

Pd 6-15-18
\$836,398.00

**SECOND AMENDMENT TO
WATER TREATMENT AND DELIVERY CONTRACT**

THIS SECOND AMENDMENT TO WATER TREATMENT AND DELIVERY CONTRACT ("*Contract*") is executed, on the date last written herein, between Kempner Water Supply Corporation ("*KWSC*"), a Texas water supply corporation, and Salado Water Supply Corporation ("*SWSC*"), a Texas water supply corporation. KWSC and SWSC are collectively referred to as the "Parties".

PREAMBLE AND WITNESSETH

WHEREAS, KWSC and SWSC previously executed a contract captioned "Water Treatment and Delivery Contract", dated October 15, 2008 (the "*Contract*") which addressed the financing, construction, and operation of the initial phase of KWSC's water treatment plant (the "*Plant*") among other items, and previously executed an amendment to the Contract effective October 1, 2011 (the "*First Amendment*") which revised the allocation of certain operation and maintenance costs to SWSC; and,

WHEREAS, SWSC desires to increase the capacity of the Plant allocated by KWSC to SWSC from 0.5 MGD (as set forth in the Contract) by an additional 1.0 MGD, for a total of 1.5; and,

WHEREAS, KWSC prefers to allocate the additional 1.0 MGD capacity desired by SWSC from the capacity allocated to KWSC, rather than incur the cost of expanding the treatment capacity at this time.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, as supplemented by the terms and conditions hereafter set forth, KWSC and SWSC agree as follows:

1. The Contract, Section 2.01, captioned "Water Conveyance." is amended by adding a new Subsection D to read as follows:

D. Reallocation of Capacity in the Treatment Units. The Parties agree that based upon the payments made by the Parties pursuant to Section 2.01 (B), above, the initial capacity in the Water Treatment Plant and Delivery System is allocated as follows:

Party	Intake Structure, Plant, and Transmission Main from Plant to Cedar Knob Church Rd.	Treatment Units
KWSC	19.25 MGD	6.58 MGD
SWSC	2.0 MGD	0.5 MGD

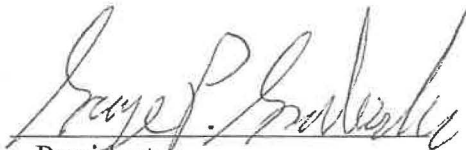
Effective upon KWSC's receipt from SWSC of the lump sum payment described below, (i) KWSC agrees to divert, treat, and deliver Potable Water to SWSC at its Point(s) of Delivery in quantities


required from time-to-time by SWSC up to a maximum of 1.5 MGD; and (ii) the Parties agree that the maximum capacity of the treatment units allocated to SWSC shall be increased from the initial capacity of 0.5 MGD as set forth in Subsection A, above, to 1.5 MGD. The Parties agree that the additional 1.0 MGD of capacity in the treatment units allocated to SWSC shall be achieved by a reduction in the capacity of the treatment units allocated to KWSC from 6.58 MGD to 5.58 MGD. On or before July 1, 2018, SWSC shall make a lump sum payment to KWSC in the amount of Eight Hundred Thirty-Six Thousand Three Hundred Ninety-Eight and No/100 Dollars (\$836,398.00) to acquire from KWSC the additional 1.0 MGD of capacity in the treatment units. Kempner reserves the 19.25 MGD of capacity in the plant infrastructure.

2. If SWSC does not timely make the payment to KWSC, KWSC shall have the option to cancel and terminate this Second Amendment.
3. Except as specifically amended hereby, the Water Supply Contract, as amended by the First Amendment, shall remain unaffected and in full force and effect as originally written.
4. This Amendment may be executed in several counterparts and all counterparts so executed shall together be deemed to constitute one final agreement as if signed by all parties hereto and all counterparts shall be deemed to be an original.


Signed this the 16 day of May, 2018.


KEMPNER WATER SUPPLY CORPORATION

BY: 
President

Attest: 
Secretary

SALADO WATER SUPPLY CORPORATION

BY: 
President

Attest: 
Secretary

WATER TREATMENT AND DELIVERY CONTRACT

THIS WATER TREATMENT AND DELIVERY CONTRACT ("**Contract**") is executed, on the date last written herein, between Kempner Water Supply Corporation ("**KWSC**"), a Texas water supply corporation, and Salado Water Supply Corporation ("**SWSC**"), a Texas water supply corporation. KWSC and SWSC are collectively referred to as the "Parties".

PREAMBLE AND WITNESSETH

WHEREAS, KWSC and SWSC are both Texas non-profit corporations, organized and established under Chapter 67, Texas Water Code (formerly Article 1434a, R.C.S. of Texas 1924, as amended) and each independently own and operate their potable water storage, transmission, and distribution system in order to provide potable water to their members; and,

WHEREAS, KWSC holds Retail Water Certificate of Convenience and Necessity No. 10456, and SWSC holds Retail Water Certificate of Convenience and Necessity No. 10879 issued by the Texas Commission on Environmental Quality ("TCEQ") authorizing the parties to provide retail water service within their respective service areas; and ,

WHEREAS, SWSC and KWSC have independently contracted with the Brazos River Authority ("**BRA**") to reserve raw water in Stillhouse Hollow Reservoir ("Stillhouse") in order to have a water supply for these purposes.

WHEREAS, KWSC desires to construct and operate an intake structure, water treatment plant, and transmission mains for the benefit of its member customers; and,

WHEREAS, SWSC desires to contract with KWSC to divert, treat, and deliver water to SWSC which SWSC has under contract with the BRA to benefit SWSC member customers.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, as supplemented by the terms and conditions hereafter set forth, KWSC and SWSC agree and contract as follows:

ARTICLE I

Section 1.01. Definitions. The following terms and expressions as used in this Contract, unless the context clearly shows otherwise, shall have the following meanings:

"Board" means the governing body of KWSC or SWSC, according to the context in which the term is used.

"BRA" means the Brazos River Authority in Waco, Texas.

"Capital Cost" means all costs previously paid and which will be paid by KWSC during the term of this Contract directly attributable to the approval, permitting, design, construction, and commissioning of the Water Treatment Plant and Delivery System, including but not limited to secure government approvals, financing, easements, pilot studies, real property, design fees, SCADA and Programmable Logic Controller ("PLC") work, surveys, construction costs, and all other such costs.

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“Energy and Chemical Costs” means the amounts paid by KWSC for electrical energy and chemicals required to operate the Water Treatment Plant and Delivery System, including but not limited to, intake and on-site high service pumps. Energy costs are those energy costs associated with the diversion of water from Stillhouse, operating the Water Treatment Plant, and delivering water to the Point(s) of Delivery, but shall not include energy costs attributable to the operation of KWSC's water transmission system past the Point(s) of Delivery.

“GPM” means gallons per minute.

“MGD” means million gallons of water over a daily period of twenty-four (24) hours.

“Operation and Maintenance Expenses” or **“O&M Expenses”** means all direct costs and expenses incurred by KWSC for general overhead expenses directly related to the Water Treatment Plant and Delivery System, specifically including reasonable amounts for: the total annual cost of salaries; all transportation costs; all office expenses; telephone charges; insurance premiums; all taxes; dues; equipment rentals; consumable and operating supplies except chemicals accounting and legal fees; engineering fees; conferences, education and certification of employees, managers and Board members; non-capital repairs to the Water Treatment Plant; maintenance supplies and equipment; independent contractor fees for non-capital repairs; SEP Retirement Account payments; TCEQ/EPA Monitoring Requirements and costs; and solid waste management expenses. Notwithstanding the foregoing, the following costs and expenses are specifically excluded from Operation and Maintenance Expenses, and may not be included within Operation and Maintenance Expenses charged to SWSC under Section 2.04 below: (i) all Energy Costs (provided for in Section 2.03 below); (ii) all costs and expenses (including, without limitation, engineering fees, legal fees, accounting costs and other consulting fees) relating to a dispute between the Parties whenever such dispute shall occur, and/or performance of covenants under agreements between the Parties that are executed concurrently herewith; and (iii) capital improvements.

“Parties” means KWSC and SWSC.

“Point(s) of Delivery” means the point designated in this Contract or by subsequent agreement designating where water will be delivered by KWSC to SWSC. The Initial Point of Delivery is to be located approximately 100 feet south of the intersection of FM 2484 and Cedar Knob Church Road, as more fully set out in the map attached as **Exhibit 1** hereto.

“Potable Water” means delivered water meeting or exceeding all applicable Federal, State, and local water quality regulations as the same may change from time to time.

“Stillhouse” means Stillhouse Hollow Reservoir.

“TCEQ” means the Texas Commission on Environmental Quality or any successor agency thereto.

“TWDB” means the Texas Water Development Board, or any successor agency thereto.

“Water Treatment Plant and Delivery System” means those facilities, including real property and easements required to divert raw water from Stillhouse, and to treat and deliver the treated water to SWSC at the Point(s) of Delivery.

“Water Treatment Plant Capacity” means the continuous twenty-four (24) hour per day Potable Water production capacity of the Water Treatment Plant. The initial phase of the Water Treatment Plant

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will be constructed with a rated Capacity of 7.08 MGD of treated water, with provisions for future expansion to ultimately produce 21.25 MGD of treated water.

Section 1.02. Construction. Unless the context requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa. This Contract, including all the terms and provisions hereof, shall be construed to effectuate the purposes set forth herein and to sustain the validity of this Contract.

