

## SETTLEMENT AGREEMENT AND MUTUAL RELEASE

THIS SETTLEMENT AGREEMENT AND MUTUAL RELEASE – (this "Agreement") is made and entered into by and between County Sanitation Districts Nos. 14 and 20 of Los Angeles County (individually, "District No. 14" and "District No. 20," respectively, and collectively referred to as the "Districts") and the Executive Officer and Prosecution Team of the California Regional Water Quality Control Board, Lahontan Region (the "Prosecution Team") (individually, a "Party" and collectively, the "Parties") with reference to the following facts:

### RECITALS:

A. On or about October 13, 2004, the Regional Water Quality Control Board, Lahontan Region, ("Lahontan Water Board") adopted Cease and Desist Orders for the Lancaster Water Reclamation Plant ("Lancaster WRP") and Palmdale Water Reclamation Plant ("Palmdale WRP"), Cease and Desist Order Nos. R6V-2004-0038 and R6V-2004-0039, respectively (individually, the "CDO", or collectively, the "CDOs"). On or about November 12, 2004, the Districts filed Petitions for Review with the State Water Resources Control Board ("State Water Board") pursuant to Water Code section 13320 contesting the underlying basis and validity of the requirements contained in the CDOs as well as the timeframes imposed for achieving interim and final compliance requirements. The State Water Board dismissed the Districts' Petitions without review, and on April 5, 2005, the Districts filed Petitions for Writ of Mandate in Superior Court pursuant to Water Code section 13330, *County Sanitation District No. 14 of Los Angeles County v. Regional Water Quality Control Board, Lahontan Region*, Riverside County Superior Court Case No. 434672 and *County Sanitation District No. 20 of Los Angeles County v. Regional Water Quality Control Board, Lahontan Region*, Riverside County Superior Court Case No. 434677.

B. The Parties have engaged in good faith settlement negotiations since Fall 2005. Initial settlement discussions were expanded to include resolving administrative civil liability for any and all existing violations of the Waste Discharge Requirements ("WDRs") for District No. 20 (Order Nos. 6-89-31, 6-93-18, 6-00-57, 6-00-57A01, 6-00-57A02, and 6-00-57A03), the CDO for District No. 20 (Order No. R6V-2004-0039), the Cleanup and Abatement Order ("CAO") for District No. 20 (Order No. R6V-2003-056), the WDRs for District No. 14 (Order No. R6V-2002-053), and the CDO for District No. 14 (Order No. R6V-2004-0038), and the timing of the Lahontan Water Board's adoption of WDRs for the upgraded, tertiary treatment facilities at the Lancaster WRP and the corresponding expanded use of the Eastern Agricultural Site for agricultural reuse operations necessary to achieve final compliance with WDRs and the revised CDO for the Lancaster WRP.

C. Due to this effort, the Parties, through their respective representatives, have reached a proposed settlement that includes the adoption of revised CDOs for the Lancaster and Palmdale WRPs (the "Revised CDOs"), adoption of an Administrative Civil Liability Order for existing violations of the WDRs and CDOs for the Lancaster and Palmdale WRPs and the CAO for the Palmdale WRP (the "ACL Order"), and an agreement as to the appropriate scope of, and timing for, adoption of WDRs for the Lancaster WRP. The Prosecution Team has agreed to propose for adoption tentative WDRs for the Lancaster WRP, Revised CDOs, and an ACL Order at the Lahontan Water Board's March 14/15, 2007 meeting, or the next available regular or special meeting in the Antelope Valley, following public notice and comment.

D. The terms of the proposed settlement are that the Districts will pay, in exchange for a full and final release of all claims and/or liability for any and all existing violations of the WDRs and CDOs for the Lancaster and Palmdale WRPs and the CAO for the Palmdale WRP, an administrative civil liability assessment in the amount of \$4.0 million. Of that sum, \$152,000.00 shall be payable to the Waste Discharge Permit Fund pursuant to Water Code section 13350(k), and \$48,000.00 shall be payable to the California Department of Justice ("Department") to reimburse the Department for non-personnel consultant costs incurred to evaluate the propriety of the schedules for actions included in the Revised CDOs. The remainder of the assessment shall be expended on the following Supplemental Environmental Project ("SEP"): \$3.8 million to the Antelope Valley Recycled Water Project for the purpose of developing a regional recycled water distribution system linking water reclamation facilities with reuse sites throughout the Antelope Valley so as to enhance accessibility of recycled water to end users, preserve scarce groundwater supplies, and facilitate groundwater recharge projects by reducing the need to construct new infrastructure.

