

**NORTH HARRIS COUNTY
REGIONAL WATER AUTHORITY**

RATE ORDER

Date Adopted: October 5, 2009

TABLE OF CONTENTS

RECITALS	1
ARTICLE I DEFINITIONS	2
Section 1.01 Definitions.....	2
Section 1.02 Interpretations.	4
Section 1.03 References.....	4
Section 1.04 Effective Date.	5
ARTICLE II FINDINGS.....	5
Section 2.01 Findings.....	5
ARTICLE III PRICING POLICY, COST OF WATER AND FEE COLLECTION.....	5
Section 3.01 Pricing Policy; Cost of Water.	5
Section 3.02 Date Payments Due.....	5
Section 3.03 Meter Reading; Reporting.....	5
Section 3.04 Collection of Fees.	6
Section 3.05 Form of Payment.....	6
ARTICLE IV MEASUREMENT OF WATER USAGE	6
Section 4.01 Meters.	6
Section 4.02 Audits.....	7
Section 4.03 Failure to Read Meter or Report Water Received.	7
Section 4.04 Annual Water Reports.....	7
ARTICLE V AUTHORITY WATER USE AND CONVERSION	8
Section 5.01 Use of Authority Water by Converted Entities.....	8
Section 5.02 Delivery Point; Title to Authority Water.	8
Section 5.03 Delivery Facilities.....	8
Section 5.04 Connection to Authority System.....	9
Section 5.05 Chloramine System.....	9
Section 5.06 Quantity or Pressure of Water; Water Supply Agreements.....	9
Section 5.07 Interruptions in Service.....	10
Section 5.08 Maintenance of Groundwater Wells and Interconnects.....	10
Section 5.09 Early Conversion; Inadequate Groundwater Facilities.....	10
Section 5.10 Implementation of GRP.....	10
Section 5.11 Early-Conversion/Over-Conversion Credits.....	11
Section 5.12 Drought Contingency and Water Conservation Plans.	11
Section 5.13 Compliance of Converted Entities' Water Systems.	11
Section 5.14 Termination and Reconnection of Service.....	12
ARTICLE VI AUTHORITY RULES AND PENALTIES.....	12
Section 6.01 Rate Order Constitutes Authority Rule.....	12
Section 6.02 Civil Penalty.....	12
Section 6.03 Termination for Rate Order or GRP Violations.....	13
Section 6.04 Injunction.	13

Section 6.05	Penalties Passed through to Violator.	13
ARTICLE VII MISCELLANEOUS		13
Section 7.01	Right to Enter Land.....	13
Section 7.02	Amendments to Rate Order and GRP.....	14
Section 7.03	Authority Designee.	14
Section 7.04	Refusal to Add Persons to GRP.....	14
Section 7.05	Compliance with Other Rules.....	14
EXHIBIT "A" <i>Pricing Policy</i>		
EXHIBIT "B" <i>Delivery Point</i>		
EXHIBIT "C" <i>Form of Water Supply Agreement</i>		

**NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
RATE ORDER**

STATE OF TEXAS §
 §
COUNTY OF HARRIS §

RECITALS

WHEREAS, the North Harris County Regional Water Authority (the "Authority") is a regional water authority created pursuant to House Bill 2695 of the 76th Legislature, as amended (the "Act"), and Article XVI, Section 59 of the Texas Constitution; and

WHEREAS, the Authority was created, among other purposes, to accomplish the purposes of Article XVI, Section 59 of the Texas Constitution, including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions; and

WHEREAS, the Act provides that the Authority may: (1) provide for the conservation, preservation, protection, recharge, and prevention of waste of groundwater in a manner consistent with the purposes of Section 59, Article XVI, Texas Constitution; (2) acquire or develop surface water and groundwater supplies from sources inside or outside the boundaries of the Authority and may conserve, store, transport, treat, purify, distribute, sell, and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the Authority for the purposes of reducing groundwater withdrawals and subsidence; and (3) provide for the reduction of groundwater withdrawals by the development, implementation, or enforcement of a groundwater reduction plan, which shall be binding on persons, districts, entities and wells within the Authority's boundaries; and

WHEREAS, the Act provides that the Authority may establish fees, rates and charges and classifications of fee and rate payers, as necessary to enable the Authority to fulfill the Authority's purposes and regulatory obligations and such fee, rates and charges must be sufficient to achieve water conservation, prevent waste of water, serve as a disincentive to pumping ground water, and accomplish the purposes of the Act, including making available alternative water supplies and to enable the Authority to meet operation and maintenance expenses and pay the principal of and interest on debt issued in connection with the exercise of the Authority's general powers and duties; and

WHEREAS, the Act authorizes the Authority to specify the rates, terms and conditions under which sources of water other than groundwater will be provided by the Authority, which may be changed from time to time as deemed necessary by the Authority, and to enter into contracts with persons, including political subdivisions of the state, on terms and conditions the board considers desirable, fair and advantageous for the performance of its rights, power, and authority under the Act and requires the Authority to adopt and enforce rules reasonably required to implement the Act; and

WHEREAS, the Board has determined that the fees, rates, charges, and classifications of fee and ratepayers, as well as the terms and conditions under which Authority Water will be provided, established in this Rate Order are necessary to accomplish the purposes and requirements set forth in the Act.

NOW, THEREFORE, IT IS ORDERED BY THE BOARD OF DIRECTORS OF THE NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY THAT:

ARTICLE I DEFINITIONS

Section 1.01 Definitions.

As used herein, the following terms shall have the respective meanings set forth or referred to below:

"Act" means House Bill 2965 of the 76th Texas Legislature, as amended.

"Authority" means the North Harris County Regional Water Authority or its representatives or consultants.

"Authority Engineer" means the Authority's Program Manager (currently AECOM USA Group, Inc.), which may be changed from time to time by the Authority.

"Authority Operator" means the operating company performing operations for the Authority (currently Severn Trent Environmental Services, Inc.), which may be changed from time to time by the Authority.

"Authority System" means the Authority's facilities, pipelines, storage tanks, conduits, pumping stations, treatment plants, meters, valves, and any other facility, device, or related appurtenance or connection used in the treatment, transportation, storage or otherwise related to the Authority's provision of Authority Water, including all easements, rights-of-way and sites owned or utilized by the Authority.

