereof is entitled to the benefits of the trust created by the Plant Indenture. The Plant Trustee's certificate of authentication on any Plant Bond shall be deemed to have been executed by it if manually signed by an authorized signatory of the Plant Trustee, but it shall not be necessary that the same signatory sign the certificate of authentication on all of the Plant Bonds issued under the Plant Indenture.

Upon authentication of any Plant Bond, the Plant Trustee shall set forth on such Plant Bond the date of such authentication. The Plant Trustee shall maintain in its records in the case of a Plant Bond bearing interest at a Taxable Rate, such Taxable Rate, the day next succeeding the last day of the applicable Taxable Rate Segment, the number of days comprising such Taxable Rate Segment and the amount of interest to accrue during such Taxable Rate Segment. In the case of a Plant Bond bearing interest at a Flexible Rate, such Flexible Rate, the day next succeeding the last day of the applicable Flexible Segment, the number of days comprising such Flexible Segment and the amount of interest to accrue during such Flexible Segment.

Mutilated, Destroyed, Lost or Stolen Plant Bonds

In the event any Plant Bond or temporary Plant Bond is mutilated, lost, stolen or destroyed, the Plant Trustee may authenticate a new Plant Bond duly executed by the Issuer of like Series, at the Issuer's written request, date and denomination as that mutilated, lost, stolen or destroyed; provided that, in the case of any mutilated Plant Bond, such mutilated Plant Bond shall first be surrendered to the Plant Trustee, and in the case of any lost, stolen or destroyed Plant Bond, there shall be first furnished to the Plant Trustee evidence of such loss, theft or destruction satisfactory to the Plant Trustee, together with indemnity satisfactory to the Plant Trustee to protect the Issuer, the Company and the Plant Trustee. Every mutilated Plant Bond so surrendered to the Plant Trustee shall be cancelled by it and disposed of in accordance with the Plant Trustee's customary procedures and, upon the Written Request of the Issuer, a certificate from the Plant Trustee evidencing such disposition shall be delivered to the Issuer. In the

event any such Plant Bond shall have matured, instead of issuing a duplicate Plant Bond, the Plant Trustee on behalf of the Issuer may pay the same without surrender thereof. The Issuer, the Company and the Plant Trustee may charge the Owner of such Plant Bond with their reasonable fees and expenses in this connection. The Issuer shall cooperate with the Plant Trustee in connection with the issue of replacement Plant Bonds, but nothing in this section captioned "Mutilated, Destroyed, Lost or Stolen Plant Bonds" shall be construed in derogation of any rights which the Issuer, the Company or the Plant Trustee may have to receive indemnification against liability, or payment or reimbursement of expenses, in connection with the issue of a replacement Plant Bond.

If, after the delivery of such new Plant Bond, a bona fide purchaser of the original Plant Bond in lieu of which such new Plant Bond was issued presents for payment or registration such original Plant Bond, the Plant Trustee shall be entitled to recover such new Plant Bond from the person to whom it was delivered or any Person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Plant Trustee or the Company in connection therewith.

All Plant Bonds shall be held and owned upon the express condition that the foregoing provisions are, to the extent permitted by law, exclusive with respect to the replacement or payment of mutilated, destroyed, lost or stolen Plant Bonds, and shall preclude any and all other rights or remedies.

Temporary Plant Bonds

Pending preparation of definitive Plant Bonds, or by agreement with the Underwriters of all Plant Bonds, the Issuer may issue and, upon its request, the Plant Trustee shall authenticate, in lieu of definitive Plant Bonds, one or more temporary printed or typewritten Plant Bonds in Authorized Denominations of substantially the tenor recited above. Upon request of the Issuer, the Plant Trustee shall authenticate definitive Plant Bonds in exchange for and upon surrender of an equal principal amount of temporary Plant Bonds. Until so exchanged, temporary Plant Bonds shall have the same rights, remedies and security under the Plant Indenture as definitive Plant Bonds.

Cancellation of Surrendered Plant Bonds

Whenever any Outstanding Plant Bond shall be delivered to the Plant Trustee for transfer, exchange or cancellation pursuant to the Plant Indenture, upon payment of the principal amount represented thereby, or for replacement pursuant to the section captioned "Mutilated, Destroyed, Lost or Stolen Plant Bonds", such Plant Bond shall be promptly canceled by the Plant Trustee, and counterparts of a certificate of cancellation evidencing such cancellation shall be furnished by the Plant Trustee to the Issuer and the Company upon request. Canceled Plant Bonds shall be treated in accordance with the Plant Trustee's document retention policy.

Refunding Plant Bonds

The Issuer may issue, and expressly reserves the right to issue, to the extent permitted by law and the Plant Indenture, refunding bonds under another indenture to refund all or any principal amount of the Plant Bonds; provided, however, that the net proceeds of any such bonds used to refund all or any principal amount of the Plant Bonds shall be paid directly to the Plant Trustee for the Owners and shall not come into the possession or control of the Company.

Use of Certain Moneys in the Plant Bond Fund Upon Refunding

In the event that refunding bonds shall be issued by the Issuer to pay the principal of or premium, if any, on all or any portion of the Plant Bonds, the net proceeds of the refunding bonds remaining after payment of expenses incident to the refunding shall be deposited by the Issuer into the Plant Bond Fund as provided in the section captioned "ACCOUNTS; APPLICATION OF PROCEEDS – Plant Bond Fund". All moneys remaining in the Plant Bond Fund on the date of the refunding to be used to pay interest on the Plant Bonds to be refunded shall be held, as collateral for the payment of the Plant Bonds to be refunded, by the Plant Trustee, in trust for and on behalf of the Owners of the Plant Bonds to be refunded, together with the portion of the proceeds of the sale of the refunding bonds so deposited and any investments or reinvestments of such proceeds, in one or more separate subaccounts in

the Plant Bond Fund irrevocably in trust for the respective Owners of Plant Bonds to be refunded, and upon defeasance of the Plant Bonds to be refunded as provided in the Plant Indenture shall be held, invested and used as provided in the Plant Indenture. Investment income or profit on any such investments or reinvestments shall remain in the Plant Bond Fund.

Additional Plant Bonds

(a) The Issuer may, but shall not be required to, issue one or more series of Additional Plant Bonds from time to time but only for the purposes and subject to the conditions as are set forth in the Collateral Trust Agreement with respect to the Company's incurrence of Additional Plant Senior Debt.

(b) Subject to the additional limitations set forth in the Plant Indenture, the Plant Trustee shall authenticate and deliver such Additional Plant Bonds at the request of the Issuer, but only upon delivery to the Plant Trustee of the following:

(i) A supplemental indenture executed by the Issuer and the Plant Trustee creating such Additional Plant Bonds and specifying the terms and the disposition of the proceeds thereof;

(ii) A supplement to the Plant Loan Agreement executed by the Issuer and the Company whereby the Company acknowledges the issuance of such Additional Plant Bonds and agrees to make payments that are sufficient to provide for the payment of the principal and premium, if any, and interest on, such Additional Plant Bonds;

(iii) The written consent of the Water Authority to the extent required under the Water Purchase Agreement;

(iv) An opinion or opinions of Counsel to the effect that:

(A) the Additional Plant Bonds have been duly issued for a permitted purpose under this section captioned "Additional Plant Bonds";

(B) all consents or approvals required to be obtained from any Governmental Authority for the issuance of the Additional Plant Bonds have been obtained;

(C) the issuance of the Additional Plant Bonds and execution and delivery of related documents will not constitute a breach or default on the part of the Issuer or the Company under their respective organizational documents or under any Applicable Law or any agreements to which the Issuer or the Company is a party or to which its properties are subject, including the Plant Loan Agreement;

(D) all documents delivered by the Issuer and the Company in connection with the issuance of the Additional Plant Bonds have been duly and validly authorized, executed and delivered and such execution and delivery and all other actions taken by the Issuer and the Company in connection with the issuance of the Additional Plant Bonds have been duly authorized by all necessary corporate actions and the supplemental indenture and the Additional Plant Bonds constitute valid and legally binding obligations of the Issuer, enforceable in accordance with their terms; and

(E) all conditions set forth in the Collateral Trust Agreement with respect to the Company's incurrence of Additional Plant Senior Debt have been satisfied; and

(v) In the case of any Refunding Plant Bonds:

(A) executed counterparts of such documents as are necessary or appropriate for the purposes of the refunding, including, if appropriate, an escrow agreement providing for the deposit

and application of funds for the refunding and irrevocable instructions with respect to any required redemption of refunded Plant Bonds;

(B) certified resolutions of the Issuer and the Company authorizing the refunding and the taking of all necessary actions in connection therewith; and

(C) unless all refunded Plant Bonds are to be redeemed or otherwise retired on the date of settlement for the Additional Plant Bonds, such schedules, verified as to mathematical accuracy by an Independent Public Accountant, as are necessary to demonstrate the adequacy of funds deposited for the refunding and the income thereon for the purpose of paying, when due, the principal and premium, if any, of and interest on the refunded Plant Bonds.

Book-Entry Registration of Plant Bonds

Unless otherwise specified in a supplemental indenture, the Plant Bonds shall be initially issued in the name of Cede & Co., as nominee for DTC, as Registered Owner of the Plant Bonds, and held in the custody of DTC. The Issuer acknowledges that it has executed and delivered a Letter of Representations with DTC, and that the terms and provisions of said Letter of Representations shall govern in the event of any inconsistency between the provisions of the Plant Indenture and said Letter of Representations. One or more Plant Bond certificates (as provided in the Letter of Representations) will be issued and delivered to DTC. The owners of beneficial interest in the Plant Bonds (the "Beneficial Owners") will not receive physical delivery of Plant Bond certificates except as provided in the Plant Indenture. For so long as DTC shall continue to serve as securities depository for the Plant Bonds as provided in the Plant Indenture, all transfers of beneficial Ownership interest will be made by book-entry-only, and no investor or other party purchasing, selling or otherwise transferring beneficial Ownership of Plant Bonds is to receive, hold or deliver any Plant Bond certificate. The Issuer, the Plant Trustee, the Company and the Remarketing Agent shall have no responsibility or liability for transfers of beneficial Ownership interests in the Plant Bonds.

For every transfer and exchange of the Plant Bonds, the Beneficial Owner may be charged a sum sufficient to cover such Beneficial Owner's allocable share of any tax, fee or other governmental charge that may be imposed in relation thereto.

The book-entry registration system for all of the Plant Bonds, or for the Plant Bonds of one or more Series, may be terminated and Plant Bond certificates delivered to and registered in the name of the Beneficial Owner, under the following circumstances:

(a) DTC determines to discontinue providing its service with respect to the Plant Bonds and a successor securities depository for the Plant Bonds is not appointed by the Issuer at the direction of the Company prior to the effective date of such discontinuation. Such a determination by DTC may be made at any time by giving reasonable notice to the Issuer or the Plant Trustee and discharging its responsibilities with respect thereto under applicable law.

(b) DTC's Participants (with the prior written consent of the Issuer) notify DTC that they request withdrawal of the Plant Bonds from DTC.

(c) The Company elects a Rate Period for the Plant Bonds pursuant to the section captioned "Determination of Rate Periods and Interest Rates" that would make the Plant Bonds ineligible for deposit into the custody of DTC.

In the event that Plant Bond certificates are issued pursuant to clause (c) immediately above, and thereafter the Company elects a different Rate Period for the Plant Bonds which would make the Plant Bonds eligible for deposit into the custody of DTC, then by a written instrument filed with the Plant Trustee and the Remarketing Agent (and without the need of an indenture supplemental to the Plant Indenture), the Company may direct that the Plant Bonds shall, as of the effective date of such Rate Period change, again be issued only in the name of DTC or its nominee.

In the event that Plant Bond certificates are required to be issued to Beneficial Owners, or in the event it becomes necessary for the Plant Trustee to obtain the consent, direction or waiver of the Beneficial Owners of the Plant Bonds, the Plant Trustee, the Company, the Issuer, the Collateral Agent and the Remarketing Agent shall be fully protected in relying upon a certificate of DTC or any DTC Participant as to the identity of and the principal amount of Plant Bonds held by such Beneficial Owners.

While the Plant Bonds are in book entry form, the Issuer, the Company and the Plant Trustee will recognize DTC or its nominee as the Owner for all purposes, including notices and voting.

With respect to Plant Bonds registered in the name of DTC or its nominee, the Issuer and the Plant Trustee shall be entitled to treat the Person in whose name any Plant Bond is registered in the Register as the absolute owner of such Plant Bond for all purposes of the Plant Indenture, and neither the Issuer, the Company, the Collateral Agent nor the Plant Trustee shall have any responsibility or obligation to any Beneficial Owner of the Plant Bonds. Without limiting the immediately preceding sentence, neither the Issuer nor the Plant Trustee shall have any responsibility or obligation with respect to (a) the accuracy of the records of DTC, its nominee, or any other Person with respect to any ownership interest in the Plant Bonds, (b) the delivery to any Person, other than an Owner as shown on the Register, of any notice with respect to the Plant Bonds, including but not limited to any notice of redemption or refunding, (c) the selection of the particular Plant Bonds or portions thereof to be redeemed in the event of a partial redemption or refunding of part of the Plant Bonds outstanding, (d) the payment to any Person, other than the Owner as shown in the Register, of any amount with respect to the principal of, redemption premium, if any, purchase price or interest on the Plant Bonds or (e) any other action or inaction of DTC.

So long as the Plant Bonds or any portion thereof are registered in the name of DTC or any nominee thereof, for the purposes set forth in the section captioned “THE BOND TRUSTEE – Notices to the Issuer”, the Plant Trustee shall maintain a list of the names and addresses of all Persons who provide the Plant Trustee with written notice that such Persons are Beneficial Owners of the Plant Bonds. The Plant Trustee shall have no obligation to verify that any such Person is in fact a Beneficial Owner of Plant Bonds and is entitled to rely conclusively on such written notice as to the matters set forth therein.

Notwithstanding any other provision of the Plant Indenture to the contrary, so long as DTC is acting in such capacity with respect to the Plant Bonds, interest on the Plant Bonds and all notices with respect to the Plant Bonds, including any notices of redemption of all or part of the Plant Bonds, shall be made and given, respectively, at the times, in the manner and in accordance with the DTC Letter of Representations.

Whenever during the term of the Plant Bonds the beneficial ownership thereof is determined by a book entry at DTC, the requirements of the Plant Indenture of holding, delivering or transferring Plant Bonds shall be deemed modified to require the appropriate Person to meet the requirements of DTC as to registering or transferring the book entry to produce the same effect.

Plant Bonds in Certificate Form

In the event the Plant Bonds are required for any reason hereinafter to be delivered in physical or certificate form (instead of book-entry form), the Plant Trustee agrees to maintain an agent or office for the optional and mandatory purchase of such Plant Bonds in New York, New York. Notwithstanding anything to the contrary contained in the Plant Indenture, any Plant Bonds in certificate form, which are to be tendered, must be tendered to the Plant Trustee’s agent or office in Los Angeles, California.

CUSIP Numbers

The Issuer in issuing the Bonds may use “CUSIP” numbers (if then generally in use), and, if so, the Trustee shall use “CUSIP” numbers in notices of redemption as a convenience to the Holders of Bonds; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Bonds or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Bonds, and any such redemption shall not be affected by any defect in or omission of such numbers. The Issuer will promptly notify the Trustee in writing of any change in the “CUSIP” numbers.

Restrictions on Transfer of the Series 2012 Bonds

The Series 2012 Bonds will bear a legend to the following effect:

THIS BOND IS SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER AS DEFINED UNDER RULE 144A UNDER THE SECURITIES ACT OF 1933. THE PURCHASER HEREOF AGREES TO PROVIDE NOTICE TO ANY PROPOSED TRANSFEREE OF A BENEFICIAL OWNERSHIP INTEREST IN THE PURCHASED BONDS OF THE RESTRICTION ON TRANSFERS.

EACH TRANSFEREE OF THIS BOND, BY ITS PURCHASE HEREOF, IS DEEMED TO HAVE REPRESENTED THAT SUCH TRANSFEREE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT AND WILL ONLY TRANSFER, RESELL, REOFFER, PLEDGE OR OTHERWISE TRANSFER THIS BOND TO A SUBSEQUENT TRANSFEREE WHO IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT OF 1933.

A TRANSFER OF THIS BOND TO ANY PERSON OTHER THAN A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT WILL BE VOID AND THE PURPORTED TRANSFEROR WILL REMAIN THE OWNER OF RECORD.

REDEMPTION OF PLANT BONDS BEFORE MATURITY

Redemption Dates and Prices

The Plant Bonds of any Series shall be subject to redemption prior to Stated Maturity in the amounts, at the times and in the manner provided in this section captioned "REDEMPTION OF PLANT BONDS BEFORE MATURITY".

(a) ***Optional Redemption***

(i) On any Business Day during a Daily Rate Period or a Weekly Rate Period, and on the day next succeeding the last day of each such Rate Period, such Plant Bonds shall be subject to optional redemption by the Issuer, upon at least three Business Days written notice by the Company, in whole or in part, at 100% of their principal amount, plus accrued interest, if any, to the redemption date.

(ii) On the Business Day next succeeding the last day of any Flexible Segment or of any Taxable Rate Segment of 270 days or less with respect to any Taxable Series Plant Bond, such Plant Bonds shall be subject to optional redemption by the Issuer, at the written direction of the Company, in whole or in part, at 100% of its principal amount.

(iii) During a Taxable Rate Segment of more than 270 days with respect to any Taxable Series Plant Bond, such Plant Bond is redeemable by the Issuer, at the written direction of the Company, in whole at any time or in part from time to time on any date, at 100% of the principal amount plus a premium equal to the excess, if any, of (i) the present value of all interest and principal payments scheduled to become due after the date of such redemption in respect of the portion of the Taxable Series Plant Bond to be redeemed (such present value to be determined on the basis of a discount rate equal to the yield to maturity on U.S. Treasury instruments with a maturity as close as practicable to the remaining Taxable Rate Segment for such Plant Bond plus 100 basis points) over (ii) the principal amount of the Plant Bonds to be redeemed, which premium will be calculated by the Company and provided in writing to the Plant Trustee.

(iv) During any Term Rate Period for Plant Bonds of a Tax Exempt Series (other than the Series 2012 Plant Bonds) and on the day next succeeding the last day of each Term Rate Period, such Plant

Bonds shall be subject to optional redemption by the Issuer, at the written direction of the Company, as specified in the related Supplemental Indenture.

The Series 2012 Plant Bonds shall be subject to optional redemption prior to maturity in whole or in part, on any payment date occurring after the 10th anniversary of the Issue Date for the Series 2012 Plant Bonds, at par plus accrued interest, if any, to the redemption date.

(v) On the Commercial Operation Date, the Company shall have delivered written notice to the Issuer, the Plant Trustee and the Collateral Agent pursuant to the Collateral Trust Agreement directing the Collateral Agent to apply all or part of the unexpended excess proceeds of such Series of Plant Bonds at 100% of their principal amount, plus accrued interest, if any, to the redemption date.

(vi) On the Completion Date, the Company shall have delivered written notice to the Issuer, the Plant Trustee and the Collateral Agent pursuant to the Collateral Trust Agreement directing the Collateral Agent to apply all or part of the unexpended excess proceeds of such Series of Plant Bonds at 100% of their principal amount, plus accrued interest, if any, to the redemption date.

(vii) Following the completion of a Capital Project, the Company shall have delivered notice to the Issuer, the Plant Trustee and the Collateral Agent pursuant to the Collateral Trust Agreement directing the Collateral Agent to apply all or part of any amount remaining on deposit in the Account of the Plant Restoration Fund established for such Capital Project at 100% of their principal amount, plus accrued interest, if any, to the redemption date.

(viii) The Issuer may redeem Plant Bonds, at its option, at the written direction of the Company, at any time, upon one Business Day's notice of redemption to the Liquidity Facility Provider and the Plant Trustee, unless a longer notice period is required by the Liquidity Facility, at a redemption price of 100% of the principal amount of the Plant Bonds to be redeemed plus accrued interest, if any, to the redemption date.

(b) ***Mandatory Redemption***

The Plant Bonds are subject to mandatory redemption in whole, or as provided in part, at any time, at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date, not more than twelve months after the occurrence of any of the following events:

(i) an Event of Loss shall have occurred in which all or substantially all of the Plant was been damaged or destroyed, and the Company shall have delivered written notice to the Issuer, the Plant Trustee and the Collateral Agent in accordance with the Collateral Trust Agreement of its determination that it will not rebuild, repair or restore the Plant;

(ii) an Event of Eminent Domain shall have occurred with respect of all or substantially all of the Plant and the Company shall have delivered written notice to the Issuer, the Plant Trustee and the Collateral Agent in accordance with the Collateral Trust Agreement of its determination that such Event of Eminent Domain has rendered continued operation of the Plant uneconomic;

(iii) legal curtailment of the Company's use and occupancy of all or substantially all of the Plant shall have occurred for any reason and the Company shall have delivered written notice to the Issuer, the Plant Trustee and the Collateral Agent in accordance with the Collateral Trust Agreement of its determination that such curtailment has rendered continued operation of the Plant uneconomic;

(iv) payment to the Company of performance liquidated damages under the Plant EPC Contract shall have been made and the Company shall have delivered written notice to the Issuer, the Plant Trustee and the Collateral Agent in accordance with the Collateral Trust Agreement of its determination that it is not practical or desirable to apply such damages to undertake a Capital Project to mitigate the consequences of the performance deficiencies; or

(v) the Water Authority exercises its option to purchase the Plant pursuant to the Water Purchase Agreement.

The Series 2012 Plant Bonds shall be redeemed as provided in this section captioned “Mandatory Redemption” in whole, except:

(A) in the case of a redemption under subparagraph (iv) above, the Plant Bonds shall be redeemed in part to the extent of the amounts deposited into the Prepayment Fund pursuant to the Collateral Trust Agreement;

(B) in the case of subparagraph (vi) above, the affected Tax Exempt Series of Plant Bonds shall be redeemed in part, if, in the opinion of Bond Counsel delivered to the Plant Trustee, the redemption of a specified portion of the outstanding Plant Bonds of such Tax Exempt Series would have the result that interest payable on such Plant Bonds remaining outstanding after such redemption would be Tax Exempt. Any such partial redemption in the case of subparagraph (vi) shall be made in such amount and in such manner as Bond Counsel in such opinion shall have determined is necessary to accomplish such result.

(c) ***Mandatory Sinking Fund Redemption***

The Series 2012 Plant Bonds shall be redeemed in part on each of dates set forth below from amounts deposited in the Plant Bond Fund, at a redemption price equal to 100% of the principal amount redeemed plus accrued interest thereon to the redemption date, in the principal amount set forth below next to such year.

Series 2012 Plant Bonds Due July 1, 2027

Year	Amount
July 1, 2020	\$1,655,000
July 1, 2021	2,440,000
July 1, 2022	3,285,000
July 1, 2023	4,190,000
July 1, 2024	5,155,000
July 1, 2025	6,190,000
July 1, 2026	7,295,000
July 1, 2027	8,480,000

Series 2012 Plant Bonds Due July 1, 2030

Year	Amount
July 1, 2028	\$9,740,000
July 1, 2029	11,085,000
July 1, 2030	12,520,000

Series 2012 Plant Bonds Due July 1, 2037

Year	Amount
July 1, 2031	\$14,045,000
July 1, 2032	15,675,000
July 1, 2033	17,405,000
July 1, 2034	19,245,000
July 1, 2035	21,200,000
July 1, 2036	23,280,000
July 1, 2037	25,490,000

Series 2012 Plant Bonds Due November 21, 2045

<u>Year</u>	<u>Amount</u>
July 1, 2038	\$27,840,000
July 1, 2039	30,330,000
July 1, 2040	32,970,000
July 1, 2041	35,775,000
July 1, 2042	38,745,000
July 1, 2043	\$41,895,000
July 1, 2044	45,230,000
July 1, 2045	48,765,000
November 21, 2045	20,420,000

(d) ***Credit for Non-Mandatory Redemption***

The requirements of the section captioned “Mandatory Sinking Fund Redemption” are subject, however, to the provision that any partial redemption of the Series 2012 Plant Bonds under the sections captioned “Optional Redemption” or “Mandatory Redemption” shall reduce the mandatory sinking fund redemption requirements scheduled for the Series 2012 Plant Bonds under the section captioned “Mandatory Sinking Fund Redemption” as provided in this paragraph. In the event of a partial redemption of the Series 2012 Plant Bonds under the sections captioned “Optional Redemption” or “Mandatory Redemption”, the Plant Trustee shall allocate the principal amount of the Series 2012 Plant Bonds redeemed against the next Series 2012 Plant Bonds to be redeemed under the section captioned “Mandatory Sinking Fund Redemption”.

