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February 28, 2007

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Division 5

Lawrence P. Gallagher
Vice President
Division 6

Gene A. Lundquist
Division 7

James M. Beck
General Manager

Amelia T. Minaberrigarai
General Counsel

Mr. Peter C. Nelson, President
California Water Service Company
1720 North First Street
San Jose, CA 95112

Dear Mr. Nelson:

Please find enclosed the executed Amendment No. 1 and supporting Exhibits (E and F), to the Agreement Between Kern County Water Agency and East Niles Community Services District.

If you have any questions, please don't hesitate to call me at 661/634-1511.

Very truly yours,

Eric L. Averett
Manager-Improvement District No. 4

Encl.

xc: California Water Service Company
3725 South H Street
Bakersfield, CA 93304

661/634-1400

Mailing Address
P.O. Box 58
Bakersfield, CA 93302-0058

Street Address
3200 Rio Mirada Dr.
Bakersfield, CA 93308

AMENDMENT NO. 1
TO THE
AGREEMENT BETWEEN KERN COUNTY WATER AGENCY
AND THE CALIFORNIA WATER SERVICE COMPANY
FOR A WATER SUPPLY

This agreement is made and entered into on February 21, 2007, by and between the Kern County Water Agency, established by Chapter 1003 of the 1961 Statutes of the State of California (Agency) and the California Water Service Company, a California corporation, duly organized and existing under and by virtue of the laws of the State of California (Cal Water). This agreement is an amendment to the Agreement Between Kern County Water Agency and the California Water Service Company for a Water Supply, entered into between Agency and Cal Water on September 21, 2005 (Water Supply Agreement).

R E C I T A L S

Whereas, the Agency and Cal Water have previously entered into the Water Supply Agreement dated September 21, 2005 governing the terms and conditions under which the Agency through its Improvement District No. 4 (ID4) will provide a designated water supply to Cal Water; and

Whereas, the Agency intends to design and construct new facilities and make improvements to existing facilities to allow for the treatment and delivery of up to 53,000 acre-feet of water to Cal Water and other Customers (Treated Water Capacity Expansion Project); and

Whereas, Exhibit E of the Water Supply Agreement contains cost estimates for the expansion of the Henry C. Garnett Water Purification Plant to a design capacity of 72 million gallons per day; and

Whereas, Article 6(G) of the Water Supply Agreement contains a provision that allows for a Customer to opt-out of the Treated Water Capacity Expansion Project if the projected costs are greater than one hundred and twenty five percent (125%) of those specified in Exhibit E of the Water Supply Agreement; and

Whereas, the most current cost estimate for the Henry C. Garnett Water Purification Plant Expansion is at or near one hundred and twenty five percent (125%) of the cost estimate specified in Exhibit E of the Water Supply Agreement; and

Whereas, Exhibit F of the Water Supply Agreement contains the Project Participant Billing Cost Summary which requires adjustment to reflect the increased costs associated with the cost estimates specified in Exhibit E of the Water Supply Agreement; and

Whereas, Article 9(A)(2) of the Water Supply Agreement specifies the allocation of costs for certain improvements to the Oswell Reservoir and Booster Pumping Facility, with such costs allocated in proportion to current contracted capacity, as shown on Exhibit E of the Water Supply Agreement; and

Prior to proceeding with the design of the Henry C. Garnett Water Purification Plant the Customers desire to amend the Water Supply Agreement, Article 6(G), Article 9(A)(2), and Exhibits E and F, to reflect the most recent cost estimates and allocation of costs.

AGREEMENT:

NOW, THEREFORE, IT IS HEREBY MUTUALLY AGREED by the parties hereto as follows:

1. This agreement between the Agency and Cal Water shall constitute an amendment to the terms of the Water Supply Agreement between the parties, incorporated herein by reference as though fully set forth at length.

2. Subdivision (G) of Article 6 shall be amended to read as follows:

“Prior to the acceptance of bids on contracts for construction or the issuance of financing instruments for the Distribution Component of the Expansion Project as defined in Article 5 (whichever shall occur first) and prior to the acceptance of bids on construction contracts or the issuance of financing instruments for the Purification Plant Expansion Component of the Expansion Project, if the projected costs are more than one hundred and twenty (120%) of those estimated herein, Purveyor shall have the option of withdrawing from either component of the Expansion Project by providing written notice hand-delivered to the Agency General Manager and to each other Customer within twenty (20) days of the opening of construction bids, for the specified component of the Expansion Project. In the event of withdrawal, Purveyor shall pay all fees and other payments specified herein based upon the allocation formulas specified herein utilizing Purveyor’s currently existing Capacity and entitlement, if any, for the component from which the Purveyor has withdrawn, and shall be entitled only to benefits and rights based upon Purveyor’s currently existing Capacity and entitlement, if any, for the component from which the Purveyor has withdrawn. In the event of the withdrawal hereunder of any Customer, Purveyor shall pay based upon the recalculated amounts after the withdrawal of Customers electing not to participate in an Expansion Project component and shall be entitled to a share, based on such recalculation, of the withdrawing Customer’s Capacity, entitlement and other rights and privileges under the Agreement from which such Customer is withdrawing. Agency and Purveyor shall take all actions and execute all documents reasonably required to evidence the foregoing changes in Purveyor’s

entitlement, rights and obligations. If a withdrawal occurs, the Agency shall require a renegotiation of contract terms, and may reject all bids or delay financing.”