ARTICLE II

Sale and Purchase of Treated Water;
Operating Requirements

Section 2.01. Water Conveyance

A. Water Treatment Plant Capacity; Water Treatment, and Delivery. The Parties agree the Water Treatment Plant and Delivery System will be constructed in phases. The initial capacity will be 7.08 MGD. The Parties agree the initial phase of construction of certain components of a Water Treatment Plant and Delivery System should be sized with piping and infrastructure to allow expansion up to 21.25 MGD capacity without having to install parallel pipes.

KWSC hereby contracts and agrees to divert, treat, and deliver Potable Water to SWSC at its Point(s) of Delivery in quantities required from time-to-time by SWSC up to an initial maximum of 0.5 MGD. Such water will be delivered at a maximum instantaneous rate of 347 GPM and pressure of 65 psi measured at the meter). Subject to financial participation by SWSC in future expansions of the Water Treatment Plant and Delivery System, as more fully set out in Paragraph 2.01.C. below, SWSC will be entitled to receive, and KWSC will deliver up to and not to exceed 2.0 MGD (9.41% of 21.25 MGD) of Potable Water at the Point(s) of Delivery.

SWSC shall assign, or cause to be assigned, to KWSC raw water it has under contract with the BRA in Stillhouse in quantities it desires KWSC to divert, treat, and deliver under this Contract. KWSC shall use its best efforts to maintain the rated Water Treatment Plant Capacity at or above 7.08 MGD, or whatever treatment capacity is available as a result of incremental expansions of the Water Treatment Plant and Delivery System herein. If governmental regulations or action by a governmental agency with authority enters an Order or Ruling reducing or re-rating of Water Treatment and Delivery System Capacity below 7.08 MGD, or what ever rating was in place prior to such regulations, without any fault or procurement by KWSC, then SWSC shall bear a pro-rata reduction in treated water from the then-established Water Treatment Plant Capacity as so reduced by such governmental regulations Order or Ruling. In the event of such a reduction, KWSC will use its best efforts to bring the rated Water Treatment Plant Capacity back to 7.08 MGD as expeditiously as reasonably possible. SWSC shall participate in the cost necessary to make improvements to regain the lost capacity in the same ratio as it participated in funding the improvements when first made. In the event a governmental agency rerating results in an increase in the Water Treatment Plant and Supply System Capacity, SWSC shall be entitled to a pro-rata increase in the amount of Potable Water it is entitled to receive at its Point(s) of Delivery. Notwithstanding any provision contained herein to the contrary, in no event shall SWSC be required to assign more raw water to KWSC than it desires, from time-to-time, to be treated by KWSC. KWSC's obligation to provide Potable Water to SWSC hereunder is

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conditioned upon SWSC assigning or causing to be assigned to KWSC its rights to withdraw raw water from Stillhouse. KWSC shall not have any obligation to deliver Potable Water to SWSC in quantities which exceed the amount of raw water in Stillhouse which SWSC has assigned or caused to be assigned to KWSC, after taking into account normal water loss due to treatment and delivery of Potable Water.

Notwithstanding the provisions of this Section 2.01.A. to the contrary, SWSC may from time to time permanently reduce, in whole or in part, the quantity of water it requires KWSC to divert, treat, and deliver at its Point of Delivery from its then current entitlement. In order reduce the amount of water it desires to have delivered under this Contract, SWSC shall provide KWSC with written notice of the desired permanent reduction in quantity two (2) years in advance of the effective date of such reduction. Effective on the second anniversary date of KWSC's receipt of such written notice from SWSC: (a) SWSC's rights to diversion, treatment, and delivery of water shall be reduced by the quantity requested, (b) the quantity of water released by SWSC shall become available for KWSC to use for its own purposes as it sees fit, and KWSC may enter into water treatment contracts with third parties based in part on the water released by SWSC, and (c) SWSC's minimum share of O&M Expenses shall be proportionately reduced as provided in Section 2.05, below. Once released, SWSC has no right to demand that the quantity of Potable Water released be returned to it.

B. Capital Costs. SWSC shall make three payments to KWSC for the SWSC pro-rata share of the Capital Costs of the Water Treatment Plant and Delivery System:

1. SWSC shall make the first payment of \$500,000 (five hundred thousand dollars) upon the date of this Contract.

2. SWSC shall make the second payment of \$500,000 (five hundred thousand dollars) by June 15, 2009, which represents the approximate mid-point of the construction schedule.

3. SWSC shall make the third payment of approximately \$513,333 (five hundred thirteen thousand three hundred thirty three dollars) for the balance of the Capital Costs within 10 days of substantial completion of the Water Treatment Plant and Delivery System.

Capital Costs shall include all costs to secure governmental approvals, easements, pilot study, real property, design fees, SCADA and PLC work required to operate and monitor the Water Treatment Plant, surveys, construction costs, and KWSC costs directly attributable to the approval, design, construction and commissioning of the Water Treatment Plant. The initial Capital Costs, based on SWSC treatment and delivery allocations described in Section 2.01.A. and Section 2.04 of this Contract and shown on the attached Exhibit 2, are estimated at \$1,513,333. These funds shall only be used to reimburse KWSC pro-rata Capital Costs incurred by KWSC prior to the date of this Contract, and the remainder shall only be used by KWSC to discharge future Capital Costs associated with the Water Treatment Plant and Delivery System construction and commissioning. Interest income derived from investment of the SWSC Capital Cost funds shall be credited to SWSC. As the project progresses and SWSC portion of costs are revised to more accurately reflect final total Capital Cost, SWSC shall be required to deliver final adjusted funds within 10 days of receipt of an itemized invoice and certificate of substantial completion from KWSC, or KWSC shall reimburse SWSC within 30 days of reconciliation of these funds, as appropriate. For its payment of the pro-rata share of the Capital Costs of the Water Treatment Plant and Delivery System, SWSC shall receive the right to have a certain volume of water delivered and the prepaid capital costs for 0.5 MGD and a portion of the prepaid capital costs of certain components necessary to deliver 2.0 MGD.

C. Future Expansions and Improvements. If SWSC requests any modification or improvement to the Water Treatment Plant, and if KWSC, in its sole discretion, agrees to such

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modification or improvement, then SWSC will pay all costs associated with such modification and/or improvement including, without limitation, all capital improvement costs, all increased Operation and Maintenance Expenses and increased Energy Costs associated with the improvement. For the Water Treatment Plant and each improvement thereto, KWSC shall cause to be prepared as-built drawings and engineering reports providing (at a minimum) a narrative description of the improvements. The reports shall be kept on file at the KWSC administrative offices.

At such time as the SWSC's actual usage reaches 85% of its authorized volume, KWSC will notify SWSC in writing of the need to increase its contracted treatment volume. Within 90 days of receipt of such letter, SWSC must respond in writing to KWSC on whether it desires to increase its contracted treatment volume or recognize that it will not need more than 100% of its contracted treatment volume. If SWSC does not respond to such correspondence from KWSC, SWSC thereby waives its rights to any increase in volume.

Section 2.02. Payment for Stored Water. SWSC shall be responsible for all fees and payments required by BRA to secure and hold its stored raw water in Stillhouse.

In order for SWSC to make the necessary payments to the BRA, KWSC will notify SWSC monthly with the total amount of water diverted from Stillhouse and attributable to SWSC. The total amount of water diverted will be determined by the metered amount of water at the Point of Delivery plus a portion of the system losses attributable to SWSC's water use which shall be an amount equal to 5% of the total system loss.

Section 2.03. Payment of Treated Water Cost. SWSC agrees to pay to KWSC, on a monthly basis, the actual cost per thousand gallons of Potable Water received at the Point of Delivery, being the cost to produce, treat, and deliver said water to the Point of Delivery. The cost of treated water shall be based upon the actual calculated costs for Energy and Chemical Costs, including energy costs associated with pumping raw water, energy costs incurred in running equipment in the Water Treatment Plant, and energy costs incurred in pumping treated water to the Point of Delivery. Payment will be based on the metered usage of treated water by SWSC at the Point of Delivery. The production costs charged to SWSC will be prorated based on the annual number of gallons of treated water received by SWSC as a percentage of the total number of gallons of treated water. Payment of production costs will be based upon actual costs billed monthly and then the actual production cost attributable to SWSC will be verified and corrected or revised, as necessary at the end of the fiscal year of KWSC. SWSC will receive either a refund or a bill as a result of any such correction. Each refund or bill will be itemized and will contain such explanatory notes and backup invoices, receipts and documentation as may be required in order to support the annual correction.

Section 2.04. Operation and Maintenance Expenses. SWSC will also pay monthly to KWSC a percentage of the actual Operation and Maintenance Expenses for the Water Treatment Plant for the previous calendar month, pursuant to the separate cost accounting for Water Treatment Plant components maintained by KWSC. O&M Expenses are defined specifically in the definition section of this Contract. The percentage of O&M Expenses to be paid by SWSC shall be calculated by dividing the SWSC-contracted Water Treatment Plant Capacity by the total Water Treatment Plant Capacity. For example, based on initial Water Treatment Plant Capacity proposed herein, SWSC will be responsible for 0.50 MGD / 7.08MGD or 7.06% of Operation and Maintenance Expenses.

At the end of each fiscal year, KWSC will compare the O&M Expenses billed to SWSC to the actual O&M Expenses incurred by it in the previous twelve (12) calendar months, and SWSC will receive either a refund or a bill as a result of any adjustment for the previous year. Each refund or bill will be

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itemized and will contain explanatory notes and back up invoices, receipts, and documentation as may be required to support the necessary adjustments. Upon the request of SWSC, KWSC will provide such information to an independent third party C.P.A. for preparation of an audit of the O&M Expenses.

Upon 90 days notice of its intent to do so, KWSC may adjust the O&M Expenses rate subject to the terms of this Contract. The Parties to this Contract shall have sole authority for establishing retail rates, connection fees, and other fees and charges within its respective jurisdiction.