"Authority Water" means water (whether surface, ground, or a blend of both) that is delivered through or by the Authority System other than pursuant to a Groundwater Transfer Agreement – Buyer.

"Board" means the Board of Directors of the Authority.

"Chloramine System" means a chlorine and ammonia automatic proportional feed disinfection system, which is required to be installed by each Converted Entity prior to receiving Authority Water from the Authority, as further described in Section 5.05 hereof.

"Commission" means the Texas Commission on Environmental Quality, and any predecessor or successor agency.

"Converted Entity" means a Person who is designated by the Authority to receive or is actually receiving Authority Water other than through a Groundwater Transfer Agreement – Buyer or a temporary or emergency water interconnect with a Converted Entity.

"Cost of Water" means the Fee charged to a Payor based on the amount of (i) Water pumped from a Non-Exempt Well; (ii) Imported Water transported into the Authority; and/or (iii) Authority Water received, and shall be expressed as an amount of dollars for each 1,000 gallons of Water pumped, imported and/or received from the Authority, as applicable.

"Delivery Point" means the location at which the Authority's System connects to the water system of a Converted Entity through which Authority Water is supplied by the Authority to the Converted Entity.

"District" means any district created pursuant to Article III, Section 52(b)(1), (2) or Article XVI, Section 59, Texas Constitution, regardless of the manner of creation, other than a navigation district or a district governed by Chapter 36 of the Texas Water Code.

"Exempt Well" means a Well within the Authority's boundaries that (i) is not subject to groundwater reduction requirements imposed by the HGSD, as such requirements may be amended from time to time; (ii) is owned by a municipality not providing service to customers within the boundaries of the Authority; (iii) has a casing diameter of less than five (5) inches that solely serves a single family dwelling; (iv) is regulated under Chapter 27 of the Texas Water Code (injection wells); (v) is used for irrigation of agricultural crops; (vi) singularly or when aggregated with other Wells produces less than five (5) million gallons annually; or (vii) is used solely for electric generation.

"Fee" shall mean, collectively or individually, any fee, rate or charge imposed by the Authority under the provisions of this Rate Order.

"General Manager" means the General Manager of the Authority or his/her designee(s), or any other person who may hereafter exercise the functions of the said General Manager.

"GRP" means that certain groundwater reduction plan, dated May 2003, as amended, and all directives, determinations and requirements issued by the Authority (or the Authority Engineer or Authority Operator) pursuant to such plan, as all of same may be amended from time to time.

"HGSD" means the Harris–Galveston Subsidence District.

"Houston" means the City of Houston, Texas.

"Imported Water" means water, whether groundwater or surface water, that is produced outside of the boundaries of the Authority and transported into the boundaries of the Authority, by a Person other than the Authority, for subsequent distribution to an end user within the boundaries of the Authority.

"Importing Water" means the act of transporting water produced outside the Authority's boundaries across the Authority's boundaries for subsequent distribution to an end user within the Authority's boundaries.

"Meter" means any meter required to be installed by Section 4.01(a) hereof.

"Non-Exempt Well" means any Well within the Authority other than an Exempt Well.

"Non-Exempt Well Owner" means any Person owning a Non-Exempt Well.

"OPRS" means the Online Pumpage Reporting System maintained by the Authority to track the volume of Water received and from which each Payor will generate and print monthly bills for Fees owed by each Payor.

"Payor" means a Person required to pay a Fee under this Rate Order.

"Person" means any individual, corporation, organization, government or governmental subdivision or agency, District, municipality, county, political subdivision, business trust, trust, estate, partnership, association, or any other legal entity.

"Pricing Policy" means the policy adopted by the Board pursuant to which the Cost of Water is determined and implemented. The Cost of Water shall be stated within the body of or as an exhibit or attachment to the Pricing Policy. The Authority's current Pricing Policy is attached hereto as **Exhibit "A"**.

"Rate Order" means this North Harris County Regional Water Authority Rate Order, as may be amended by the Authority from time to time.

"Water" means, collectively, groundwater pumped by a Non-Exempt Well, Imported Water and Authority Water.

"Water Importation Site" means each connection, other than a connection through which the Authority receives water, whether permanent or temporary, at which water originating from outside the boundaries of the Authority enters the boundaries of the Authority.

"Water Supply Agreement" means a written agreement in a form substantially similar to that attached hereto as **Exhibit "C"** wherein the Authority covenants to supply and sell, and a buyer covenants to receive and purchase, a stated volume of Authority Water.

"Well" means a facility, device, or method used to withdraw groundwater.

Section 1.02 Interpretations.

The article and section headings of this Rate Order are included herein for convenience of reference purposes only and shall not constitute a part of this Rate Order or affect its interpretation in any respect. Except where the context otherwise requires, words imparting the singular number shall include the plural and vice versa.

Section 1.03 References.

Any reference in this Rate Order to a document shall mean such document and all exhibits thereto as amended or supplemented from time to time.

Section 1.04 Effective Date.

This Rate Order shall become effective immediately upon adoption. However, the provisions of Article III below, including without limitation the Pricing Policy and the Cost of Water stated therein, shall become effective on January 1, 2010.

**ARTICLE II
FINDINGS**

Section 2.01 Findings.

Each of the recitals stated in this Rate Order are hereby adopted as a finding of the Board. All statutory requirements and conditions have been met for the establishment of those fees, rates, charges and classifications of fee and rate payers set forth in this Rate Order.

**ARTICLE III
PRICING POLICY, COST OF WATER AND FEE COLLECTION**

Section 3.01 Pricing Policy; Cost of Water.

The Authority shall, by order or resolution of the Board adopted in compliance with all applicable laws, implement a Pricing Policy and set the Cost of Water. The Board may periodically adopt an updated Pricing Policy and/or Cost of Water without the necessity of amending this Rate Order. A copy of the current Pricing Policy, which contains the Cost of Water, is attached hereto as **Exhibit "A"**.

Section 3.02 Date Payments Due.

A Payor must pay the full Fee owed on a monthly basis, and such Fees for Water received each month shall be due by the 18th day of the second (2nd) month following month during which the Payor incurred the Fee. For example, Fees for Water received during the month of January must be paid by the 18th of March. All payments must be received at the office of the Authority, if mailed, or in the Authority's account, if wired, on or before the due date.

Section 3.03 Meter Reading; Reporting.

