COPY

MEMORANDUM OF UNDERSTANDING BETWEEN THE SEASIDE BASIN WATERMASTER AND THE CITY OF SEASIDE

This Memorandum of Understanding ("MOU") is entered into between the Seaside Groundwater Basin Watermaster ("Watermaster") and the City of Seaside ("City") (individually a "Party" and together the "Parties") this 7 day of April, 2010 ("Effective Date") with respect to the following:

RECITALS

A. The amended final decision ("Decision") entered in the lawsuit, California American Water v. City of Seaside et al., Monterey Superior Court, (Case No. M 66343) governs groundwater production within the Seaside Groundwater Basin (the "Basin").

B. The City is a party to the lawsuit and received groundwater production allocation pursuant to the Decision as follows: (1) 540 acre-feet of Alternative Production Allocation[1] in relation to the City-owned Blackhorse and Bayonet Golf Courses ("Golf Courses"); and (2) Standard Production Allocation in relation to the City Municipal Water System.[2]

C. The Decision provides that any party that exceeds its allocation of Natural Safe Yield is subject to a Replenishment Assessment for each acre-foot of Over-Production during each Water Year.

D. The City presently owes certain sums to Watermaster for previously accrued Replenishment Assessments.

E. The City projects that it will continue to engage in Over-Production to supply its Municipal Water System, and potentially its Golf Course System, and therefore anticipates that it will continue to incur additional Replenishment Assessment liability.

F. The Decision obligates the Watermaster to procure new sources of water for replenishment of the Basin to offset cumulative Over-Production.

G. The Parties have identified an in lieu replenishment program ("Program") involving the Golf Courses and the City's Alternative Production Allocation associated with the Golf Courses, which is a viable means to obtain some of the replenishment water that Watermaster is obligated to procure.

H. To implement the Program, the City has entered into an agreement with the Marina Coast Water District ("MCWD") to supply water to irrigate the Golf Courses in lieu of production of Basin groundwater for irrigation pursuant to the City's Alternative Production

[1] All capitalized terms used in this MOU are to be given the same meaning as set forth in the Decision, unless otherwise described.

[2] The Standard Production Allocation is set forth as a percentage of Operating Yield of the Coastal Subarea. The City's Standard Production Allocation is roughly 10.47% of the Operating Yield.

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Allocation, thereby causing an in lieu replenishment of the Basin.[3]

I. The City desires to engage in the Program in exchange for a monetary credit against its Replenishment Assessment liability.

J. The Parties desire to enter into this MOU to memorialize the terms upon which the City shall engage in the Program, and the Watermaster shall provide the City with a monetary credit against its Replenishment Assessment liability.

AGREEMENT

The Parties agree as follows:

1. Term. This MOU shall commence upon the Effective Date and continue until the earlier of five (5) years from the Effective Date, or three (3) months following the end of the Water Year in which the Chief Executive Officer of Watermaster anticipates that the City shall have provided sufficient in lieu replenishment water pursuant to the Program to offset all of its then-accrued Replenishment Assessment liability.

2. Commencement and Scope of Program. The Program shall commence, if at all, only once the City deems it appropriate to commence the Program, in its sole discretion. The City shall notify the Watermaster CEO in writing of the date it intends to commence the program as far in advance as is feasible. The amount of in lieu replenishment that shall occur in any particular year pursuant to the Program, if at all, shall also be determined by the City in its sole discretion.

3. Accounting and Replenishment Assessment Credit.

3.1 Annual Accounting. During the term of this MOU, the City shall report to the Watermaster an accounting of the amount of water received from MCWD to be used in lieu of groundwater production from the Basin for the preceding calendar quarter, in writing, on or before January 15, April 15, July 15, and October 15 of each Water Year. The City shall record and report the MCWD deliveries based upon accurate meter readings. All meters used for such reporting shall be regularly calibrated and maintained by the City, or the City's representative, and at the City's expense to ensure accuracy. Prior to the commencement of the Program the City shall provide to the Watermaster an initial calibration report certifying the accuracy of the flowmeter which will measure the delivery of MCWD water to the City's golf courses. When and if requested by the Watermaster, the City will perform additional calibrations to verify meter accuracy. Such requests by the Watermaster will not be made more often than once every two years, unless metering data are indicative of metering inaccuracies. If the Watermaster disputes the reported quantity of MCWD deliveries, it shall inform the City of the basis of its objection within one (1) month of receipt of the City's accounting, and the Parties shall thereafter engage in good faith negotiations to attempt to resolve the dispute. Any dispute that cannot thereby be settled shall be referred to the Court for resolution.