Section 2.05. Application of Definitions. With respect to any questions that hereafter arise that relate to this Contract, the Water Treatment Plant and Delivery System, and/or the ability of the system to deliver any particular quantity of water, both Parties agree that the definitions from Article I, Section 1.01 of this Contract will control the discussions of the Parties. Such definitions shall be likewise used by engineers and consultants in interpreting this Contract and the ability of the system to deliver treated water.

Section 2.06. Point of Delivery. SWSC agrees to take treated water at the Point of Delivery described in Section 1.01, above. The Point of Delivery may change or new points added by mutual written agreement of the Parties.

Section 2.07. Water Delivery. KWSC shall deliver Potable Water to SWSC to the initial Point of Delivery. SWSC will install an air gap to separate the two systems. SWSC acknowledges that the air gap will be located at a storage tank which will be connected to the Point of Delivery by a water line. SWSC agrees that the water line connecting the Point of Delivery to the storage tank will not be used to provide retail water service to any SWSC customers. SWSC further agrees to provide the construction plans and drawings for the Point of Delivery, the water line and the storage tank to KWSC for review and comment prior to construction. KWSC shall have 30 days upon receipt of the plans and specifications to provide SWSC with any comments. Water quality, as described in Section 2.08 and metering of water, as described in Section 2.08, will be accomplished at the Point of Delivery.

Section 2.08. Quality.

A. The water delivered by KWSC to SWSC at the Point of Delivery shall be water of a quality sufficient to meet the requirements for Potable Water established by the TCEQ and the United States Environmental Protection Agency. SWSC has satisfied itself that such water will be suitable for its needs.

B. KWSC shall have no responsibility for the quality of water, including without limitation, maintaining any particular amount of chlorine residual at any point in SWSC's system, so long as the water delivered meets Potable Water standards at the Point of Delivery.

Section 2.09. Metering Equipment. SWSC will furnish, install, operate, and maintain at its expense the necessary equipment and devices (including a meter house or vault) of standard type required for controlling and measuring the quantity of water delivered under this Contract from the system to SWSC's Point of Delivery. Such meters and other equipment so installed shall be the property of KWSC. KWSC shall inspect, calibrate, and adjust its meters at least annually as necessary to maintain accurate measurements of the quantity of treated water being delivered. SWSC shall have access to the metering equipment at all reasonable times for inspection and examination, but the reading, calibration, and adjustment thereof shall be done only by employees or agents of KWSC.. Any party that tests the meter shall provide written notice of the test to the other party at least five (5) days in advance of the test and shall allow the other party to observe the test. Any measuring device that fails to function or which functions incorrectly shall promptly be adjusted, repaired or replaced at SWSC's expense with a like

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device having the required accuracy. A meter registering not more than two percent (2%) above or below the test results shall be deemed to be accurate. The previous readings of any meter disclosed by tests to be inaccurate shall be corrected for one-half (1/2) the period elapsed since the next preceding meter test, but in no event to exceed six (6) months, in accordance with the percentage of inaccuracy found by such tests. If any meter fails to register for any period, the amount of water furnished during such period shall be deemed to be the amount of water delivered in the corresponding period immediately prior to the failure, unless KWSC and SWSC shall agree upon a different amount. All readings of meters will be entered upon proper books of record maintained by KWSC. SWSC may have access to said record books during normal business hours. At its option, SWSC may install the necessary equipment to allow SWSC to remotely read the KWSC meter(s), and SWSC shall have the right of periodic access (at reasonable times and upon prior notice to KWSC) to such equipment for the purpose of maintenance, calibration, repair, and replacement thereof. SWSC shall be responsible for providing a telemetry/SCADA connection from its facilities to the Water Treatment Plant and from the Water Treatment Plant to the Point of Delivery so that SWSC can control the valve via the Plant SCADA system.

Section 2.10. Water Shortage. KWSC shall use its best efforts to maintain its facilities in sufficient condition, repair, and status to provide SWSC with treated water in the amounts called for in this Contract. However, notwithstanding such best efforts, in the event of an extended shortage of water, or if the supply of raw water available to KWSC is otherwise diminished over an extended period of time, the Water Treatment Plant Capacity shall be reduced on a pro rata basis among all participants. Any reduction of treated water shall be in accordance with the Drought Contingency Policy and Drought Contingency Plan of KWSC. SWSC shall also be subject to the enforcement provisions of KWSC's Drought Contingency Plan as are all other members of KWSC.

Section 2.11. Initial Rate and Rate Revision. As of the date of the execution of this Contract, the Initial Rates/Cost to SWSC for Potable Water to be supplied under this Contract is calculated as follows:

A. Energy and Chemical Cost: The cost to treat water attributable to Energy Costs and chemicals shall be billed, subject to Section 2.03, at the initial rate of **\$0.465** per thousand gallons of treated water delivered, subject to annual adjustment as provided in Section 2.03 above, plus

B. Capital Policy: KWSC will work in good faith with SWSC to develop and adopt a Capital Policy mutually agreed upon by the Parties within twelve (12) months following the execution of this Contract. Such policy will include a clear delineation between O&M Expenses and capital improvements to the system utilizing accepted principles and policies of the American Water Works Association and, with the help of the accountants and engineers of the Parties, so that only proper O&M Expense allocations will be made. KWSC will provide a copy of its proposed Capital Policy to SWSC at least 30 days before adoption to allow SWSC to comment on same.

C. Monthly O&M Expense Cost: The initial estimated monthly charge for O&M Expense, pursuant to Section 2.04, shall be \$25,000, which calculates to **\$1,765** for SWSC based on its initial treatment and delivery of 0.5 MGD. This charge is an estimate of the pro-rata costs for fixed O&M Expenses to SWSC. The future monthly charge shall be adjusted as provided in Section 2.04.

The rates charged SWSC for treated water costs and/or Operation and Maintenance Expenses may be increased or decreased to reflect actual changes in such costs in accordance with the provisions of this Contract.

ARTICLE III
Special Conditions

Section 3.01. Operation and Maintenance of the System. KWSC will continuously operate and maintain the system in an efficient manner and in accordance with good business and engineering practices, and at reasonable cost and expense. KWSC recognizes its right and duty to operate the system in the most prudent and economical manner for the benefit of KWSC and SWSC. SWSC may have reasonable access to all records of KWSC during normal business hours.

Section 3.02. Title to Water; Risk of Loss. Title to all water supplied to SWSC shall be in SWSC up to and beyond the Point of Delivery. Risk of loss of water on the KWSC side of the Delivery Point will be prorated among all participants, based on Water Treatment Plant Capacity. Normally, SWSC shall only be billed for water that passes through the meter at the Point of Delivery.

Section 3.03. Insurance. So long as the TWDB loan is outstanding, KWSC agrees to carry and arrange for fire, casualty, public liability, and/or other insurance, including any self-insurance, on the System up to the Point of Delivery for purposes and in sufficient amounts that comply with such TWDB loan covenants. At such time as the TWDB loan is no longer outstanding, KWSC agrees to carry and arrange for fire, casualty, public liability, and/or other insurance, including any self-insurance, on the System up to the Point of Delivery for purposes and in amounts, which as determined by the KWSC Board, are consistent with similar policies and practices of similarly situated water supply corporations. Such insurance will provide, to the extent feasible and practicable, for the restoration of damaged or destroyed properties and equipment, to minimize the interruption of the services of such facilities. Premiums for such insurance that relate directly to the System or, under generally accepted cost accounting practices are allocable to the System, shall constitute an Operation and Maintenance Expense.

Section 3.04 Additional KWSC Contracts. SWSC understands KWSC may enter into contracts with others under which KWSC will divert, treat, and deliver water through its Water Treatment Plant and Delivery System without the prior written consent of SWSC. So long as SWSC is in full compliance with the terms of this Contract, KWSC shall not enter into any such contracts with others that will impair or infringe on KWSC's ability meet its duty herein to divert, treat, and deliver Potable Water to SWSC in such quantity as SWSC is entitled at that time.

Section 3.05 KWSC Financing. The Parties understand KWSC has obtained a loan from the TWDB and a portion of the proceeds of such loan will be used to finance construction of the Water Treatment Plant and Delivery System. As a part of such loan KWSC executed and is bound by certain financing documents between KWSC and the TWDB, including but not limited to, a Loan Agreement, a Promissory Note, and a Deed of Trust. Should a court of competent jurisdiction determine and find any term of this Contract to be in irreconcilable conflict with any provision of such loan and associate financing documents, the terms and conditions of such loan and financing documents shall prevail.

KWSC shall have the right to refinance existing loans and finance future improvements to its Water Treatment Plant and Delivery System provided such financing and refinancing as it deems to be in the best interest of KWSC, SWSC, and any future participants.

ARTICLE V
Default

Section 4.01 The following provisions will apply in the event of a default under this Contract:

A. Default Proceedings for Non-Payment of Delinquent Bill. If KWSC has not received payment from SWSC within 30 days from the due date of a monthly bill, the bill will be considered delinquent, unless contested in good faith. In the event of a delinquency by SWSC in the payment of a monthly bill, KWSC will give written notice to SWSC of such delinquency and, if SWSC fails to make payment of the delinquent amount within 30 calendar days from the date of receipt of the written notice, then KWSC may, at its discretion, temporarily terminate or limit service to SWSC until payment is made; provided, however, that SWSC will have the right to continue to receive service during a good faith appeal of a disputed bill.