(a) *Authority.* The Authority will not send invoices or bills to any Payor. However, the Authority shall deliver to each Payor a notice, including a copy, of any orders or resolutions changing the Pricing Policy or Cost of Water and will read each Meter measuring Authority Water on the last regular business day of each month and enter such readings into the OPRS.

(b) *Payor.* Payors must read Meters not measuring Authority Water on a daily basis and enter such readings into the OPRS a minimum of two (2) non-consecutive days each week. However, Payors whose water distribution systems serve fewer than 250 connections and use only groundwater or purchase treated Water shall read Meters not measuring Authority Water and enter such readings into the OPRS a minimum of one (1) time each week.

Section 3.04 Collection of Fees.

(a) *Fee Statements.* Once all Meter readings have been entered pursuant to Section 3.03 hereof, the Payor shall print its Fee statement from the OPRS and deliver the Fee statement to the Authority with full payment, within the timeframe required by Section 3.02 hereof.

(b) *Late Fees.* Payments for Fees not received by the Authority by the date required in Section 3.02 hereof shall accrue interest at a rate equal to the sum of one percent (1%) and the prime rate published in the Wall Street Journal on the first (1st) day of preceding July that does not fall on a Saturday or Sunday.

(c) *Collection Costs.* In a formal administrative or judicial action to collect Fees or interest due under this Rate Order, the opposing party, which may be the Authority or the Payor, shall pay the reasonable attorney fees of the prevailing party.

Section 3.05 Form of Payment.

All Fees payable to the Authority shall be paid in money which is legal tender in the United States of America. Payments will be accepted only by check or money order made payable to the "North Harris County Regional Water Authority" or by wire transfer according to written wiring instructions provided by the Authority. No cash will be accepted. Written wire instructions are available upon request.

**ARTICLE IV
MEASUREMENT OF WATER USAGE**

Section 4.01 Meters.

(a) *Locations.* Each Non-Exempt Well, Delivery Point and Water Importation Site shall be equipped with a Meter to measure the volume of (i) water pumped from each Non-Exempt Well, (ii) Authority Water supplied by the Authority to a Converted Entity; or (iii) Imported Water transported into the Authority, respectively; provided however, that any Water Importation Site which is solely for emergency use and is utilized for less than 30 days in any 365-day period shall be exempt from the requirement to be equipped with a Meter. The Authority may, in its sole discretion and on a case-by-case basis, exempt a Water Importation Site installed solely for emergency purposes in the event it must be used for more than 30 days in any 365-day period.

(b) *Accuracy Standards; Testing and Recalibration.* All Meters must be calibrated at least once every two (2) years. Any Meter measuring Authority Water must be between 97% and 103% accurate. Any Meter measuring other types of Water must be between 95% and 105% accurate. If the Authority at any time believes a Meter measuring Water, other than Authority Water, fails to meet the aforementioned accuracy standards, it may cause such Meter to be independently tested and the results thereof be reported to the Authority. If the Payor refuses to test a Meter measuring Water other than Authority Water after the Authority so requests, the Authority may have the Meter independently tested and recalibrated, including, if necessary, removing the Meter for testing and replacing it with a temporary Meter. Likewise,

should a Payor believe a Meter measuring Authority Water fails to meet the aforementioned accuracy standards, it may notify the Authority and request that such Meter be independently tested and the results thereof be reported to the Payor. If the testing reveals that the Meter fails to meet these accuracy standards, the total quantity of Water received by the Payor will be deemed to be the average daily consumption as measured by the Meter when in working order, and the Meter shall be corrected, repaired, or replaced with an accurate Meter. In such event, the Payor's payments of Fees to the Authority shall be adjusted (increased or decreased) for a period extending back to the time when the inaccuracy began, if such time is ascertainable; and if such time is not ascertainable, for a period extending back to the last test of the measuring equipment, the date of a material change in average daily use or 120 days, whichever is shorter. Any such adjustments shall be reflected on the Payor's first payment following the adjustment. The party that owns and is responsible for operation and maintenance of the Meter, pursuant to Section 5.03 of this Rate Order, shall pay the cost for any testing, recalibrating, removing or replacing a Meter or installing a temporary Meter, as applicable, unless the testing reveals that the Meter complies with the aforementioned accuracy standards, in which case the party requesting the testing shall pay such costs.

Section 4.02 Audits.

The Authority shall have the right to audit the Water measurements or calculations submitted by the Payor by reading any of the Payor's Meter(s) and reviewing the Payor's records. Upon written request, a Payor shall provide to the Authority, without charge, a copy of any agreement related to a Water Importation Site or Imported Water and all data and reports used to calculate the volume of Imported Water or Non-Exempt Well pumpage. Any such audit shall be conducted in accordance with audit procedures adopted and implemented by the Authority.

Section 4.03 Failure to Read Meter or Report Water Received.

In the event a Payor fails to read a Meter and enter such readings, as required by Section 3.03(b) hereof, after giving notice of such failure the Authority shall have the right to read the Meter. If the Authority reads a Meter under such conditions, the Payor will be billed at the Authority's cost for this service. The Payor's Fee may be based on the Authority's reading, regardless of when the Authority reads the meter, at the Authority's sole discretion. In addition, the Authority may impose a penalty of \$100 for any month in which such Water was received but not reported, or the amount of such Water reported was more than 10% below the actual amount of such Water received, as determined by the Authority.

Section 4.04 Annual Water Reports.

Prior to January 31st of each year, each Well owner shall submit to the Authority an Annual Groundwater Pumpage Report for the immediately preceding calendar year, in the same format as that required by the HGSD. In addition, each Well owner whose Well permit has been aggregated by the HGSD under the Authority shall, by April 1 of each year, report to the Authority the estimated amount of Water it will use during the next permit year.

ARTICLE V
AUTHORITY WATER USE AND CONVERSION

Section 5.01 Use of Authority Water by Converted Entities.