3. Subdivision (A)(2) of Article 9 shall be amended to read as follows:

“The Purveyor has requested that the Northwest Feeder Pipeline described in Exhibit C hereof be constructed with Capacity for the Purveyor of 23.2 cubic feet per second requiring a diameter of approximately 42 inches, the size being based upon Purveyor’s estimates of required capacity. Purveyor shall be responsible for its proportionate share of the pipeline Capital Costs (prorated according to Purveyor’s Capacity stated herein in relation to total Purveyor requested capacity of 32.5 cubic feet per second) regardless of whether the Capacity therein is actually required for delivery of Purveyor’s water. Such proportionate share shall be included in Purveyor’s Capital Facilities Charge. Such amounts shall be paid at the time set forth in Article 16 hereof. Capacity shall be for use within Improvement District No. 4, including areas which have been annexed to Improvement District No. 4 in accordance with Article 25, during the term of the Agreement. The Agency shall have the right to construct incremental capacity and future connections to any of the facilities described herein for use within Improvement District No. 4.”

4. Exhibit E shall be amended as attached.

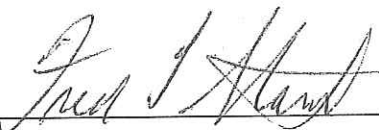
5. Exhibit F shall be amended as attached.

6. Except as specifically amended herein all other provisions of the Water Supply Agreement shall remain in force and effect.

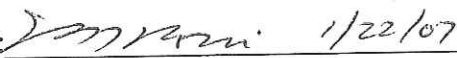
In witness whereof, the parties hereto have caused this Amendment to be executed the day and year first above written.

Kern County Water Agency

California Water Service Company

By: 

Fred L. Starrh
Board President

By:  1/22/07

Mike Rossi
Vice President

709

**Exhibit F-Amended
Treated Water Capacity Expansion Project Billing Summary**

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|-------------------------|---|---|--|------------------|-------------|
| Project Participant Billing Schedule Summary | | | | | | |
| | Frequency | | Date | | Due ¹ | |
| Power | Monthly | | January through December | | 30 Days | |
| Operation & Maintenance | Quarterly | | July 1 October 1 January 1 April 1 | | 30 Days | |
| Treated Water Charge | Semiannually | | July 10 January 10 | | 30 Days | |
| Capital Facilities Charge | Semiannually | | July 10 January 10 | | 30 Days | |
| Project Participant Billing Cost Summary | | | | | | |
| | Power Cost ⁵ | Operation & Maintenance ⁵ | Treated Water Charge ² | Capital Facilities Charge ³ | | |
| | Conveyance | Conveyance | Treatment | Conveyance | Treatment | Total |
| Frequency | Monthly | Quarterly | Semiannually | Semiannually | | |
| California Water Service | Actual | Actual | 1,394,000 | 337,842 | 591,631 | 929,473 |
| City of Bakersfield ⁴ | Actual | Actual | 442,000 | 119,059 | 301,435 | 420,494 |
| East Niles CSD | Actual | Actual | 748,000 | 191,314 | 309,613 | 500,926 |
| North of the River MWD | Actual | Actual | 1,020,000 | 163,074 | 395,839 | 558,914 |
| Improvement District No. 4 | | | | 52,428 | 0 | 52,428 |
| | | | \$3,604,000 | \$863,717 | \$1,598,518 | \$2,462,235 |

Footnotes

- 1) Bills due within 30 days of postmarked date on invoice.
- 2) Based on \$136/Ac-Ft multiplied by the purveyor's entitlement on a semiannual basis.
- 3) Estimated charges include principle, interest and four percent for financing. Estimated interest rates 4.4% for nontaxable and 5.0% for taxable bonds with a 30 year finance period.
- 4) Bond interest based on nontaxable rate.
- 5) O,M & P Costs for treatment paid for by the ID4 Enterprise Fund