(e) ***Purchase in Lieu of Redemption***

In lieu of redemption of Plant Bonds, at the written direction of the Company, the Issuer shall purchase Plant Bonds on the date set for redemption with moneys provided by the Company at a price (including accrued interest, but excluding any brokerage or other charges) equal to the applicable redemption price of such Plant Bonds. Such Plant Bonds so purchased shall be delivered to the Plant Trustee for transfer to the designee of the Company, and thereafter delivered to the designee of the Company, all as the Plant Trustee is instructed in writing by an Authorized Representative of the Company. Except as provided in this section captioned “Purchase in Lieu of Redemption”, references in this section captioned “REDEMPTION OF PLANT BONDS BEFORE MATURITY” relating to the requirements for redemption of Plant Bonds, whether pursuant to optional redemption or mandatory redemption, shall be applicable to effectuating a purchase in lieu of redemption.

Notice of Redemption

Notice of the call for any redemption of Plant Bonds or any portion thereof (which shall be in Authorized Denominations) pursuant to the section captioned “Redemption Dates and Prices” identifying the Plant Bonds or portions thereof to be redeemed, specifying the redemption date, the redemption price, the place and manner of payment, any conditions to such redemption and that from the redemption date interest will cease to accrue, shall be given by the Plant Trustee by mailing a copy of the redemption notice by first class mail to the Owner of each Plant Bond to be redeemed in whole or in part at the address shown on the registration books. Such notice shall be given at least 30 days prior to the date fixed for redemption to the Owners of Plant Bonds to be redeemed; provided, however, that failure to duly give such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption of Plant Bonds with respect to which no such failure or defect occurred.

With respect to any notice of redemption of Plant Bonds at the option of the Issuer, unless upon the giving of such notice such Plant Bonds shall be deemed to have been paid within the meaning of the Plant Indenture, such notice may state (if so directed by the Company in writing) that such redemption shall be conditional upon the receipt by the Plant Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, and premium, if any, and interest on such Plant Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no further force and effect and the Issuer shall not be required to redeem such Plant Bonds. In the event that such notice of redemption contains such a condition and such moneys

are not so received, the redemption shall not be made and the Plant Trustee shall within five days thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Any notice mailed as provided in this section captioned "Notice of Redemption" shall be conclusively presumed to have been duly given, whether or not the Owner receives the notice.

In addition to the foregoing notice, further notice may be given by the Plant Trustee as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner (i) defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed or (ii) give rise to any liability on the part of the Issuer, the Company, the Plant Trustee or the Remarketing Agent.

Each further notice of redemption given under the Plant Indenture may contain the information required above for an official notice of redemption plus (i) the CUSIP number of the Plant Bonds to be redeemed; (ii) the date of issue of the Plant Bonds; (iii) the rate or rates of interest borne by the Plant Bonds; (iv) the Stated Maturity of the Plant Bonds; and (v) any other descriptive information needed to identify accurately the Plant Bonds being redeemed.

Each further notice of redemption may be given at least two days before the date the redemption notice to the Owners is required to be given as provided in the first paragraph of this section captioned "Notice of Redemption", by (i) registered or certified mail, postage prepaid, or (ii) overnight delivery service, to the current security depositories and information services.

Deposit of Funds

For the redemption of any of the Plant Bonds, the Issuer shall cause to be deposited in the Plant Bond Fund, but solely out of the Trust Estate, moneys sufficient to pay when due the principal of and premium, if any, and interest on the redemption date.

Partial Redemption of Plant Bonds

In case a Plant Bond is of a denomination larger than the minimum Authorized Denomination, all or a portion of such Plant Bond may be redeemed provided the principal amount not being redeemed is in an Authorized Denomination. Upon surrender of any Plant Bond for redemption in part only, the Issuer shall execute and the Plant Trustee shall authenticate and deliver, upon written instruction from the Company, to the Owner thereof, without cost to the Owner but at the Company's expense, a new Plant Bond or Plant Bonds of the same tenor of Authorized Denominations in aggregate principal amount equal to the unredeemed portion of the Plant Bond surrendered.

Selection of Plant Bonds for Redemption

If less than all of the Plant Bonds of a Series are called for redemption, the particular Plant Bonds of such Series or portions thereof to be redeemed shall be selected on a pro rata basis in Authorized Denominations or such other method as the Plant Trustee in its sole discretion shall deem appropriate; provided that with respect to Plant Bonds subject to redemption which are in the Flexible Rate Period or the Taxable Rate Period the Plant Trustee shall select Plant Bonds with a purchase date corresponding to the proposed redemption date and shall thereafter select Plant Bonds having the next chronological purchase dates subsequent to the proposed redemption date, selecting Plant Bonds by lot with respect to any purchase date if not all Plant Bonds having such purchase date are subject to redemption; and provided, further, that the aggregate amount of Plant Bonds remaining outstanding following such redemption shall be in an Authorized Denomination; and provided further that, if the Plant Bonds are then held through a book-entry-only system, selection shall be in accordance with the procedures of such system. The Plant Trustee shall promptly notify the Company in writing of the Plant Bonds or portions thereof selected for redemption, provided, however, that in connection with any redemption of a Series of Plant Bonds, the Issuer, at the written direction of the Company, or the Plant Trustee, as the case may be, shall first select for redemption any such Plant Bonds held by the Plant Trustee for the account of the Company or held of record by the Company and that if, as indicated in a certificate of an Authorized Representative of the Company delivered to the Plant Trustee, the Company shall have offered to purchase all such Plant Bonds then outstanding and less than all such Plant Bonds

shall have been tendered to the Company for such purchase, the Issuer, at the written direction of the Company, or the Plant Trustee, shall select for redemption all such Plant Bonds which have not been so tendered. If the Owner of any such Plant Bond shall fail to present such Plant Bond to the Plant Trustee for payment and exchange as aforesaid, such Plant Bond shall, nevertheless, become due and payable, and interest shall cease to accrue, on the date fixed for redemption to the extent of the principal amount called for redemption (and to that extent only).

Redemption While a Liquidity Facility Is in Place

With respect to any optional redemption of any Tax Exempt Series of Plant Bonds while a Liquidity Facility is in effect, the Plant Trustee shall make available the redemption price solely out of Available Moneys.

TENDER AND PURCHASE OF PLANT BONDS; REMARKETING; REMARKETING AGENT

Optional Tender and Purchase of Plant Bonds

(a) ***During Daily Rate Period.*** During any Daily Rate Period, any Plant Bond of a Tax Exempt Series (other than a Plant Bond) bearing interest at a Daily Interest Rate shall be purchased in an Authorized Denomination (provided that the amount of any such Plant Bond of a Tax Exempt Series not to be purchased shall also be in an Authorized Denomination) from its Owner at the option of the Owner on any Business Day at a purchase price equal to the Tender Price, payable in immediately available funds, upon delivery to the Tender Agent at its Principal Office for delivery of the Plant Bonds of a Tax Exempt Series and to the Plant Trustee at its Principal Office, by no later than 11:00 a.m. on such Business Day, of an irrevocable written notice or an irrevocable telephonic notice, promptly confirmed by teletype or other writing, which states the principal amount of the Plant Bonds of a Tax Exempt Series to be purchased and the date of purchase. In the event the Plant Bonds of a Tax Exempt Series are not then held through a book-entry only system, for payment of such purchase price on the date specified in such notice, the Plant Bonds of a Tax Exempt Series must be delivered, at or prior to 12:00 noon, on such Business Day, to the Tender Agent at its Principal Office for delivery of the Plant Bonds of a Tax Exempt Series, accompanied by an instrument of transfer thereof, in form satisfactory to such Tender Agent, executed in blank by the Owner thereof or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

During any Daily Rate Period for which the book-entry-only system described in the Plant Indenture is in effect, any Plant Bond of a Tax Exempt Series bearing interest at the Daily Interest Rate or portion thereof (provided that the principal amount of the Plant Bond of a Tax Exempt Series to be purchased and the principal amount to be retained shall each be an Authorized Denomination) shall be purchased on the date specified in the notice referred to below at the Tender Price. The irrevocable written notice, executed by the Participant, shall be delivered on any Business Day by the Participant for the Plant Bond of a Tax Exempt Series to the Tender Agent at its Principal Office for the delivery of the Plant Bonds of a Tax Exempt Series, to the Plant Trustee at its Principal Office and to the Remarketing Agent prior to 11:00 a.m. That notice shall state the principal amount of the Plant Bond of a Tax Exempt Series (or interest therein), the portion thereof to be purchased and the date on which the same shall be purchased. Upon confirmation by the Securities Depository to the Plant Trustee that such Participant has an ownership interest in the Plant Bonds of a Tax Exempt Series at least equal to the amount of the Plant Bonds of a Tax Exempt Series specified in such irrevocable written notice, payment of the Tender Price of the Plant Bond of a Tax Exempt Series shall be made by 3:00 p.m., or as soon as practicably possible thereafter, upon the receipt by the Tender Agent of the Tender Price as set forth in subsection (b) of the section captioned "Notice of Plant Bonds Delivered for Purchase; Purchase of Plant Bonds of a Tax Exempt Series; Deposit of Tender Price" on the Business Day specified in the notice upon the transfer on the registration books of the Securities Depository of the beneficial ownership interest in the Plant Bond of a Tax Exempt Series tendered for purchase to the account of the Tender Agent, or a Participant acting on behalf of such Tender Agent, at or prior to 1:30 p.m. on the date specified in such notice.

(b) ***During Weekly Rate Period.*** During any Weekly Rate Period, any Plant Bond of a Tax Exempt Series (other than a Plant Bond) bearing interest at a Weekly Interest Rate shall be purchased in an Authorized Denomination (provided that the amount of any such Plant Bond of a Tax Exempt Series not to be purchased shall also be in an Authorized Denomination) from its Owner at the option of the Owner on any Business Day at a purchase price equal to the Tender Price, payable in immediately available funds, upon delivery to the Tender Agent

at its Principal Office for delivery of Plant Bonds of a Tax Exempt Series and to the Plant Trustee at its Principal Office of an irrevocable written notice which states the principal amount of such Plant Bond of a Tax Exempt Series, the principal amount thereof to be purchased and the date on which the same shall be purchased, which date shall be a Business Day not prior to the seventh day after the date of the delivery of such notice to the Tender Agent. Any notice delivered to the Tender Agent after 4:00 p.m. shall be deemed to have been received on the next succeeding Business Day. Plant Bonds may not be tendered for purchase at the option of the Owner thereof. In the event the Plant Bonds of a Tax Exempt Series are not then held through a book-entry only system, for payment of the Tender Price on the Tender Date, such Plant Bond of a Tax Exempt Series to be purchased must be delivered at or prior to 10:00 a.m. on the Tender Date to the Tender Agent at its Principal Office for delivery of Plant Bonds of a Tax Exempt Series accompanied by an instrument of transfer, in form satisfactory to the Tender Agent executed in blank by the Owner or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company, or member firm of the New York Stock Exchange.

During any Weekly Rate Period for which the book-entry-only system described in the Plant Indenture is in effect, any Plant Bond of a Tax Exempt Series bearing interest at the Weekly Interest Rate or portion thereof (provided that the principal amount of such Plant Bond of a Tax Exempt Series to be purchased and the principal amount to be retained shall each be an Authorized Denomination) shall be purchased on the date specified in the notice referred to below at the Tender Price. The irrevocable written notice, executed by the Participant, shall be delivered on any Business Day by the Participant for such Plant Bond of a Tax Exempt Series to the Tender Agent at its Principal Office for the delivery of such Plant Bonds of a Tax Exempt Series, to the Plant Trustee at its Principal Office and to the Remarketing Agent. That notice shall state the principal amount of such Plant Bond of a Tax Exempt Series (or interest therein), the portion thereof to be purchased and the date on which the same shall be purchased, which date shall be a Business Day at least seven days after the date of delivery of such notice to the Tender Agent and to the Plant Trustee. Upon confirmation by the Securities Depository to the Plant Trustee that such Participant has an ownership interest in the Plant Bonds of a Tax Exempt Series at least equal to the amount of Plant Bonds of a Tax Exempt Series specified in such irrevocable written notice, payment of the Tender Price of such Plant Bond of a Tax Exempt Series shall be made by 3:00 p.m., or as soon as practicably possible thereafter, upon the receipt by the Tender Agent of the Tender Price as set forth in subsection (b) of the section captioned "Notice of Plant Bonds Delivered for Purchase; Purchase of Plant Bonds of a Tax Exempt Series; Deposit of Tender Price" on the Business Day specified in the notice upon the transfer on the registration books of the Securities Depository of the beneficial ownership interest in such Plant Bond of a Tax Exempt Series tendered for purchase to the account of the Tender Agent, or a Participant acting on behalf of such Tender Agent, at or prior to 10:00 a.m., on the date specified in such notice.

Mandatory Tender and Purchase of Plant Bonds

(a) ***Mandatory Tender for Purchase on Day Next Succeeding Last Day of Each Flexible Segment and Taxable Rate Segment.*** On the first Business Day following the last day (i) of each Flexible Segment unless such day is the first day of a new Rate Period (in which case a Plant Bond of a Tax Exempt Series shall be subject to mandatory purchase pursuant to subsection (b) of the section captioned "Mandatory Tender and Purchase of Plant Bonds") and (ii) of each Taxable Rate Segment, each such Plant Bond shall be subject to mandatory tender for purchase at the Tender Price, payable by wire transfer in immediately available funds, if such Plant Bond is delivered to the Tender Agent on or prior to 12:00 noon on the Tender Date, or if delivered after 12:00 noon, on the next succeeding Business Day. Interest shall cease to accrue on any such Plant Bond on the last day of each applicable Flexible Segment or Taxable Rate Segment. The Tender Price shall be payable only upon surrender of the Plant Bond to the Tender Agent at its Principal Office for delivery of the Plant Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Owner or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

(b) ***Mandatory Tender for Purchase on First Day of Each Rate Period.*** The Plant Bonds of a Tax Exempt Series shall be subject to mandatory tender for purchase on the first day of each Rate Period (or on the day which would have been the first day of a Rate Period had one of the events specified in subsections (h) or (g) of the section captioned "THE PLANT BONDS – Determination of Rate Periods and Interest Rates" not occurred which resulted in the interest rate on such Plant Bonds of a Tax Exempt Series not being converted) at the Tender Price, payable in immediately available funds. For payment of the Tender Price on the Tender Date, a Plant Bond of a Tax

Exempt Series must be delivered at or prior to 10:00 a.m. on the Tender Date. If delivered after that time, the Tender Price shall be paid on the next succeeding Business Day.

(c) ***Mandatory Tender for Purchase Upon Termination, Replacement or Expiration of Liquidity Facility; Mandatory Standby Tender.*** For Plant Bonds of a Tax Exempt Series, if at any time the Plant Trustee gives notice, in accordance with the section captioned “Notice of Termination, Event of Default or Other Change in Liquidity Facility”, that the Tender Price on such Plant Bonds tendered for purchase shall, on the date specified in such notice, cease to be subject to purchase pursuant to the Liquidity Facility then in effect as a result of (i) the termination, replacement or expiration of the term, as extended, of that Liquidity Facility, including, but not limited to, termination at the option of the Company in accordance with the terms of such Liquidity Facility, or (ii) the occurrence of a Mandatory Standby Tender, then, on the fifth Business Day preceding any such termination, replacement or expiration of such Liquidity Facility, including any termination as a result of a Mandatory Standby Tender such Plant Bonds will be purchased or deemed purchased at the Tender Price.

Payment of the Tender Price of any Plant Bond shall be made in immediately available funds by 3:30 p.m., so long as the Tender Agent has received such Tender Price from the Trustee, on the Tender Date upon delivery of the Plant Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Owner with the signature of such Owner guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 12:00 noon on the Tender Date specified in the section captioned “Notice of Termination, Event of Default or Other Change in Liquidity Facility”. If, as a result of any such Mandatory Standby Tender, expiration, termination with notice or replacement of such a Liquidity Facility, any Plant Bond is no longer subject to purchase pursuant to a Liquidity Facility, the Tender Agent (upon receipt from the Owner thereof in exchange for payment of the Tender Price thereof) shall present such Plant Bond to the Plant Trustee for notation of such fact thereon.

(d) ***Notice of Mandatory Tender for Purchase.*** In connection with any mandatory tender for purchase of Plant Bonds of a Tax Exempt Series in accordance with subsections (b) or (c) of this section captioned “Mandatory Tender and Purchase of Plant Bonds”, the Plant Trustee shall give, at the Issuer’s written request, the notice required by this subsection (d) as a part of the notice given pursuant to subsections (a)(iii), (b)(iii), (c)(iii), (d)(iii) and (g) of the section captioned “THE PLANT BONDS – Determination of Rate Periods and Interest Rates” or the section captioned “Notice of Termination, Event of Default or Other Change in Liquidity Facility”. Such notice shall state (i) in the case of a mandatory tender for purchase pursuant to subsection (b) of this section captioned “Mandatory Tender and Purchase of Plant Bonds”, the type of Rate Period to commence on such mandatory purchase date (the “**Mandatory Tender Date**”); (ii) in the case of a mandatory tender for purchase pursuant to subsection (c) of this section captioned “Mandatory Tender and Purchase of Plant Bonds”, that the Liquidity Facility will expire, terminate or be replaced and that the Plant Bonds of a Tax Exempt Series will no longer be payable from the Liquidity Facility then in effect and that any rating applicable to the Plant Bonds of a Tax Exempt Series may be reduced or withdrawn; (iii) that the Tender Price of any Plant Bond of a Tax Exempt Series subject to mandatory tender for purchase shall be payable only upon surrender of that Plant Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Owner or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange; (iv) that, provided that moneys sufficient to effect such purchase shall have been provided through the remarketing of the Plant Bonds of a Tax Exempt Series by the Remarketing Agent, through the Liquidity Facility or funds (if any) provided by the Company, all Plant Bonds of a Tax Exempt Series subject to mandatory tender for purchase shall be purchased on the Mandatory Tender Date; and (v) that if any Owner of a Plant Bond of a Tax Exempt Series subject to mandatory tender for purchase does not surrender such Plant Bond to the Tender Agent for purchase on the mandatory Tender Date, then that Plant Bond shall be deemed to be an Undelivered Plant Bond, that no interest shall accrue on that Plant Bond on and after the mandatory Tender Date and that the Owner shall have no rights under the Plant Indenture other than to receive payment of the Tender Price.

Irrevocable Notice Deemed to Be Tender of Plant Bond; Undelivered Plant Bonds

The giving of notice by an Owner of Plant Bonds of a Tax Exempt Series as provided in subsection (a) or (b) of the section captioned “Optional Tender and Purchase of Plant Bonds” shall constitute the irrevocable tender

for purchase of each Plant Bond of a Tax Exempt Series with respect to which such notice is given regardless of whether that Plant Bond is delivered to the Tender Agent for purchase on the relevant Tender Date.

The Tender Agent may refuse to accept delivery of any Plant Bond for which a proper instrument of transfer has not been provided. However, such refusal shall not affect the validity of the purchase of the Plant Bond as described in the Plant Indenture. If any Owner of a Plant Bond of a Tax Exempt Series who has given notice of tender of purchase pursuant to subsection (a) or (b) of the section captioned “Optional Tender and Purchase of Plant Bonds” or any Owner of a Plant Bond subject to mandatory tender for purchase pursuant to subsection (a), (b) or (c) of the section captioned “Mandatory Tender and Purchase of Plant Bonds”, shall fail to deliver that Plant Bond to the Tender Agent at the place and on the Tender Date and at the time specified, or shall fail to deliver that Plant Bond properly endorsed, that Plant Bond shall constitute an Undelivered Plant Bond. If funds in the amount of the purchase price of the Undelivered Plant Bond are available for payment to the Owner thereof on the Tender Date and at the time specified, then from and after the Tender Date and time of that required delivery (i) the Undelivered Plant Bond shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the Plant Indenture; (ii) interest shall no longer accrue on the Undelivered Plant Bond; and (iii) funds in the amount of the Tender Price of the Undelivered Plant Bond shall be held uninvested by the Tender Agent for the benefit of the Owner thereof (provided that the Owner shall have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of the Undelivered Plant Bond to the Tender Agent at its Principal Office for delivery of Plant Bonds.

Payment of Tender Price

If all or a portion of the Plant Bonds tendered for purchase cannot be remarketed and, with respect to such Plant Bonds of a Tax Exempt Series, the Liquidity Facility Provider fails to purchase all or any part of the unremarketed portion of the tendered Plant Bonds of such Tax Exempt Series in accordance with the Liquidity Facility on a Tender Date, the Company may at its option, but shall not be obligated to, pay to the Tender Agent as soon as practicable on a Tender Date immediately available funds (together with any remarketing proceeds and any funds provided under the Liquidity Facility) sufficient to pay the Tender Price on any Plant Bonds of a Tax Exempt Series tendered for purchase. The Tender Agent shall deposit the amount paid by the Company, if any, in the Company Purchase Account of the Purchase Fund pending application of the money to the payment of the Tender Price as set forth in subsection (b)(iii) of the section captioned “Notice of Plant Bonds Delivered for Purchase; Purchase of Plant Bonds of a Tax Exempt Series; Deposit of Tender Price”.

Liquidity Facility

(a) At any time the Plant Bonds of a Tax Exempt Series bear interest at a Daily Rate, Weekly Rate, Flexible Rate or Term Rate for a Term Rate Period that ends prior to the Stated Maturity of the Plant Bonds the Company shall maintain a Liquidity Facility for such Plant Bonds, in an amount equal to the sum of outstanding principal of such Tax Exempt Series of Plant Bonds and interest calculated as follows:

(i) at the Maximum Rate for 35 days, in the case of the Weekly Interest Rate, and 35 days, in the case of the Daily Interest Rate, or in each case such greater or lesser amount as may be approved by the Rating Agencies, for such Tax Exempt Series of Plant Bonds bearing interest at the Weekly Interest Rate or the Daily Interest Rate, respectively,

(ii) at the Maximum Rate for 275 days or such greater or lesser amount as may be approved by the Rating Agencies then rating such Tax Exempt Series of Plant Bonds bearing interest at Flexible Rates, and

(iii) at the Maximum Rate for 185 days or such greater or lesser amount as may be approved by the Rating Agencies then rating such Tax Exempt Series of Plant Bonds, if and to the extent that the Company shall elect, for such Tax Exempt Series of Plant Bonds bearing interest at the Term Rate.