Except as otherwise provided by this Section 5.01, all Converted Entities must use only Authority Water. In the event the Authority is unable to supply a Converted Entity with an adequate quantity of Authority Water to allow the Converted Entity to meet its demand, the Converted Entity may operate its Well(s) for the minimum duration necessary to meet its demand. However, a Converted Entity required to use its Well(s) to meet demand shall coordinate with the Authority and operate its water production and distribution system to maximize Authority Water consumption. In addition, a Converted Entity may exercise its Well(s) as necessary to maintain its/their proper operability; provided that the Converted Entity provides prior written notice of such necessity to the Authority Engineer detailing the duration and frequency of exercise the Well requires. Notwithstanding the foregoing, nothing in this Rate Order shall be interpreted as prohibiting a Converted Entity from taking steps necessary to respond to a life-safety emergency or to mitigate the impact thereof. The Authority will use its best efforts to provide reasonable assistance to Converted Entities in responding to a life-safety emergency as rapidly as practicable. As used this Section 5.01, a "life-safety emergency" shall include an explosion, fire or other event requiring unusual quantities of Water; sabotage, infection or contamination of Water; loss of pressure; disinfection failure; or another condition involving or relating to Water that could cause public illness, injury or loss of life.

Section 5.02 Delivery Point; Title to Authority Water.

The Delivery Point for Authority Water supplied by the Authority to a Converted Entity shall be one (1) foot downstream of the pressure/flow control station and/or Meter installed by the Authority to serve such Converted Entity, whichever is furthest downstream, as further illustrated on **Exhibit "B"** attached hereto. Title to Authority Water delivered hereunder shall pass from the Authority to the Converted Entity at the Delivery Point. As such, the Authority shall be deemed to be in exclusive control and possession of Authority Water until the same shall have been delivered to the Delivery Point and the Converted Entity shall be deemed to be in exclusive control and possession of Authority Water after receipt of same at the Delivery Point. In addition, the risk of loss for Water delivered hereunder shall be and remain with the party having exclusive control and possession of the Water as provided herein.

Section 5.03 Delivery Facilities.

Each Converted Entity shall be responsible for conveying Authority Water from the Delivery Point to and into the Converted Entity's water system. The Authority, and not the Converted Entity, shall own, operate and maintain all of the equipment installed by the Authority upstream of the Delivery Point; the Converted Entity shall maintain all facilities, tanks, buildings, materials, wells, lines downstream and any other similar or related equipment or facilities related to the receipt and distribution of Authority Water, specifically including the Converted Entity's existing water production and distribution system. The Payor shall be responsible for operation and maintenance of all Meters and related appurtenances used to measure Water that is not Authority Water.

Section 5.04 Connection to Authority System.

No Person shall connect to the Authority System unless and until the Authority consents in writing to such connection. If the Authority, at its option, so consents, the connection shall be made in strict conformity with the terms and conditions of such Authority consent. The Authority shall furnish, install and operate, at its own expense, the necessary equipment and devices of standard type for measuring the quantity of Authority Water delivered by the Authority. Unless otherwise agreed to in writing by the Authority, the Converted Entity shall at all times, at its own expense, maintain an air gap, in accordance with a location and specifications approved by the Authority, downstream of the Delivery Point before Authority Water enters the Converted Entity's ground storage tank. Nothing in this Section 5.04 shall: (i) require a Converted Entity to obtain any additional consent from the Authority related to connections to the Authority System existing on the date this Rate Order is adopted by the Authority; or (ii) apply to a connection constructed by the Authority.

Section 5.05 Chloramine System.

(a) *Installation.* Each Converted Entity is required to: (i) receive permission from the Commission to use chloramine disinfection; (ii) receive approval from the Commission to construct its Chloramine System; (iii) install and begin use of its Chloramine System; and (iv) maintain use of its Chloramine System thereafter for so long as it is connected to the Authority's System. Failure to have a Chloramine System installed and operational by the date on which the Authority is prepared to provide Authority Water to the Converted Entity shall constitute a violation of this Rate Order subject to the penalties outlined in Sections 6.01–.03 hereof.

(b) *Notice.* Prior to first (1st) using a Chloramine System, each Converted Entity (and each Person that receives water from a Converted Entity, for example and without limitation, via a water interconnect), and not the Authority, shall be responsible for: (i) notifying such Converted Entity's Water users about its conversion to and use of chloramine disinfection in compliance with the form and timeframe prescribed by the Commission; and (ii) complying with any applicable United States Environmental Protection Agency and Commission regulations and requirements, and any other applicable laws.

(c) *Certification.* Prior to first (1st) receiving Authority Water, each Converted Entity shall provide evidence to the Authority, in a form acceptable to the Authority, demonstrating that it has complied with the requirements of this Section 5.05.

Section 5.06 Quantity or Pressure of Water; Water Supply Agreements.

(a) Except as provided in this Section 5.06 and notwithstanding any other provision of this Rate Order or act of the Authority, the Authority does not and will not guarantee to any Person a specific quantity or pressure of Authority Water for any purpose whatsoever. In no case shall the Authority be liable for the failure or refusal to furnish Authority Water or any particular amount or pressure of water. In addition, under current Commission rules, Authority Water is not considered a source of water for purposes of complying with Commission rules absent an executed water supply agreement. The Authority will consider entering such agreements in a form substantially similar to that attached hereto as **Exhibit "C"**.

(b) The terms of this Rate Order shall be incorporated by reference into each Water Supply Agreement as if fully set forth therein. The General Manager shall negotiate each Water Supply Agreement on the terms specified on the form of such agreement attached hereto, or on such other terms as the General Manager determines necessary or convenient after consultation with the Authority Engineer and general counsel to the Authority. The General Manager shall have authority to execute each Water Supply Agreement and fully bind the Authority thereto.

Section 5.07 Interruptions in Service.

Notwithstanding any provision of this Rate Order or any applicable agreement entered into by the Authority, the Authority may interrupt, reduce or cease deliveries of Authority Water if such interruption or reduction is necessary: (i) due to limitations in the Authority System or Houston's water system; (ii) in case of emergencies or breakdowns in the Authority System or Houston's water system; or (iii) for equipment installation, repairs, modifications, replacements, inspections, or maintenance on the Authority System or Houston's water system. When practicable, the Authority shall provide notice in advance of such interruptions, reductions or cessation. However, the Authority may interrupt, reduce or cease deliveries of Authority Water without notice if such interruption or reduction is necessary because of any emergency condition involving public health, safety or welfare or for purposes of the GRP. The Authority shall have no liability to any Person for any damages caused by any interruption in service or any failure (partial or total) to deliver Authority Water.

Section 5.08 Maintenance of Groundwater Wells and Interconnects.