If SWSC fails to cure a default in payment of a delinquent bill for a period of 90 calendar days, and there is no good faith appeal of a disputed bill pending, then KWSC will have the right, at KWSC's sole option, to (i) permanently restrict service to SWSC under this Contract, (ii) require SWSC to stop making new retail connections to its system after giving the SWSC written notice of its intent to do so and extending SWSC 30 days from the date of receipt of such notice to cure the default, or (iii) pursue such other remedies as KWSC deems appropriate to the circumstances.

Nothing herein shall prevent SWSC from paying bills under protest and pursuing any or all available remedies at law or in equity.

B. Process for Defaults Other Than Non-Payment of Delinquent Bill. If one party believes that the other party is in material default of any other provision of this Contract, the non-defaulting party will give written notice to the other party, specifying the event of default and extending the defaulting party 90 days to cure the default or, if the curative action cannot reasonably be completed within 90 days, 90 days to commence the curative action and thereafter to diligently pursue the curative action to completion. This 90-day period for notice and opportunity to cure must pass before the non-defaulting party may initiate any remedies available to the non-defaulting party due to an alleged default. The non-defaulting party must mitigate any direct or consequential damages arising from any default to the extent reasonably possible under the circumstances. The parties agree that they will use good faith, reasonable efforts to resolve any dispute by agreement, including engaging in non-binding arbitration, mediation or other alternative dispute resolution methods as recommended by the laws of the State of Texas, before initiating any lawsuit to enforce their respective rights under this Contract. If the default is not cured within the 90 day period, or if curative action is not commenced or diligently pursued in the case of curative action that cannot reasonably be completed in 90 days, the non-defaulting party may pursue all remedies, at law or in equity, that it deems appropriate to redress such default. Nothing in this Contract will be construed to limit either party's right to recover damages or to seek other appropriate curative remedies if a non-defaulting party files a breach of contract action relating to this Contract. The foregoing 90 day notice requirement will not, however, be applicable in the event of a default by KWSC in its obligations to provide water service as provided in this Contract, it being acknowledged that any such failure would create a threat to the health, safety and welfare of the residents of SWSC which SWSC may seek to remedy the default in whatever manner it deems prudent under the circumstances.

C. Specific Performance. The parties recognize that discontinuance of water service, or event the drastic curtailment of water service, to retail customers is often an unattainable remedy because of the potential threat to the health, safety, and welfare and property

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of the residents. The parties will therefore have recourse to all rights and remedies in law and equity available to enforce the terms of this Contract including, without limitation, the rights specific performance and mandamus actions to enforce the terms of this Contract.

ARTICLE IV
Miscellaneous

Section 4.01. Force Majeure If, by reason of Force Majeure, SWSC or KWSC shall be rendered unable wholly or in part to carry out its obligations under this Contract, other than the obligation of SWSC to make the payments required under this Contract, then if such party shall give notice and full particulars of such Force Majeure in writing to the other party, as appropriate, within a reasonable time after occurrence of the event or cause relied on, the obligation of the SWSC or KWSC giving such notice, so far as it is affected by such Force Majeure, shall be suspended during the continuance of the inability then claimed, but for no longer period, and SWSC or KWSC shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "*Force Majeure*" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of public enemy, orders of any kind of the Government of the United States or the State of Texas, or any civil or military authority, insurrection, riots, epidemics, landslides, lightning, earthquake, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, partial or entire failure of water supply, or on account of any other causes not reasonable within the control of the party claiming such inability.

Section 4.02. Conservation. KWSC and SWSC agree to provide to the maximum extent practicable for the conservation of water, and each agrees that it will operate and maintain their respective facilities in a reasonable manner that will prevent waste of water. SWSC further agrees to develop and implement water conservation and drought management plans as required by state regulations.

Section 4.03. Term of Contract. This Contract shall be effective on and from the effective date of this Contract, and shall continue in force and effect until December 31, 2107 ("*Term*") subject to the provisions and limitations of this Section 4.03. The Parties also agree and acknowledge that a portion of the KWSC Water Treatment Plant is located on property leased from the Corps of Engineers, Department of U.S. Army, and that the July 31, 2032 expiration of the term of the lease expires many years prior to the December 31, 2107 expiration date of this Contract. The Parties will use best efforts to cooperate with each other to the fullest reasonable extent possible to obtain renewals and extensions of leases, easements, and rights-of-way as necessary, and contracts with BRA, with terms and title interests in each case to be coextensive with the December 31, 2107 expiration date of the Term of this Contract. If, despite such best efforts and cooperation, the Corps of Engineers Lease is not renewed or extended to December 31, 2107 or same is extended but not until December 31, 2107, then this Contract may be terminated due to impossibility of performance effective upon the earliest expiration date of such lease or easement (as extended). Upon expiration of the Term of this Contract, the obligation of the Parties to one another shall thereupon and immediately cease.

Section 4.04. Modification and Amendment. This Contract may be amended upon the written consent of the respective Boards of KWSC and SWSC. Any future modification or amendment to this Contract may additionally require the approval of the TWDB under loan agreements executed by KWSC and SWSC.

Section 4.05. Addresses and Notice. Unless otherwise provided herein, any notice, communication, request, reply, or advice (herein severally and collectively, for convenience, called "Notice") herein provided or permitted to be given, made or accepted by any party to any other party must

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be in writing and may be given or be served by depositing the same in the United States mail postpaid, certified and addressed to the party to be notified, with return receipt requested, or by hand delivering the same to an officer of such party. Notice deposited in the mail in the manner hereinabove described shall be conclusively deemed to be effective, unless otherwise stated herein, from and after the expiration of three (3) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the party to be notified. For the purposes of notice, the addresses of the Parties hereto shall, until changed as hereinafter provided, be as follows:

- A. If to KWSC, to:
General Manager
Kempner Water Supply Corporation
Post Office Box 103
Kempner, Texas 76539
Telephone: (512) 932-3701
Fax: (512) 932-2546

- B. If to SWSC, to:
General Manager
Salado Water Supply Corporation
Post Office Box 128
Salado, Texas 76571-0128
Telephone: (254) 947-5425
Fax: (254) 947-5736

The Parties hereto shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address by at least fifteen (15) days written notice to the other Parties hereto.

Section 4.06. Covenant of Good Faith and Fair Dealing. KWSC and SWSC agree to cooperate and to deal with one another fairly and in good faith at all times to effectuate the purposes and intent of this Contract.

Section 4.07. Further Documents and Consents. KWSC and SWSC agree to execute and deliver such further legal documents or instruments and to perform such further acts and acquire any consents as are reasonably necessary to effectuate the purposes and intent of this Contract.

Section 4.08. Warranty of Authority. KWSC warrants and acknowledges that the Board of Directors of KWSC has approved this Contract and that the person signing on behalf of KWSC has full authority to execute this Contract on behalf of KWSC. SWSC warrants and acknowledges that the Board of Directors of SWSC has approved this Contract and that the person signing on behalf of SWSC has full authority to execute this Contract on behalf of SWSC.

Section 4.09. No Conveyance or Encumbrance of System. This Contract does not constitute a conveyance or encumbrance of the Water Treatment Plant and Delivery System. By entering into this Contract, SWSC receives the right receive Potable Water and has no legal or equitable right or interest in the facilities to be constructed by KWSC now or in the future.

Section 4.09. State or Federal Laws, Rules, Orders, and Regulations. This Contract is subject to all applicable Federal and State laws and any applicable permits, ordinances, rules, orders, and regulations of any local, State, or Federal governmental authority having or asserting jurisdiction, but nothing contained herein shall be construed as a waiver of any right to question or contest any such law, ordinance, order, rule, or regulation in any forum having jurisdiction.

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Section 4.10. Venue. All amounts due under this Contract, including, but not limited to, payments due under this Contract, shall be paid and be due in Lampasas County, Texas, which is the County in which the principal administrative offices of KWSC are located. It is specifically agreed among the Parties to this Contract that Lampasas County, Texas, is the place of performance and venue of this Contract.

Section 4.11. Assignment. KWSC's may pledge this Contract to the TWDB, to other governmental agencies, and to third party lenders as security for loans made or to be made or insured by them to KWSC after the Effective Date. SWSC shall have the right to pledge this Contract as security for loans made to it by the TWDB, by United States Department of Agriculture, or by a third party lender. Otherwise, neither KWSC nor SWSC may assign any interest it may have under this Contract without the prior written consent of the other party. SWSC will provide written notice to KWSC of any assignment to the TWDB within five (5) days following such assignment.

Section 4.12. Entire Agreement. This Contract, including Exhibits 1 and 2, between the Parties constitutes the entire agreement among the Parties with respect to the diversion, treatment and delivery of treated water by KWSC to SWSC.

Section 4.13. Applicable Law. This Contract shall be governed by and construed in accordance with the laws of the State of Texas, and the obligations, rights, and remedies of the Parties hereunder shall be determined in accordance with such laws without reference to the laws of any other state or jurisdiction, except for applicable Federal law, rules, and regulations. This Contract is performable in Bell County, Texas.

Section 4.14. Counterparts. This Contract 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.

Signed this the 15 day of October, 2008.

KEMPNER WATER SUPPLY CORPORATION

By: [Signature]
President

Attest: [Signature]
Secretary

SALADO WATER SUPPLY CORPORATION

By: [Signature]
President

Attest: [Signature]
Secretary

**FIRST AMENDMENT TO
WATER TREATMENT AND DELIVERY CONTRACT**

This FIRST AMENDMENT TO WATER TREATMENT AND DELIVERY CONTRACT ("First Amendment") is by and between Kempner Water Supply Corporation ("KWSC"), a Texas water supply corporation, and Salado Water Supply Corporation ("SWSC"), a Texas water supply corporation. KWSC and SWSC are collectively referred to as the "Parties".