(b) **Requests to Pay Tender Price.** If there is not a sufficient amount of money available to pay the Tender Price pursuant to the Tender Agent Agreement and subsection (b)(i) of the section captioned “Notice of

Plant Bonds Delivered for Purchase; Purchase of Plant Bonds of a Tax Exempt Series; Deposit of Tender Price” on a Tender Date on which Plant Bonds of a Tax Exempt Series are required to be purchased pursuant to the sections captioned “Optional Tender and Purchase of Plant Bonds” or “Mandatory Tender and Purchase of Plant Bonds”, the Tender Agent, shall make a Request or Requests under the Liquidity Facility in accordance with its terms, at the times and in the manner required by the Tender Agent Agreement to receive immediately available funds on the Tender Date sufficient to pay the balance of the Tender Price. The Tender Agent agrees to deposit the proceeds of such Requests in the Liquidity Facility Purchase Account pursuant to subsection (b)(ii) of the section captioned “Notice of Plant Bonds Delivered for Purchase; Purchase of Plant Bonds of a Tax Exempt Series; Deposit of Tender Price” and the Tender Agent Agreement, pending application of that money to the payment of the Tender Price. In determining the amount of the Tender Price then due, the Tender Agent shall not take into consideration any Plant Bonds or Company Plant Bonds. No Requests shall be made under a Liquidity Facility to pay the Tender Price of Plant Bonds or Plant Bonds of a Tax Exempt Series which are registered in the name of the Issuer or the Company or, to the best knowledge of the Tender Agent any nominees for (or any Person who owns such Plant Bonds of a Tax Exempt Series for the sole benefit of) any of the foregoing. Plant Bonds and Company Plant Bonds may not be tendered for purchase at the option of the Liquidity Facility Provider or the Company, respectively.

(c) ***Surrender of Liquidity Facility.*** If an Alternate Liquidity Facility is delivered to the Tender Agent pursuant to the section captioned “Alternate Liquidity Facility” with the documents required by the section captioned “Alternate Liquidity Facility”, then the Tender Agent shall accept the Alternate Liquidity Facility and surrender the Liquidity Facility previously held for cancellation, provided that no Liquidity Facility shall be surrendered until after the date on which Plant Bonds of a Tax Exempt Series required to be purchased pursuant to subsection (c) of the section captioned “Mandatory Tender and Purchase of Plant Bonds” have been purchased or deemed purchased in accordance with subsection (c) of the section captioned “Mandatory Tender and Purchase of Plant Bonds”. If a Liquidity Facility automatically terminates or is no longer required to be maintained under the Plant Indenture, the Plant Trustee shall surrender such Liquidity Facility to the issuer thereof for cancellation in accordance with the terms of the Liquidity Facility. Upon the defeasance of the Plant Bonds of a Tax Exempt Series pursuant to the Plant Indenture and at such time as the Plant Bonds of a Tax Exempt Series are no longer subject to tender for purchase, the Tender Agent shall surrender the Liquidity Facility, if any, to the Liquidity Facility Provider for cancellation in accordance with the terms of that Liquidity Facility. The Tender Agent shall comply with the procedures set forth in each Liquidity Facility relating to the termination thereof and shall deliver any certificates reducing the stated amount of the Liquidity Facility in accordance with the provisions thereof.

(d) ***Notice by Plant Trustee.*** In connection with a Mandatory Standby Tender resulting in a mandatory purchase of Plant Bonds of a Tax Exempt Series as provided in subsection (c) of the section captioned “Mandatory Tender and Purchase of Plant Bonds”, the Plant Trustee, at the Issuer’s written request, shall give the notice of mandatory tender for purchase of such Plant Bonds of a Tax Exempt Series as provided in subsection (d) of the section captioned “Mandatory Tender and Purchase of Plant Bonds” and the section captioned “Notice of Termination, Event of Default or Other Change in Liquidity Facility”.

(e) ***Notices From Company and Plant Trustee.***

(i) ***Notices from Company.*** The Company shall give notice to the Plant Trustee, the Remarketing Agent, the Tender Agent, the Bond Insurer, the Liquidity Facility Provider and any Rating Agency currently rating the Plant Bonds of a Tax Exempt Series promptly upon the occurrence of any of the following events:

(A) the extension of the Expiration Date;

(B) the issuance and delivery of an Alternate Liquidity Facility; and

(C) the appointment of a successor to any of the Liquidity Facility Provider or the Remarketing Agent.

(ii) ***Notices From Plant Trustee to Owners of Plant Bonds.*** The Plant Trustee shall, promptly upon receipt of notice from: (A) the Company of the occurrence of any of the events listed in subparagraph (i) above, give notice to the Owners of Outstanding Plant Bonds of a Tax Exempt Series of

the occurrence of that event and (B) the Liquidity Facility Provider of notice of a Mandatory Standby Tender, give notice to the Issuer, the Tender Agent, the Remarketing Agent and the Owners of Outstanding Plant Bonds of a Tax Exempt Series of the occurrence of the Mandatory Standby Tender with the information set forth in the section captioned "Notice of Termination, Event of Default or Other Change in Liquidity Facility".

Alternate Liquidity Facility

(a) ***Delivery by Company.***

(i) Not later than 35 days prior to the expiration or termination of a Liquidity Facility relating to Plant Bonds of a Tax Exempt Series in accordance with the terms of that Liquidity Facility, the Company may provide for the delivery to the Tender Agent of an Alternate Liquidity Facility which has a term of at least 364 days. Any Alternate Liquidity Facility delivered to the Tender Agent pursuant to this subsection (a)(i) of the section captioned "Alternate Liquidity Facility" shall contain administrative provisions reasonably acceptable to the Tender Agent, the Remarketing Agent and the Bond Insurer. On or prior to the date of the delivery of the Alternate Liquidity Facility to the Tender Agent, the Company shall furnish to the Plant Trustee (A) if the Alternate Liquidity Facility is issued by a Liquidity Facility Provider other than a domestic commercial bank, an opinion of Counsel reasonably satisfactory to the Plant Trustee, the Remarketing Agent and the Bond Insurer that no registration of the Alternate Liquidity Facility is required under the Securities Act, and no qualification of the Trust Indenture is required under the Trust Indenture Act, or that all applicable registration or qualification requirements have been fulfilled and (B) an opinion of Counsel satisfactory to the Plant Trustee, the Tender Agent, the Remarketing Agent and the Bond Insurer to the effect that such Alternate Liquidity Facility is a valid and enforceable obligation of the issuer thereof.

(ii) In lieu of the opinion of Counsel required by clause (A) of subparagraph (i) above, there may be delivered an opinion of Counsel reasonably satisfactory to the Issuer, the Plant Trustee, the Remarketing Agent, the Tender Agent and the Bond Insurer to the effect that either (A) at all times during the term of the Alternate Liquidity Facility, the Plant Bonds of a Tax Exempt Series will be offered, sold and held by Owners in transactions not constituting a public offering of the Plant Bonds of a Tax Exempt Series or the Alternate Liquidity Facility under the Securities Act, and accordingly no registration under the Securities Act, nor qualification of the Trust Indenture under the Trust Indenture Act, will be required in connection with the issuance and delivery of the Alternate Liquidity Facility or the remarketing of the Plant Bonds of a Tax Exempt Series with the benefits thereof, or (B) the offering and sale of the Plant Bonds of a Tax Exempt Series, to the extent evidencing the Alternate Liquidity Facility, has been registered under the Securities Act and any indenture required to be qualified with respect thereto under the Trust Indenture Act has been so qualified. If the opinion described in clause (A) of this subparagraph (ii) is given, the Plant Bonds of a Tax Exempt Series and any transfer records relating to the Plant Bonds of a Tax Exempt Series shall be noted indicating the restrictions on sale and transferability described in clause (A).

(b) ***Acceptance by Tender Agent.*** If at any time there is delivered to the Tender Agent (i) an Alternate Liquidity Facility for the Plant Bonds of a Tax Exempt Series, (ii) the information, opinions and data required by subsection (a) of the section captioned "Alternate Liquidity Facility", and (iii) all information required to give the notice of mandatory tender for purchase of the Plant Bonds of a Tax Exempt Series, then the Tender Agent shall accept such Alternate Liquidity Facility, shall promptly provide notice of such Alternate Liquidity Facility to the Plant Trustee and the Remarketing Agent and, after the date of the mandatory tender for purchase established pursuant to subsection (c) of the section captioned "Mandatory Tender and Purchase of Plant Bonds", promptly surrender the Liquidity Facility then in effect to the issuer thereof for cancellation in accordance with its terms or deliver any document necessary to reduce the coverage of such Liquidity Facility due to the delivery of such Alternate Liquidity Facility.

(c) ***Notice of Termination.*** The Plant Trustee shall give notice to the Tender Agent, the Remarketing Agent and the Owners of the applicable Tax Exempt Series of Plant Bonds of the termination or expiration of any Liquidity Facility in accordance with its terms as provided in the section captioned "Notice of Termination, Event of Default or Other Change in Liquidity Facility".

Rights and Duties Under Liquidity Facility

The Tender Agent, by accepting its appointment as such, agrees without further direction, to make Requests under each Liquidity Facility then in effect, if any, for the payment or purchase of Plant Bonds of a Tax Exempt Series of Plant Bonds in accordance with the terms and conditions set forth in the Plant Indenture, the Tender Agent Agreement and that Liquidity Facility at the times, in the manner and for the purposes set forth in the Plant Indenture and therein.

Notice of Termination, Event of Default or Other Change in Liquidity Facility

The Plant Trustee shall give notice by mail to the Owners of the applicable Tax Exempt Series of Plant Bonds (i) on or before the 30th day preceding the replacement, termination or expiration of the Liquidity Facility (except in the case of a termination resulting from an event referred to in the following paragraph) in accordance with its terms, at the Issuer's written request, or (ii) in the case of any Mandatory Standby Tender under the Liquidity Facility, as soon as reasonably possible, but no later than the third Business Day following the receipt by the Plant Trustee of notice of the Mandatory Standby Tender. The notice shall be accompanied by directions for the purchase of such Plant Bonds of a Tax Exempt Series pursuant to the section captioned "Mandatory Tender for Purchase Upon Termination, Replacement or Expiration of Liquidity Facility; Mandatory Standby Tender". The notice shall (A) state the date of such replacement, termination or expiration and the date of the proposed substitution of an Alternate Liquidity Facility (if any), (B) state that such Plant Bonds will be purchased pursuant to the section captioned "Mandatory Tender for Purchase Upon Termination, Replacement or Expiration of Liquidity Facility; Mandatory Standby Tender" on the fifth Business Day preceding such replacement, termination or expiration, including any termination as a result of a Mandatory Standby Tender, and (C) provide any other information required in the notice to the Owners of such Plant Bonds by the section captioned "Notice of Mandatory Tender for Purchase". The Issuer shall provide the Plant Trustee with written notice of any information required to enable the Plant Trustee to give the foregoing notice.

If there should occur any event resulting in the immediate termination or suspension of the obligation of the Liquidity Facility Provider to purchase the Plant Bonds of a Tax Exempt Series under the terms of any Liquidity Facility, then the Plant Trustee, after it has knowledge of such event evidenced by a written instrument, shall as soon as practicably possible thereafter notify the Owners of such Plant Bonds then Outstanding that: (i) the Liquidity Facility has been terminated or suspended, as the case may be; (ii) the Tender Agent will no longer be able to purchase such Plant Bonds with moneys available under the Liquidity Facility; and (iii) the Liquidity Facility Provider is under no obligation to purchase such Plant Bonds or to otherwise advance moneys to fund the purchase of such Plant Bonds of a Tax Exempt Series.

Remarketing Agent: Tender Agent

(a) **Remarketing Agent.** Each Remarketing Agent appointed by the Company shall designate its Principal Office in the Remarketing Agreement. The Remarketing Agent shall signify its acceptance of the duties and obligations imposed upon it under the Plant Indenture by a written instrument of acceptance (which may be the Remarketing Agreement) delivered to the Company, the Issuer, the Plant Trustee, the Tender Agent, the Bond Insurer and the Liquidity Facility Provider, under which the Remarketing Agent shall agree, particularly, to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Issuer, the Company, the Plant Trustee, the Tender Agent, the Bond Insurer and the Liquidity Facility Provider at all reasonable times.

(b) **Tender Agent.** Each Tender Agent appointed by the Company shall designate its Principal Office for delivery of notices and delivery of the Plant Bonds in the Tender Agent Agreement and signify its acceptance of the duties and obligations imposed upon it under the Plant Indenture by a written instrument of acceptance (which may be the Tender Agent Agreement) delivered to the Company, the Issuer, the Plant Trustee, the Bond Insurer, the Liquidity Facility Provider and the Remarketing Agent. By acceptance of its appointment under the Plant Indenture, the Tender Agent agrees:

- (i) to hold all Plant Bonds delivered to it pursuant to Section 413 as agent and bailee of, and in escrow for the benefit of, the respective Owners which have delivered such Plant Bonds until money

representing the purchase price of such Plant Bonds shall have been delivered to or for the account of or to the order of such Owners;

(ii) to hold all Plant Bonds registered in the name of the new Owners thereof which have been delivered to it by the Plant Trustee for delivery to the Remarketing Agent in accordance with the Tender Agent Agreement;

(iii) to hold Company Plant Bonds for the account of the Company as stated in subsection (b)(iii) to the section captioned “Notice of Plant Bonds Delivered for Purchase; Purchase of Plant Bonds of a Tax Exempt Series; Deposit of Tender Price” and Plant Bonds for the account of the Liquidity Facility Provider as stated in subsection (b)(ii) to the section captioned “Notice of Plant Bonds Delivered for Purchase; Purchase of Plant Bonds of a Tax Exempt Series; Deposit of Tender Price”; and

(iv) to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Plant Trustee, the Company, the Issuer, the Liquidity Facility Provider and the Remarketing Agent at all reasonable times.

Qualifications of Remarketing Agent and Tender Agent; Resignation and Removal of Remarketing Agent and Tender Agent.

(a) **Remarketing Agent.** Each Remarketing Agent shall be a member of the National Association of Securities Dealers, having a combined capital stock, surplus and undivided profits of at least \$50,000,000 and authorized by law to perform all the duties imposed upon it by the Plant Indenture and the Remarketing Agreement. A Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Plant Indenture by giving notice to the Company, the Issuer, the Plant Trustee, the Tender Agent, the Bond Insurer and the Liquidity Facility Provider. Such resignation shall take effect on the 45th day after the receipt by the Company of the notice of resignation. A Remarketing Agent may be removed at any time on 45 days’ prior written notice, by an instrument signed by the Company and the Bond Insurer under any then effective Bond Insurance Policy, approved by the Liquidity Facility Provider and delivered to such Remarketing Agent, the Plant Trustee and the Tender Agent. Notwithstanding the provisions of this paragraph, such resignation or removal shall not take effect prior to the date that a successor Remarketing Agent has been appointed by the Company and such Bond Insurer.

(b) **Tender Agent.** Each Tender Agent shall be a commercial bank with trust powers or a trust company duly organized under the laws of the United States of America or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$500,000,000 and authorized by law to perform all the duties imposed upon it by the Plant Indenture and the Tender Agent Agreement. A Tender Agent may at any time resign and be discharged of the duties and obligations created by the Plant Indenture by giving at least 60 days’ notice to the Company, the Plant Trustee, the Issuer, the Liquidity Facility Provider, the Bond Insurer and the Remarketing Agent. A Tender Agent may be removed at any time by an instrument signed by the Company and the Bond Insurer under any then effective Bond Insurance Policy, and filed with the Plant Trustee. However, such resignation or removal shall not take effect prior to the date that a successor Tender Agent has been appointed by the Company and such Bond Insurer and has accepted such appointment, such appointment has been approved by the Liquidity Facility Provider and the Liquidity Facility, if any, has been transferred, in accordance with its terms, to that successor.

Upon the effective date of resignation or removal of a Tender Agent, such Tender Agent shall deliver any Plant Bonds of a Tax Exempt Series and money held by it in such capacity to its successor.

Notice of Plant Bonds Delivered for Purchase; Purchase of Plant Bonds of a Tax Exempt Series; Deposit of Tender Price.

(a) **Determination by Tender Agent; Notice of Tender.** For purposes of the sections captioned “Optional Tender and Purchase of Plant Bonds” and “Mandatory Tender and Purchase of Plant Bonds”, the Tender Agent shall determine timely and proper delivery of the Plant Bonds (to the extent that the Plant Bonds are not held in a book-entry only system) pursuant to the Plant Indenture and the proper endorsement of Plant Bonds delivered.

That determination shall be binding on the Owners of those Plant Bonds, the Company, the Issuer, the Liquidity Facility Provider, the Remarketing Agent and the Bond Insurer, absent manifest error.

In accordance with the provisions of the Tender Agent Agreement, the Tender Agent shall give notice by telephone or teletype, promptly confirmed by a written notice, to the Plant Trustee, the Company, the Issuer, the Remarketing Agent and the Liquidity Facility Provider specifying the principal amount of the Plant Bonds of a Tax Exempt Series as to which it receives notice of tender for purchase in accordance with subsection (a) or (b) of the section captioned "Optional Tender and Purchase of Plant Bonds".

(b) **Purchase of Plant Bonds; Sources and Deposits of Tender Price.** The Plant Bonds required to be purchased in accordance with of the sections captioned "Optional Tender and Purchase of Plant Bonds" or Mandatory Tender and Purchase of Plant Bonds" shall be purchased from the Owners thereof, on the Tender Date and at the Tender Price. Funds for the payment of the Tender Price shall be received by the Tender Agent from the following sources and used in the order of priority indicated:

(i) proceeds of the sale of the Plant Bonds remarketed pursuant to the section captioned "Remarketing of Plant Bonds; Notice of Interest Rates" and the Remarketing Agreement and furnished to the Tender Agent by the Remarketing Agent for deposit into the Remarketing Account of the Purchase Fund;

(ii) money furnished by the Liquidity Facility Provider to the Tender Agent for deposit into the Liquidity Facility Purchase Account of the Purchase Fund from Requests on the Liquidity Facility, if any (provided that moneys from Requests on the Liquidity Facility shall not be used to purchase Plant Bonds or Company Plant Bonds); and

(iii) money, if any, furnished by the Company at its option pursuant to the section captioned "Payment of Tender Price" to the Tender Agent for deposit into the Company Purchase Account of the Purchase Fund for the purchase of the Plant Bonds by the Company.

(c) **Undelivered Plant Bonds; Tender Price.** If a Plant Bond purchased as provided in this section captioned "Notice of Plant Bonds Delivered for Purchase; Purchase of Plant Bonds of a Tax Exempt Series; Deposit of Tender Price" (to the extent that the Plant Bond is not held in a book-entry only system) is not presented to the Tender Agent, the Tender Agent shall segregate and hold uninvested the money for the Tender Price of such Plant Bond in trust for the benefit of the former holder of such Plant Bond, who shall, except as provided in the following sentences of this paragraph, thereafter be restricted exclusively to such money for the satisfaction of any claim for the Tender Price. Any money which the Tender Agent segregates and holds in trust for the payment of the Tender Price of any Plant Bond, which remains unclaimed for four years after the date of purchase, shall be paid to the Company. After the payment of such unclaimed money to the Company, the former holder of such Plant Bond shall look only to the Company for the payment thereof. The Company shall not be liable for any interest on unclaimed money and shall not be regarded as a Plant Trustee of such money.

Remarketing of Plant Bonds; Notice of Interest Rates

(a) **Remarketing.** Upon a mandatory tender of Plant Bonds (other than a Mandatory Standby Tender) or notice of tender for purchase of the Plant Bonds of a Tax Exempt Series, the Remarketing Agent shall offer for sale and use its best efforts to sell such Plant Bonds (including Plant Bonds) on the same date designated for purchase thereof in accordance with the sections captioned "Optional Tender and Purchase of Plant Bonds" or "Mandatory Tender and Purchase of Plant Bonds" and, if not remarketed on such date, thereafter until sold, at a price equal to the Tender Price. The Plant Bonds of a Tax Exempt Series subject to a Mandatory Standby Tender shall not be remarketed unless such Plant Bonds are converted to a Term Rate Period to the Maturity Date, unless an Alternate Liquidity Facility is in full force and effect or unless the Liquidity Facility Provider has reinstated the Liquidity Facility with respect to which such Mandatory Standby Tender was declared and such Liquidity Facility is in full force and effect.

(b) **Notice of Rates and Terms.** The Remarketing Agent shall determine the rate of interest for the Plant Bonds during each Rate Period as provided in the section captioned “THE PLANT BONDS – Determination of Rate Periods and Interest Rates” and shall furnish such information to the Plant Trustee and the Company no later than the Business Day next succeeding the date of determination; provided that during a Daily Rate Period such information need be provided only once a week. In lieu of the notification provided in the preceding sentence, the Remarketing Agent may make such information available by readily accessible electronic means.

(c) **Notice of Purchase and Remarketing.** The Remarketing Agent shall give notice by facsimile transmission, telephone or teletype, promptly confirmed by a written notice, to the Plant Trustee and the Tender Agent on each date on which the Plant Bonds have been purchased pursuant to subsection (b)(i) of the section captioned “Notice of Plant Bonds Delivered for Purchase; Purchase of Plant Bonds of a Tax Exempt Series; Deposit of Tender Price” specifying the principal amount of such Plant Bonds, if any, sold by it pursuant to subsection (a) of the section captioned “Remarketing of Plant Bonds; Notice of Interest Rates” along with a list of the names, addresses and taxpayer identification numbers of the purchasers of, and the principal amount and denominations of, and with respect to Plant Bonds which are being purchased pursuant to subsection (a) of the section captioned “Mandatory Tender and Purchase Price of Plant Bonds”, Flexible Segments and the Flexible Rates and Taxable Segments and Taxable Rates for, such Plant Bonds remarketed by it; provided, however, that, in addition, on any date on which Plant Bonds are to be purchased pursuant to subsection (a) of the section captioned “Optional Tender and Purchase of Plant Bonds” or subsection (a) of the section captioned “Mandatory Tender and Purchase Price of Plant Bonds”, if all the Plant Bonds will not be remarketed, the Remarketing Agent shall give the Tender Agent and the Company notice by 12:00 noon, New York time, rather than by 1:00 p.m., New York time of the principal amount and accrued interest, if any, of Plant Bonds that have not been remarketed.

Delivery of Plant Bonds

(a) The Plant Bonds purchased with money described in subsection (b)(i) of the section captioned “Notice of Plant Bonds Delivered for Purchase; Purchase of Plant Bonds of a Tax Exempt Series; Deposit of Tender Price” shall be made available by the Plant Trustee to the Tender Agent and the Remarketing Agent for delivery to the purchasers thereof against payment therefor in accordance with the Tender Agent Agreement.

(b) The Plant Bonds of a Tax Exempt Series purchased with money described in subsection (b)(ii) of the section captioned “Notice of Plant Bonds Delivered for Purchase; Purchase of Plant Bonds of a Tax Exempt Series; Deposit of Tender Price” shall be registered in the name of the Liquidity Facility Provider and delivered in certificated form to the Liquidity Facility Provider as soon as practical following their purchase or held by the Tender Agent as agent for the Liquidity Facility Provider, as directed by the Liquidity Facility Provider.

(c) The Plant Bonds delivered as provided in this section captioned “Delivery of Plant Bonds” shall be registered in the manner directed by the recipient thereof.

(d) When any Plant Bonds are remarketed, the Tender Agent shall not release Plant Bonds of a Tax Exempt Series so remarketed to the Remarketing Agent until the Tender Agent has received and forwarded to the Liquidity Facility Provider the proceeds of such remarketing and (unless the Liquidity Facility is no longer to remain in effect) the Liquidity Facility has been reinstated.

(e) During such time as the Plant Bonds are held in book-entry only form through a Securities Depository, any provisions of the Plant Indenture requiring physical delivery of bond certificates to the Plant Trustee, the Tender Agent or any other party shall be interpreted as requiring delivery of the Plant Bonds in accordance with the Securities Depository’s applicable procedures for delivery of book-entry only securities, and compliance with such applicable procedures of the Securities Depository shall be deemed to be compliance with the delivery requirements of this indenture.

Delivery of Proceeds of Sale

The proceeds of the sale by the Remarketing Agent of any Plant Bonds shall be delivered to the Tender Agent for deposit into the Remarketing Account of the Purchase Fund as provided in the Remarketing Agreement.