Subject to the limitations provided in Section 5.01, Converted Entities: (i) to the extent reasonable, shall maintain their existing groundwater well(s) and other groundwater facilities; and (ii) are encouraged to maintain water line interconnect(s) with other political subdivision(s). If a Converted Entity determines that its groundwater well cannot reasonably be maintained, such Converted Entity shall immediately notify the Authority of such determination.

Section 5.09 Early Conversion; Inadequate Groundwater Facilities.

To the extent that a Person desires to purchase Authority Water on a wholesale basis for any reason in advance of the date that the Authority intends to provide Authority Water, such Person may submit a written request for Authority Water to the Authority, which request will be evaluated by the Authority, in its sole discretion, on economic feasibility, GRP cost, and other factors; and the Authority will determine, in its sole discretion, if such request can be satisfied, in what amount, and according to what time frame and terms.

Section 5.10 Implementation of GRP.

Pursuant to the Act, the Authority is authorized to develop, prepare, revise, adopt, implement, enforce, manage and participate in the GRP. The GRP may specify the measures to be taken to reduce groundwater withdrawals and the dates and extent to which Persons shall reduce or terminate withdrawal of groundwater and instead receive water from alternative sources. The Authority shall manage the GRP, including, without limitation, coordinating with the HGSD and implementing the GRP's goals. In order to implement the GRP, the Authority may from time to time issue groundwater reduction requirements to Persons in order to: (a) comply with or exceed

HGSD groundwater reduction requirements; (b) allocate Authority Water among Persons, including requiring Persons to take Authority Water in amounts determined by the Authority, but that shall not exceed the Person's total demand; and/or (c) comply with the aggregated groundwater permit from the HGSD. All Persons shall comply with such orders and requirements of the Authority.

Section 5.11 Early-Conversion/Over-Conversion Credits.

The Authority shall receive and be entitled to any early-conversion or over-conversion credits issued by the HGSD related to Authority Water (or any Water other than groundwater) consumed or utilized by any Person within the GRP. No Person within the GRP shall obtain (or attempt to obtain) for such Person's own benefit or the benefit of anyone other than the Authority or sell (or attempt to sell), any such early-conversion or over-conversion credits. If requested by the Authority, Persons within the GRP shall cooperate with the Authority in order to enable the Authority to receive such early-conversion or over-conversion credits. Nothing in this Section 5.11 shall mean that the Authority will receive or be entitled to any credits resulting from any Person's participation in HGSD's WaterWise program.

Section 5.12 Drought Contingency and Water Conservation Plans.

(a) *Drought Contingency Plans.* Prior to first receiving Authority Water, each Converted Entity shall certify to the Authority that it has adopted and implemented the drought contingency plan already required by 30 Texas Administrative Code ("TAC") Chapter 288. If a Converted Entity intends to resell Authority Water to a wholesale customer, the Converted Entity shall require its wholesale customer to also implement a drought contingency plan meeting the requirements of 30 TAC Chapter 288.

(b) *Water Conservation Plans.* By April 1, 2010 or prior to first receiving Authority Water, whichever occurs latest, each Converted Entity shall (i) implement a water conservation plan that complies with 30 TAC § 288.2(a), **whether or not the Person is otherwise currently required to implement such a plan**; and (ii) certify such fact to the Authority. If a Converted Entity intends to resell Authority Water to a wholesale customer, the Converted Entity shall require its wholesale customer to also implement a water conservation plan meeting the requirements of this Section 5.12(b).

(c) *Certifications.* The certifications required in Sections 5.12(a)-(b) stating that the drought contingency plan and/or water conservation plan, as applicable, has been adopted and implemented shall be signed by the Converted Entity's highest ranking officer. In addition, each Converted Entity certifying it has complied with Section 5.12(b) hereof shall enclose therewith a copy of the non-promotional rate structure (i.e. a rate structure that charges a higher rate as Water consumption increases) adopted under its water conservation plan.

Section 5.13 Compliance of Converted Entities' Water Systems.

In order to protect the Authority System, each Converted Entity's water system, shall be constructed and operated to comply with the rules promulgated by the Commission, or any successor agency. Should a condition in violation of these requirements be discovered, such Converted Entity shall promptly cure same. The Authority may conduct inspections from time to

time to determine that no conditions exist in such Converted Entity's water system and in connections to the Converted Entity's customers' premises which would or might adversely affect the Authority System.

Section 5.14 Termination and Reconnection of Service.

The Authority may take steps necessary to prevent a Converted Entity from continuing to receive Authority Water as a result of violating the terms of this Rate Order or other Authority rules. If a Converted Entity's ability to receive Authority Water is terminated by the Authority for any legally authorized cause, all charges then due and a reconnection fee shall be paid prior to service being restored. In the event the Authority deems it necessary to remove a Converted Entity's Meter to enforce such termination, a reinstallation fee shall be paid prior to service being restored, which fee is in addition to any other fees imposed (including, without limitation, the reconnection fee). The amount of the reconnection and reinstallation fees described above shall equal the actual cost incurred by the Authority to reconnect service and/or remove and reinstall the Converted Entity's Meter, respectively.

**ARTICLE VI
AUTHORITY RULES AND PENALTIES**

Section 6.01 Rate Order Constitutes Authority Rule.

All of the terms, conditions and duties imposed upon any Person under this Rate Order shall constitute rules of the Authority. As such, failure by any Person to comply with this Rate Order shall be a violation of the Authority's rules. Such violations shall include, but are not limited to any Person's failure to:

- (a) read any Meter(s) not measuring Authority Water and accurately report such readings to the Authority;
- (b) allow the Authority to audit quantities of Well Pumpage or Imported Water, read any Meter(s), or test and recalibrate, if necessary, any Meter(s);
- (c) maintain any Meter(s) not measuring Authority Water at the applicable accuracy standard;
- (d) pay all Fees when due; and
- (e) comply with the GRP and all directives and requirements issued by the Authority related to the GRP, including all requirements related to the amounts of Authority Water a Converted Entity must take from the Authority.

Section 6.02 Civil Penalty.