WHEREAS, KWSC and SWSC previously entered into an agreement captioned "Water Treatment and Delivery Contract" dated October 15, 2008 (the "Water Supply Contract"); and

WHEREAS, SWSC asked that the Water Supply Contract be amended to revise the manner in which its share of the Treated Water and Operation and Maintenance Expenses are calculated and KWSC does not object to the requested change.

NOW, THEREFORE, for and in consideration of Ten and No/100 Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby confessed and acknowledged, KWSC and SWSC hereby agree and contract as follows:

1. Section 2.03 of the Water Supply Contract is hereby amended to read as follows (with the text added by this First Amendment to the Water Supply Contract being underlined and the text deleted from Water Supply Contract by this First Amendment being struck-through);

Section 2.03. Payment of Treated Water Cost. SWSC agrees to pay to KWSC, on a monthly basis, a predetermined cost per thousand gallons of Potable Water received at the Point of Delivery, being the cost to produce, treat, and deliver said water to the Point of Delivery. The cost of treated water shall be based upon a budgeted cost per thousand gallons for Energy and Chemical Costs, including energy costs associated with pumping raw water, energy costs incurred in running equipment in the Water Treatment Plant, and energy costs incurred in pumping treated water to the Point of Delivery. Payment will be based on the metered usage of treated water by SWSC at the Point of Delivery. The production costs charged to SWSC will be prorated based on the annual number of gallons of treated water received by SWSC as a percentage of total number of gallons of treated water. Payment of production costs will be based upon actual costs billed monthly derived each year from an approved water treatment plant budget, a draft of which will be provided to SWSC thirty days prior to the KWSC board of directors meeting for final budget approval.

2. Section 2.04 of the Water Supply Contract is hereby amended to read as follows (with the text added by this First Amendment to the Water Supply Contract being underlined and the text deleted from Water Supply Contract by this First Amendment being struck-through):

7. The change in determining the rates as set forth in this First Amendment shall take effect October 1, 2011, even if this First Amendment is approved and signed by the Parties after that date. This First Amendment shall not affect the manner in which Water Treatment Costs or Operation and Maintenance Expenses were calculated and paid prior to the effective date of this First Amendment.

KEMPNER WATER SUPPLY CORPORATION

By: *Bob Alaker* Date: 10/19/11
President

Attest: *Harry R. Smith*
Secretary

SALADO WATER SUPPLY CORPORATION

By: *Steve O'Rourke* Date: 10-1-11
President

Attest: *Donald J. Mc...*
Secretary

APPROVAL BY THE TEXAS WATER DEVELOPMENT BOARD, IF NECESSARY, OR CONFIRMATION THAT APPROVAL BY THE TEXAS WATER DEVELOPMENT BOARD IS NOT REQUIRED.

Texas Water Development Board

By: _____
Name: _____
Title: _____
Date: _____

Letter to Patrick Lindner
October 19, 2011
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Modification of Amortization Schedules

Second, by letter and in person on September 26, 2011, you requested a modification of Kempner's amortization schedules to allow two principal payments annually. While the current amortizations schedules are compliant with the agreements in place, in our discussions you clarified that your client would like to explore the possibility of modifying all of the schedules attached to the Loan Agreements and Notes of October 2, 2006 and October 8, 2009 so that there are two payments of both principal and interest annually.

Despite the fact that your proposed modification of the amortization schedules is not consistent with standard industry or TWDB practice, the TWDB could consider the proposed modification if the modification does not violate the terms of the Loan Agreements and applicable law. In order to consider this request, Kempner must provide an official request duly authorized by Kempner's board. This request is a material modification of the agreements, is outside the standard practice of the TWDB, and may affect Kempner's debt service payments and consequently the funds available for the TWDB's debt service on bonds issued to fund the loans. Accordingly, staff will be required to analyze the impact of any proposed schedules and take such request to the Board for approval. Any proposed modification will only be favorably recommended by staff if it does not impact the ability of the TWDB to pay debt service on bonds issued to fund the loans.

Sincerely,



Kenneth L. Petersen
General Counsel

cc: David Sneed, Kempner WSC
Piper Montenayor, TWDB
Jim Bateman, TWDB

Our Mission	Board Members		
To provide leadership, planning, financial assistance, information, and education for the conservation and responsible development of water for Texas	Edward G. Vaughan, Chairman Joe M. Crutcher, Vice Chairman Melanie Callahan, Interim Executive Administrator	Thomas Weir Labatt III, Member Lewis H. McMahan, Member	Billy R. Bradford Jr., Member Monte Cluck, Member

WATER TREATMENT AND DELIVERY CONTRACT

THIS WATER TREATMENT AND DELIVERY CONTRACT ("*Contract*") is executed, on the date last written herein, between Kempner Water Supply Corporation ("*KWSC*"), a Texas water supply corporation, and Salado Water Supply Corporation ("*SWSC*"), a Texas water supply corporation. KWSC and SWSC are collectively referred to as the "Parties".

PREAMBLE AND WITNESSETH

WHEREAS, KWSC and SWSC are both Texas non-profit corporations, organized and established under Chapter 67, Texas Water Code (formerly Article 1434a, R.C.S. of Texas 1924, as amended) and each independently own and operate their potable water storage, transmission, and distribution system in order to provide potable water to their members; and,

WHEREAS, KWSC holds Retail Water Certificate of Convenience and Necessity No. 10456, and SWSC holds Retail Water Certificate of Convenience and Necessity No. 10879 issued by the Texas Commission on Environmental Quality ("TCEQ") authorizing the parties to provide retail water service within their respective service areas; and ,

WHEREAS, SWSC and KWSC have independently contracted with the Brazos River Authority ("*BRA*") to reserve raw water in Stillhouse Hollow Reservoir ("Stillhouse") in order to have a water supply for these purposes.

WHEREAS, KWSC desires to construct and operate an intake structure, water treatment plant, and transmission mains for the benefit of its member customers; and,

WHEREAS, SWSC desires to contract with KWSC to divert, treat, and deliver water to SWSC which SWSC has under contract with the BRA to benefit SWSC member customers.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, as supplemented by the terms and conditions hereafter set forth, KWSC and SWSC agree and contract as follows:

ARTICLE I

Section 1.01. Definitions. The following terms and expressions as used in this Contract, unless the context clearly shows otherwise, shall have the following meanings:

"*Board*" means the governing body of KWSC or SWSC, according to the context in which the term is used.

"*BRA*" means the Brazos River Authority in Waco, Texas.

"*Capital Cost*" means all costs previously paid and which will be paid by KWSC during the term of this Contract directly attributable to the approval, permitting, design, construction, and commissioning of the Water Treatment Plant and Delivery System, including but not limited to secure government approvals, financing, easements, pilot studies, real property, design fees, SCADA and Programmable Logic Controller ("PLC") work, surveys, construction costs, and all other such costs.

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"Energy and Chemical Costs" means the amounts paid by KWSC for electrical energy and chemicals required to operate the Water Treatment Plant and Delivery System, including but not limited to, intake and on-site high service pumps. Energy costs are those energy costs associated with the diversion of water from Stillhouse, operating the Water Treatment Plant, and delivering water to the Point(s) of Delivery, but shall not include energy costs attributable to the operation of KWSC's water transmission system past the Point(s) of Delivery. W
only

"GPM" means gallons per minute.

"MGD" means million gallons of water over a daily period of twenty-four (24) hours.

"Operation and Maintenance Expenses" or **"O&M Expenses"** means all direct costs and expenses incurred by KWSC for general overhead expenses directly related to the Water Treatment Plant and Delivery System, specifically including reasonable amounts for: the total annual cost of salaries; all transportation costs; all office expenses; telephone charges; insurance premiums; all taxes; dues; equipment rentals; consumable and operating supplies except chemicals accounting and legal fees; engineering fees; conferences, education and certification of employees, managers and Board members; non-capital repairs to the Water Treatment Plant; maintenance supplies and equipment; independent contractor fees for non-capital repairs; SEP Retirement Account payments; TCEQ/EPA Monitoring Requirements and costs; and solid waste management expenses. Notwithstanding the foregoing, the following costs and expenses are specifically excluded from Operation and Maintenance Expenses, and may not be included within Operation and Maintenance Expenses charged to SWSC under Section 2.04 below: (i) all Energy Costs (provided for in Section 2.03 below); (ii) all costs and expenses (including, without limitation, engineering fees, legal fees, accounting costs and other consulting fees) relating to a dispute between the Parties whenever such dispute shall occur, and/or performance of covenants under agreements between the Parties that are executed concurrently herewith; and (iii) capital improvements.

"Parties" means KWSC and SWSC.

"Point(s) of Delivery" means the point designated in this Contract or by subsequent agreement designating where water will be delivered by KWSC to SWSC. The Initial Point of Delivery is to be located approximately 100 feet south of the intersection of FM 2484 and Cedar Knob Church Road, as more fully set out in the map attached as Exhibit 1 hereto.

"Potable Water" means delivered water meeting or exceeding all applicable Federal, State, and local water quality regulations as the same may change from time to time.

"Stillhouse" means Stillhouse Hollow Reservoir.

"TCEQ" means the Texas Commission on Environmental Quality or any successor agency thereto.

"TWDB" means the Texas Water Development Board, or any successor agency thereto.

"Water Treatment Plant and Delivery System" means those facilities, including real property and easements required to divert raw water from Stillhouse, and to treat and deliver the treated water to SWSC at the Point(s) of Delivery.

"Water Treatment Plant Capacity" means the continuous twenty-four (24) hour per day Potable Water production capacity of the Water Treatment Plant. The initial phase of the Water Treatment Plant

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will be constructed with a rated Capacity of 7.08 MGD of treated water, with provisions for future expansion to ultimately produce 21.25 MGD of treated water.