Election Not to Sell Plant Bonds

The Liquidity Facility Provider (or any subsequent owner of a Plant Bond) shall have the right, by written notice or by telephonic notice, promptly confirmed in writing to the Remarketing Agent, the Plant Trustee and the Tender Agent, to elect not to sell the Plant Bonds or any portion thereof. From and after any sale by the Remarketing Agent and receipt by the Tender Agent on behalf of the Liquidity Facility Provider (or any subsequent owner of the Plant Bonds) of the purchase price therefor (including accrued interest to the date of delivery), or any such election not to sell the Plant Bonds, the Plant Bonds of a Tax Exempt Series shall cease to be Plant Bonds and shall bear interest as provided in the Plant Indenture for the Plant Bonds of a Tax Exempt Series other than Plant Bonds.

PAYMENT; FURTHER ASSURANCES

Payment of Principal or Redemption Price of and Interest on Plant Bonds

The Issuer shall promptly pay or cause to be paid the principal of and premium, if any, and interest on, every Plant Bond issued under the Plant Indenture according to the terms thereof, but shall be required to make such payment or cause such payment to be made only out of the Trust Estate. The Issuer appoints the Plant Trustee to act as the Paying Agent for the Plant Bonds, and, subject to the section captioned “THE PLANT BONDS – Plant Bonds in Certificate Form”, designates the Payment Office of the Plant Trustee, as the place of payment for the Plant Bonds. When and as paid in full, all Plant Bonds, if any, shall be delivered to the Plant Trustee, shall forthwith be cancelled and destroyed, and the Plant Trustee shall deliver a certificate of such destruction to the Issuer.

The Plant Bonds shall not constitute a debt or liability of the State or any political subdivision or any local agency thereof other than the limited obligation of the Issuer payable solely from the Trust Estate, or a pledge of the faith and credit of the State or any political subdivision or any local agency thereof, but shall be payable solely from the funds provided therefor in the Plant Indenture. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof or any local agency is pledged to the payment of the principal of, premium, if any, or interest on, the Plant Bonds; and no Registered Owner or Beneficial Owner of any Plant Bond shall have any right to demand payment of the principal of, premium, if any, or interest on, the Plant Bonds by the Issuer, the State or any political subdivision thereof or any local agency, out of any funds to be raised by taxation or appropriation. The issuance of the Plant Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision thereof or any local agency to levy or to pledge any form of taxation therefor or to make any appropriation for their payment.

Notwithstanding anything contained in the Plant Indenture, the Issuer shall not be required to advance any moneys derived from any source of income of any governmental body or political subdivision of the State or the Issuer or any local agency other than the Trust Estate, for any of the purposes in the Plant Indenture mentioned, whether for the payment of the principal of or interest on the Plant Bonds or for any other purpose of the Plant Indenture. The Plant Bonds are not general obligations of the Issuer, and are payable from and secured only by the Trust Estate.

Performance of Covenants; the Issuer

The Issuer covenants that it will perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Plant Indenture, in any and every Plant Bond executed, authenticated and delivered under the Plant Indenture and in all of its proceedings pertaining thereto; provided, however, that the Issuer shall not be obligated to take any action or execute any instrument pursuant to any provision hereof until it shall have received assurance reasonably satisfactory to the Issuer that the Issuer shall be reimbursed for its reasonable expenses incurred or to be incurred in connection with taking such action or executing such instrument. The Issuer covenants and warrants that it is duly authorized under the Constitution of the State and the laws thereof, including particularly the Act, to issue the Plant Bonds and to execute this Plant Indenture and to pledge the revenues from the Plant Loan Agreement, that all action required on its part for the issuance of the Plant Bonds and the execution and delivery of the Plant Loan Agreement and this Plant Indenture has been duly and effectively taken and that the Plant Bonds are and will be valid and enforceable limited recourse obligations of the Issuer in accordance with their terms.

Right to Payments Under Plant Loan Agreement

The Plant Trustee covenants that it will defend the Issuer's right to the payment of amounts due from the Borrower under the Plant Loan Agreement to the Plant Trustee for the benefit of Bondholders against the claims and demands of all Persons whomsoever. The Issuer covenants and agrees that, except as in the Plant Indenture and in the Plant Loan Agreement provided, it will not sell, convey, mortgage, encumber or otherwise dispose of any part of the revenues from the Plant Loan Agreement or its rights under the Plant Loan Agreement while any of the Plant Bonds are Outstanding. Subject to this limitation, the Issuer expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

Further Assurances

The Issuer will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Plant Indenture and for the better assuring and confirming unto the Holders of the Plant Bonds of the rights and benefits provided in the Plant Indenture.

Inspection of Project Books

The Plant Trustee covenants and agrees that all books and documents in its possession relating to the Plant and the Trust Estate shall at all times be open to inspection by such accountants or other agencies as the other party may from time to time designate during normal office hours. The Plant Trustee further covenants and agrees that all notices, reports, financial statement, and other disclosure materials it receives from the Company, including pursuant to the Plant Loan Agreement, shall at all times be open to inspection by the Issuer and its officers, accountants, attorneys and such other agents as the Issuer may from time to time designate during normal office hours.

Rights Under Plant Loan Agreement

The Plant Loan Agreement, a duly executed counterpart of which has been filed with the Plant Trustee, sets forth the covenants and obligations of the Issuer and the Company, and reference is made to the same for a detailed statement of said covenants and obligations of the Company thereunder, and the Issuer agrees that the Plant Trustee in its name or in the name of the Issuer may enforce all rights of the Issuer under and pursuant to the Plant Loan Agreement for and on behalf of the Bondholders, whether or not the Issuer is in default under the Plant Indenture. Nothing contained in the Plant Indenture shall be construed to prevent the Issuer from enforcing directly any and all of its Retained Rights under the Plant Loan Agreement.

Limitation of Liability to the Trust Estate

The Company shall be solely responsible for the payment of the Plant Bonds as and to the extent provided in the Plant Loan Agreement. Neither the State nor the Issuer shall be obligated to pay the Plant Bonds or the interest thereon except from the Trust Estate, for the Issuer's obligation to make payments, and neither the faith and credit nor the taxing power of the State or of any political subdivision or any local agency thereof shall be pledged to the payment of the principal of, premium, if any, or the interest on the Plant Bonds. The issuance of the Plant Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision or any local agency thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Issuer has no taxing powers.

Collateral Trust Agreement

The Issuer directs the Plant Trustee to enter into the Collateral Trust Agreement and diligently perform all of its duties and enforce all of its rights thereunder as Plant Trustee and Secured Party. The Plant Trustee accepts such direction.

ACCOUNTS; APPLICATION OF PROCEEDS

Application of Original Proceeds of Series 2012 Plant Bonds

Proceeds received from the issuance and sale of the Series 2012 Plant Bonds shall, on the 2012 Closing Date, be initially deposited by the Plant Trustee in the “Series 2012 Poseidon Resources (Channelside) LP Desalination Project Holding Fund” which the Plant Trustee shall establish in the Plant Indenture. Any amounts not needed to fund Costs of Issuance of the Series 2012 Plant Bonds (as described below) shall promptly be transferred to the Collateral Agent and applied pursuant to the Collateral Trust Agreement.

The Plant Trustee shall establish “Series 2012 Poseidon Resources (Channelside) LP Desalination Project Costs of Issuance Account” within the Series 2012 Plant Bond Holding Fund. The moneys in the Series 2012 Costs of Issuance Account and the accounts therein shall be held by the Plant Trustee in trust and applied to the payment of Costs of Issuance of the Plant Bonds, upon a requisition filed with the Plant Trustee in the form attached to the Plant Indenture, signed by an Authorized Representative of the Company. Each such requisition shall be sufficient evidence to the Plant Trustee of the facts stated therein and the Plant Trustee shall have no duty to confirm the accuracy of such facts. All payments from the Series 2012 Costs of Issuance Account shall be reflected in the Plant Trustee’s regular accounting statements. Any amounts remaining in the Series 2012 Costs of Issuance Account six months following the Issue Date shall be transferred to the Collateral Agent for deposit to the Construction Account.

Proceeds received from the issuance and sale of any Additional Plant Bonds shall be deposited and disbursed by the Plant Trustee as set forth in the supplemental indenture relating to such Additional Plant Bonds.

Plant Bond Fund

Creation of the Plant Bond Fund. There is created by the Issuer and ordered established with the Plant Trustee a trust fund in the name of the Issuer to be designated “Revenue Bonds (Poseidon Resources (Channelside) LP Desalination Project) Plant Bond Fund” which shall be used to pay the principal of and premium, if any, and the interest on the Plant Bonds. There shall be established within the Plant Bond Fund a separate account for the Series 2012 Plant Bonds and for the bonds of any additional Series from time to time authorized, authenticated and delivered under the Plant Indenture, such separate account to bear the designation of the Series. Each such account shall bear the designation of the Tax Exempt Series to which such account relates.

Payments into the Plant Bond Fund. There shall be deposited into the respective accounts of Plant Bond Fund from time to time the following:

- (i) all accrued interest, if any, paid by the Beneficial Owners of the Plant Bonds;
- (ii) all Plant Loan Repayments;
- (iii) all amounts received from the Collateral Agent under the Collateral Trust Agreement other than amounts representing the Plant Trustee’s fees and expenses, which amounts shall be for the Plant Trustee’s own account; and
- (iv) all other moneys received by the Plant Trustee under and pursuant to the provisions of the section captioned “Use of Certain Moneys in the Plant Fund Upon Refunding” or by any of the provisions of the Plant Loan Agreement, when accompanied by directions from the Person depositing such moneys that such moneys are to be paid into the Plant Bond Fund.

Use of Moneys in the Plant Bond Fund and Certain Other Moneys. Except as provided in the section captioned “Repayment to the Company from the Plant Bond Fund”, moneys in the Plant Bond Fund shall be used solely for the payment of the principal of and premium, if any, and interest on the Plant Bonds as the same shall become due and payable at maturity, upon redemption or otherwise.

Rebate Fund

(a) **General.** There is created and established with the Plant Trustee the special Fund of the Issuer designated as its “Revenue Bonds (Poseidon Resources (Channelside) LP Desalination Project) Rebate Fund”. There shall be established within the Rebate Fund a separate account for the Series 2012 Plant Bonds and for each other Tax Exempt Series from time to time authorized, authenticated and delivered under the Plant Indenture, such separate account to bear the designation of the Series.

(b) **Deposits.** The Plant Trustee shall deposit or transfer to the credit of the Rebate Fund each amount delivered to the Plant Trustee by the Collateral Agent following the Plant Trustee’s request therefor in accordance with the Collateral Trust Agreement after the Plant Trustee’s receipt of a rebate certificate from the Company in accordance with the Plant Loan Agreement.

(c) **Disbursements.**

(i) Within five days after each receipt or transfer of funds to the Rebate Fund, the Plant Trustee shall withdraw from the Rebate Fund and pay to the United States of America the balance of the Rebate Fund.

(ii) Within five days after the receipt from the Company of any amount pursuant to the Tax Agreement, the Plant Trustee shall withdraw such amount from the Rebate Fund and pay such amount to the United States of America as instructed in writing by the Company.

(iii) All payments to the United States of America pursuant to this subsection (c) shall be made by the Plant Trustee for the account and in the name of the Issuer and shall be paid by check posted by registered United States Mail (return receipt requested), addressed to the appropriate Internal Revenue Service Center accompanied by the relevant Internal Revenue Service Form 8038-T (or such other applicable successor information return specified by the Internal Revenue Service) described in the Tax Agreement.

(d) **Records.** The Plant Trustee shall preserve all statements, forms and explanations received from the Company pursuant to the Loan Agreement and all records of transactions in the Rebate Fund until six years after the retirement of all the Tax Exempt Series.

(e) **Plant Trustee.** The Plant Trustee may conclusively rely on the instructions of the Company with regard to any actions to be taken by it pursuant to this section captioned “Rebate Fund” and shall have no liability for any consequences of any failure of the Company to perform its duties or obligations or to supply accurate or sufficient instructions. Except as provided in subsections (c) and (d) above, the Plant Trustee shall have no duty or responsibility with respect to the Rebate Fund or the Company’s duties and responsibilities with respect thereto except to follow the Company’s specific instruction related thereto.

(f) **Actions Requiring Opinion of Bond Counsel.** If at any time during the term of the Plant Indenture the Issuer, the Plant Trustee or the Company desires to take any action which would otherwise be prohibited by the terms of this section captioned “Rebate Fund”, such Person shall be permitted to take such action if it shall first obtain and provide to the other Persons named in the Plant Indenture a Favorable Opinion of Bond Counsel and shall be in compliance with the laws of the State of California and the terms of the Plant Indenture (other than the provision(s) of this section captioned “Rebate Fund” which are the subject of such Favorable Opinion of Bond Counsel).

Purchase Fund

There shall be established with and maintained by the Tender Agent a separate trust fund to be designated “Poseidon Project Purchase Fund”. The Tender Agent shall further establish within the Purchase Fund a separate trust account to be referred to in the Plant Indenture as the “**Remarketing Account**”, a separate trust account to be

referred to in the Plant Indenture as the “Liquidity Facility Purchase Account” and a separate trust account to be referred to in the Plant Indenture as the “Company Purchase Account”.

Remarketing Account. Upon receipt of the proceeds of a remarketing of the Plant Bonds on a Tender Date pursuant to the Plant Indenture, the Tender Agent shall deposit such proceeds in the Remarketing Account of the Purchase Fund for application to the Tender Price of such Plant Bonds in accordance with the Plant Indenture and, if the Tender Agent is not a paying agent with respect to the Plant Bonds, shall transmit such proceeds to the Plant Trustee for such application. Notwithstanding the foregoing, upon receipt of the proceeds of a remarketing of Plant Bonds, the Tender Agent shall immediately pay such proceeds to the Liquidity Facility Provider.

Liquidity Facility Purchase Account. Upon receipt from the Liquidity Facility Provider of the immediately available funds transferred to the Tender Agent pursuant to the Plant Indenture, the Tender Agent shall deposit such money in the Liquidity Facility Purchase Account of the Purchase Fund for application to the Tender Price of the Plant Bonds required to be purchased on a Tender Date in accordance with the Plant Indenture to the extent that the money on deposit in the Remarketing Account of the Purchase Fund shall not be sufficient. Any amounts deposited in the Liquidity Facility Purchase Account and not needed with respect to any Tender Date for the payment of the Tender Price for any Plant Bonds shall be immediately returned to the Liquidity Facility Provider.

Company Purchase Account. Upon receipt from the Company under the Plant Indenture of any funds for the purchase of tendered Plant Bonds, the Tender Agent shall deposit such money, if any, in the Company Purchase Account of the Purchase Fund for application to the Tender Price of the Plant Bonds required to be purchased on a Tender Date in accordance with the Plant Indenture to the extent that the money on deposit in the Remarketing Account and the Liquidity Facility Purchase Account of the Purchase Fund shall not be sufficient. Any amounts deposited in the Company Purchase Account and not needed with respect to any Tender Date for the payment of the Tender Price for any Plant Bonds shall be immediately returned to the Company.

Separate and Uninvested Funds. All amounts held in the Purchase Fund (and the accounts established therein) by the Tender Agent shall be held uninvested and separate and apart from all other funds and accounts established under the Trust Indenture.

Arbitrage Covenants

(a) The Issuer and the Company covenant and agree that neither will take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest payable on the Tax Exempt Series under section 103 of the Code. Without limiting the generality of the foregoing, the Issuer and the Company each covenants and agrees that it will each comply with the requirements of the Tax Agreement.

(b) The Plant Trustee agrees to comply with all written rebate instructions of the Company given pursuant to the Tax Agreement; provided, however, that the Company shall be responsible for such rebate instructions complying with the Tax Agreement. The Plant Trustee conclusively shall be deemed to have complied with the provisions of this subsection (b) if it follows the rebate instructions and directions of the Company and shall not be required to take any action under this subsection (b) in the absence of such directions from the Company. The Plant Trustee shall not be liable for any consequences resulting from its failure to act if no rebate instructions from the Company (or in the absence of Company rebate instructions, instructions from the Issuer) are delivered to it.

Notwithstanding any provision of this section captioned “Arbitrage Covenants”, if the Company shall provide to the Plant Trustee, and the Issuer an opinion of Bond Counsel that any action required under the section captioned “Rebate Fund” or this section captioned “Arbitrage Covenants” is no longer required, or that some further action is required to maintain the Tax exempt status of interest on the Tax Exempt Series, the Plant Trustee and the Issuer may rely conclusively on such opinion in complying with the requirements of this section captioned “Arbitrage Covenants”, and the covenants contained in the Plant Indenture shall be deemed to be modified to that extent.

Information Reporting

The Issuer, with the cooperation of the Company, shall file with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Tax Exempt Series are issued, an information statement concerning the Tax Exempt Series, all under and in accordance with section 149(e) of the Code.

Non-Presentation of Plant Bonds

If any Plant Bonds, or portions thereof, shall not be presented for payment when the principal thereof becomes due, either at Stated Maturity or otherwise, or at the date fixed for redemption thereof, all liability of the Issuer to the Owners thereof for the payment of such Plant Bonds or portions thereof shall forthwith cease, determine and be completely discharged whenever funds sufficient to pay such Plant Bonds or portions thereof shall be held by the Plant Trustee, and such funds shall be segregated by the Plant Trustee and held in trust for the benefit of the Owners of such Plant Bonds or portions thereof who shall thereafter be restricted exclusively to such funds for the satisfaction of any claim of whatever nature on their part relating to such Plant Bonds or portions thereof. Such segregated funds shall not be subject to investment and shall thereafter no longer be considered part of the Trust Estate and any such Plant Bond shall no longer be deemed Outstanding under the Plant Indenture. To the extent such provisions do not require the transfer of such amounts to the State, the Plant Trustee shall return such amounts to the Company upon the written request of its Authorized Representative. Thereafter the Owner of such Plant Bond shall look only to the Person to whom such amounts have been transferred for payment without any interest thereon, and the Plant Trustee shall have no further responsibility with respect to such moneys. In the absence of a written request from an Authorized Representative of the Company to return unclaimed funds to the Company, the Plant Trustee shall from time to time deliver all unclaimed funds to or as directed by applicable escheat authorities, as determined by the Plant Trustee in its sole discretion, in accordance with the customary practices and procedures of the Plant Trustee. Any unclaimed funds held by the Plant Trustee pursuant to this subsection captioned "Non-Presentation of Plant Bonds" shall be held uninvested and without any liability for interest.

Trustee Fees, Charges and Expenses

The Plant Trustee agrees that the Issuer shall have no liability for any fees, charges and expenses of the Plant Trustee, and the Plant Trustee agrees to look only to the Company for the payment of all fees, charges and expenses (including, but not limited to, attorneys' fees and expenses) of the Plant Trustee as provided in the Loan Agreement and in the Plant Indenture.

Moneys to Be Held in Trust

All moneys required to be deposited with or paid to the Plant Trustee for deposit into the Plant Bond Fund under any provision hereof and all moneys withdrawn from the Plant Bond Fund and held by the Plant Trustee shall be held by the Plant Trustee in trust, and such moneys shall, while so held, constitute part of the Trust Estate and be subject to the lien hereof. Moneys held for the payment of the purchase price of Plant Bonds pursuant to Article IV and moneys held in the Rebate Fund shall not constitute part of the Trust Estate.

Repayment to the Company From the Plant Bond Fund

Any amounts remaining in the Plant Bond Fund after payment in full of the principal of and premium, if any, and interest on the Plant Bonds (or provision for payment thereof as provided in this indenture), the fees, charges, indemnities and expenses of the Issuer, the Plant Trustee, the Remarketing Agent, amounts required to be paid to the United States of America and all other amounts required to be paid under the Loan Agreement and the Plant Indenture shall be paid to the Collateral Agent.

Reimbursement to Bond Insurer

Notwithstanding the foregoing or any other provision in the Plant Indenture to the contrary, if any amount applied to the payment of principal of and premium, if any, and interest on Plant Bonds of any Series that would

have been paid from the Plant Bond Fund is paid instead by a Bond Insurance Policy, amounts on deposit in the Plant Bond Fund and allocable to such payment shall be paid to the extent required under Reimbursement Agreement to the Bond Insurer, the Bond Insurer having theretofore made said corresponding payment.

INVESTMENT OF MONEYS

Investment of Plant Bond Fund, and Rebate Fund Moneys

The Plant Trustee shall invest and reinvest any moneys held as part of the Plant Bond Fund and the Rebate Fund at the written direction of an Authorized Representative of the Company, as to specific investments, only in Eligible Investments. In making any such investments, the Plant Trustee may rely on directions delivered to it pursuant to this section captioned “Investment of Plant Bond Fund, and Rebate Fund Moneys”, and the Plant Trustee shall be relieved of all liability with respect to making such investments in accordance with such directions. Any such investments shall be held by or under the control of the Plant Trustee and shall be deemed at all times a part of the Fund for which they were made. The interest accruing thereon, any profit realized from such investments and any loss resulting from such investments shall be credited or charged to such Fund in which the investment is held. Moneys held for the payment of the purchase price of Plant Bonds pursuant to the Plant Indenture, or the payment of Plant Bonds pursuant to the section captioned “ACCOUNTS; APPLICATION OF PROCEEDS – Non-Presentment of Plant Bonds”, shall not be invested.

Investments

The Plant Trustee may make any and all investments permitted by the provisions of the section captioned “Investment of Plant Bond Fund, and Rebate Fund Moneys” through its own bond department. As and when any amount invested pursuant to the Plant Indenture in the Plant Bond Fund may be needed for disbursement, the Plant Trustee may cause a sufficient amount of such investments in the Plant Bond Fund to be sold and reduced to cash to the credit of such Funds.

The Issuer covenants for the benefit of the Owners from time to time of the Plant Bonds of each Tax Exempt Series, if any, that it will not act so as to cause the proceeds of the Tax Exempt Series, any moneys derived, directly or indirectly, from the use or investment thereof and any other moneys on deposit in any Fund or account maintained in respect of the Tax Exempt Series (whether such moneys were derived from the proceeds of the sale of the Tax Exempt Series or from other sources) to be used in a manner that would cause the Plant Bonds to be treated as “arbitrage bonds” within the meaning of section 148(a) of the Code.

The Company has covenanted in the Plant Loan Agreement it will at all times do and perform all acts and things permitted by law and the Plant Loan Agreement which are necessary or desirable in order to assure that interest paid on any Tax Exempt Plant Bonds will be excluded from gross income for federal income tax purposes and will take no action that would result in such interest not being so excluded.

DEFEASANCE

Defeasance

If the Issuer shall pay or cause to be paid, or there shall be otherwise paid or provision for payment made to or for the Owners of the Plant Bonds of the principal, premium, if any, and interest due or to become due thereon at the times and in the manner stipulated therein, and if the Issuer shall keep, perform and observe all of the covenants and promises in the Plant Bonds and in the Plant Indenture expressed as to be kept, performed and observed by it or on its part, and shall pay or cause to be paid to the Plant Trustee all sums of money due or to become due according to the provisions hereof, then the Plant Indenture and the lien, rights and interests created by the Plant Indenture shall cease, determine and become null and void (except as to any surviving rights of payment, registration, transfer or exchange of Plant Bonds provided in the Plant Indenture), whereupon the Plant Trustee upon Written Request of the Issuer shall cancel and discharge the Plant Indenture, and, at the Company’s expense, execute and deliver to the Issuer such instruments in writing as shall be requested by the Issuer and requisite to discharge the Plant Indenture, and release, assign and deliver unto the Issuer any and all of the estate, right, title and interest in and to any and all

rights assigned or pledged to the Plant Trustee or otherwise subject to the Plant Indenture, except amounts in the Plant Bond Fund required to be paid to the Company under the section captioned “ACCOUNTS; APPLICATION OF PROCEEDS – Repayment to the Company from the Plant Bond Fund” and except moneys or securities held by the Plant Trustee for the payment of the principal of and premium, if any, and interest on, and purchase prices of, the Plant Bonds.

