

**Settlement Agreement Regarding ACWD-DERWA
Memorandum of Understanding on Alameda Creek Water Quality
Issues**

This Agreement is entered into and made effective this 14th day of ~~DECEMBER~~ 2006 (the "Effective Date"), by and between the DSRSD - EBMUD Recycled Water Authority ("DERWA") and the Alameda County Water District ("ACWD"). DERWA and ACWD are sometimes collectively referred to herein as the "Parties" and singularly as a "Party." This Settlement Agreement between the Parties is made in order to resolve disputed issues surrounding the DERWA recycled water project operations and the Memorandum of Understanding (MOU) between the Parties dated September 25, 1997.

RECITALS

Whereas, DERWA and ACWD executed a MOU on September 25, 1997 providing for DERWA to make mitigation payments to ACWD due to projections that DERWA recycled water project operations would lead to increase in discharge of salt into Alameda Creek watershed, a source of ACWD's water supply;

Whereas, a dispute between DERWA and ACWD has arisen regarding interpretation and implementation of the MOU; and,

Whereas, the Parties have met and negotiated in good faith, and have reached the following agreement on settling the dispute;

AGREEMENT

NOW, THEREFORE, the Parties hereto do agree as follows

1. Mitigation Payment: Within 30 days of execution of this Agreement, DERWA will pay the lump sum amount of \$1.9 million to ACWD for mitigation of all salt loading impacts of the DERWA recycled water project, based upon maximum annual DERWA recycled water delivery of 5.4 million gallons per day (mgd) of recycled water in the Alameda Creek watershed. When received by ACWD, said funds shall be immediately available to ACWD for its unrestricted use.

2. Complete Settlement: The Parties agree that: (a) payment by DERWA and acceptance by ACWD of the lump sum Mitigation Payment, and execution within two business days of receipt of the Mitigation Payment by ACWD of a release in the form attached, will constitute complete settlement of the dispute, and full compensation to ACWD by DERWA for the salt loading impacts of recycled water up to and including the quantity described in Section 1 hereof; (b) DERWA will not seek reimbursement or recovery of any portion of the lump sum from ACWD; and (c) ACWD will not seek any additional mitigation from DERWA for the salt loading impacts of recycled water up to and including the quantity described in Section 1 hereof.

3. Termination of MOU: Upon payment of the lump sum by DERWA and execution of the release by ACWD, the MOU executed on September 25, 1997 by the Parties will be terminated in all respects without any further action by the Parties.

4. Release of Claims: The Parties acknowledge and agree that the release provided for in Section 2(a) of this Agreement applies to all claims related to the salt loading impacts as described in Section 1 hereof, whether such claims are currently known or unknown, foreseen or unforeseen.

5. Entire Agreement. This Agreement is the full and entire understanding of the Parties, and may not be altered except by a further writing executed by the Parties hereto. The Parties agree that there are no warranties, either expressed or implied, and no covenants or promises or expectations other than those contained and set forth in this Agreement.

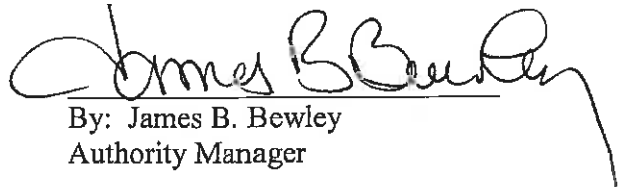
IN WITNESS WHEREOF, the duly authorized representatives of the Parties have executed this Agreement on the dates set forth below their signatures, and represent that this Agreement has been approved by their respective Boards of Directors.

ALAMEDA COUNTY WATER
DISTRICT



By: Paul Piraino
General Manager

DSRSD-EBMUD RECYCLED
WATER AUTHORITY

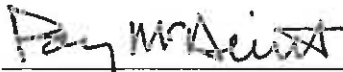


By: James B. Bewley
Authority Manager

Date: December 14, 2006

Date: December 19, 2006

APPROVED AS TO FORM:



By: Ray E. McDevitt
District Counsel

APPROVED AS TO FORM:



By: Robert B. Maddow
Authority Counsel