Section 1.02. Construction. Unless the context requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa. This Contract, including all the terms and provisions hereof, shall be construed to effectuate the purposes set forth herein and to sustain the validity of this Contract.

ARTICLE II

Sale and Purchase of Treated Water;
Operating Requirements

Section 2.01. Water Conveyance

A. Water Treatment Plant Capacity; Water Treatment, and Delivery. The Parties agree the Water Treatment Plant and Delivery System will be constructed in phases. The initial capacity will be 7.08 MGD. The Parties agree the initial phase of construction of certain components of a Water Treatment Plant and Delivery System should be sized with piping and infrastructure to allow expansion up to 21.25 MGD capacity without having to install parallel pipes.

KWSC hereby contracts and agrees to divert, treat, and deliver Potable Water to SWSC at its Point(s) of Delivery in quantities required from time-to-time by SWSC up to an initial maximum of 0.5 MGD. Such water will be delivered at a maximum instantaneous rate of 347 GPM and pressure of 65 psi measured at the meter). Subject to financial participation by SWSC in future expansions of the Water Treatment Plant and Delivery System, as more fully set out in Paragraph 2.01.C. below, SWSC will be entitled to receive, and KWSC will deliver up to and not to exceed 2.0 MGD (9.41% of 21.25 MGD) of Potable Water at the Point(s) of Delivery.

2.02 } SWSC shall assign, or cause to be assigned, to KWSC raw water it has under contract with the BRA in Stillhouse in quantities it desires KWSC to divert, treat, and deliver under this Contract. KWSC shall use its best efforts to maintain the rated Water Treatment Plant Capacity at or above 7.08 MGD, or whatever treatment capacity is available as a result of incremental expansions of the Water Treatment Plant and Delivery System herein. If governmental regulations or action by a governmental agency with authority enters an Order or Ruling reducing or re-rating of Water Treatment and Delivery System Capacity below 7.08 MGD, or what ever rating was in place prior to such regulations, without any fault or procurement by KWSC, then SWSC shall bear a pro-rata reduction in treated water from the then-established Water Treatment Plant Capacity as so reduced by such governmental regulations Order or Ruling. In the event of such a reduction, KWSC will use its best efforts to bring the rated Water Treatment Plant Capacity back to 7.08 MGD as expeditiously as reasonably possible. SWSC shall participate in the cost necessary to make improvements to regain the lost capacity in the same ratio as it participated in funding the improvements when first made. In the event a governmental agency rerating results in an increase in the Water Treatment Plant and Supply System Capacity, SWSC shall be entitled to a pro-rata increase in the amount of Potable Water it is entitled to receive at its Point(s) of Delivery. Notwithstanding any provision contained herein to the contrary, in no event shall SWSC be required to assign more raw water to KWSC than it desires, from time-to-time, to be treated by KWSC. KWSC's obligation to provide Potable Water to SWSC hereunder is

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conditioned upon SWSC assigning or causing to be assigned to KWSC its rights to withdraw raw water from Stillhouse. KWSC shall not have any obligation to deliver Potable Water to SWSC in quantities which exceed the amount of raw water in Stillhouse which SWSC has assigned or caused to be assigned to KWSC, after taking into account normal water loss due to treatment and delivery of Potable Water.

Notwithstanding the provisions of this Section 2.01.A. to the contrary, SWSC may from time to time permanently reduce, in whole or in part, the quantity of water it requires KWSC to divert, treat, and deliver at its Point of Delivery from its then current entitlement. In order reduce the amount of water it desires to have delivered under this Contract, SWSC shall provide KWSC with written notice of the desired permanent reduction in quantity two (2) years in advance of the effective date of such reduction. Effective on the second anniversary date of KWSC's receipt of such written notice from SWSC: (a) SWSC's rights to diversion, treatment, and delivery of water shall be reduced by the quantity requested, (b) the quantity of water released by SWSC shall become available for KWSC to use for its own purposes as it sees fit, and KWSC may enter into water treatment contracts with third parties based in part on the water released by SWSC, and (c) SWSC's minimum share of O&M Expenses shall be proportionately reduced as provided in Section 2.05, below. Once released, SWSC has no right to demand that the quantity of Potable Water released be returned to it.

B. Capital Costs. SWSC shall make three payments to KWSC for the SWSC pro-rata share of the Capital Costs of the Water Treatment Plant and Delivery System:

1. SWSC shall make the first payment of \$500,000 (five hundred thousand dollars) upon the date of this Contract.
2. SWSC shall make the second payment of \$500,000 (five hundred thousand dollars) by June 15, 2009, which represents the approximate mid-point of the construction schedule.
3. SWSC shall make the third payment of approximately \$513,333 (five hundred thirteen thousand three hundred thirty three dollars) for the balance of the Capital Costs within 10 days of substantial completion of the Water Treatment Plant and Delivery System.

Capital Costs shall include all costs to secure governmental approvals, easements, pilot study, real property, design fees, SCADA and PLC work required to operate and monitor the Water Treatment Plant, surveys, construction costs, and KWSC costs directly attributable to the approval, design, construction and commissioning of the Water Treatment Plant. The initial Capital Costs, based on SWSC treatment and delivery allocations described in Section 2.01.A. and Section 2.04 of this Contract and shown on the attached Exhibit 2, are estimated at \$1,513,333. These funds shall only be used to reimburse KWSC pro-rata Capital Costs incurred by KWSC prior to the date of this Contract, and the remainder shall only be used by KWSC to discharge future Capital Costs associated with the Water Treatment Plant and Delivery System construction and commissioning. Interest income derived from investment of the SWSC Capital Cost funds shall be credited to SWSC. As the project progresses and SWSC portion of costs are revised to more accurately reflect final total Capital Cost, SWSC shall be required to deliver final adjusted funds within 10 days of receipt of an itemized invoice and certificate of substantial completion from KWSC, or KWSC shall reimburse SWSC within 30 days of reconciliation of these funds, as appropriate. For its payment of the pro-rata share of the Capital Costs of the Water Treatment Plant and Delivery System, SWSC shall receive the right to have a certain volume of water delivered and the prepaid capital costs for 0.5 MGD and a portion of the prepaid capital costs of certain components necessary to deliver 2.0 MGD.

C. Future Expansions and Improvements. If SWSC requests any modification or improvement to the Water Treatment Plant, and if KWSC, in its sole discretion, agrees to such

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modification or improvement, then SWSC will pay all costs associated with such modification and/or improvement including, without limitation, all capital improvement costs, all increased Operation and Maintenance Expenses and increased Energy Costs associated with the improvement. For the Water Treatment Plant and each improvement thereto, KWSC shall cause to be prepared as-built drawings and engineering reports providing (at a minimum) a narrative description of the improvements. The reports shall be kept on file at the KWSC administrative offices.

At such time as the SWSC's actual usage reaches 85% of its authorized volume, KWSC will notify SWSC in writing of the need to increase its contracted treatment volume. Within 90 days of receipt of such letter, SWSC must respond in writing to KWSC on whether it desires to increase its contracted treatment volume or recognize that it will not need more than 100% of its contracted treatment volume. If SWSC does not respond to such correspondence from KWSC, SWSC thereby waives its rights to any increase in volume.

Section 2.02. Payment for Stored Water. SWSC shall be responsible for all fees and payments required by BRA to secure and hold its stored raw water in Stillhouse.

In order for SWSC to make the necessary payments to the BRA, KWSC will notify SWSC monthly with the total amount of water diverted from Stillhouse and attributable to SWSC. The total amount of water diverted will be determined by the metered amount of water at the Point of Delivery plus a portion of the system losses attributable to SWSC's water use which shall be an amount equal to 5% of the total system loss.

Monthly report

Section 2.03. Payment of Treated Water Cost. SWSC agrees to pay to KWSC, on a monthly basis, the actual cost per thousand gallons of Potable Water received at the Point of Delivery, being the cost to produce, treat, and deliver said water to the Point of Delivery. The cost of treated water shall be based upon the actual calculated costs for Energy and Chemical Costs, including energy costs associated with pumping raw water, energy costs incurred in running equipment in the Water Treatment Plant, and energy costs incurred in pumping treated water to the Point of Delivery. Payment will be based on the metered usage of treated water by SWSC at the Point of Delivery. The production costs charged to SWSC will be prorated based on the annual number of gallons of treated water received by SWSC as a percentage of the total number of gallons of treated water. Payment of production costs will be based upon actual costs billed monthly and then the actual production cost attributable to SWSC will be verified and corrected or revised, as necessary at the end of the fiscal year of KWSC. SWSC will receive either a refund or a bill as a result of any such correction. Each refund or bill will be itemized and will contain such explanatory notes and backup invoices, receipts and documentation as may be required in order to support the annual correction.

Section 2.04. Operation and Maintenance Expenses. SWSC will also pay monthly to KWSC a percentage of the actual Operation and Maintenance Expenses for the Water Treatment Plant for the previous calendar month, pursuant to the separate cost accounting for Water Treatment Plant components maintained by KWSC. O&M Expenses are defined specifically in the definition section of this Contract. The percentage of O&M Expenses to be paid by SWSC shall be calculated by dividing the SWSC-contracted Water Treatment Plant Capacity by the total Water Treatment Plant Capacity. For example, based on initial Water Treatment Plant Capacity proposed herein, SWSC will be responsible for 0.50 MGD / 7.08MGD or 7.06% of Operation and Maintenance Expenses.