Any Plant Bond or Authorized Denomination thereof shall be deemed to be paid within the meaning of the Plant Indenture when (a) payment of the principal of and premium, if any, on such Plant Bond or Authorized Denomination thereof, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided in the Plant Indenture) either (i) shall have been made or caused to be made in accordance with the terms thereof, (ii) shall have been provided for by depositing sufficient moneys for such payment with the Plant Trustee and the due date of such principal, interest and premium, if any, has occurred, or (iii) in the case of a Plant Bond which bears interest at a Flexible Rate, a Taxable Rate or a Term Rate, shall have been provided for by irrevocably depositing with the Plant Trustee in trust and irrevocably setting aside exclusively for such payment on such due date (which due date shall be in the case of a Plant Bond bearing interest at a Flexible Rate or a Taxable Rate no later than the Interest Payment Date for the then current Flexible Segment or Taxable Rate Segment for such Plant Bond and in the case of a Plant Bond bearing interest at a Term Rate no later than the last Interest Payment Date for the then current Term Rate Period for such Plant Bond) (1) moneys sufficient to make such payment and/or (2) non-callable Defeasance Obligations maturing as to principal and interest in such amount and at such time as will insure the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Plant Trustee due under the Plant Indenture or under the Plant Loan Agreement shall have been paid or the payment thereof provided for to the satisfaction of the Plant Trustee. At such times as a Plant Bond or Authorized Denomination thereof shall be deemed to be paid under the Plant Indenture, as aforesaid, such Plant Bond or Authorized Denomination thereof shall no longer be secured by or entitled to the benefits of the Plant Indenture (other than the sections captioned “THE PLANT BONDS – Ownership, Transfer, Exchange and Registration of Plant Bonds” and “Mutilated, Destroyed, Lost or Stolen Plant bonds” in the case of a deposit under subsection (a)(iii) above), except for the purposes of any such payment from such moneys or Defeasance Obligations. In determining the sufficiency of the moneys and Defeasance Obligations deposited pursuant to this paragraph, the Plant Trustee shall receive a verification report, at the Company’s expense, prepared by a firm of nationally recognized independent certified public accountants or other qualified firm reasonably acceptable to the Issuer, the Company and the Plant Trustee.

Notwithstanding the foregoing, in the case of a Plant Bond or Authorized Denomination thereof which is to be redeemed prior to the Stated Maturity thereof, no deposit under subsection (a)(iii) of the immediately preceding paragraph shall be deemed a payment of such Plant Bond or Authorized Denomination thereof as aforesaid until: (a) proper notice of redemption of such Plant Bond or Authorized Denomination thereof shall have been previously given in accordance with the Plant Indenture, or in the event said Plant Bond or Authorized Denomination thereof is not to be redeemed within the next succeeding 60 days, until the Company shall have given the Plant Trustee on behalf of the Issuer, in form satisfactory to the Plant Trustee, irrevocable instructions to notify, as soon as practicable, the Owner or Authorized Denomination thereof in accordance with the Plant Indenture, that the deposit required by subsection (a)(iii) above has been made with the Plant Trustee and that said Plant Bond or Authorized Denomination thereof is deemed to have been paid in accordance with the Plant Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and the applicable premium if any, on said Plant Bond or Authorized Denomination thereof, plus interest thereon to the due date thereof, or (b) the maturity of such Plant Bond or Authorized Denomination thereof.

In the event that the principal and/or interest due on any Insured Bonds shall be paid by the Bond Insurer pursuant to a Bond Insurance Policy, such Plant Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Issuer to the registered owners shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such registered owners including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of such Plant Bonds.

Notwithstanding any provision of the Plant Indenture which may be contrary, all moneys or Defeasance Obligations set aside and held in trust pursuant to the provisions of the Plant Indenture for the payment of Plant

Bonds or Authorized Denominations thereof (including interest and premium thereon, if any) shall be applied to and used solely for the payment of the particular Plant Bonds or Authorized Denominations thereof (including interest and premium thereon, if any) with respect to which such moneys and Defeasance Obligations have been so set aside in trust.

Anything in the Plant Indenture to the contrary notwithstanding, if moneys or Defeasance Obligations have been deposited or set aside with the Plant Trustee pursuant to the Plant Indenture for the payment of Plant Bonds or Authorized Denominations thereof and the interest and premium, if any, thereon and such Plant Bonds or Authorized Denominations thereof and the interest and premium, if any, thereon shall not have in fact been actually paid in full, no amendment to the provisions of the Plant Indenture shall be made without the consent of the Owner of each of the Plant Bonds affected thereby.

DEFAULT PROVISIONS AND REMEDIES OF BOND TRUSTEE AND OWNERS

Defaults; Events of Default

The occurrence of any of the following events is declared to be an Event of Default under the Plant Indenture:

- (a) Failure to make payment of any installment of interest upon any Plant Bond after such payment has become due and payable;
- (b) Failure to make payment of the principal of and premium, if any, on any Plant Bond at the Stated Maturity thereof or upon the unconditional redemption thereof;
- (c) Failure to make payment of the purchase price of Plant Bonds due pursuant to the Plant Indenture when the same shall have become due and payable;
- (d) The occurrence of a Loan Default Event; and
- (e) For the avoidance of doubt, payment in full of any installment of interest upon any Plant Bond after such payment has become due and payable or the principal of or premium, if any, on any Plant Bond at the Stated Maturity thereof or upon redemption thereof from any source of funds available therefor, including without limitation from amounts on deposit in the Debt Service Reserve Fund, shall not constitute an event of default under sections captioned "Defaults; Events of Default" or "Acceleration".

Acceleration

Upon the occurrence and continuance of an Event of Default under the section captioned "Defaults; Events of Default", the Plant Trustee may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of Plant Bonds then Outstanding shall, by notice in writing delivered to the Company, with copies to the Issuer, Bond Insurer and the Remarketing Agent, declare the principal of all Plant Bonds then Outstanding and the interest accrued thereon to the date of such declaration immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable. Upon the acceleration of the Plant Loan Repayments under the Plant Loan Agreement, the principal of all Plant Bonds then Outstanding and the interest accrued thereon to the date of such acceleration shall automatically, and without any declaration on the part of the Plant Trustee, become and be immediately due and payable. The above provisions are subject to waiver, rescission and annulment as provided in the section captioned "Waivers of Events of Default".

Remedies; Rights of Owners

Upon the occurrence and continuation of an Event of Default the Plant Trustee may pursue any available remedy at law or in equity by suit, action, mandamus or other proceeding, including the appointment of a receiver, to enforce the payment of the principal of and premium, if any, and interest on the Plant Bonds then Outstanding and to enforce and compel the performance of the duties and obligations of the Issuer as set forth in the Plant Indenture.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of not less than a majority in aggregate principal amount of Plant Bonds then Outstanding and indemnified as provided in the Plant Indenture, the Plant Trustee shall be obliged to exercise such one or more of the rights and powers conferred by this section captioned "Remedies; Rights of Owners" and the section captioned "Right of Owners to Direct Proceedings" as the Plant Trustee being advised by Counsel shall deem most expedient in the interests of the Owners.

No remedy by the terms of the Plant Indenture conferred upon or reserved to the Plant Trustee (or to the Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Plant Trustee or to the Owners under the Plant Indenture or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right, power or remedy accruing upon any Event of Default shall impair any such right, power or remedy or shall be construed to be a waiver of any such Event of Default or acquiescence therein; and every such right, power or remedy may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Event of Default under the Plant Indenture, whether by the Plant Trustee or by the Owners, shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

Right of Owners to Direct Proceedings

Anything in the Plant Indenture to the contrary notwithstanding, the Owners of not less than a majority in aggregate principal amount of Plant Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed by the Owners of not less than a majority in aggregate principal amount of Plant Bonds then Outstanding and delivered to the Plant Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Plant Indenture, or for the appointment of a receiver or any other proceedings under the Plant Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Plant Indenture and could not involve the Plant Trustee in personal liability.

Application of Moneys

All moneys received by the Plant Trustee pursuant to the Collateral Trust Agreement shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses and indemnities owed to the Plant Trustee and its Counsel, be deposited in the Plant Bond Fund and all such moneys in the Plant Bond Fund shall be applied as follows:

(a) Unless the principal of all the Plant Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST – To the payment to the Persons entitled thereto of all interest then due on the Plant Bonds (other than interest due on Plant Bonds for the payment of which moneys are held pursuant to the provisions of the Plant Indenture), and, if the amount available shall not be sufficient to pay said amount in full, then to the payment ratably, according to the amounts due, to the Persons entitled thereto, without any discrimination or privilege;

SECOND – To the payment to the Persons entitled thereto of the unpaid principal of and premium, if any, on any of the Plant Bonds which shall have become due (other than Plant Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Plant Indenture), and, if the amount available shall not be sufficient to pay in full such unpaid principal and premium, then to the payment ratably to the Persons entitled thereto without any discrimination or privilege; and

THIRD – To the payment to the Persons entitled thereto of interest on overdue principal of and premium, if any, on any Plant Bonds without preference or priority as between principal or premium or interest one over the others, or of any Plant Bond over any other Plant Bond, and if the amount available shall not be sufficient to pay such amounts in full, then ratably, without any discrimination or privilege.

(b) If the principal of all the Plant Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and premium if any, and interest then due and unpaid upon the Plant Bonds (other than Plant Bonds matured or called for redemption or interest due on Plant Bonds for the payment of which moneys are held pursuant to the provisions of the Plant Indenture), without preference or priority of principal, premium or interest one over the others, or of any installment of interest over any other installment of interest, or of any Plant Bond over any other Plant Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Plant Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Plant Indenture then, subject to the provisions of subsection (b) in this section captioned “Application of Moneys” in the event that the principal of all the Plant Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of subsection (a) in this section captioned “Application of Moneys”.

Whenever moneys are to be applied pursuant to the provisions of this section captioned “Application of Moneys”, such moneys shall be applied at such times, and from time to time, as the Plant Trustee shall determine. Whenever the Plant Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Plant Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date.

In the event the Plant Trustee incurs expenses or renders services in any proceedings which result from the occurrence or continuance of an Event of Default, or from the occurrence of any event which, by virtue of the passage of time, would become such Event of Default, the expenses so incurred and compensation for services so rendered are intended to constitute expenses of administration under the United States Bankruptcy Code or equivalent law.

Whenever all principal of and premium, if any, and interest on all Plant Bonds have been paid under the provisions of this section captioned “Application of Moneys” and all expenses and charges of the Plant Trustee have been paid, any balance remaining in the Plant Bond Fund shall be paid to the Company as provided in the section captioned “ACCOUNTS; APPLICATION OF PROCEEDS – Repayment to the Company from the Plant Bond Fund”.

Remedies Vested in Plant Trustee

All rights of action (including the right to file proofs of claims) under the Plant Indenture or under any of the Plant Bonds may be enforced by the Plant Trustee without the possession of any of the Plant Bonds or the production thereof in any trial or other proceedings relating thereto and any such suit or proceeding instituted by the Plant Trustee shall be brought in its name as Plant Trustee without the necessity of joining as plaintiffs or defendants any Owners of the Plant Bonds, and any recovery of judgment shall be for the equal and ratable benefit of the Owners of the Outstanding Plant Bonds. No provision of the Plant Indenture empowers the Plant Trustee to authorize or consent to or accept or adopt on behalf of any Owners of the Plant Bonds any plan of reorganization, arrangement, adjustment or composition affecting any of the Plant Bonds or the rights of any Owner thereof, or to authorize the Plant Trustee to vote in respect of the claim of any Owner in any bankruptcy, insolvency or reorganization proceeding described in the Plant Loan Agreement.

Rights and Remedies of Owners

No Owner or Beneficial Owner of any Plant Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Plant Indenture or for the execution of any trust thereof or

for the appointment of a receiver or any other remedy under the Plant Indenture, unless (i) a default has occurred of which the Plant Trustee is deemed to have notice or has been notified as provided in the Plant Indenture, (ii) such default shall have become an Event of Default and be continuing, the Owners of not less than a majority in aggregate principal amount of Plant Bonds then Outstanding shall have made written request to the Plant Trustee, either to proceed to exercise the powers granted in the Plant Indenture or to institute such action, suit or proceeding in its own name, and shall have offered to the Plant Trustee indemnity as provided in the Plant Indenture, and (iii) the Plant Trustee shall for 60 days after such notice, request and offer of indemnity, fail or refuse to exercise the powers granted in the Plant Indenture, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are declared in every case at the sole option of the Plant Trustee to be conditions precedent to the execution of the powers and trusts of the Plant Indenture, and to any action or cause of action for the enforcement of the Plant Indenture, or for the appointment of a receiver or for any other remedy under the Plant Indenture. No one or more Owners of the Plant Bonds shall have any right in any manner whatsoever to enforce any right under the Plant Indenture except in the manner provided in the Plant Indenture, and all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Plant Indenture and for the equal and ratable benefit of the Owners of all Plant Bonds then Outstanding. Nothing in the Plant Indenture shall, however, affect or impair the right of any Owner to enforce the payment of the principal of and premium, if any, and interest on any Plant Bond at and after the maturity thereof.

Termination of Proceedings

In case the Plant Trustee shall have proceeded to enforce any right under the Plant Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case the Issuer, the Plant Trustee and the Owners shall be restored to their former positions and rights under the Plant Indenture, respectively, and all rights, remedies and powers of the Plant Trustee shall continue as if no such proceedings had been taken including reasonable expenses of the Plant Trustee and of the Owners of such Plant Bonds, including reasonable attorneys' fees paid or incurred.

Waivers of Events of Default

Subject to the next paragraph, the Plant Trustee may waive any Event of Default under the Plant Indenture and rescind its consequences and shall do so upon the written request of the Owners of not less than a majority in aggregate principal amount of Plant Bonds then Outstanding; provided, however, that there shall not be waived any Event of Default in the payment of the principal of, or premium, if any, on, any outstanding Plant Bonds when due (whether at Stated Maturity or by redemption), or any Event of Default in the payment when due of the interest on any such Plant Bonds, unless prior to such waiver and rescission, all arrears of principal of and interest upon such Plant Bonds, and interest on overdue principal at the rate borne by the Plant Bonds on the date on which such principal became due and payable, and all arrears of premium, if any, when due, together with the reasonable expenses of the Plant Trustee and of the Owners of such Plant Bonds, including reasonable attorneys' fees paid or incurred, shall have been paid or provided for; provided further, there shall not be waived any Event of Default in the payment when due of any purchase price of Plant Bonds pursuant to the Plant Indenture unless prior to such waiver and rescission, all arrears of purchase price on such Plant Bonds, together with reasonable expenses of the Plant Trustee and of the Owners of such Plant Bonds, including reasonable attorneys' fees paid or incurred, shall have been paid or provision therefor made. In the case of any such waiver and rescission, or in case any proceeding taken by the Plant Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Issuer, the Plant Trustee, the Company, the Collateral Agent and the Owners shall be restored to their former positions and rights under the Plant Indenture, respectively, but no such waiver and rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

The provisions of the sections captioned "Defaults; Events of Default" and "Acceleration" are subject to the conditions that if, after the principal of all Plant Bonds then Outstanding shall have been accelerated, all arrears of principal of and interest upon such Plant Bonds, and the premium, if any, on all Plant Bonds then Outstanding which shall have become due and payable otherwise than by acceleration, and all other sums payable under the Plant Indenture, except the principal of, and interest on, the Plant Bonds which by such declaration shall have become due and payable, shall have been paid by or on behalf of the Issuer, together with the reasonable expenses of the Plant Trustee and of the Owners of such Plant Bonds, including reasonable attorneys' fees paid or incurred, and if all other

Events of Default, other than any arising as a result of such acceleration, have been cured or waived, then and in every such case, the Plant Trustee shall annul such declaration of acceleration of Stated Maturity and its consequences, which waiver and annulment shall be binding upon all Owners. No such waiver, rescission and annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon. In the case of any such annulment, the Company, the Issuer, the Plant Trustee, the Collateral Agent and the Owners shall be restored to their former positions and rights under the Plant Indenture.

The provisions of the sections captioned “Defaults; Events of Default” and “Acceleration” are subject to the further conditions that in the event that an acceleration of the Plant Loan Repayments under the Plant Loan Agreement shall have been annulled in accordance with the Plant Loan Agreement, then such annulment shall, without any action on the part of the Plant Trustee, (i) automatically annul the corresponding acceleration of the Company’s obligations under the section captioned “Acceleration” and its consequences and (ii) constitute a waiver of any Event of Default upon which such acceleration was based. In the event of such annulment, the Company, the Issuer, the Plant Trustee and the Owners shall be restored to their former positions and rights under the Plant Indenture.

All waivers and annulments under the Plant Indenture shall be confirmed by the Plant Trustee in writing and a copy thereof shall be delivered to the Issuer, the Company and the Remarketing Agent.

Collateral Agent; Senior Debt Majority

The Plant Trustee has granted to the Collateral Agent all of the Plant Trustee’s rights under this section captioned “DEFAULT PROVISIONS AND REMEDIES OF BOND TRUSTEE AND OWNERS” pursuant to the Collateral Trust Agreement, which rights the Collateral Agent can exercise only at the direction of a Senior Debt Majority. Accordingly and notwithstanding the foregoing provisions of this section to the contrary, (a) the Plant Trustee will not have any right to take any action under this section captioned “DEFAULT PROVISIONS AND REMEDIES OF BOND TRUSTEE AND OWNERS” and (b) the Owners will not have any right to take any action, or direct the Plant Trustee to take any action, under this section for so long as the Collateral Trust Agreement is in effect.

THE BOND TRUSTEE

Acceptance of the Trusts by Plant Trustee

The Plant Trustee accepts the trusts imposed upon it by the Plant Indenture and agrees to perform said trusts, but only upon and subject to the following express terms and conditions, and no implied covenants or obligations shall be read into the Plant Indenture against the Plant Trustee:

(a) The Plant Trustee may execute any of the trusts or powers of the Plant Indenture and perform any of its duties by or through attorneys, agents, custodians, receivers or employees and shall be entitled to advice of Counsel concerning all matters of trusts hereof and the duties under the Plant Indenture, and may in all cases pay, and be reimbursed by the Company for, such reasonable compensation to all such attorneys, agents and receivers as may reasonably be employed in connection with the trusts hereof. The Plant Trustee may act and conclusively rely upon the opinion or advice of Counsel. The Plant Trustee shall not be responsible for any loss or damage resulting from any action or non-action in good faith in reliance upon such opinion or advice of Counsel. Except during the existence of a default or Event of Default, the Plant Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Plant Indenture and the other Financing Documents to which it is a party. If a default or Event of Default exists, then the Plant Trustee shall exercise the rights and powers vested in it by the Financing Documents and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of such person’s own affairs.

(b) Except for its certificate of authentication on the Plant Bonds and the other information the Plant Trustee is required to set forth on the Plant Bonds, the Plant Trustee shall not be responsible for any information in any offering memorandum or other disclosure material distributed with respect to the Plant Bonds, any recital in the Plant Indenture or in the Plant Bonds, or the validity, priority, recording, or rerecording, filing, or refiling of the

Plant Indenture or any financing statement, amendments to the Plant Indenture, or continuation statements, or for reviewing any annual reports, financial statements or audits, or for insuring the Plant or collecting any insurance moneys, or for the validity of the execution by the Issuer of the Plant Indenture or for any supplements to the Plant Indenture or instruments of further assurance, or for the sufficiency of the security for the Plant Bonds issued under the Plant Indenture or intended to be secured by the Plant Indenture, for the value or title of the Plant or as to the maintenance of the security of the Plant Indenture. The Plant Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the Issuer or on the part of the Company under the Plant Loan Agreement, except as hereinafter set forth, but the Plant Trustee may require of the Issuer or the Company full information and advice as to the performance of the covenants, conditions and agreements aforesaid. Except as otherwise provided in the sections captioned "DEFAULT PROVISIONS AND REMEDIES OF BOND TRUSTEE AND OWNERS – Acceleration" and "DEFAULT PROVISIONS AND REMEDIES OF BOND TRUSTEE AND OWNERS – Remedies; Rights of Owners", the Plant Trustee shall have no obligation to perform any of the rights or obligations of the Issuer under the Plant Loan Agreement. The Plant Trustee shall not be liable for participating in any act directed by the Issuer or the Company that might cause the Plant Bonds of any Series to be "arbitrage bonds" within the meaning of section 148(a) of the Code. The Plant Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the section captioned "INVESTMENT OF MONEYS" including any loss suffered in connection with the sale of any investment pursuant to section captioned "INVESTMENT OF MONEYS".

(c) The Plant Trustee shall not be accountable for the use of any Plant Bonds authenticated or delivered under the Plant Indenture or of the proceeds thereof. The Plant Trustee may become the Owner of Plant Bonds and otherwise transact banking and trustee business with the Company with the same rights which it would have if it were not Plant Trustee.

(d) The Plant Trustee shall be protected in acting in good faith upon any notice, request, resolution, consent, certificate, affidavit, letter, telegram or other paper or document, or oral communication or direction, believed to be genuine and correct and to have been signed or sent or given by the proper person or persons. Any action taken by the Plant Trustee pursuant to the Plant Indenture upon the request or authority or consent of any Person who at the time of making such request or giving such authority or consent is the Owner of any Plant Bond shall be conclusive and binding upon all future Owners of the same Plant Bond and upon Plant Bonds issued in exchange therefor or upon transfer or in place thereof.

(e) As to the existence or nonexistence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Plant Trustee shall be entitled to request and rely upon a certificate signed on behalf of the Issuer by an Authorized Representative of the Issuer as sufficient evidence of the facts therein contained, and prior to the occurrence of a default of which the Plant Trustee has been notified as provided in subsection (g) of this section captioned "Acceptance of the Trusts by Plant Trustee", or subsequent to the waiver, rescission or annulment of a default as provided in the section captioned "DEFAULT PROVISIONS AND REMEDIES OF BOND TRUSTEE AND OWNERS", shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Plant Trustee may accept a certificate signed on behalf of the Issuer by the Secretary or an Assistant Secretary of the Issuer to the effect that a resolution in the form therein set forth has been adopted by the Issuer as conclusive evidence that such resolution has been duly adopted, and is in full force and effect.

(f) The permissive right of the Plant Trustee to do things enumerated in the Plant Indenture shall not be construed as a duty and neither the Plant Trustee, its agents nor its affiliates shall be liable for any act or omission made in connection with the Plant Indenture or the other Financing Documents except in the case of their own negligence or willful misconduct. In furtherance, and not in limitation, of the Plant Trustee's rights, duties and protections under the Plant Indenture, and unless otherwise specifically provided in the Plant Indenture, the Plant Trustee shall (subject to the terms hereof and of the other Financing Documents) grant such consents, make such requests and determinations and take or refrain from taking such actions as are permitted (but not expressly required) to be granted, made or taken by the Plant Trustee under the Financing Documents, as the Owners of a majority in aggregate principal amount of the Plant Bonds Outstanding shall direct in writing. In no event shall the Plant Trustee be liable under or in connection with the Plant Indenture for indirect, special, incidental, consequential or punitive losses or damages of any kind whatsoever, including lost profits, whether or not foreseeable, even if the

Plant Trustee has been advised of the possibility thereof and regardless of the form of action in which such damages are sought. NEITHER THE BOND TRUSTEE NOR ITS AGENTS SHALL BE LIABLE TO ANY PERSON FOR ANY DELAY IN OR FAILURE OF THE PAYMENT UNDER ANY OF THE TRUST ESTATE OR FOR ANY NONPERFORMANCE OR DEFAULT ON THE PART OF ANY PARTY (OTHER THAN THE BOND TRUSTEE AND ITS AGENTS) UNDER THE FINANCING DOCUMENTS. THE BOND TRUSTEE MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE EXISTENCE, SUFFICIENCY, TITLE, VALUE, CONDITION OR COLLECTABILITY OF THE TRUST ESTATE OR THE VALIDITY, SUFFICIENCY, PERFECTION, PRIORITY OR ENFORCEABILITY OF ANY INTEREST THEREIN OR IN ANY AMOUNTS OR INVESTMENTS STANDING FROM TIME TO TIME TO THE CREDIT OF ANY OF THE TRANSACTION ACCOUNTS (OR IN OR WITH RESPECT TO ANY EARNINGS THEREON) OR IN RESPECT OF ANY OF THE FINANCING DOCUMENTS, WHETHER IMPLIED OR BY REASON OF ANY ACTION OR OMISSION TO ACT ON ITS PART UNDER THE PLANT INDENTURE.