E. As a material condition of this Agreement, the Districts represent and warrant that contributing to the project serving as the SEP under this Agreement is not and was not previously being contemplated, in whole or in part, by the Districts for any purpose other than to partially satisfy Districts' obligations set forth in the ACL Order, and that the Districts' contribution to the SEP would not be made in the absence of the ACL Order.

F. In order to facilitate the approval of the proposed settlement, and to carry out its terms, the Parties desire to enter into the following agreement.

NOW, THEREFORE, in exchange for their mutual promises and for other good and valuable consideration specified herein, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. The term "Effective Date," as used in this Agreement, shall mean the last date on which the signature of a Party to this Agreement is executed.

2. The Parties agree to support, advocate for, and promote the adoption of the Revised CDOs and the ACL Order, attached hereto as Exhibits A, B, and C, respectively, at the Lahontan Water Board's March 14/15, 2007 meeting, or the next available regular or special meeting in the Antelope Valley, following public notice and comment. The Revised CDOs and ACL Order are indivisible components of the Parties' settlement. For this reason, if the Lahontan Water Board moves to adopt any one document without adopting all three documents as proposed (*e.g.*, adopting the ACL Order without adopting the Revised CDOs), or moves to adopt both the Revised CDOs and ACL Order with modifications (unless the modifications are for immaterial changes to eliminate typographical errors or are specifically agreed upon by the Parties prior to adoption), this Agreement is void, and the Parties will withdraw the Revised CDOs and ACL Order from consideration by the Lahontan Water Board for adoption.

3. The Prosecution Team agrees to propose for adoption at the Lahontan Water Board's March 14/15, 2007 meeting, or the next available regular or special meeting in the Antelope Valley, following the required public notice, tentative WDRs for the upgraded, tertiary treatment facilities at the Lancaster WRP and the corresponding expanded use of the Eastern Agricultural Site, consistent with the Lahontan Water Board's December 22, 2006 letter in response to District No. 14's report of waste discharge and District No. 14's December 28, 2006

addendum to its report of waste discharge. The schedule for completion of actions set forth in the revised CDO for the Lancaster WRP is premised on District No. 14 receiving WDRs in March 2007. Delays in issuing WDRs will correspondingly delay District No. 14's ability to achieve final compliance as prescribed in the revised CDO for the Lancaster WRP. Thus, the Prosecution Team agrees to propose for adoption the tentative WDRs for the Lancaster WRP prior to proposing for adoption the Revised CDOs and ACL Order. If the tentative WDRs are not adopted by the Lahontan Water Board prior to the Lahontan Water Board's consideration of the Revised CDOs and ACL Order, or the adopted WDRs in any way alter District No. 14's ability to timely or reasonably proceed with actions specified in the revised CDO for the Lancaster WRP, as determined by District No. 14, the Parties shall meet and confer to discuss whether the Parties can proceed with proposing for adoption the Revised CDOs and ACL Order as currently proposed. If District No. 14 believes the revised CDO for the Lancaster WRP must be revised in light of the WDRs adopted for the Lancaster WRP, the Parties will not proceed with proposing for adoption the Revised CDOs and ACL Order, and instead, will return to settlement discussions to revise the CDO for the Lancaster WRP.

4. The Parties covenant and agree that they will support, advocate for, and promote the adoption of the Revised CDOs and the ACL Order before the Lahontan Water Board, and the Districts will not contest the Revised CDOs and/or the ACL Order before the Lahontan Water Board, the State Water Board, or any court if the Lahontan Water Board adopts the Revised CDOs and the ACL Order as proposed, or with modifications agreed to by the Parties.

5. This Agreement in no way limits or otherwise affects the Prosecution Team or Lahontan Water Board's ability to undertake enforcement action for any alleged future violations of WDRs (except future violations of WDRs specifically listed in the ACL Order), the Revised CDOs, or the CAO that occur after the effective date of the ACL Order.