A Person is subject to a civil penalty of up to \$10,000 for each violation or each day of a continuing violation if the Person: (i) violates any provision of this Rate Order, the GRP or, any rules contained in either of same; (ii) makes unauthorized use of Authority services or facilities, or (iii) causes damage to Authority facilities by using such facilities in a manner or for a purpose contrary to the purpose for which such facilities were designed. The Authority shall set the

amount of the penalty based on (a) the severity of the offense; (b) whether such violation was willful, knowing, reckless or inadvertent; (c) the history of offenses by such Person; and (d) the damages sustained by the Authority. The Authority may bring an action to recover the penalty in a district court in the county where the violation occurred. Any such penalties shall be paid to the Authority.

Section 6.03 Termination for Rate Order or GRP Violations.

Any Person who violates any provision of this Rate Order or the GRP shall be subject to being removed from the GRP or having service terminated; provided, however, that prior to such removal or termination for violations that do not constitute a hazard to health or safety or endanger the integrity of the Authority's system or adversely affect the GRP, the Authority shall give written notice to such Person of the pending removal or disconnection, and such notice shall contain a timeframe during which the Person may contest, explain or correct the violation. In the event a Person's violations create a hazard to health or safety or endanger the integrity of the Authority's system or adversely affect the GRP, the Authority may terminate service to such Person without prior notice; provided that the Authority gives notice to such Person within 24 hours after service has been terminated. Removal from the GRP or termination of service shall be in addition to any other penalties that may be imposed by the Authority under this Rate Order and remedies that may otherwise be available to the Authority.

Section 6.04 Injunction.

The Authority may bring an action for injunctive relief in a district court in the county where a violation of an Authority rule or order occurs or is threatened to occur. The Authority may bring an action for a civil penalty and injunctive relief in the same proceeding.

Section 6.05 Penalties Passed through to Violator.

In the event the Authority is penalized for any reason and the cause for such penalty can be attributed to the action or inaction of any Person, to the maximum extent possible such penalty shall be passed through to such Person.

**ARTICLE VII
MISCELLANEOUS**

Section 7.01 Right to Enter Land.

In addition to any other rights that the Authority may have (by easement or otherwise), the Authority and its representatives shall have the authority to enter upon any Payor's property or any property where a Payor's Meter is located at any reasonable time in order to: (1) inspect, repair, install, test, maintain or operate any Authority facilities located on a District's water plant site(s) or to test or monitor the Authority Water delivered; (2) audit the Water measurements submitted to the Authority; (3) measure Water in the event a Payor has failed to do so; (4) inspect and investigate conditions relating to the quality of Water or compliance with any Authority rule, regulation, permit or order. If requested by the Authority, Authority Engineer or Authority Operator, a Payor shall immediately cooperate with the Authority, Authority Engineer or Authority Operator to allow the Authority, Authority Engineer or Authority Operator to enter such

site(s) for any of such purposes. Unless the Authority has reason to believe that a Payor has not submitted correct Water data or an emergency condition involving the public health, safety or welfare exists, the Authority will provide the Payor a minimum of one (1) business day's notice of its intent to enter upon the Payor's land or any property where a Payor's Meter is located. Authority representatives entering private property pursuant to this Section shall observe the establishment's rules and regulations concerning safety, internal security, and fire protection and shall notify any occupant or management of their presence and shall exhibit proper credentials.

Section 7.02 Amendments to Rate Order and GRP.

As determined necessary by the Authority, the Authority reserves the right to modify from time to time the GRP and the rates, charges, fees or any other terms of this Rate Order.

Section 7.03 Authority Designee.

The Authority hereby designates its General Manager, the Board President and Vice President, the Authority Engineer, the Authority's Financial Assistant and the Authority Operator as its designees with authority to exercise the Authority's powers under its GRP and this Rate Order. In addition, the General Manager may take any action on behalf of the Authority necessary and convenient to accomplish the purposes of this Rate Order and the GRP.

Section 7.04 Refusal to Add Persons to GRP.

The Authority, at its sole discretion, may refuse to add Persons (and their wells) to the GRP, including, without limitation, any Person seeking to be re-admitted to the GRP who at any time had been removed from the GRP.

Section 7.05 Compliance with Other Rules.

Except as specifically provided in this Rate Order, nothing herein shall affect any Person's duty to ensure it complies with all applicable rules, regulations, ordinances or laws governing such Person, specifically including without limitation those rules, regulations, ordinances or laws promulgated by the State of Texas, the Commission, the Texas Water Development Board, Harris County, HGSD and Houston.

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EXHIBIT "A"
Pricing Policy



**UPDATED PRICING POLICY
OF THE NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**
(Effective January 1, 2010)

This Updated Pricing Policy of the North Harris County Regional Water Authority (this "Updated Pricing Policy") is intended to define the Cost of Water paid to the Authority for Water used within the Authority and is an integral part of the Authority's Rate Order (the "Rate Order"), adopted on October 5, 2009. Unless specifically defined otherwise, capitalized terms in this Updated Pricing Policy shall have the meanings defined in the Rate Order.

Effective January 1, 2010, the following Cost of Water will apply to and be due by users of Water within the Authority:

Authority Water	\$2.20 per 1,000 gallons
Water pumped from a Non-Exempt Well	\$1.75 per 1,000 gallons
Imported Water	\$1.75 per 1,000 gallons

In addition to the above Fees, the Authority will provide a credit for the cost of the Chloramine System constructed by each Converted Entity (the "Chloramination Credit"). Requirements to receive such credit and the basis for calculating same is defined below. Furthermore, any credits for capital contributions paid to the Authority by a Payor shall continue as provided in the applicable written agreement executed between the Payor and the Authority.

The Authority may revise the above Fees and modify, delete or add any credit(s), subject to the provisions of any applicable written agreements, if and when necessary. Payors will be notified of any such changes.

Chloramination Credit

A Converted Entity shall be eligible to receive the Chloramination Credit. In order to receive the Chloramination Credit the Converted Entity shall provide, in a timely manner and in a form acceptable to the General Manager, information documenting and certifying the cost of its Chloramine System. Such cost shall include the actual construction and engineering/design costs of the Converted Entity's Chloramine System.

Once the required information is provided to and accepted by the General Manager, the Chloramination Credit will be calculated by the Authority. The annual Chloramination Credit shall be calculated by amortizing the cost of the Chloramine System at 6% interest over a 30-year period, which shall begin the year the facilities are placed in service. The annual Chloramination Credit amount will be divided by 12 and the resultant amount will be credited monthly toward the fees payable to the Authority for the Water used by the Converted Entity.