3.2 Calculating Credit Against City's Replenishment Assessment Liability.

[3] The water supply from Marina Coast Water District will initially be derived from Salinas Basin groundwater production and later reclaimed water, once available.

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At the end of each Water Year, the Watermaster shall determine the cumulative gross Replenishment Assessment liability owed by the City in accord with Section 6.5 of the Watermaster's Rules and Regulations. The Watermaster shall then apply a credit against the City's gross Replenishment Assessment liability, which shall equal the amount of all MCWD deliveries to the Golf Courses for irrigation during the proceeding Water Year, not to exceed the City's 540 acre-feet of Alternative Production Allocation, multiplied by the amount of the effective Replenishment Assessment Unit Cost for that Water Year. Watermaster shall then promptly notify the City of the cumulative net Replenishment Assessment liability owed.

4. Temporary and Contingent Stay of Enforcement Proceedings for Un Paid Replenishment Assessments. To accommodate the City's efforts to offset its accrued Replenishment Assessments through the Program, enforcement against the City for unpaid Replenishment Assessments shall be stayed through the end of WY 2010. At the end of WY 2010, Watermaster shall make a recommendation to the Court in its Annual Report as to whether the stay of enforcement should be continued beyond this initial period. Watermaster's recommendation shall be based upon its determination of the relative success of the Program, the likelihood of the City continuing to make meaningful progression toward full offset of its accrued Replenishment Assessments, and whether Watermaster believes there is any other source of replenishment water available that could be purchased on an acre-foot basis in an amount at or below its Replenishment Assessment rate. If the stay is continued, Watermaster shall make such recommendations in each Annual Report thereafter until the stay is terminated, the City offsets all of its prior Replenishment Assessments pursuant to this MOU, or this MOU terminates. Should Watermaster recommend against continuation of the stay, the stay shall terminate unless otherwise ordered by the Court, and any continuation of the stay recommended by Watermaster shall be contingent upon consent by the Court.

5. Good Faith Negotiation of Program Extension. Upon termination of the initial term of this MOU, as set forth in Section 1 above, the Parties shall engage in good faith negotiations to determine whether the Program may be extended pursuant to mutual agreeable terms. No Party shall be obligated to commit to a Program extension or any particular term of a subsequent MOU for a Program extension.

6. Miscellaneous Terms. This Agreement shall be governed by and construed in accordance with the laws of California, without regard to conflicts of law principles, with venue for all purposes to be proper only in the County of Monterey, California. If any actions are required to interpret or enforce the provisions of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees and costs. Any failure to enforce any provision of this Agreement shall not constitute a waiver thereof or of any other provision hereof. This Agreement constitutes the entire understanding and agreement of the Parties with respect to the subject matter of this Agreement, supersedes the earlier version of this Agreement, and there have been no promises, representations, agreements, warranties or undertakings by any of the Parties, either oral or written, of any character or nature hereafter binding except as set forth herein. This Agreement may be altered, amended or modified only by an instrument in writing, executed by the Parties to this Agreement and by no other means. Each Party waives its future right to claim, contest or assert that this Agreement was modified, canceled, superseded, or changed by oral agreement, course of conduct, waiver or estoppel.

IN WITNESS WHEREOF the Parties hereby agree to perform pursuant to the terms set forth herein.

SEASIDE BASIN WATERMASTER

Dewey Evans, Chief Executive Officer
Date: April 7, 2010

CITY OF SEASIDE

Ray Corpuz, City Manager
Date: April 7, 2010

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