6. The Districts agree to pay \$152,000.00 to the Waste Discharge Permit Fund and \$48,000.00 to the Department, as required by the ACL Order, within thirty (30) days of receiving written notice from the Lahontan Water Board Executive Officer that the State Water Board has not received any challenges to this Order, as well as the WDRs for the Lancaster WRP and Revised CDOs adopted prior to, or concurrently with, this Order, within the time provided in California Water Code section 13320, and that no judicial challenge has been made within the time provided in California Water Code section 13330, or that such challenges were received, but all claims contained therein have been resolved in favor of the Lahontan Water Board such that the WDRs for the Lancaster WRP, the Revised CDOs, and the ACL Order remain unchanged. For the SEP, after receiving the above-described written notice from the Lahontan Water Board Executive Officer, the Districts agree to make five annual payments of \$760,000.00 into a trust account or other impoundment account, beginning December 31, 2007. The funds shall only be used by the Antelope Valley Recycled Water Project for infrastructure improvements (*i.e.*, to construct Phase 1-B or Phase 2), and cannot be used for planning documents or purposes. Any interest paid in the trust account or other impoundment account will be allocated towards the SEP. Payment to the Antelope Valley Recycled Water Project proponents will not occur until the targeted infrastructure is completed and used for the delivery of recycled water.

7. The Lahontan Water Board Executive Officer and the Districts' Chief Engineer and General Manager will meet and confer between July and September 2009 to discuss whether the Antelope Valley Recycled Water Project infrastructure is proceeding forward towards

construction and completion of infrastructure improvements. If, at that time, the Lahontan Water Board Executive Officer and the Districts' Chief Engineer and General Manager agree that the Antelope Valley Recycled Water Project is not expected to proceed, the Lahontan Water Board Executive Officer and the Districts' Chief Engineer and General Manager will subsequently meet and confer to discuss an alternative supplemental environmental project(s) for recommendation to the Lahontan Water Board and the Districts' Boards for approval. Funds will be devoted to the newly identified project(s). Only in the event no alternative supplemental environmental project(s) can be identified and agreed upon by the Lahontan Water Board Executive Officer and the Districts' Chief Engineer and General Manager, and/or approved by the Lahontan Water Board and the Districts' Boards, the funds in the trust account or other impoundment account will be deposited into the Waste Discharge Permit Fund, or the authorized fund that Water Code section 13350(k) directs payments to at that time, by January 15, 2012.

8. The funds in the trust account or other impoundment account must be distributed to fund the Antelope Valley Recycled Water Project, or the alternative supplemental environmental project(s) described in Paragraph 7, by July 1, 2013, or all of the remaining funds in the trust account or other impoundment account must be paid into the Waste Discharge Permit Fund, or the authorized fund that Water Code section 13350(k) directs payments to at that time. The Lahontan Water Board Executive Officer and the Districts' Chief Engineer and General Manager may agree in writing to extend the July 1, 2013 date by no more than one year to accommodate minor or good cause delay of the Antelope Valley Recycled Water Project, and the Lahontan Water Board Executive Officer shall not unreasonably withhold approval of a one year extension. The Lahontan Water Board can approve an extension of more than one year, if requested by either of the Parties.

9. Upon execution of this Agreement by the Parties, the Prosecution Team shall promptly publish at the same time this Agreement, the Revised CDOs, and the ACL Order for the purpose of accepting public comments thereon. The Parties believe that the procedure prescribed by the Agreement for the proposal for adoption of the tentative WDRs for the Lancaster WRP, the Revised CDOs, and the ACL Order, and review by the public is adequate. In the event procedural objections are raised during the public comment period or at a Lahontan Water Board hearing, the Parties agree to meet and confer concerning any such objections, and may recommend changes to the procedure as necessary or advisable under the circumstances.

10. Within ten (10) days of receiving written notice from the Lahontan Water Board Executive Officer that the State Water Board has not received any challenges to this Order, as well as the WDRs for the Lancaster WRP and Revised CDOs adopted prior to, or concurrently with, this Order, within the time provided in California Water Code section 13320, and that no judicial challenge has been made within the time provided in California Water Code section 13330, or that such challenges were received, but all claims contained therein have been resolved in favor of the Lahontan Water Board such that the WDRs for the Lancaster WRP, the Revised CDOs, and the ACL Order remain unchanged, the Districts will dismiss, without prejudice, the Petitions for Writ of Mandate in the Superior Court of the State of California, County of Riverside, Case Nos. 434672 and 434677. If the Lahontan Water Board does not adopt the tentative WDRs for the Lancaster WRP, the Revised CDOs, and the ACL Order, or if the tentative WDRs for the Lancaster WRP, the Revised CDOs, and/or the ACL Order are detrimentally modified, as determined by the Districts, as a result of a third party challenge, the Districts shall not be required to dismiss the Petitions for Writ of Mandate.