At the end of each fiscal year, KWSC will compare the O&M Expenses billed to SWSC to the actual O&M Expenses incurred by it in the previous twelve (12) calendar months, and SWSC will receive either a refund or a bill as a result of any adjustment for the previous year. Each refund or bill will be

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itemized and will contain explanatory notes and back up invoices, receipts, and documentation as may be required to support the necessary adjustments. Upon the request of SWSC, KWSC will provide such information to an independent third party C.P.A. for preparation of an audit of the O&M Expenses.

Upon 90 days notice of its intent to do so, KWSC may adjust the O&M Expenses rate subject to the terms of this Contract. The Parties to this Contract shall have sole authority for establishing retail rates, connection fees, and other fees and charges within its respective jurisdiction.

Section 2.05. Application of Definitions. With respect to any questions that hereafter arise that relate to this Contract, the Water Treatment Plant and Delivery System, and/or the ability of the system to deliver any particular quantity of water, both Parties agree that the definitions from Article I, Section 1.01 of this Contract will control the discussions of the Parties. Such definitions shall be likewise used by engineers and consultants in interpreting this Contract and the ability of the system to deliver treated water.

Section 2.06. Point of Delivery. SWSC agrees to take treated water at the Point of Delivery described in Section 1.01, above. The Point of Delivery may change or new points added by mutual written agreement of the Parties.

Section 2.07. Water Delivery. KWSC shall deliver Potable Water to SWSC to the initial Point of Delivery. SWSC will install an air gap to separate the two systems. SWSC acknowledges that the air gap will be located at a storage tank which will be connected to the Point of Delivery by a water line. SWSC agrees that the water line connecting the Point of Delivery to the storage tank will not be used to provide retail water service to any SWSC customers. SWSC further agrees to provide the construction plans and drawings for the Point of Delivery, the water line and the storage tank to KWSC for review and comment prior to construction. KWSC shall have 30 days upon receipt of the plans and specifications to provide SWSC with any comments. Water quality, as described in Section 2.08 and metering of water, as described in Section 2.08, will be accomplished at the Point of Delivery.

Section 2.08. Quality.

A. The water delivered by KWSC to SWSC at the Point of Delivery shall be water of a quality sufficient to meet the requirements for Potable Water established by the TCEQ and the United States Environmental Protection Agency. SWSC has satisfied itself that such water will be suitable for its needs.

B. KWSC shall have no responsibility for the quality of water, including without limitation, maintaining any particular amount of chlorine residual at any point in SWSC's system, so long as the water delivered meets Potable Water standards at the Point of Delivery.

Section 2.09. Metering Equipment. SWSC will furnish, install, operate, and maintain at its expense the necessary equipment and devices (including a meter house or vault) of standard type required for controlling and measuring the quantity of water delivered under this Contract from the system to SWSC's Point of Delivery. Such meters and other equipment so installed shall be the property of KWSC. KWSC shall inspect, calibrate, and adjust its meters at least annually as necessary to maintain accurate measurements of the quantity of treated water being delivered. SWSC shall have access to the metering equipment at all reasonable times for inspection and examination, but the reading, calibration, and adjustment thereof shall be done only by employees or agents of KWSC.. Any party that tests the meter shall provide written notice of the test to the other party at least five (5) days in advance of the test and shall allow the other party to observe the test. Any measuring device that fails to function or which functions incorrectly shall promptly be adjusted, repaired or replaced at SWSC's expense with a like

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device having the required accuracy. A meter registering not more than two percent (2%) above or below the test results shall be deemed to be accurate. The previous readings of any meter disclosed by tests to be inaccurate shall be corrected for one-half (1/2) the period elapsed since the next preceding meter test, but in no event to exceed six (6) months, in accordance with the percentage of inaccuracy found by such tests. If any meter fails to register for any period, the amount of water furnished during such period shall be deemed to be the amount of water delivered in the corresponding period immediately prior to the failure, unless KWSC and SWSC shall agree upon a different amount. All readings of meters will be entered upon proper books of record maintained by KWSC. SWSC may have access to said record books during normal business hours. At its option, SWSC may install the necessary equipment to allow SWSC to remotely read the KWSC meter(s), and SWSC shall have the right of periodic access (at reasonable times and upon prior notice to KWSC) to such equipment for the purpose of maintenance, calibration, repair, and replacement thereof. SWSC shall be responsible for providing a telemetry/SCADA connection from its facilities to the Water Treatment Plant and from the Water Treatment Plant to the Point of Delivery so that SWSC can control the valve via the Plant SCADA system.

Section 2.10. Water Shortage. KWSC shall use its best efforts to maintain its facilities in sufficient condition, repair, and status to provide SWSC with treated water in the amounts called for in this Contract. However, notwithstanding such best efforts, in the event of an extended shortage of water, or if the supply of raw water available to KWSC is otherwise diminished over an extended period of time, the Water Treatment Plant Capacity shall be reduced on a pro rata basis among all participants. Any reduction of treated water shall be in accordance with the Drought Contingency Policy and Drought Contingency Plan of KWSC. SWSC shall also be subject to the enforcement provisions of KWSC's Drought Contingency Plan as are all other members of KWSC.

Section 2.11. Initial Rate and Rate Revision. As of the date of the execution of this Contract, the Initial Rates/Cost to SWSC for Potable Water to be supplied under this Contract is calculated as follows:

A. Energy and Chemical Cost: The cost to treat water attributable to Energy Costs and chemicals shall be billed, subject to Section 2.03, at the initial rate of **\$0.465** per thousand gallons of treated water delivered, subject to annual adjustment as provided in Section 2.03 above, plus

B. Capital Policy: KWSC will work in good faith with SWSC to develop and adopt a Capital Policy mutually agreed upon by the Parties within twelve (12) months following the execution of this Contract. Such policy will include a clear delineation between O&M Expenses and capital improvements to the system utilizing accepted principles and policies of the American Water Works Association and, with the help of the accountants and engineers of the Parties, so that only proper O&M Expense allocations will be made. KWSC will provide a copy of its proposed Capital Policy to SWSC at least 30 days before adoption to allow SWSC to comment on same.

C. Monthly O&M Expense Cost: The initial estimated monthly charge for O&M Expense, pursuant to Section 2.04, shall be \$25,000, which calculates to **\$1,765** for SWSC based on its initial treatment and delivery of 0.5 MGD. This charge is an estimate of the pro-rata costs for fixed O&M Expenses to SWSC. The future monthly charge shall be adjusted as provided in Section 2.04.

The rates charged SWSC for treated water costs and/or Operation and Maintenance Expenses may be increased or decreased to reflect actual changes in such costs in accordance with the provisions of this Contract.

ARTICLE III
Special Conditions

Section 3.01. Operation and Maintenance of the System. KWSC will continuously operate and maintain the system in an efficient manner and in accordance with good business and engineering practices, and at reasonable cost and expense. KWSC recognizes its right and duty to operate the system in the most prudent and economical manner for the benefit of KWSC and SWSC. SWSC may have reasonable access to all records of KWSC during normal business hours.

Section 3.02. Title to Water; Risk of Loss. Title to all water supplied to SWSC shall be in SWSC up to and beyond the Point of Delivery. Risk of loss of water on the KWSC side of the Delivery Point will be prorated among all participants, based on Water Treatment Plant Capacity. Normally, SWSC shall only be billed for water that passes through the meter at the Point of Delivery.

Section 3.03. Insurance. So long as the TWDB loan is outstanding, KWSC agrees to carry and arrange for fire, casualty, public liability, and/or other insurance, including any self-insurance, on the System up to the Point of Delivery for purposes and in sufficient amounts that comply with such TWDB loan covenants. At such time as the TWDB loan is no longer outstanding, KWSC agrees to carry and arrange for fire, casualty, public liability, and/or other insurance, including any self-insurance, on the System up to the Point of Delivery for purposes and in amounts, which as determined by the KWSC Board, are consistent with similar policies and practices of similarly situated water supply corporations. Such insurance will provide, to the extent feasible and practicable, for the restoration of damaged or destroyed properties and equipment, to minimize the interruption of the services of such facilities. Premiums for such insurance that relate directly to the System or, under generally accepted cost accounting practices are allocable to the System, shall constitute an Operation and Maintenance Expense.

Section 3.04 Additional KWSC Contracts. SWSC understands KWSC may enter into contracts with others under which KWSC will divert, treat, and deliver water through its Water Treatment Plant and Delivery System without the prior written consent of SWSC. So long as SWSC is in full compliance with the terms of this Contract, KWSC shall not enter into any such contracts with others that will impair or infringe on KWSC's ability meet its duty herein to divert, treat, and deliver Potable Water to SWSC in such quantity as SWSC is entitled at that time.

Section 3.05 KWSC Financing. The Parties understand KWSC has obtained a loan from the TWDB and a portion of the proceeds of such loan will be used to finance construction of the Water Treatment Plant and Delivery System. As a part of such loan KWSC executed and is bound by certain financing documents between KWSC and the TWDB, including but not limited to, a Loan Agreement, a Promissory Note, and a Deed of Trust. Should a court of competent jurisdiction determine and find any term of this Contract to be in irreconcilable conflict with any provision of such loan and associate financing documents, the terms and conditions of such loan and financing documents shall prevail.

KWSC shall have the right to refinance existing loans and finance future improvements to its Water Treatment Plant and Delivery System provided such financing and refinancing as it deems to be in the best interest of KWSC, SWSC, and any future participants.

ARTICLE V
Default

Section 4.01 The following provisions will apply in the event of a default under this Contract:

A. Default Proceedings for Non-Payment of Delinquent Bill. If KWSC has not received payment from SWSC within 30 days from the due date of a monthly bill, the bill will be considered delinquent, unless contested in good faith. In the event of a delinquency by SWSC in the payment of a monthly bill, KWSC will give written notice to SWSC of such delinquency and, if SWSC fails to make payment of the delinquent amount within 30 calendar days from the date of receipt of the written notice, then KWSC may, at its discretion, temporarily terminate or limit service to SWSC until payment is made; provided, however, that SWSC will have the right to continue to receive service during a good faith appeal of a disputed bill.