(g) The Plant Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default under the Plant Indenture, except any default under subsections (a), (b) or (c) under the section captioned “DEFAULT PROVISIONS AND REMEDIES OF BOND TURSTEE AND OWNERS – Defaults; Events of Default”, unless a responsible officer in the corporate trust department of the Plant Trustee or the department designated by any successor shall have actually received notice in writing of such default by the Issuer or the Owners of at least 25% in aggregate principal amount of all Plant Bonds then Outstanding or the Remarketing Agent.

(h) The Plant Trustee shall not be required to give any bond or surety in respect of the execution of its trusts and powers under the Plant Indenture.

(i) Before taking any action under the Plant Indenture at the request or direction of the Owners, the Plant Trustee may require that a satisfactory indemnity bond or other form of indemnification acceptable to the Plant Trustee be furnished by the Owners, for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful default in connection with any action so taken.

(j) All moneys received by the Plant Trustee shall, until used or applied or invested as provided in the Plant Indenture, be held in trust for the purposes for which they were received and shall not be commingled with the general funds of the Plant Trustee but need not be segregated from other funds except to the extent required by law. Neither the Plant Trustee nor any Paying Agent shall be under any liability for interest on any moneys received under the Plant Indenture except such as may be agreed upon in writing.

(k) The Plant Trustee, prior to the occurrence of an Event of Default specified in the section captioned “DEFAULT PROVISIONS AND REMEDIES OF BOND TURSTEE AND OWNERS – Defaults; Events of Default” and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Plant Indenture and, in the absence of bad faith on its part, the Plant Trustee may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, upon certificates or opinions furnished to the Plant Trustee and conforming to the requirements of the Plant Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Plant Trustee, the Plant Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of the Plant Indenture. In case an Event of Default has occurred (which has not been cured or waived) the Plant Trustee shall exercise such of the rights and powers vested in it by the Plant Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(l) No provision of the Plant Indenture shall be construed to relieve the Plant Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) This subsection shall not be construed to limit the effect of subsection (k) of this section captioned “Acceptance of the Trusts by Plant Trustee”;

(ii) The Plant Trustee shall not be liable for any error of judgment made in good faith by a responsible officer of the Plant Trustee, unless it shall be proved that the responsible officer of the Plant Trustee was negligent in ascertaining the pertinent facts;

(iii) The Plant Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of a majority in aggregate principal amount of the Plant Bonds Outstanding or a Senior Debt Majority, as the case may be, relating to the time, method and place of conducting any proceeding or any remedy available to the Plant Trustee, or exercising any trust or power conferred upon the Plant Trustee, under the Plant Indenture; and

(iv) No provision of the Plant Indenture shall require the Plant Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Plant Indenture, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(m) Notwithstanding anything elsewhere contained in the Plant Indenture, the Plant Trustee shall have the right, but shall not be required to demand, in respect of the authentication of any Plant Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of the Plant Indenture, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that by the terms hereof required as a condition of such action by the Plant Trustee, deemed desirable for the purpose of establishing the right of the Issuer to the authentication of any Plant Bonds, the withdrawal of any cash, or as a condition to the taking of any action by the Plant Trustee.

(n) In connection with the acceptance and performance of the trusts set forth in the Plant Indenture, the Plant Trustee is also executing or accepting, as appropriate, the Remarketing Agreement and the Collateral Trust Agreement as Plant Trustee for the benefit of the Owners of the Plant Bonds. In acting or omitting to act under such other documents, the Plant Trustee shall be entitled to all of the rights, protections and immunities accorded to it as Plant Trustee under the Plant Indenture.

(o) The Plant Trustee shall have no responsibility for preparing or filing any SEC filing with respect to any Plant Bonds or to record the Plant Indenture or any other Financing Documents. The Plant Trustee nevertheless agrees that it shall sign any instrument or document provided to it that it reasonably believes is necessary or desirable to accomplish any such results. The recitals contained in the Plant Indenture, in any Indenture supplement or in the Plant Bonds, except the Plant Trustee's certificates of authentication, shall not be taken as the statements of the Plant Trustee, and the Plant Trustee assumes no responsibility for their correctness. The Plant Trustee makes no representations as to the validity or sufficiency of the Plant Indenture, or the Plant Bonds, except that the Plant Trustee represents and warrants that each Plant Bond shall be authenticated and delivered by such of its officers who are duly authorized to execute, authenticate and deliver such Plant Bond, on the Plant Trustee's behalf.

(p) The rights, privileges, protections, immunities and benefits provided to the Plant Trustee under the Plant Indenture (including its right to be indemnified) are extended to, and shall be enforceable by, the Plant Trustee in each of its capacities under the Plant Indenture and to each of its agents, custodians and other Persons duly employed by the Plant Trustee under the Plant Indenture. Except as expressly provided under the Financing Documents to which it is a party or as otherwise agreed in writing, the Plant Trustee shall have no obligation to perform any obligation or duty of the Issuer or to take any action to collect or enforce any claim for payment.

(q) In no event shall the Plant Trustee be liable under any Financing Document for any failure or delay in performance of its obligations under the Plant Indenture because of circumstances beyond its control, including, but not limited to, acts of God, flood, war (whether declared or undeclared), terrorism, fire, riot, embargo, loss or malfunction of utilities, communications or computer (software or hardware) services, or government action, including any laws, ordinances, regulations or the like which delay, restrict or prohibit the providing of the services contemplated by the Plant Indenture or by any other Financing Document.

Corporate Plant Trustee Required; Eligibility

There shall at all times be a Plant Trustee under the Plant Indenture which shall be a trust company, association, corporation or bank having the powers of a trust company, including all those required to enable it to perform the functions contemplated in the Plant Indenture, and which either (i) has a combined capital and surplus of at least fifty million dollars (\$50,000,000) and is subject to supervision or examination by federal or state authority or (ii) is a wholly owned subsidiary of a bank, association, trust company, corporation or bank holding company meeting, on an aggregate basis, the tests set out in subsection (i). If such trust company, association, corporation or bank publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for purposes of this section captioned "Corporate Plant Trustee Required; Eligibility", the combined capital and surplus shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Plant Trustee shall cease to be eligible in accordance with the provisions of this section captioned "Corporate Plant Trustee Required; Eligibility", it shall resign immediately in the manner and with the effect hereinafter specified in the Plant Indenture, and shall immediately provide notice of such resignation by registered or certified mail to the Issuer, the Water Authority, the Collateral Agent, the Company and the Holder of each Plant Bond.

Fees, Charges and Expenses of Plant Trustee

The Plant Trustee shall be entitled to such compensation and reimbursement of expenses (including reasonable fees and expenses of Counsel) as shall be agreed to in writing by the Company and the Plant Trustee.

Successor Plant Trustee

Any corporation, bank or banking association into which the Plant Trustee may be merged or converted, or with which it may be consolidated, or to which it may sell, lease or transfer its corporate trust business and assets as a whole or substantially as a whole, shall be and become successor Plant Trustee under the Plant Indenture and shall be vested with all the trusts, powers, rights, obligations, duties, remedies, immunities and privileges under the Plant Indenture as was its predecessor, without the execution or filing of any instrument on the part of any of the parties to the Plant Indenture.

Resignation by the Plant Trustee

The Plant Trustee may at any time resign from the trusts created by giving 30 days' written notice by registered or certified mail to the Issuer, the Company, the Owner of each Plant Bond and the Remarketing Agent and such resignation shall take effect at the appointment of a successor Plant Trustee pursuant to the provisions of the section captioned "Appointment of Successor Plant Trustee" and acceptance by the successor Plant Trustee of such trusts. If no successor Plant Trustee shall have been so appointed and have accepted appointment within 30 days of the giving of written notice by the resigning Plant Trustee as aforesaid, the resigning Plant Trustee may petition any court of competent jurisdiction for the appointment of a successor Plant Trustee.

Removal of the Plant Trustee

The Issuer may remove the Plant Trustee at any time upon its own decision and shall remove the Plant Trustee at any time upon 30 days' written notice, by an instrument or concurrent instruments in writing delivered to the Plant Trustee, the Collateral Agent, the Company and the Remarketing Agent and signed by the Owners of a majority in aggregate principal amount of Plant Bonds then Outstanding. All such removals shall take effect at the appointment of a successor Plant Trustee pursuant to the provisions of the section captioned "Appointment of Successor Plant Trustee" and acceptance by the successor Plant Trustee of such trusts. If no successor Plant Trustee shall have been so appointed and have accepted appointment within 30 days of the delivery of such written instrument or instruments to the Plant Trustee as aforesaid, the Plant Trustee or any such party may petition any court of competent jurisdiction for the appointment of a successor Plant Trustee.

Appointment of Successor Plant Trustee

In case the Plant Trustee under the Plant Indenture shall

- (a) resign pursuant to the sections captioned “Corporate Plant Trustee Required; Eligibility” or “Resignation by the Plant Trustee”;
- (b) be removed pursuant to the section captioned “Removal of the Plant Trustee”; or
- (c) be dissolved, taken under the control of any public officer or officers or of a receiver appointed by a court, or otherwise become incapable of acting under the Plant Indenture,

a successor shall be appointed by the Issuer at the direction of the Company; provided, that if a successor Plant Trustee is not so appointed within 10 days after notice of resignation is mailed or instrument of removal is delivered as provided under sections captioned “Corporate Plant Trustee Required; Eligibility”, “Resignation by the Plant Trustee” or “Removal of the Plant Trustee”, respectively, or within 10 days of the Issuer’s knowledge of any of the events specified in subsection (c) hereinabove, then the Owners of a majority in aggregate principal amount of Plant Bonds then outstanding, by filing with the Issuer, the Company and the Remarketing Agent an instrument or concurrent instruments in writing signed by or on behalf of such Owners, may designate a successor Plant Trustee.

In case at any time the Plant Trustee shall resign and no appointment of a successor Plant Trustee shall be made pursuant to the foregoing provisions of the Plant Indenture prior to the date specified in the notice of resignation as the date when such resignation shall take effect, the Owner of any Plant Bond may apply to any court of competent jurisdiction to appoint a successor Plant Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor Plant Trustee.

Concerning any Successor Plant Trustees

Every successor Plant Trustee appointed under the Plant Indenture shall execute, acknowledge and deliver to its predecessor and also to the Issuer and the Company, an instrument in writing accepting such appointment under the Plant Indenture, and thereupon such successor shall become fully vested with all the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of its predecessor; but, nevertheless, and upon payment of its charges (1) such predecessor shall, on the written request of the Issuer, execute and deliver an instrument transferring to such successor Plant Trustee all the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of such predecessor under the Plant Indenture and (2) such predecessor shall deliver all securities and moneys held by it as Plant Trustee under the Plant Indenture to its successor. Should any instrument in writing from the Issuer be required by any successor Plant Trustee for more fully and certainly vesting in such successor the trusts, powers, rights, obligations, duties, remedies, immunities and privileges vested in the predecessor any and all such instruments in writing shall, on request, be executed acknowledged and delivered by the Issuer at the expense of the Company. The resignation of any Plant Trustee and the instrument or instruments removing any Plant Trustee and appointing a successor under the Plant Indenture, together with all other instruments provided for in the Plant Indenture, shall be filed or recorded by the successor Plant Trustee in each recording office, if any, where the Indenture or a financing statement relating thereto shall have been filed or recorded.

Plant Trustee Protected in Relying Upon Plant Bond Resolution, Etc.

The resolutions, ordinances, opinions, certificates and other instruments provided for in the Plant Indenture may be accepted by the Plant Trustee as conclusive evidence of the facts and conclusions stated therein and shall be full warrant, protection and authority to the Plant Trustee for the release of property and the withdrawal of cash under the Plant Indenture.

Successor Plant Trustee as the Plant Trustee of Plant Bond Fund, Paying Agent and Registrar

In the event of a substitution of the Plant Trustee, the predecessor Plant Trustee which has resigned or been removed shall cease to be Plant Trustee of the Plant Bond Fund and Registrar and a Paying Agent for principal of

and premium, if any, and interest on the Plant Bonds, and the successor Plant Trustee shall become such Plant Trustee, Registrar and a Paying Agent.

Availability of Company Information to Owners and Beneficial Owners

Anything in the Plant Indenture to the contrary notwithstanding, the Plant Trustee shall prepare and deliver to any Owner or Beneficial Owner of the Plant Bonds, at the Company's expense, upon written or facsimile request from such Owner (or such Beneficial Owner identified on the list kept by the Plant Trustee pursuant to the section captioned "THE PLANT BONDS – Book-Entry Registration of Plant Bonds") and at the address indicated in such request, a copy of all financial information provided by the Company to the Plant Trustee pursuant to the Loan Agreement.

Notices to the Issuer

The Plant Trustee shall provide the Issuer with the following:

(a) On or before January 15 of each year, commencing January 15, 2013, during which any of the Plant Bonds are Outstanding, or upon any significant change that occurs which would adversely impact the Plant Trustee's ability to perform its duties under the Plant Indenture, a written disclosure of any such change, or if applicable, of any conflicts that the Plant Trustee may have as a result of other business dealings between the Plant Trustee and the Company;

(b) If there is a failure to pay any amount of principal or purchase price of, premium, if any, or interest on any Plant Bond when due; or if there is an occurrence of an Event of Default under the Plant Indenture, of which the Plant Trustee has knowledge, the Plant Trustee shall provide written notice to the Issuer, the Collateral Agent and the Company within five Business Days of such occurrence and such notice shall include a statement setting forth the steps the Plant Trustee is taking to remedy such failure or Event of Default, as applicable; and

(c) As of June 30 and December 31 of each year, commencing December 31, 2012, a Plant Trustee audit letter, which shall be received no later than July 15 or January 15 next following each such June 30 or December 31, as the case may be.

Actions Under the Collateral Trust Agreement.

(a) At the request of the Company, the Issuer authorizes the Plant Trustee to enter into the Collateral Trust Agreement and the Plant Trustee agrees to comply with the provisions thereof and to exercise its rights and remedies thereunder in accordance with the Collateral Trust Agreement.

(b) At any time during which the Plant Trustee shall act on behalf of a Senior Debt Majority under the Collateral Trust Agreement, the Plant Trustee shall use the same degree of care and skill in the exercise of the rights and powers vested in a Senior Debt Majority under the Collateral Trust Agreement as a prudent person would exercise or use under the circumstances in the conduct of its own affairs.

(c) The Plant Trustee shall promptly submit to the Collateral Agent the necessary written requests or standing instructions for disbursements to allow Plant Trustee to make timely payment of principal, premium (including make-whole/spread premium for Taxable Plant Bonds) and interest on the Plant Bonds when due.

(d) The Plant Trustee shall promptly submit to the Collateral Agent requests for disbursements to allow Plant Trustee to make the disbursements under subsection (c) under the section captioned "ACCOUNTS; APPLICATION OF PROCEEDS – Rebate Fund".

(e) The Plant Trustee shall promptly submit any notices it receives as a Secured Party under the Collateral Trust Agreement to the Issuer.

SUPPLEMENTAL INDENTURES

Supplemental Indentures Not Requiring Consent of Owners (But Requiring Consent of Company or Collateral Agent)

The Issuer and the Plant Trustee may without the consent of, or notice to, any of the Owners or the Beneficial Owners, but with the consent of the Company and the Collateral Agent pursuant to the section captioned "Consent of Company", enter into an indenture or indentures supplemental to the Plant Indenture for any one or more of the following purposes:

(a) to add to the covenants and agreements of, and limitations and restrictions upon, the Issuer in the Plant Indenture, other covenants, agreements, limitations and restrictions to be observed by the Issuer which are not contrary to or inconsistent with the Plant Indenture as theretofore in effect;

(b) to grant to or confer or impose upon the Plant Trustee for the benefit of the Owners any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with the Plant Indenture as heretofore in effect;

(c) to cure any ambiguity or omission or to cure, correct or supplement any defective provision of the Plant Indenture in each case in such manner as shall not adversely affect the Owners;

(d) to evidence the appointment of a separate trustee or a co-trustee or to evidence the succession of a new trustee or a new co-trustee under the Plant Indenture;

(e) to comply with the applicable requirements of the Trust Indenture Act of 1939, as from time to time amended;

(f) to subject to the Plant Indenture additional revenues, properties or collateral;

(g) to make such changes as are necessary in connection with the delivery of an issuer of a Bond Insurance Policy or a Liquidity Facility relating to the Plant Bonds of a Tax Exempt Series;

(h) to discontinue or provide for the use of a securities depository or for a change from a book-entry system without Plant Bond certificates to a system with bond certificates or vice versa;

(i) to amend the section captioned "THE PLANT BONDS – Determination of Rate Periods and Interest Rates", with the prior written consent of the Remarketing Agent, on the effective date of a change from one Rate Period to a different Rate Period, including the effective date of a Term Rate Period which was immediately preceded by a Term Rate Period of a different duration or a Term Rate Period of the same duration (provided, however, that the Issuer and the Plant Trustee have received a Favorable Opinion of Bond Counsel;

(j) to authorize different Authorized Denominations of the Plant Bonds and to make correlative amendments and modifications to the Plant Indenture regarding exchangeability of Plant Bonds of different Authorized Denominations, redemptions of portions of Plant Bonds of particular Authorized Denominations and similar amendments and modifications of a technical nature;

(k) to modify, delete or supplement any provision, term or requirement relating to Plant Bonds that may bear interest at Flexible Rates to the extent deemed necessary or desirable further to protect or assure the Tax Exempt status of interest on the Plant Bonds of any Tax Exempt Series; provided, however, that the effective date of any such modification, deletion or supplementation with respect to any Plant Bond shall be no earlier than the day next succeeding the last day of any then current Flexible Segment with respect to such Plant Bond;

(l) to add or amend any provisions considered necessary by Bond Counsel due to a change in the Code or Regulations, or otherwise as required to effectuate a Conversion of all or any portion of the Plant Bonds to a Tax Exempt Series;

(m) to modify, alter, amend or supplement the Plant Indenture in any other respect which is not materially adverse to the Owners;

(n) in connection with any mandatory purchase of all of the Plant Bonds of a Tax Exempt Series or purchase of all such Plant Bonds pursuant to the section captioned “REDEMPTION OF PLANT BONDS BEFORE MATURITY – Purchase in Lieu of Redemption”, to modify the Plant Indenture in any respect (even such modification is adverse to the interests of the Owners) provided that such amendment shall not be effective until after such mandatory purchase or purchase in lieu of redemption and the payment of the purchase price in connection therewith; or

(o) to provide for issuance of a Series of Additional Plant Bonds.

The Plant Trustee is authorized to join the execution of any such Indenture supplement, to make any further appropriate agreements and stipulations that may be therein contained and to accept the conveyance, transfer, assignment, mortgage or pledge of any property thereunder. If at any time the Issuer shall request the Plant Trustee to enter into any such supplemental indenture for any of the purposes allowed by this section captioned “Supplemental Indentures Not Requiring Consent of Owners (But Requiring Consent of Company or Collateral Agent)”, the Plant Trustee shall, at the request of the Issuer and upon receiving satisfactory payment with respect to related expenses and upon receiving from the Company forms of notices and any other related solicitation materials, cause notice of the proposed execution of such supplemental indenture to be mailed to the Owners of the Plant Bonds. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the Principal Office of the Plant Trustee for inspection by all Owners.

Supplemental Indentures Requiring Consent of Owners and Company

Except for supplemental indentures covered by the section captioned “Supplemental Indentures Not Requiring Consent of Owners (But Requiring Consent of Company or Collateral Agent)” and subject to the terms and provisions contained in this section captioned “Supplemental Indentures Requiring Consent of Owners and Company”, and not otherwise, the Owners of not less than a majority in aggregate principal amount of Plant Bonds then Outstanding shall have the right, from time to time, anything contained in the Plant Indenture to the contrary notwithstanding, to consent to and approve the execution by the Issuer and the Plant Trustee of such other indenture or indentures supplemental to the Plant Indenture for the purpose of modifying, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Plant Indenture; provided, however, that nothing in this section captioned “Supplemental Indentures Requiring Consent of Owners and Company” contained shall permit or be construed as permitting, without the consent of the Owners of 100% of the Plant Bonds then Outstanding, (a) an extension of the Stated Maturity of the principal of or the interest on any Plant Bond issued under the Plant Indenture, or (b) a reduction in the principal amount of, premium, if any, on any Plant Bond or the rate of interest thereon, or (c) an adverse change in the rights of the Owners of the Plant Bonds to the purchase thereof pursuant to the Plant Indenture, or (d) a privilege or priority of any Plant Bond or Plant Bonds over any other Plant Bond or Plant Bonds, or (e) a reduction in the aggregate principal amount of the Plant Bonds required for consent to such supplemental indenture, except in each case in connection with a refunding of any Plant Bonds, or (f) the deprivation of the Collateral Agent, the Plant Trustee or the Owner of any Plant Bond of the benefit of the security interest granted by the Security Agreement.

If at any time the Issuer shall request the Plant Trustee to enter into any such supplemental indenture for any of the purposes allowed by this section captioned “Supplemental Indentures Requiring Consent of Owners and Company”, the Plant Trustee shall, at the request of the Issuer and upon receiving satisfactory payment with respect to related expenses and upon receiving from the Company forms of notices and any other related solicitation materials, cause notice of the proposed execution of such supplemental indenture to be mailed to the Owners of the Plant Bonds. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the Principal Office of the Plant Trustee for inspection by all Owners. If, within 60 days or such longer period of time as shall be prescribed by the Issuer following the mailing of such notice, the Owners of not less than a majority in aggregate principal amount of Plant Bonds then Outstanding, as the case may be, in aggregate principal amount of the Plant Bonds Outstanding at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as provided in the Plant Indenture, no Owner of any Plant Bond shall have any right to object to any of the terms and provisions contained

therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Plant Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. The Issuer shall have the right to (and upon request of the Company shall) extend from time to time the period within which such consent and approval may be obtained from Owners. Upon the execution of any such supplemental indenture as in this section captioned "Supplemental Indentures Requiring Consent of Owners and Company" permitted and provided, the Plant Indenture shall be and be deemed to be modified and amended in accordance therewith.

Consent of Company

Anything in the Plant Indenture directly to the contrary notwithstanding, a supplemental indenture that adversely affects any rights of the Company shall not become effective unless and until the Company shall have consented to the execution and delivery of such supplemental indenture.

Consent of Remarketing Agent

Anything in the Plant Indenture to the contrary notwithstanding, a supplemental indenture that adversely affects any rights of the Company which affects any rights, duties or obligations of the Remarketing Agent shall not become effective unless and until the Remarketing Agent shall have consented to the execution and delivery of such supplemental indenture.

Consent of Plant Trustee

The Plant Trustee may, but shall not be obligated to, enter into any supplemental indenture which adversely affects the Plant Trustee's own rights, liabilities, duties or immunities under the Plant Indenture or otherwise.

Reliance on Opinions of Counsel and/or Officer's Certificates

The Issuer (at its request) and the Plant Trustee (without the need to request) shall receive and rely upon an opinion of counsel to the Company and an Officer's Certificate to the effect that any such proposed amendment, change or modification will comply with the provisions of this Article XI and a Favorable Opinion of Bond Counsel.