**Exhibit E-Amended
Treated Water Capacity Expansion Project Cost Allocation Summary**

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|--|--|---|---|--|---|---|--|--|--|
| Treated Water Capacity Expansion Cost Summary | | | | | | | | | |
| Revised Estimated Project Costs Summary - 10/20/2006 | | | | | | | | | |
| Project | | 9/21/2005 Estimated Contract Amount | Percent Change | Administration & Financing ⁵ | Feasibility And Design Engineering Cost ¹ | Estimated Construction Cost ⁹ | Total Estimated Cost | | |
| | | (\$) | (%) | (\$) | (\$) | (\$) | (\$) | | |
| Henry C. Garnett WPP Expansion (72 MGD) | | 38,323,500 | 30.0% | 300,000 | 3,525,000 | 46,000,000 | 49,825,000 | | |
| North Feeder Expansion Project | | 4,076,750 | 40.6% | | 513,000 | 5,219,100 | 5,732,100 | | |
| East Feeder Expansion Project | | 3,847,450 | 66.4% | | 585,000 | 5,817,000 | 6,402,000 | | |
| East Feeder Oswell Bypass Project | | 625,000 | 28.0% | | 0 | 800,000 | 800,000 | | |
| Northwest Feeder Project | | 15,500,900 | -4.1% | 120,000 | 970,000 | 13,780,000 | 14,870,000 | | |
| Total | | 62,373,600 | 24.5% | 420,000 | 5,593,000 | 71,616,100 | 77,629,100 | | |
| Treated Water Expansion Cost Allocation Summary⁴ | | | | | | | | | |
| Project Participant | | Existing Annual Entitlement | Incremental Annual Entitlement | Total Annual Entitlement | Existing Peaking Capacity | Incremental Peaking Capacity | Total Peaking Capacity | Avg of Ratio Capacity & Entitlement ⁸ | HCGWPP Cost Allocation |
| | | (AF/YR) | (AF/YR) | (AF/YR) | (MGD) | (MGD) | (MGD) | (%) | (\$) |
| California Water Service | | 11,500 | 9,000 | 20,500 | 15.0 | 15.0 | 30.0 | 35.4% | 17,490,025 |
| City of Bakersfield | | 0 | 6,500 | 6,500 | 0.0 | 6.0 | 6.0 | 19.3% | 9,554,483 |
| East Niles CSD | | 5,000 | 6,000 | 11,000 | 6.7 | 7.1 | 13.8 | 19.9% | 9,813,696 |
| North of the River MWD | | 8,500 | 6,500 | 15,000 | 11.4 | 10.7 | 22.1 | 25.4% | 12,546,796 |
| Improvement District No. 4 | | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0% | 420,000 |
| Total | | 25,000 | 28,000 | 53,000 | 33.1 | 38.8 | 71.9 | 100.0% | 49,825,000 |
| Distribution Cost Allocation Summary | | | | | | | | | |
| Project Participant | North Feeder Pipeline Capacity Allocation ² | North Feeder Pipeline Capacity Allocation | North Feeder Pipeline Cost Allocation | East Pipeline Capacity Allocation | East Feeder Pipeline Capacity Allocation | East Feeder Pipeline Cost Allocation ⁷ | NW Pipeline Capacity Allocation ³ | NW Feeder Pipeline Capacity Allocation | NW Feeder Pipeline Cost Allocation ⁶ |
| | (%) | (MGD) | (\$) | (%) | (MGD) | (\$) | (%) | (MGD) | (\$) |
| California Water Service | 0.0% | 0.0 | 0 | 0.0% | 15.0 | 552,995 | 46.9% | 15.0 | 9,434,429 |
| City of Bakersfield | 0.0% | 0.0 | 0 | 0.0% | 0.0 | 0 | 18.8% | 6.0 | 3,773,771 |
| East Niles CSD | 0.0% | 0.0 | 0 | 100.0% | 13.8 | 6,064,005 | 0.0% | 0.0 | 0 |
| North of the River MWD | 100.0% | 22.1 | 5,219,100 | 0.0% | 0.0 | 0 | 0.0% | 0.0 | 0 |
| Improvement District No. 4 | 0.0% | 0.0 | 513,000 | 0.0% | 0.0 | 585,000 | 34.4% | 11.0 | 1,661,800 |
| Total | 100.0% | 22.1 | 5,732,100 | 100.0% | 28.8 | 7,202,000.0 | 100.0% | 32.0 | 14,870,000 |
| Project Participant Total Capital Project Cost | | | | | | | | | |
| Project Participant | | | | | | | | | Total Project Cost |
| | | | | | | | | | (\$) |
| California Water Service | | | | | | | | | 27,477,449 |
| City of Bakersfield | | | | | | | | | 13,328,255 |
| East Niles CSD | | | | | | | | | 15,877,700 |
| North of the River MWD | | | | | | | | | 17,765,896 |
| Improvement District No. 4 | | | | | | | | | 3,179,800 |
| Total | | | | | | | | | 77,629,100 |

Footnotes:

- Costs approved to date for engineering, analysis and design of the conveyance system. Approval does not include plant expansion design.
- Allocation calculated by the average of the ratios between percentage of incremental entitlement and percentage of incremental capacity.
- Allocation calculated by percentage of incremental capacity.
- Includes cost of financing Treated Water Capacity Expansion Project
- Cost associated with development of the bond feasibility engineering report and bond counsel.
- Based in ID4 incremental participation in the NW Feeder Project. Includes ID4 payment of 100% NW Feeder design cost except the last design changes requested by COB and CWS for \$265,000.
- Includes Oswell Bypass Project Cost not funded through the \$1,200,000 DWR State Revolving Fund Loan.
- Project participant percent allocation does not directly compare to dept service percent due to different interest rates for taxable and nontaxable interest rates.
- Construction costs include 35% contingency.