If SWSC fails to cure a default in payment of a delinquent bill for a period of 90 calendar days, and there is no good faith appeal of a disputed bill pending, then KWSC will have the right, at KWSC's sole option, to (i) permanently restrict service to SWSC under this Contract, (ii) require SWSC to stop making new retail connections to its system after giving the SWSC written notice of its intent to do so and extending SWSC 30 days from the date of receipt of such notice to cure the default, or (iii) pursue such other remedies as KWSC deems appropriate to the circumstances.

Nothing herein shall prevent SWSC from paying bills under protest and pursuing any or all available remedies at law or in equity.

B. Process for Defaults Other Than Non-Payment of Delinquent Bill. If one party believes that the other party is in material default of any other provision of this Contract, the non-defaulting party will give written notice to the other party, specifying the event of default and extending the defaulting party 90 days to cure the default or, if the curative action cannot reasonably be completed within 90 days, 90 days to commence the curative action and thereafter to diligently pursue the curative action to completion. This 90-day period for notice and opportunity to cure must pass before the non-defaulting party may initiate any remedies available to the non-defaulting party due to an alleged default. The non-defaulting party must mitigate any direct or consequential damages arising from any default to the extent reasonably possible under the circumstances. The parties agree that they will use good faith, reasonable efforts to resolve any dispute by agreement, including engaging in non-binding arbitration, mediation or other alternative dispute resolution methods as recommended by the laws of the State of Texas, before initiating any lawsuit to enforce their respective rights under this Contract. If the default is not cured within the 90 day period, or if curative action is not commenced or diligently pursued in the case of curative action that cannot reasonably be completed in 90 days, the non-defaulting party may pursue all remedies, at law or in equity, that it deems appropriate to redress such default. Nothing in this Contract will be construed to limit either party's right to recover damages or to seek other appropriate curative remedies if a non-defaulting party files a breach of contract action relating to this Contract. The foregoing 90 day notice requirement will not, however, be applicable in the event of a default by KWSC in its obligations to provide water service as provided in this Contract, it being acknowledged that any such failure would create a threat to the health, safety and welfare of the residents of SWSC which SWSC may seek to remedy the default in whatever manner it deems prudent under the circumstances.

C. Specific Performance. The parties recognize that discontinuance of water service, or event the drastic curtailment of water service, to retail customers is often an unattainable remedy because of the potential threat to the health, safety, and welfare and property

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of the residents. The parties will therefore have recourse to all rights and remedies in law and equity available to enforce the terms of this Contract including, without limitation, the rights specific performance and mandamus actions to enforce the terms of this Contract.

ARTICLE IV
Miscellaneous

Section 4.01. Force Majeure. If, by reason of Force Majeure, SWSC or KWSC shall be rendered unable wholly or in part to carry out its obligations under this Contract, other than the obligation of SWSC to make the payments required under this Contract, then if such party shall give notice and full particulars of such Force Majeure in writing to the other party, as appropriate, within a reasonable time after occurrence of the event or cause relied on, the obligation of the SWSC or KWSC giving such notice, so far as it is affected by such Force Majeure, shall be suspended during the continuance of the inability then claimed, but for no longer period, and SWSC or KWSC shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "*Force Majeure*" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of public enemy, orders of any kind of the Government of the United States or the State of Texas, or any civil or military authority, insurrection, riots, epidemics, landslides, lightning, earthquake, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, partial or entire failure of water supply, or on account of any other causes not reasonable within the control of the party claiming such inability.

Section 4.02. Conservation. KWSC and SWSC agree to provide to the maximum extent practicable for the conservation of water, and each agrees that it will operate and maintain their respective facilities in a reasonable manner that will prevent waste of water. SWSC further agrees to develop and implement water conservation and drought management plans as required by state regulations.

Section 4.03. Term of Contract. This Contract shall be effective on and from the effective date of this Contract, and shall continue in force and effect until December 31, 2107 ("*Term*") subject to the provisions and limitations of this Section 4.03. The Parties also agree and acknowledge that a portion of the KWSC Water Treatment Plant is located on property leased from the Corps of Engineers, Department of U.S. Army, and that the July 31, 2032 expiration of the term of the lease expires many years prior to the December 31, 2107 expiration date of this Contract. The Parties will use best efforts to cooperate with each other to the fullest reasonable extent possible to obtain renewals and extensions of leases, easements, and rights-of-way as necessary, and contracts with BRA, with terms and title interests in each case to be coextensive with the December 31, 2107 expiration date of the Term of this Contract. If, despite such best efforts and cooperation, the Corps of Engineers Lease is not renewed or extended to December 31, 2107 or same is extended but not until December 31, 2107, then this Contract may be terminated due to impossibility of performance effective upon the earliest expiration date of such lease or easement (as extended). Upon expiration of the Term of this Contract, the obligation of the Parties to one another shall thereupon and immediately cease.

Section 4.04. Modification and Amendment. This Contract may be amended upon the written consent of the respective Boards of KWSC and SWSC. Any future modification or amendment to this Contract may additionally require the approval of the TWDB under loan agreements executed by KWSC and SWSC.

Section 4.05. Addresses and Notice. Unless otherwise provided herein, any notice, communication, request, reply, or advice (herein severally and collectively, for convenience, called "Notice") herein provided or permitted to be given, made or accepted by any party to any other party must

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be in writing and may be given or be served by depositing the same in the United States mail postpaid, certified and addressed to the party to be notified, with return receipt requested, or by hand delivering the same to an officer of such party. Notice deposited in the mail in the manner hereinabove described shall be conclusively deemed to be effective, unless otherwise stated herein, from and after the expiration of three (3) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the party to be notified. For the purposes of notice, the addresses of the Parties hereto shall, until changed as hereinafter provided, be as follows:

- A. If to KWSC, to: General Manager
 Kempner Water Supply Corporation
 Post Office Box 103
 Kempner, Texas 76539
 Telephone: (512) 932-3701
 Fax: (512) 932-2546

- B. If to SWSC, to: General Manager
 Salado Water Supply Corporation
 Post Office Box 128
 Salado, Texas 76571-0128
 Telephone: (254) 947-5425
 Fax: (254) 947-5736

The Parties hereto shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address by at least fifteen (15) days written notice to the other Parties hereto.

Section 4.06. Covenant of Good Faith and Fair Dealing. KWSC and SWSC agree to cooperate and to deal with one another fairly and in good faith at all times to effectuate the purposes and intent of this Contract.

Section 4.07. Further Documents and Consents. KWSC and SWSC agree to execute and deliver such further legal documents or instruments and to perform such further acts and acquire any consents as are reasonably necessary to effectuate the purposes and intent of this Contract.

Section 4.08. Warranty of Authority. KWSC warrants and acknowledges that the Board of Directors of KWSC has approved this Contract and that the person signing on behalf of KWSC has full authority to execute this Contract on behalf of KWSC. SWSC warrants and acknowledges that the Board of Directors of SWSC has approved this Contract and that the person signing on behalf of SWSC has full authority to execute this Contract on behalf of SWSC.

Section 4.09. No Conveyance or Encumbrance of System. This Contract does not constitute a conveyance or encumbrance of the Water Treatment Plant and Delivery System. By entering into this Contract, SWSC receives the right receive Potable Water and has no legal or equitable right or interest in the facilities to be constructed by KWSC now or in the future.

Section 4.09. State or Federal Laws, Rules, Orders, and Regulations. This Contract is subject to all applicable Federal and State laws and any applicable permits, ordinances, rules, orders, and regulations of any local, State, or Federal governmental authority having or asserting jurisdiction, but nothing contained herein shall be construed as a waiver of any right to question or contest any such law, ordinance, order, rule, or regulation in any forum having jurisdiction.

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Section 4.10. Venue. All amounts due under this Contract, including, but not limited to, payments due under this Contract, shall be paid and be due in Lampasas County, Texas, which is the County in which the principal administrative offices of KWSC are located. It is specifically agreed among the Parties to this Contract that Lampasas County, Texas, is the place of performance and venue of this Contract.

Section 4.11. Assignment. KWSC's may pledge this Contract to the TWDB, to other governmental agencies, and to third party lenders as security for loans made or to be made or insured by them to KWSC after the Effective Date. SWSC shall have the right to pledge this Contract as security for loans made to it by the TWDB, by United States Department of Agriculture, or by a third party lender. Otherwise, neither KWSC nor SWSC may assign any interest it may have under this Contract without the prior written consent of the other party. SWSC will provide written notice to KWSC of any assignment to the TWDB within five (5) days following such assignment.

Section 4.12. Entire Agreement. This Contract, including Exhibits 1 and 2, between the Parties constitutes the entire agreement among the Parties with respect to the diversion, treatment and delivery of treated water by KWSC to SWSC.

Section 4.13. Applicable Law. This Contract shall be governed by and construed in accordance with the laws of the State of Texas, and the obligations, rights, and remedies of the Parties hereunder shall be determined in accordance with such laws without reference to the laws of any other state or jurisdiction, except for applicable Federal law, rules, and regulations. This Contract is performable in Bell County, Texas.

Section 4.14. Counterparts. This Contract 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.

Signed this the 15 day of October, 2008.

KEMPNER WATER SUPPLY CORPORATION

By: [Signature]
President

Attest: [Signature]
Secretary

SALADO WATER SUPPLY CORPORATION

By: [Signature]
President

Attest: [Signature]
Secretary