AMENDMENT OF LOAN AGREEMENT OR COLLATERAL DOCUMENTS

Amendments, Etc., to Loan Agreement Not Requiring Consent of Owners

The Issuer or the Plant Trustee, as appropriate, and the Company may without the consent of or notice to any of the Owners or the Beneficial Owners, enter into any amendment, change or modification of the Plant Loan Agreement (a) as may be required by the provisions of the Plant Loan Agreement or the Plant Indenture, (b) for the purpose of curing any ambiguity or formal defect or omission, (c) so as to add additional rights acquired in accordance with the provisions of the Plant Loan Agreement, (d) to obtain or preserve the Tax Exempt status of interest on the Plant Bonds of any Tax Exempt Series, or any portion of the Plant Bonds, (e) which, if the conditions for the issuance of Additional Plant Bonds are otherwise satisfied, makes such changes as may be necessary in connection with the issuance of Additional Plant Bonds, or (f) which is not materially adverse to the Owners and which does not involve a change described in clause (a) or (b) of the section captioned "Amendments, Etc., to Loan Agreement, Requiring Consent of Owners".

Amendments, Etc., to Loan Agreement, Requiring Consent of Owners

Except for the amendments, changes or modifications as provided in the section captioned "Amendments, Etc., to Loan Agreement Not Requiring Consent of Owners", none of the Issuer, the Company or the Plant Trustee shall enter into any other amendment, change or modification of the Plant Loan Agreement without mailing of notice and the written approval or consent of the Owners of not less than a majority in aggregate principal amount of Plant Bonds then Outstanding given and procured as provided in this section captioned "Amendments, Etc., to Loan Agreement, Requiring Consent of Owners"; provided, however, that nothing in this section captioned

“Amendments, Etc., to Loan Agreement, Requiring Consent of Owners” or the section captioned “Amendments, Etc., to Loan Agreement Not Requiring Consent of Owners” shall permit or be construed as permitting, without the consent of the Owners of 100% in aggregate principal amount of the Plant Bonds then Outstanding, (a) an extension of the time of the payment of any amounts payable by the Company under the Plant Loan Agreement with respect to the principal of or the interest on any Plant Bond issued under the Plant Indenture, (b) a reduction in the amount of any payment or in the total amount due from the Company under the Plant Loan Agreement with respect to the principal amount of, premium, if any, on any Plant Bond or the rate of interest thereon (including any adverse change in the rights of the Owners of the Plant Bonds to the purchase thereof pursuant to the Plant Indenture), except in each case in connection with a refunding of any Plant Bonds, (c) any changes to the Events of Default set forth in the section captioned “DEFAULT PROVISIONS AND REMEDIES OF BOND TRUSTEE AND OWNERS – Defaults; Events of Default” or (d) the deprivation of the Collateral Agent, the Plant Trustee or the Owner of any Plant Bond of the benefit of the security interest granted under the Security Agreement. If at any time the Issuer and the Company shall request the consent of the Plant Trustee to any such proposed amendment, change or modification of the Plant Loan Agreement in accordance with this section captioned “Amendments, Etc., to Loan Agreement, Requiring Consent of Owners”, the Plant Trustee shall, at the request of the Issuer and upon being satisfactorily indemnified with respect to expenses and upon receiving from the Company forms of notices and any other related solicitation materials, cause notice of such proposed amendment, change or modification to be mailed to the Owners of Plant Bonds in the same manner as provided by the section captioned “REDEMPTION OF PLANT BONDS BEFORE MATURITY – Notice of Redemption” with respect to redemption of Plant Bonds. Such notice shall briefly set forth the nature of such proposed amendment change or modification and shall state that copies of the instrument embodying the same are on file with the Plant Trustee for inspection by all Owners. If, within 60 days, or such longer period as shall be prescribed by the Issuer, following the mailing of such notice, the Owners of not less than a majority in aggregate principal amount of Plant Bonds then Outstanding in aggregate principal amount of the Plant Bonds Outstanding at the time of the execution of any such amendment, change or modification, as the case may be, shall have consented to and approved the execution thereof as provided in the Plant Indenture, no Owner of any Plant Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Company or the Issuer from executing the same or from taking any action pursuant to the provisions thereof, or the Plant Trustee from consenting thereto. The Issuer shall have the right to extend from time to time the period within which such consent and approval may be obtained from Owners. Upon the execution of any such amendment, change or modification as in this section captioned “Amendments, Etc., to Loan Agreement, Requiring Consent of Owners” permitted and provided, the Plant Loan Agreement shall be and be deemed to be modified, changed and amended in accordance therewith.

Amendments, Etc. to Collateral Trust Agreement

The Plant Trustee may, without the consent of or notice to any of the Owners or the Beneficial Owners, enter into any amendment, change or modification of the Collateral Trust Agreement that is permitted to be made thereunder without the consent of a Senior Debt Majority.

Notwithstanding the foregoing, the Plant Trustee may not enter into any amendment, change or modification of the Collateral Trust Agreement that would cause any Senior Debt to have any privilege or priority over any other Senior Debt without the consent of the Owners of 100% of such other Senior Debt then Outstanding.

Consent of Plant Trustee

The Plant Trustee may, but shall not be obligated to, consent to any amendment, change or modification of the Plant Loan Agreement or the Collateral Documents which adversely affects the Plant Trustee’s own rights, duties or immunities under the Plant Indenture or otherwise.

Consent of the Company and the Collateral Agent

Anything in the Plant Indenture directly to the contrary notwithstanding, a supplemental indenture that adversely affects any rights of the Company and the Collateral Agent shall not become effective unless and until the Company and the Collateral Agent shall have consented to the execution and delivery of such supplemental indenture.

MISCELLANEOUS

Consents, Etc., of Owners

Any consent, approval, direction or other instrument required by the Plant Indenture to be signed and executed by the Owners may be in any number of concurrent writings of similar tenor and may be signed or executed by such Owners in person or by agent appointed in writing. Proof of the execution of any such consent, approval, direction or other instrument or of the writing appointing any such agent, if made in the following manner, shall be sufficient for any of the purposes of the Plant Indenture, and shall be conclusive in favor of the Plant Trustee with regard to any action taken under such request or other instrument, namely:

The fact and date of the execution by any Person of any such instrument or writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the Person signing such instrument or writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution or in any other manner satisfactory to the Plant Trustee; or

The fact of ownership of Plant Bonds and the amount or amounts, numbers and other identification of such Plant Bonds, and the date of acquiring the same shall be proved by the registration books of the Issuer maintained by the Plant Trustee pursuant to the section captioned "THE PLANT BONDS – Ownership, Transfer, Exchange and Registration of Plant Bonds"; provided that while the Plant Bonds are in Book Entry form, the Plant Trustee shall be entitled to rely on such evidence as it deems appropriate to recognize the Beneficial Ownership of Plant Bonds.

Any request, demand, authorization, direction, notice, consent, waiver or other action by any Owner shall bind every future Owner of the same Plant Bond in respect of anything done or suffered to be done by the Plant Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Plant Bond.

Limitation of Rights

With the exception of rights expressly conferred in the Plant Indenture, nothing expressed or mentioned in or to be implied from the Plant Indenture or the Plant Bonds is intended or shall be construed to give to any Person other than the parties to the Plant Indenture, the Company, the Collateral Agent, the Bond Insurer, the Remarketing Agent and the Owners of the Plant Bonds any legal or equitable right, remedy or claim under or in respect to the Plant Indenture. The Plant Indenture and all of the covenants, conditions and provisions hereof are intended to be and being for the sole and exclusive benefit of the parties to the Plant Indenture, the Owners of the Plant Bonds, the Collateral Agent, the Remarketing Agent and the Company as provided in the Plant Indenture.

Severability

If any provision of the Plant Indenture shall be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions or in all jurisdictions, or in all cases because it conflicts with any other provision or provisions hereof or any constitution or statute or rule of public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions contained in the Plant Indenture invalid, inoperative, or unenforceable to any extent whatever.

The invalidity of any one or more phrases, sentences, clauses or Sections contained in the Plant Indenture, shall not affect the remaining portions of the Plant Indenture, or any part thereof.

Liability of Issuer Limited to the Trust Estate

The Company shall be solely responsible for the payment of the Plant Bonds. Neither the State nor the Issuer shall be obligated to pay the Plant Bonds or the interest thereon except from the Trust Estate, for the Issuer's obligation to make payments, and neither the faith and credit nor the taxing power of the State or of any political subdivision or any local agency thereof shall be pledged to the payment of the principal of, premium, if any, or interest on the Plant Bonds. The issuance of the Plant Bonds shall not directly or indirectly or contingently obligate

the State or any political subdivision or any local agency thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Issuer has no taxing powers.

Applicable Law

The Plant Indenture shall be construed in accordance with and governed by the Constitution and laws of the State applicable to contracts made and performed in the State. The Plant Indenture shall be enforceable in the State, and any action arising out of the Plant Indenture shall be filed and maintained in the Sacramento County Superior Court, Sacramento, California, unless the Issuer waives this requirement.

Waiver of Personal Liability

No member, officer, agent or employee of the Issuer, and no officer, official agent or employee of the State of California or any department, board or agency of the foregoing shall be individually or personally liable for the payment of the principal of or premium or interest on the Plant Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Plant Indenture shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by the Plant Indenture..

Dealing in Plant Bonds

The Plant Trustee, or the Remarketing Agent, in its individual capacity, may buy, sell, own, hold and deal in any of the Plant Bonds, and may join in any action which any Owner may be entitled to take with like effect as if it did not act in any capacity under the Plant Indenture. The Plant Trustee or the Remarketing Agent, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Issuer or the Company, and may act as depository, trustee or agent for any committee or body of Owners secured by the Plant Indenture or other obligations of the Issuer as freely as if it did not act in any capacity under the Plant Indenture.

Company May Act Through Agents

In connection with any and all actions permitted or required to be taken by the Company in connection with the provisions hereof, including those set forth in Section 203, the Company may by written instrument filed with the Plant Trustee and the Issuer appoint one or more agents (which may be the Remarketing Agent) to take such actions on its behalf, which appointment may be revoked at any time by the Company by written instrument filed with the Plant Trustee and the Issuer.

Record Date for Determination of Owners Entitled to Vote

The Company may set a record date for the purpose of determining the Owners entitled to give or take any request, demand, authorization, direction, notice, consent, waiver or other action, or to vote on any action, authorized or permitted to be given or taken by Owners. If not set by the Company prior to their first solicitation of an Owner made by any Person in respect of any such action, or, in the case of any such vote, prior to such vote, the record date for any such action or vote shall be the 30th day prior to such first solicitation or vote, as the case may be. With regard to any record date, only the Owners on such date (or their duly appointed proxies) shall be entitled to give or take, or vote on the relevant action; provided that while the Plant Bonds are in Book Entry form, the Plant Trustee shall be entitled to rely on such evidence as it deems appropriate to recognize the Beneficial Ownership of Plant Bonds.

Unclaimed Moneys

Notwithstanding any provisions of the Plant Indenture to the contrary, and subject to applicable laws of the State, any moneys deposited with the Plant Trustee in trust for the payment of the principal of, or interest on, any Plant Bonds remaining unclaimed for two (2) years after the principal of any or all of the Outstanding Plant Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the

Plant Indenture), shall then be repaid to the Company upon its written request, and the Owners of such Plant Bonds shall thereafter be entitled to look only to the Company for payment thereof, and all liability of the Issuer and the Plant Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Company as aforesaid, the Plant Trustee shall (at the request and cost of the Company) first give notice by mail to each affected Owner, which notice shall be in such form as may be deemed appropriate by the Company and the Plant Trustee, in respect of the Plant Bonds so payable and not presented and in respect of the provisions relating to the repayment to the Company of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Company as aforesaid, the Owners of the Plant Bonds in respect of which such moneys were deposited shall thereafter be deemed to be unsecured creditors of the Company for amounts equivalent to the respective amounts deposited for the payment of such Plant Bonds and so repaid to the Company (without interest thereon).

Governing Law; Venue

The Plant Indenture shall be construed in accordance with and governed by the Constitution and laws of the State applicable to contracts made and performed in the State. The Plant Indenture shall be enforceable in the State, and any action arising out of the Plant Indenture shall be filed and maintained in the Sacramento County Superior Court, Sacramento, California, unless the Authority waives this requirement in writing.

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APPENDIX J

FORM OF OPINION OF BOND COUNSEL

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Form of Opinion of Bond Counsel

[Closing Date]

California Pollution Control Financing Authority
Sacramento, California

California Pollution Control Financing Authority
Water Furnishing Revenue Refunding Bonds, Series 2019
(San Diego County Water Authority Desalination Project Pipeline)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Pollution Control Financing Authority (the “Issuer”) in connection with the issuance of \$183,155,000 aggregate principal amount of its Water Furnishing Revenue Refunding Bonds, Series 2019 (San Diego County Water Authority Desalination Project Pipeline) (the “Bonds”), issued pursuant to the Trust Indenture (the “Indenture”), dated as of February 1, 2019, between the Issuer and MUFG Union Bank, N.A., as trustee (the “Trustee”). The Indenture provides that the Bonds are issued for the stated purpose of making a loan of the proceeds thereof to the San Diego County Water Authority Financing Agency (the “Borrower”), pursuant to the Pipeline Loan Agreement, dated December 24, 2012 (as amended by the Omnibus Refunding Amendment Agreement (the “Omnibus Agreement”), dated as of February 1, 2019, the “Loan Agreement”), by and between the Issuer and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Pipeline Installment Sale and Assignment Agreement, dated December 24, 2012 (as amended by the Omnibus Agreement, the “Installment Sale Agreement”), by and between the Borrower and the San Diego County Water Authority (the “Water Authority”), the Tax Certificate and Agreement, dated the date hereof (the “Tax Certificate”), by and among the Issuer, the Borrower and the Water Authority, opinions of counsel to the Issuer, the Trustee, the Borrower and the Water Authority, certificates of the Issuer, the Trustee, the Borrower, the Water Authority and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We

disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement, the Installment Sale Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against authorities of the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture, the Loan Agreement or the Installment Sale Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Limited Offering Memorandum, dated January 29, 2019, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the right, title and interest of the Issuer (except for the Retained Rights) in the Loan Agreement, including Loan Repayments and Contracted Shortfall Payments, and any other amounts held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund and the Costs of Issuance Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.
3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Issuer.
4. The Bonds are not a lien or charge upon the funds or property of the Issuer except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof or any local agency is pledged to

the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California and said State is not liable for the payment thereof.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX K

FORM OF THE COMPANY CONTINUING DISCLOSURE AGREEMENT

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FORM OF THE COMPANY CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “**Disclosure Agreement**”) is executed and delivered by Poseidon Resources (Channelside) LP, a Delaware limited partnership (the “**Company**”), and MUFG Union Bank, N.A., as trustee under the 2019 Pipeline Indenture referred to below (in such capacity herein, together with any successors in such capacity, called the “**Trustee**”).

BACKGROUND

A. The California Pollution Control Financing Authority (the “**Issuer**”) issued \$203,215,000 original aggregate principal amount of its Water Furnishing Revenue Bonds, Series 2012 (San Diego County Water Authority Desalination Project Pipeline) (the “**Series 2012 Pipeline Bonds**”) pursuant to a Trust Indenture, dated as of December 24, 2012, between the Issuer and Union Bank, N.A. (the predecessor-in-interest to MUFG Union Bank, N.A.), as trustee, to provide funds for the purpose of financing the Pipeline (as defined below); and

B. In connection with the issuance of the Series 2012 Pipeline Bonds, the San Diego County Water Authority Financing Agency (the “**Financing Agency**”) and the Issuer entered into a Pipeline Loan Agreement, dated as of December 24, 2012 (the “**Original Pipeline Loan Agreement**”). The Financing Agency made the proceeds under the Original Pipeline Loan Agreement available to the San Diego County Water Authority (the “**Water Authority**”) pursuant to a Pipeline Installment Sale and Assignment Agreement, dated as of December 24, 2012 (the “**Original Installment Sale and Assignment Agreement**”), between the Financing Agency and the Water Authority to pay the costs of development, designing, acquiring and constructing the Pipeline.

C. The Issuer proposes to issue \$183,155,000 aggregate principal amount of its Water Furnishing Revenue Refunding Bonds, Series 2019 (San Diego County Water Authority Desalination Project Pipeline) (the “**Series 2019 Pipeline Bonds**”), pursuant to a Trust Indenture, dated as of February 1, 2019 (the “**Indenture**”), between the Issuer and the Trustee (i) to provide funds to current refund the outstanding Series 2012 Pipeline Bonds, and (ii) to pay certain costs of issuance of the Series 2019 Pipeline Bonds.

D. In connection with the issuance of the Series 2019 Pipeline Bonds, the proceeds of the Series 2019 Pipeline Bonds are being made available to the Financing Agency pursuant to the Original Pipeline Loan Agreement, as amended by that certain Omnibus Refunding Amendment Agreement dated as of February 1, 2019 (the “**Omnibus Refunding Amendment**”; and the Original Pipeline Loan Agreement, as amended, modified and supplemented, from time to time, including by the Omnibus Refunding Amendment, the “**Pipeline Loan Agreement**”), among the Issuer, the Financing Agency, the Water Authority, the Company and MUFG Union Bank, N.A., in its capacity (i) as the Trustee, (ii) as trustee (in such capacity, the “**Series 2012 Plant Bonds Trustee**”), with respect to the Issuer’s outstanding Water Furnishing Revenue Bonds Series 2012 (Poseidon Resources (Channelside) LP Desalination Project)(AMT), and (ii) as collateral agent (in such capacity, the “**Collateral Agent**”) under the Collateral Trust Agreement dated as of December 24, 2012 (the “**Original Collateral Trust Agreement**”, as amended, modified and supplemented from time to time, including by the Omnibus Refunding Amendment, the “**Collateral Trust Agreement**”) by and among the Company, the Collateral Agent, the Trustee and the Series 2012 Plant Bonds Trustee.

E. The Financing Agency is making the proceeds of the Series 2019 Pipeline Bonds under the Pipeline Loan Agreement available to the Water Authority pursuant to the Original Installment Sale and Assignment Agreement, as amended, modified and supplemented from time to time, including by the Omnibus Refunding Amendment (the Original Installment Sale and Assignment Agreement, as so amended, the “**Installment Sale and Assignment Agreement**”) between the Financing Agency and the Water Authority.

H. The Company and the Water Authority entered into a Water Purchase Agreement, dated as of December 24, 2012 (the “**Water Purchase Agreement**”) pursuant to which the Water Authority purchases water produced by the Plant. The Company is obligated under the Water Purchase Agreement to make certain payments (“**Contractual Shortfall Payments**”) to the Water Authority if the Company fails to perform certain obligations thereunder. The Water Authority’s obligations to make payments under the Installment Sale and Assignment Agreement will be reduced by the amount of Contracted Shortfall Payments payable by the Company, whether or not paid. The Water Authority has assigned its right to receive the Contracted Shortfall Payments to the Financing Agency pursuant to the Installment Sale and Assignment Agreement, the Financing Agency has assigned its rights to receive the Contracted Shortfall Payments to the Issuer pursuant to the Pipeline Loan Agreement, and the Issuer has assigned its right to receive the Contracted Shortfall Payments to the Pipeline Trustee pursuant to the Indenture. The Plant began commercial operation on December 23, 2015.

AGREEMENTS

In consideration of the Background and intending to be legally bound, the Company and the Trustee covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Company and the Trustee for the benefit of the Owners (as defined in the Indenture) and the Holders (as hereinafter defined) of the Series 2019 Pipeline Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with the Rule (as hereinafter defined). The Company acknowledges that it has undertaken all responsibility for compliance with the continuing disclosure requirements concerning the Series 2019 Pipeline Bonds. The Company further acknowledges that the Issuer has not undertaken any responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement or the Rule and has no liability to any person, including any Owner or Holder of the Series 2019 Pipeline Bonds, with respect to any such reports, notices or disclosures or the Rule.

Section 2. Definitions. To the extent not otherwise defined in this Disclosure Agreement, and in addition to the definitions set forth or incorporated in the Indenture or the Limited Offering Memorandum which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

Dissemination Agent means the Company or any successor Dissemination Agent designated as such in writing by the Company and which has filed with the Company a written acceptance of such designation.

EMMA means the Electronic Municipal Market Access system and the EMMA Continuing Disclosure Service of the MSRB (as hereinafter defined), or any successor thereto approved by the SEC

(as hereinafter defined) as a repository for municipal continuing disclosure information pursuant to the Rule.

Holder means any person who has or shares the power, directly or indirectly, to make investment decisions with respect to the Series 2019 Pipeline Bonds, but does not include persons who have rights to acquire either the Plant Bonds or the Series 2019 Pipeline Bonds in the future.

Limited Offering Memorandum means the Limited Offering Memorandum dated January 29, 2019, executed and delivered by the Company in connection with the initial offering of the Series 2019 Pipeline Bonds.

Listed Events means any of the events listed in Section 4 of this Disclosure Agreement.

MSRB means the Municipal Securities Rulemaking Board or any successor thereto.

1934 Act means the Securities Exchange Act of 1934, as the same may be amended from time to time.

Obligated Person means any person, including an issuer of municipal securities, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations of any of the Series 2019 Pipeline Bonds.

Participating Underwriters means the initial purchasers of any of the Series 2019 Pipeline Bonds required to comply with the Rule in connection with an offering of the Series 2019 Pipeline Bonds.

Rule means Rule 15c2-12 (17 CFR 240.15c2-12) adopted by the SEC under the 1934 Act, as the same may be amended from time to time.

SEC means the U.S. Securities and Exchange Commission.

Section 3. Provision of Annual Financial Statements and Operating Data; Monthly Quarterly Reports.

(a) The Company shall provide, or cause the Dissemination Agent to provide, not later than one hundred twenty (120) days after the close of its fiscal year to the MSRB, through EMMA, and to the Trustee:

(1) financial statements with respect to the Company, which financial statements shall be (A) prepared in accordance with generally accepted accounting principles or such other accounting principles as the Company may be required to employ from time to time, or as it may otherwise elect, provided that such election does not cause a violation of the Rule and (B) (1) audited financial statements, if the Company commissions an audit of such statements and the audit is completed within the 120-day period during which they must be provided or (2) if audited financial statements are commissioned but are not completed within such 120-day period, unaudited financial statements within such 120-day period, and the Company shall promptly provide audited financial statements for the applicable fiscal year to the MSRB, through EMMA, when and if audited financial statements become available;

- (2) a copy of the most recent Current Case Financial Projections submitted to the Collateral Agent pursuant to Section 5.4(a) of the Collateral Trust Agreement;
- (3) a copy of the Company's annual operating budget and a discussion of any over-budget variances; and
- (4) without duplication, updates for such fiscal year of (i) the tabular information shown in the table "Selected Operating Information" included under "PROJECT OPERATION – Operation of the Plant – Plant Operations" in the Limited Offering Memorandum; and (ii) the tabular information shown under the heading "SELECTED FINANCIAL INFORMATION – Historical Debt Service Coverage" in the Limited Offering Memorandum.

Not later than five (5) business days prior to said date, the Company shall provide such financial information and operating data to the Dissemination Agent (if the Dissemination Agent is other than the Company).

The Dissemination Agent shall (if the Dissemination Agent is other than the Company) file a report with the Company certifying that such financial information and operating data has been provided pursuant to this Disclosure Agreement and stating the date it was provided to the MSRB.

If the Company changes its fiscal year, it will notify the MSRB, through EMMA, and the Trustee of the change (and the date of the new fiscal year end) prior to the next date by which the Company otherwise would be required to provide financial information and operating data pursuant to this Disclosure Agreement.

(b) The Company shall provide, or shall cause the Dissemination Agent to provide, within 60 days after the end of each calendar quarter, a quarterly operating report that includes:

- (1) total Project Revenues and total O&M Costs for the quarter and a description of any variance between such amounts and the budgeted amounts, and in the case of a variance of 10% or more, a brief description of the reason the variance occurred; and
- (2) reports of the average daily water production – in acre feet, any Excused or Unexcused Supply or Demand Shortfalls and any Unscheduled Outages; and
- (3) any shortfalls or exceedances against the Minimum Monthly Demand Commitment and the Adjusted Monthly Demand Commitment, and any Operating Period Shortfall Payments paid; and
- (4) a detailed description of any Capital Project undertaken for which the costs are expected to exceed \$2,000,000 (Escalated), including, without limitation, the water intake system modifications, as described in the Limited Offering Memorandum under the heading "THE PROJECT – Intake System Modifications," together with a detailed description of the sources of funding for such Capital Project and a discussion of the progress of construction.