11. Performance by the Parties of Paragraphs 1-10 shall effect a mutual release and discharge of the Parties and their respective successors and assigns, agents, attorneys, employees, officers, and representatives from any and all claims, demands, actions, causes of action, obligations, damages, penalties, liabilities, debts, losses, interest, costs, or expenses of whatever nature, character, or description that they may have or claim to have against one another by reason of any matter or omission arising from any cause whatsoever related to any and all violations of the WDRs and CDOs for the Lancaster and Palmdale WRPs and the CAO for the Palmdale WRP existing up to and including the Effective Date of this Agreement. The Parties acknowledge that they are familiar with section 1542 of the California Civil Code, which provides: "A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor." The Parties hereby waive and relinquish any rights or benefits they may have under California Civil Code section 1542 with respect to any other claims against any Party arising from, or related to, any and all violations of the WDRs and CDOs for the Lancaster and Palmdale WRPs and the CAO for the Palmdale WRP existing up to and including the Effective Date of this Agreement.

12. In the event that this Agreement does not take effect, or is vacated in whole or in part by the State Water Board or a court, the Parties agree that all oral and written statements and agreements made during the course of settlement discussions, except this Agreement, its corresponding Exhibits, and the Prosecution Team's consultant report, will not be admissible as evidence in any administrative or judicial hearing. The Parties also agree that, in the event that the Lahontan Water Board does not adopt the Revised CDOs and ACL Order, the Parties waive any and all objections related to prejudice or bias of any of the board members or their advisors that are premised in whole or in part on the fact that the board members and their advisors were exposed to material facts, the Parties' settlement positions, and/or public comments and hearing testimony regarding the settlement, and therefore, may have formed impressions or conclusions.

13. If the Lahontan Water Board does not adopt the tentative WDRs for the Lancaster WRP, the Revised CDOs, and the ACL Order as proposed, this Agreement and its Exhibits shall not constitute evidence of, or be construed as, a finding, adjudication, or acknowledgment of any fact, law or liability, nor shall it be construed as an admission of violation of any law, rule or regulation, in any subsequent proceeding. However, this Agreement and/or any actions or payment pursuant to the Agreement may constitute evidence in actions seeking compliance with this Agreement. This Agreement may be used as evidence of a settlement in any future actions by the Lahontan Water Board.

14. This Agreement constitutes a full and final settlement of this matter. It is expressly understood and agreed that this Agreement has been freely and voluntarily entered into by the Parties with and upon advice of counsel.

15. This is an integrated Agreement. This Agreement is intended to be a full and complete statement of the terms of the Agreement between the Parties, and expressly supercedes any and all prior oral or written agreements, covenants, representations, and warranties (express or implied) concerning the subject matter of this Agreement.

16. Each person executing this Agreement in a representative capacity represents and warrants that he or she is authorized to execute this Agreement on behalf of and to bind the entity on whose behalf he or she executes the Agreement.

17. This Agreement shall not be construed against the party preparing it, but shall be construed as if the Parties jointly prepared this Agreement and any uncertainty and ambiguity shall not be interpreted against any one party.

18. In the event that any provision, section, or sentence of this Agreement is determined to be unenforceable by a judicial ruling, the validity of the enforceable provisions shall not be adversely affected.

19. This Agreement shall not be modified by any of the Parties by oral representation made before or after the execution of this Agreement. All modifications must be in writing and signed by the Parties.

20. Each Party to this Agreement shall bear all attorneys' fees and costs arising from that Party's own counsel in connection with the matters referred to herein, including such costs, fees, and expenses incurred for administrative proceedings, litigation, and mediation to enforce the terms of this Agreement or to declare rights hereunder.

21. The Parties shall execute and deliver all documents and perform all further acts that may be reasonably necessary to effectuate the provisions of this Agreement.

22. This Agreement may be executed as duplicate originals, each of which shall be deemed an original Agreement, and all of which shall constitute one agreement. Telecopy, .pdf, and/or facsimile copies of original signatures shall be deemed to be originally executed counterparts of this Agreement.

23. This Agreement is entered into and shall be construed and interpreted in accordance with the laws of the State of California.

24. Notices and correspondence concerning this Agreement shall be sent by overnight or certified mail to the following addresses. Any party may notify the other of a change of notice address by letter sent by overnight or certified mail.