New/Replacement Facilities

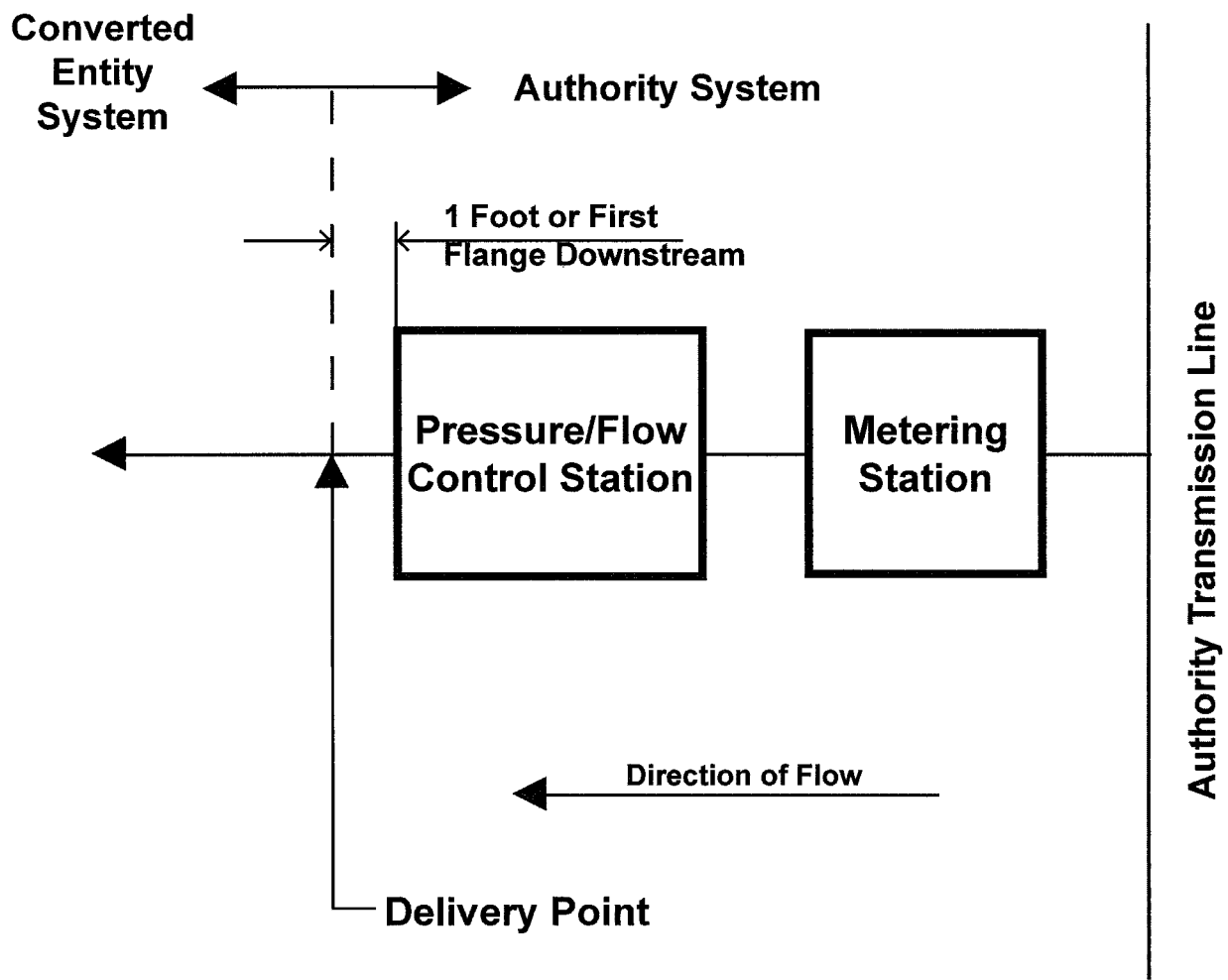
In order to help facilitate the effective implementation of the GRP, any Payor who anticipates the construction of new or replacement Water production, storage and/or treatment facilities and/or related appurtenances shall advise the Authority of those plans as early in the process as possible. The Authority will review such proposed improvements for conformity with the goals of the GRP and the possibility of the Authority being able to address those needs (i.e., by providing water in lieu of the Payor having to construct or replace facilities). Within the limits of its jurisdiction, the Authority will regulate construction of such facilities to accomplish the goals of the GRP.

Policy Implementation

The General Manager is authorized to take any actions on behalf of the Authority necessary and convenient to accomplish the purposes of this Updated Pricing Policy. The General Manager is also authorized to take actions necessary to comply with any special credit provisions provided under the Groundwater Transfer Program or any other agreements that may exist between a Payor and the Authority.

EXHIBIT "B"
Delivery Point

EXHIBIT B
SCHEMATIC LAYOUT OF LOCATION
OF DELIVERY POINT



NOT TO SCALE

EXHIBIT "C"
Form of Water Supply Agreement

WATER SUPPLY AGREEMENT

WHEREAS, [buyer name], a [entity type] (the "Buyer") has requested this Water Supply Agreement (the "Agreement") from the North Harris County Regional Water Authority (the "Authority") so Buyer may maintain compliance with the Texas Commission on Environmental Quality's requirements related to Buyer's minimum water supply capacity;

WHEREAS, Buyer desires to purchase and the Authority desires to sell the volume of water specified below in the manner and on the terms herein specified;

NOW, THEREFORE, for and in consideration of the mutual promises and consideration hereinafter described, the Authority and Buyer hereby agree as follows:

1. Purchase and Sale of Water. Buyer shall buy and receive from the Authority, and the Authority shall sell and deliver to the Buyer, at the Delivery Point, a volume of Authority Water between __ million gallons per day ("MGD") and __ MGD.

2. Flow Rate, Pressure and Disinfection Method. The Authority shall deliver Authority Water at a rate not to exceed __ gallons per hour and at pressure adequate to discharge Authority Water into Buyer's ground storage tank. To facilitate the operation of both the Authority System and Buyer's water production and distribution system, Buyer shall accept at the Delivery Point __ MGD average daily flow and __ MGD during peak day flow. Both the Authority and Buyer shall disinfect Authority Water using chloramines.