(c) The financial information and operating data to be provided pursuant to this Disclosure Agreement may be set forth in full in one or more documents or may be included by specific reference to any document that is available to the public on the MSRB's website or filed with the SEC.

Section 4. Reporting of Listed Events. The Company shall provide, or cause to be provided, to both the MSRB, through EMMA, and the Trustee, in a timely manner (but not in excess of 10 business days of the occurrence of the Listed Events), notice of the occurrence of any of the following events with respect to the Series 2019 Pipeline Bonds:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults under any of the Water Purchase Agreement or other Principal Project Contracts, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2019 Pipeline Bonds, or other material events affecting the tax status of the Series 2019 Pipeline Bonds;
- (vii) Modifications to the rights of Owners of the Series 2019 Pipeline Bonds, if material;
- (viii) Series 2019 Pipeline Bond calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution or sale of property securing repayment of the Series 2019 Pipeline Bonds, if material;
- (xi) Rating changes;
- (xii) Receipt by the Company of the notice of the Water Authority of its intent to exercise its Project Assets Purchase Option (as defined in the Water Purchase Agreement);
- (xiii) Bankruptcy, insolvency, receivership or similar proceeding regarding the Issuer or an Obligated Person, including the Company;
- (xiv) The consummation of a merger, consolidation, or acquisition involving the Issuer or an Obligated Person, including the Company, or the sale of all or substantially all of the assets of the Issuer or an Obligated Person, including the Company, other than in the ordinary course of business, the entry into a definitive

agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

- (xv) Appointment of a successor or additional trustee, or the change of the name of a trustee, if material.²

For purposes of the event identified in Section 4(xiii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

In addition, the Company shall notify both the MSRB, through EMMA, and the Trustee in a timely manner of any failure of the Company to provide such financial information or operating data as described hereunder, or failure of the Company to provide notice of such Listed Event, on or before the date by which such financial information, operating data or notice is required to be provided hereunder.

All documents provided to the MSRB, whether by the Company directly or by the appointed Dissemination Agent, shall be in an electronic format and accompanied by identifying information (including CUSIP numbers) prescribed by the MSRB or may be provided in any other manner consistent with the Rule.

Section 5. Termination of Reporting Obligations. The Company's obligations under this Disclosure Agreement shall terminate if the Company is no longer an Obligated Person, including upon the defeasance, prior redemption or payment in full of all of the Series 2019 Pipeline Bonds. The Company may not assign or transfer its obligations under the Water Purchase Agreement to any other person, corporation or entity, unless such person, corporation or entity assumes in writing the Company's obligations and responsibilities for compliance with this Disclosure Agreement as an Obligated Person in the same manner as if it were the Company. The Company shall give notice in a timely manner to the MSRB if this Section is applicable.

Section 6. Dissemination Agent. The Company may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Company pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be the Company.

² NOTE: If closing occurs on or after February 27, 2019, additional material events regarding material financial obligations to be added pursuant to August 2018 Amendment to Rule 15c2-12.

Section 7. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, this Disclosure Agreement may be amended, without the consent of the Owners or Holders of the Series 2019 Pipeline Bonds (and the Trustee shall agree to any amendment so requested by the Company which does not adversely affect the rights, privileges, protections, immunities and indemnities afforded to the Trustee), and any provision of this Disclosure Agreement may be waived, but only if (i) such amendment or waiver, after giving effect thereto, will not adversely affect the compliance of the Company with this Disclosure Agreement and by the Company with the Rule and (ii) the Company shall have provided notice of such amendment or waiver to the MSRB, through EMMA. Any such amendment or waiver shall satisfy, unless otherwise permitted by the Rule, the following conditions:

- (i) The amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Company or type of business conducted;
- (ii) In the opinion of parties unaffiliated with the Issuer or the Company, this Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (iii) The amendment or waiver does not materially impair the interests of Bondholders or beneficial owners of the Series 2019 Pipeline Bonds, as determined either by parties unaffiliated with the Company (such as nationally recognized bond or securities counsel) or by an approving vote of the Bondholders of the Series 2019 Pipeline Bonds pursuant to the terms of the respective Indenture at the time of the amendment.

If the Company so amends or waives any provision of this Disclosure Agreement, as the case may be, it shall include with any amended financial information or operating data an explanation, in narrative form, of the reasons for the amendment or waiver and the effect of the change, if any, in the type of operating data or financial information being provided.

Section 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Company from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any financial information or operating data or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Company chooses to include any information in any financial information or operating data or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Company shall have no obligation under this Disclosure Agreement to update such information or include it in any future financial information or operating data or notice of occurrence of a Listed Event.

Section 9. Default. In the event of the failure by the Company or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of the Owners of at least 25% aggregate principal amount of outstanding of Plant Bonds, and at the request of the Owners of at least 25% aggregate principal amount outstanding of Series 2019 Pipeline Bonds, shall), and any Owner or Holder may take such actions as may be necessary and appropriate, including seeking a mandate or specific performance by court order, to cause the Company to comply with its obligations

under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, the Pipeline Loan Agreement, the Collateral Trust Agreement or the Security Documents.

Section 10. CUSIP Numbers. The CUSIP Numbers of the Series 2019 Pipeline Bonds are as follows:

Maturity	CUSIP Numbers
2020	13054WAH0
2021	13054WAJ6
2022	13054WAK3
2023	13054WAL1
2024	13054WAM9
2029	13054WAN7
2039	13054WAP2
2045	13054WAQ0

Section 11. Duties, Immunities and Liabilities of Trustee. Article X of the 2019 Pipeline Indenture and Section 8.3 of the Pipeline Loan Agreement are hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Pipeline Loan Agreement.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Company, the Trustee, the Participating Underwriters, the Owners and the Holders from time to time of the Series 2019 Pipeline Bonds, and shall create no rights in any other person or entity.

Section 13. Notices. Except as otherwise provided in this Disclosure Agreement, all notices and other communications hereunder shall be in writing and shall be sufficiently given and shall be deemed given when mailed by registered mail, postage prepaid, addressed as follows:

If to the Trustee: MUFG Union Bank, N.A.
 445 South Figueroa Street, Suite 401
 Los Angeles, CA 90071
 Attention: Corporate Trust Administration
 Fax: 1-213-972-5694

If to the Company: Poseidon Resources (Channelside) LP
 5780 Fleet Street, Suite 140
 Carlsbad, CA 92008
 Attention: Project Manager

with a copy to:

Poseidon Water LLC
 75 State Street, Suite 2503
 Boston, MA 02109
 Attention: General Counsel
 Fax: 617-315-4444

The Trustee and the Company may by notice given hereunder, designate any further or different addresses to which subsequent notices or other communications shall be sent. Unless otherwise requested by the Issuer, the Trustee or the Company, any notice required to be given under this Disclosure Agreement in writing may be given by any form of electronic transmission that is capable of producing a written record. Each such party shall file with the Trustee information appropriate to receiving electronic notice.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be original and all of which shall constitute but one and the same instrument.

Section 15. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of California.

[Signatures appear on the following page]

SIGNATURES

As evidence of their intent to be legally bound, the parties have signed this Agreement as of this ____ day of February, 2019.

POSEIDON RESOURCES (CHANNELSIDE) LP
By: POSEIDON RESOURCES CHANNELSIDE GP, INC., its
general partner

By: _____
Name:
Title:

MUFG UNION BANK, N.A., as Trustee

By: _____
Name:
Title:

APPENDIX L

FORM OF WATER AUTHORITY CONTINUING DISCLOSURE AGREEMENT

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FORM OF THE WATER AUTHORITY CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “**Disclosure Agreement**”) is executed and delivered by the San Diego County Water Authority (“**Water Authority**”), MUFG Union Bank, N.A., as trustee under the 2019 Pipeline Indenture referred to below (in such capacity herein, together with any successors in such capacity, called the “**Trustee**”), and Digital Assurance Certification, L.L.C., as Dissemination Agent.

BACKGROUND

A. The California Pollution Control Financing Authority (the “**Issuer**”) issued \$203,215,000 original aggregate principal amount of its Water Furnishing Revenue Bonds, Series 2012 (San Diego County Water Authority Desalination Project Pipeline) (the “**Series 2012 Pipeline Bonds**”), pursuant to a Trust Indenture, dated as of December 24, 2012, between the Issuer and Union Bank, N.A. (the predecessor-in-interest to MUFG Union Bank, N.A.), as trustee, to provide funds for the purpose of financing the Pipeline (as defined below); and

B. In connection with the issuance of the Series 2012 Pipeline Bonds, the San Diego County Water Authority Financing Agency (the “**Financing Agency**”) and the Issuer entered into a Pipeline Loan Agreement, dated as of December 24, 2012 (the “**Original Pipeline Loan Agreement**”). The Financing Agency made the proceeds under the Original Pipeline Loan Agreement available to the San Diego County Water Authority (the “**Water Authority**”) pursuant to a Pipeline Installment Sale and Assignment Agreement, dated as of December 24, 2012 (the “**Original Installment Sale and Assignment Agreement**”), between the Financing Agency and the Water Authority to pay the costs of development, designing, acquiring and constructing the Pipeline.

C. The Issuer proposes to issue \$183,155,000 aggregate principal amount of its Water Furnishing Revenue Refunding Bonds, Series 2019 (San Diego County Water Authority Desalination Project Pipeline) (the “**Series 2019 Pipeline Bonds**”), pursuant to a Trust Indenture, dated as of February 1, 2019 (the “**Indenture**”), between the Issuer and the Trustee (i) to provide funds to current refund the outstanding Series 2012 Pipeline Bonds, and (ii) to pay certain costs of issuance of the Series 2019 Pipeline Bonds.

D. In connection with the issuance of the Series 2019 Pipeline Bonds, the proceeds of the Series 2019 Pipeline Bonds are being made available to the Financing Agency pursuant to the Original Pipeline Loan Agreement, as amended by that certain Omnibus Refunding Amendment Agreement dated as of February 1, 2019 (the “**Omnibus Refunding Amendment**”; and the Original Pipeline Loan Agreement, as amended, modified and supplemented from time to time, including by the Omnibus Refunding Amendment, the “**Pipeline Loan Agreement**”), among the Issuer, the Financing Agency, the Water Authority, the Company and MUFG Union Bank, N.A., in its capacity (i) as the Trustee, (ii) as trustee (in such capacity, the “**Series 2012 Plant Bonds Trustee**”), with respect to the Issuer’s outstanding Water Furnishing Revenue Bonds Series 2012 (Poseidon Resources (Channelside) LP Desalination Project) (AMT), and (ii) as collateral agent (in such capacity, the “**Collateral Agent**”) under the Collateral Trust Agreement dated as of December 24, 2012 (the “**Original Collateral Trust Agreement**,” as amended, modified and supplemented from time to time, including by the Omnibus Refunding Amendment, the “**Collateral Trust Agreement**”) by and among Poseidon Resources (Channelside) LP, a Delaware limited partnership (the “**Company**”), the Company, the Collateral Agent, the Trustee and the Series 2012 Plant Bonds Trustee.

E. The Financing Agency is making the proceeds of the Series 2019 Pipeline Bonds under the Pipeline Loan Agreement available to the Water Authority pursuant to the Original Installment Sale and Assignment Agreement, as amended, modified and supplemented from time to time, including by the Omnibus Refunding Amendment (the Original Installment Sale and Assignment Agreement, as so amended, the “**Installment Sale and Assignment Agreement**”) between the Financing Agency and the Water Authority.

F. The Company and the Water Authority entered into a Water Purchase Agreement, dated as of December 24, 2012 (the “**Water Purchase Agreement**”) pursuant to which the Water Authority purchases water produced by the Plant. The Company is obligated under the Water Purchase Agreement to make certain payments (“**Contractual Shortfall Payments**”) to the Water Authority if the Company fails to perform certain obligations thereunder. The Water Authority’s obligations to make payments under the Installment Sale and Assignment Agreement will be reduced by the amount of Contracted Shortfall Payments payable by the Company, whether or not paid. The Water Authority has assigned its right to receive the Contracted Shortfall Payments to the Financing Agency pursuant to the Installment Sale and Assignment Agreement, the Financing Agency has assigned its rights to receive the Contracted Shortfall Payments to the Issuer pursuant to the Pipeline Loan Agreement, and the Issuer has assigned its right to receive the Contracted Shortfall Payments to the Pipeline Trustee pursuant to the Indenture. The Plant began commercial operation on December 23, 2015.

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Water Authority and the Dissemination Agent for the benefit of the Owners and Beneficial Owners of the Series 2019 Pipeline Bonds and in order to assist the Participating Underwriters in complying with the Rule (defined below).

SECTION 2. Definitions. To the extent not otherwise defined in this Disclosure Agreement, and in addition to the definitions set forth in the Indenture which apply to any capitalized term used in this Disclosure Agreement, unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“**Annual Disclosure Report**” means any Annual Disclosure Report provided by the Water Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“**Beneficial Owner**” means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2019 Pipeline Bonds (including persons holding Series 2019 Pipeline Bonds through nominees, depositories or other intermediaries).

“**Disclosure Representative**” means the General Manager of the Water Authority or his or her designee, or such other person as the Water Authority shall designate in writing to the Dissemination Agent from time to time.

“**Dissemination Agent**” means Digital Assurance Certification, L.L.C., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Water Authority.

“**Limited Offering Memorandum**” means the Limited Offering Memorandum, dated January 29, 2019, executed and delivered by the Water Authority in connection with the initial offering of the Series 2019 Pipeline Bonds.

“**Listed Events**” means any of the events listed in Section 5(a) of this Disclosure Agreement.

“**MSRB**” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive continuing disclosure filings pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at <http://emma.msrb.org>.

“**Owner**” means the person in whose name any Series 2019 Pipeline Bonds shall be registered.

“**Participating Underwriter**” means any of the original underwriters of the Series 2019 Pipeline Bonds required to comply with the Rule in connection with offering of the Series 2019 Pipeline Bonds.

“**Rule**” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“**State**” means the State of California.

SECTION 3. Provision of Annual Disclosure Reports.

(a) The Water Authority shall, or upon written direction shall cause the Dissemination Agent to, not later than 270 days after the end of the Water Authority’s fiscal year (presently June 30), commencing with the report for the Fiscal Year ended June 30, 2019, provide to the MSRB an Annual Disclosure Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Disclosure Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Water Authority may be submitted separately from the balance of the Annual Disclosure Report and later than the date required above for the filing of the Annual Disclosure Report if they are not available by that date. If the Water Authority’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Disclosure Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Series 2019 Pipeline Bonds by name and CUSIP number.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Disclosure Report to the MSRB, the Water Authority shall provide the Annual Disclosure Report to the Dissemination Agent. If by such date the Dissemination Agent has not received a copy of the Annual Disclosure Report, the Dissemination Agent shall contact the Water Authority to inquire if the Water Authority is in compliance with the first sentence of this subsection (b). The Water Authority shall provide a written certification with each Annual Disclosure Report furnished to the Dissemination Agent to the effect that such Annual Disclosure Report constitutes the Annual Disclosure Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Water Authority and shall have no duty or obligation to review such Annual Disclosure Report.

(c) If the Dissemination Agent is unable to confirm that an Annual Disclosure Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall, to the extent the Annual Disclosure Report has been provided to the Dissemination Agent, file a report with the Water Authority certifying that the Annual Disclosure Report has been provided to the MSRB pursuant to this Disclosure Agreement and stating the date it was provided.

SECTION 4. Content of Annual Disclosure Reports. The Water Authority's Annual Disclosure Report shall contain or include by reference the following:

(a) the audited financial statements of the Water Authority for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board. If the Water Authority's audited financial statements are not available by the time the Annual Disclosure Report is required to be filed pursuant to Section 3(a), the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Final Limited Offering Memorandum, and the audited financial statements shall be filed in the same manner as the Annual Disclosure Report when they become available.

(b) tables setting forth the following information as of the end of such fiscal year:

(i) the aggregate principal amount of each maturity of Series 2019 Pipeline Bonds Outstanding;

(ii) an update of the information contained in the following tables in Schedule 1 to Appendix C to the Limited Offering Memorandum:

(A) "Member Agency Voting Entitlement" in Table 5 on page 110;

(B) "Water Source and Use" by Member Agencies – for the most recent five Fiscal Years in Table 7 on page 112;

(C) "Member Agency Gross Water Sales by Fiscal Year" in Table 6 on page 111; and

(D) "Historical Operating Results" in Table 9 beginning on page 114.

(c) Any or all of the items listed in paragraphs (a) and (b) above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Water Authority is an "obligated person" (as defined by the Rule), which are available to the public on the MSRB website. If the document included by reference is a final official statement, it must be available from the MSRB. The Water Authority shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The Water Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2019 Pipeline Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;

5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the Water Authority.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Water Authority in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Water Authority, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Water Authority.

(b) The Water Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2019 Pipeline Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in Section 5(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series 2019 Pipeline Bonds or other material events affecting the tax status of the Project Pipeline Bonds;
2. Modifications to rights of the holders of the Series 2019 Pipeline Bonds;
3. Optional, unscheduled or contingent Bond calls;
4. Release, substitution, or sale of property securing repayment of the Series 2019 Pipeline Bonds;
5. Non-payment related defaults;
6. The consummation of a merger, consolidation, or acquisition involving the Water Authority or the sale of all or substantially all of the assets of the Water Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee for the Series 2019 Pipeline Bonds.³

(c) Whenever (i) the Water Authority obtains knowledge of the occurrence of a Listed Event described in Section 5(a) or (ii) the Water Authority obtains knowledge of the occurrence of a Listed Event described in Section 5(b) and has determined that knowledge of the occurrence of such a Listed Event would be material under applicable federal securities laws, the Water Authority shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d) of this Section 5.

(d) If the Dissemination Agent has been instructed by the Water Authority to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB, with a copy to the Water Authority. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(7) or (b)(3) of this Section 5 need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Series 2019 Pipeline Bonds pursuant to the applicable Indenture.

SECTION 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Agreement must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 7. Additional Disclosure Obligations. The Water Authority acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Water Authority, and that the failure of the Dissemination Agent to so advise the Water Authority shall not constitute a breach by the Dissemination Agent of any of its duties and responsibilities under this Disclosure Agreement. The Water Authority acknowledges and understands that the duties of the Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 8. Termination of Obligations. The Water Authority's and the Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2019 Pipeline Bonds. If such termination or substitution occurs prior to the final maturity of the Series 2019 Pipeline Bonds, the Water Authority shall give notice of such termination or substitution in a filing with the MSRB.

SECTION 9. Dissemination Agent. The Water Authority hereby appoints Digital Assurance Certification, L.L.C., as the initial Dissemination Agent. The Water Authority may, from time to time, appoint or engage one or more Dissemination Agents to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Water Authority pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty (30) days written notice to the Water Authority.

³ NOTE: If closing occurs on or after February 27, 2019, additional material events regarding material financial obligations to be added pursuant to August 2018 Amendment to Rule 15c2-12.

The Dissemination Agent shall have no duty to prepare any information report or event notice nor shall the Dissemination Agent be responsible for filing any report or event notice not provided to it by the Water Authority in a timely manner.

SECTION 10. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Water Authority and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Water Authority, provided that the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2019 Pipeline Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance, sale and delivery of the Series 2019 Pipeline Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Series 2019 Pipeline Bonds in the same manner as provided in the applicable Indenture for amendments to such Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Series 2019 Pipeline Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Water Authority shall describe such amendment in the next Annual Disclosure Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Water Authority. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB and (ii) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 11. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Water Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Water Authority chooses to include any information in any Annual Disclosure Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Water Authority shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Disclosure Report or notice of occurrence of a Listed Event.

SECTION 12. Default. In the event of a failure of the Water Authority or the Trustee to comply with any provision of this Disclosure Agreement, any Participating Underwriter or any Owner or Beneficial Owner of Series 2019 Pipeline Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Water Authority to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Water Authority to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 13. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Water Authority has provided such information to the Dissemination Agent as required by this Disclosure Agreement. The Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Dissemination Agent shall have no duty or obligation to review or verify any information, disclosures or notices provided to it by the Water Authority and shall not be deemed to be acting in any fiduciary capacity for the Water Authority, the Owners, the Beneficial Owners of the Series 2019 Pipeline Bonds or any other party. The Dissemination Agent shall have no responsibility for the Water Authority's failure to report to the Dissemination Agent any event described in Sections 5(a) and 5(b) or a duty to determine the materiality thereof. The Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Water Authority has complied with this Disclosure Agreement. The Dissemination Agent may conclusively rely on certifications of the Water Authority at all times.

THE WATER AUTHORITY AGREES TO INDEMNIFY AND SAVE THE DISSEMINATION AGENT AND ITS RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS, HARMLESS AGAINST ANY LOSS, EXPENSE AND LIABILITIES WHICH THEY MAY INCUR ARISING OUT OF OR IN THE EXERCISE OR PERFORMANCE OF THEIR POWERS AND DUTIES HEREUNDER, INCLUDING THE COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES) OF DEFENDING AGAINST ANY CLAIM OF LIABILITY, BUT EXCLUDING LIABILITIES DUE TO THE DISSEMINATION AGENT'S NEGLIGENCE OR WILLFUL MISCONDUCT.

The obligations of the Water Authority under this Section shall survive resignation or removal of the Dissemination Agent and defeasance, redemption or payment of the Series 2019 Pipeline Bonds.

(b) The Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and neither of them shall incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel.

SECTION 14. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Water Authority: San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123
Attention: Director of Finance/Treasurer

To the Dissemination Agent: Digital Assurance Certification, L.L.C.
315 North Robinson Street, Suite 300 Orlando, FL 32801
Attention: Client Service Manager

To the Trustee: MUFG Union Bank, N.A.
445 South Figueroa Street, Suite 401
Los Angeles, CA 90071
Attention: Corporate Trust Administration

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 15. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Water Authority, the Trustee, the Dissemination Agent, the Participating Underwriters, and Owners and Beneficial Owners from time to time of the Series 2019 Pipeline Bonds, and shall create no rights in any other person or entity.

SECTION 16. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Signatures appear on the following page]

SIGNATURES

As evidence of their intent to be legally bound, the parties have signed this Agreement as of this ____ day of February, 2019.

SAN DIEGO COUNTY WATER AUTHORITY

By: _____
[_____], General Manager

By: _____
[_____], Deputy General Manager

MUFG UNION BANK, N.A., as Trustee

By: _____
Name:
Title:

**DIGITAL ASSURANCE CERTIFICATION, L.L.C., as
Dissemination Agent**

By: _____
Authorized Officer

EXHIBIT A

**FORM OF NOTICE TO THE
MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL DISCLOSURE REPORT**

Name of Issuer: The California Pollution Control Financing Authority

Name of Bond Issue: California Pollution Control Financing Authority Water Furnishing Revenue Refunding Bonds (San Diego County Water Authority Desalination Project Pipeline) Series 2019

Date of Issuance: February 20, 2019

Name of Obligated Party: San Diego County Water Authority

NOTICE IS HEREBY GIVEN that the San Diego County Water Authority has not provided an Annual Disclosure Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of February __, 2019, by and between MUFG Union Bank, N.A., as trustee for the owners of the above-named bonds, the San Diego County Water Authority and Digital Assurance Certification, L.L.C. [The Water Authority anticipates that the Annual Disclosure Report will be filed by _____.]

Dated: _____

DIGITAL ASSURANCE CERTIFICATION, L.L.C., on behalf of the San Diego County Water Authority

By: _____

cc: San Diego County Water Authority

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**San Diego County
Water Authority**
Our Region's Trusted
Water Leader



POSEIDON WATER



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