For the Districts:

Mr. Stephen R. Maguin  
Chief Engineer and General Manager  
County Sanitation District Nos. 14 and 20 of Los Angeles County  
1955 Workman Mill Road  
Whittier, CA 90601

And

Ms. Nicole Granquist  
Downey Brand LLP  
555 Capitol Mall, 10th Floor  
Sacramento, CA 95814

For the Prosecution Team/Lahontan Water Board:

Mr. Harold Singer  
Executive Officer  
California Regional Water Quality Control Board  
Lahontan Region - Lake Tahoe Office  
2501 Lake Tahoe Blvd.  
South Lake Tahoe, CA 96150


And

Mr. Steven H. Blum  
Senior Staff Counsel  
Office of Chief Counsel  
State Water Resources Control Board  
1001 I Street, 22nd Floor  
Sacramento, California 95814

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the dates set forth below.

**FOR THE LAHONTAN WATER BOARD PROSECUTION TEAM:**

Date: Feb 23, 2007

By:   
Harold J. Singer  
Executive Officer

**APPROVED AS TO FORM:**

By: \_\_\_\_\_  
Steven H. Blum, Senior Staff Counsel  
Counsel to the Lahontan Water Board Prosecution Team

By: \_\_\_\_\_  
William S. Abbey, Deputy Attorney General  
Office of the California Attorney General  
Attorneys for the Lahontan Water Board Prosecution Team

**FOR COUNTY SANITATION DISTRICT NOS. 14 AND 20 OF LOS ANGELES COUNTY:**

Date: \_\_\_\_\_

By: \_\_\_\_\_  
Stephen R. Maguin  
Chief Engineer and General Manager

Date: \_\_\_\_\_

By: \_\_\_\_\_  
Secretary to the Boards of Directors

**APPROVED AS TO FORM:**

By: \_\_\_\_\_  
Nicole E. Granquist  
Downey Brand LLP  
Special Counsel to Districts



For the Prosecution Team/Lahontan Water Board:

Mr. Harold Singer  
Executive Officer  
California Regional Water Quality Control Board  
Lahontan Region - Lake Tahoe Office  
2501 Lake Tahoe Blvd.  
South Lake Tahoe, CA 96150

And

Mr. Steven H. Blum  
Senior Staff Counsel  
Office of Chief Counsel  
State Water Resources Control Board  
1001 I Street, 22nd Floor  
Sacramento, California 95814

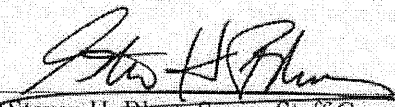
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**FOR THE LAHONTAN WATER BOARD PROSECUTION TEAM:**

Date: \_\_\_\_\_

By: \_\_\_\_\_  
Harold J. Singer  
Executive Officer

**APPROVED AS TO FORM:**

By:   
Steven H. Blum, Senior Staff Counsel  
Counsel to the Lahontan Water Board Prosecution Team

By: \_\_\_\_\_  
William S. Abbey, Deputy Attorney General  
Office of the California Attorney General  
Attorneys for the Lahontan Water Board Prosecution Team

For the Prosecution Team/Lahontan Water Board:

Mr. Harold Singer  
Executive Officer  
California Regional Water Quality Control Board  
Lahontan Region - Lake Tahoe Office  
2501 Lake Tahoe Blvd.  
South Lake Tahoe, CA 96150

And

Mr. Steven H. Blum  
Senior Staff Counsel  
Office of Chief Counsel  
State Water Resources Control Board  
1001 I Street, 22nd Floor  
Sacramento, California 95814

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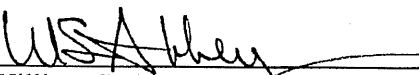
**FOR THE LAHONTAN WATER BOARD PROSECUTION TEAM:**

Date: \_\_\_\_\_

By: \_\_\_\_\_  
Harold J. Singer  
Executive Officer

**APPROVED AS TO FORM:**

By: \_\_\_\_\_  
Steven H. Blum, Senior Staff Counsel  
Counsel to the Lahontan Water Board Prosecution Team

By:  \_\_\_\_\_  
William S. Abbey, Deputy Attorney General  
Office of the California Attorney General  
Attorneys for the Lahontan Water Board Prosecution Team

FOR COUNTY SANITATION DISTRICT NOS. 14 AND 20 OF LOS ANGELES COUNTY:

Date: 2.23.07

By: Stephen R. Maguin  
Stephen R. Maguin  
Chief Engineer and General Manager

Date: FEB 23 2007

By: M. Alma Herwath  
Secretary to the Boards of Directors

APPROVED AS TO FORM:

By: Nicole E. Granquist  
Nicole E. Granquist  
Downey Brand LLP  
Special Counsel to Districts