3. Contact Information. The contact information for Buyer for all correspondence related to this Agreement shall be:

Buyer	With a copy to:
[Name]	[Name]
[Street]	[Street]
[City, State Zip]	[City, State Zip]
[Phone #]	[Phone #]
[Fax #] Fax	[Fax #] Fax

4. Term. This Agreement shall be effective on the date on which this Agreement is signed by both parties hereto and shall end on January 1, 2040.

5. Other Terms Incorporated by Reference. The Authority's Standard Terms of Water Supply Agreement (the "Standard Terms") and Rate Order, as it may be amended from time to time, are incorporated by reference and made apart of this Agreement as though fully set forth herein. A copy of the Standard Terms is attached hereto as **Appendix "1"**. Unless otherwise defined, capitalized terms in this Agreement and the Standard Terms shall have the meaning assigned in the Rate Order.

The parties hereto have caused this Agreement to be duly executed effective as of the date of the latest signature hereon.

Buyer: _____
Name: _____
Title: _____

Authority: _____
Jimmie Schindewolf
General Manager

Attest: _____
Name: _____
Title: _____

Date: _____

Date: _____

APPENDIX "1"

Standard Terms of Water Supply Agreement

Notices. All notices, consents, or other communications required hereunder shall be in writing and shall be sufficiently given (i) if addressed and mailed by first-class, certified or registered mail, postage prepaid, or (ii) upon receipt of notice given by facsimile, overnight courier or personal delivery, in either case as follows:

If to the Buyer: to the address and/or fax number listed in Paragraph 3 of the Water Supply Agreement.

If to the Authority:
Jimmie Schindewolf, General Manager
North Harris County Regional Water Authority
3648 FM 1960 West, Suite 110
Houston, Texas 77068
(Fax) 281-440-4104

With a copy to:
Robin S. Bobbitt
Johnson Radcliffe Petrov & Bobbitt PLLC
1001 McKinney, Suite 1000
Houston, Texas 77002
(Fax) 713-237-1313

Binding Effect; Assignment. The Agreement shall inure to the benefit of, and shall be binding upon, the Authority, Buyer and their respective successors and assigns authorized by the terms of the Agreement. Neither party may assign the Agreement or its rights and responsibilities thereunder to a third party without the prior written consent of the other party to the Agreement.

Severability. In the event any provision of the Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of such Agreement and the Agreement shall be read as though the invalidated or unenforceable provision were not present.

Governing Law. The Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas, including, but not limited to, the rules and regulations of the Commission. Venue shall be in Harris County, Texas.

Third-Party Benefit. Nothing in the Agreement, express or implied, is intended or shall be construed to confer upon or give to any person, other than the Authority and the Buyer involved, any right, remedy or claim under or by reason of the Agreement; and the covenants and agreements contained therein are and shall be for the sole and exclusive benefit of the parties thereto or their successors and assigns.

Integration. The Water Supply

Agreement, these Standard Terms and the Rate Order constitute the entire agreement between the Authority and Buyer and shall completely and fully supersede all prior undertakings or agreements, whether oral or written, relating to the subject matter hereof.

Headings. Section and subsection headings in the Agreement are included for convenience of reference only and will not constitute a part of the Agreement for any purpose.

Updates to Authority Rules. The sale of Authority Water under the Agreement shall be subject to all of the provisions of the rules, rates and regulations established and amended from time to time by the Authority's Board of Directors or its General Manager concerning rate review and adjustment, generally-applicable temporary interruptions of service, cut-off, lien for charges, and all other generally-applicable matters now or hereafter prescribed by resolution of the Authority or delegated to the Authority's General Manager, including rules required by or promulgated under the Authority's Rate Order or GRP; provided that no amendment to or waiver of any provision of the Agreement, nor consent thereto, will be effective unless the same is in writing executed by both the Authority and the Buyer. Such amendment, waiver or consent will be effective only in the specific instance and for the specific purpose for which given. Nothing in this section shall prohibit any change to these Standard Terms of Water Supply Agreement required to comply with an order or a regulation of any State or Federal agency with jurisdiction over the Authority, and any such change shall be binding on the Buyer.

Waiver. Failure of either party at any time to require performance of any provision of the Agreement shall not limit the party's right to enforce such provision, nor shall any waiver of any breach of any provision constitute a waiver of any succeeding breach of that provision or a waiver of that provision itself.

Counterparts. The Agreement may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original; but such counterparts shall together constitute but one and the same Agreement.

Consequential Damages. In no event shall the parties or any of their affiliates, by reason of any of their respective acts or omissions relating to any of their obligations under the Agreement unless such acts or omissions are intentional, be

liable, whether in contract, tort, misrepresentation, warranty, negligence (but not gross negligence), strict liability or otherwise, for any special, indirect, incidental or consequential damages arising out of or in connection with the Agreement, or the performance or breach thereof; provided however that nothing in the foregoing statement shall be construed to be a waiver of sovereign or governmental immunity protections or defenses to which the Authority or Buyer may otherwise be entitled.

Relationship of the Parties. The Authority and a Buyer shall not be deemed in a relationship of partners or joint ventures by reason of the Agreement or the activities taken pursuant hereto. The Agreement is intended to secure and provide for the services of each party hereto as an independent contractor.

Further Assurances. In furtherance of the terms and conditions of the Agreement, each of the parties shall cooperate in good faith with each other in order to achieve the performance of their respective obligations under the Agreement.

Force Majeure. In the event either Buyer or the Authority (a "Party") is rendered unable, wholly or in part, by Force Majeure, to carry out any of its obligations under this Agreement, it is agreed that upon such Party's giving notice and full particulars of such Force Majeure in writing to the other Party as soon as possible after the occurrence of the Force Majeure, the obligations of the Party giving such notice, to the extent it is affected by Force Majeure and to the extent that due diligence is being used to resume performance, shall be suspended for the duration of the Force Majeure. Such cause shall, as far as possible, be remedied with all reasonable dispatch.

The term "Force Majeure," as used herein, shall include, but not be limited to, acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, war, acts of terrorism, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, droughts, tornadoes, hurricanes, arrests and restraints of government and people, explosions, breakage or damage to machinery, pipelines or canals, and any other incapacities of either Party, whether similar to those enumerated or otherwise, and not within the control of the Party claiming such inability, which by the exercise of due diligence and care such Party could not have avoided.