

MEMORANDUM OF AGREEMENT

This Memorandum of Agreement ("Agreement") is made between the following Parties:

United States Army Air Defense Artillery Center & Fort Bliss
Fort Bliss, Texas ("FORT BLISS")

El Paso Water Utilities Public Service Board
A component unit of the City of El Paso, Texas ("PSB")

Note: This Agreement is not a contract. The Agreement captures the current state of negotiations between the Parties regarding the proposed purchase and sale of water in connection with the proposed desalination plant. Any provision of this Agreement may be modified based on the mutual consent of the Parties.

RECITALS

Purpose and Need.

1. El Paso owns, and its PSB operates and maintains, a system of waterworks and pipelines used for the purpose of supplying municipal water service to the residents within its boundaries; and
2. Fort Bliss and the City of El Paso through its PSB have identified a need for new water supplies for the purpose of meeting existing and projected demand for potable water and reducing withdrawals of fresh water from the Hueco Bolson aquifer; and
3. Fort Bliss and the City of El Paso through its PSB have established that an abundant supply of brackish water is available in the Hueco Bolson aquifer, which could be treated to potable quality. The Parties have also established that significant economies of scope and scale could be realized through joint development of a brackish water treatment project.
4. Fort Bliss and the City of El Paso through its PSB agree that implementation of this desalination plant and specifically the location of the sixteen blend wells will protect and extend the life of Fort Bliss's existing potable wells from brackish water intrusion.
5. The Parties agree that the construction of a 27.5 million gallon per day (MGD) desalination plant, wells, storage, pumping facilities and piping infrastructure and brine disposal facilities will be owned and operated by the PSB to be sited on land assigned by easement to the Utility from the United States Army Air Defense Artillery Center & Fort Bliss.
6. Fort Bliss and the City of El Paso through its PSB agree that the PSB will refurbish its existing wells to provide feed water and Fort Bliss will allow the PSB to extract a

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blend/brackish water supply sufficient for the operation and delivery of 27.5 MGD from the water desalination plant.

Proposed Action

1. Consistent with the PSB's Rules and Regulations No. 11, the PSB has been requested by the United States Army Air Defense Artillery Center & Fort Bliss to develop a wholesale water supply contract, and PSB has determined that it is in the interest of the public safety, health and welfare to provide a wholesale water supply contract to Fort Bliss.
2. Fort Bliss will use this wholesale water supply contract to meet a portion of its water demands, but will utilize its own well water supply sources to supplement this resource and thereby reduce water supply costs.

ARTICLE ONE

1.1 PSB shall sell and deliver potable water to Fort Bliss in accordance with the proposed wholesale water supply contract. The Parties agree that the PSB will provide potable water service to Fort Bliss on a base-load level of service. Under this service option, the PSB will provide wholesale water at levels required by Fort Bliss. Fort Bliss will notify the PSB when its water budget analysis indicates that its water demand will increase by more than ten percent (10%) from the amount used during the corresponding month of the previous calendar year.

1.2 Fort Bliss agrees to exercise reasonable care and diligence in the maintenance, construction, operation, and control of the Fort Bliss water system to assure the efficient operation of the Fort Bliss system. Fort Bliss also agrees to prevent any damage or interference with the El Paso water system from points where it connects to the Fort Bliss water system.

1.3 Water service provided to Fort Bliss by PSB shall be consistent with the PSB's Rules and Regulations, policies, and ordinances for the provision of wholesale water service to outside city customers. Fort Bliss, in the receipt of water under the proposed contract and in the resale of same, shall comply with all applicable laws and regulations. Fort Bliss shall further enact, enforce, and follow a policy or plan for water conservation, consistent with the City of El Paso's Water Conservation Ordinance and applicable portions of the PSB's Rules and Regulations relating to water service, as amended from time to time and in as much as they are in accordance with Fort Bliss Installation policy and the military mission as determined by the Senior Mission Commander, the Garrison Commander and such individuals as they may designate as their representatives.

1.4 The PSB agrees to undertake corrective actions should the operation of the feed wells and/or blend wells result in Fort Bliss water wells becoming nonoperational due to lowering of the water table. Corrective action such as deepening wells, drilling new wells, or other remedies acceptable to both parties shall be paid for by the PSB.

ARTICLE TWO

2.1 The term of the proposed contract shall be for a period of 30 years, with an option to renew for an additional 20 years, unless sooner terminated in accordance with the terms of the contract.

2.2 In the event the proposed contract is terminated, neither the City nor its PSB shall be responsible for any costs or expenses of Fort Bliss related directly or indirectly for securing alternate water service. In addition, in the event of termination, Fort Bliss shall not be responsible for any costs or expenses of the City or its PSB related directly or indirectly to the termination.

ARTICLE THREE

3.1 The proposed contract will include provisions for place of deliveries of water to Fort Bliss, minimum water pressure, a prohibition on the resale of water by Fort Bliss except as permitted by law, regulation, or the best interest of the Army, and billing and metering procedures.

ARTICLE FOUR

4.1 For all water actually delivered by PSB to Fort Bliss, Fort Bliss shall pay PSB at the rate developed using the existing PSB cost of service model for wholesale service excluding Maximum Day and Maximum Hour costs. A sample cost of service developed by the PSB for fiscal years 2006/2007 computes the rate to be \$0.71 per 100 cubic feet ("CCF") or \$0.94 per thousand gallons which is the estimated rate applicable at the commencement of the term of the proposed contract. Fort Bliss agrees that rates will be updated annually to reflect its wholesale cost of service excluding Maximum Day and Maximum Hour costs.

4.2 The Parties acknowledge that Fort Bliss has contributed \$3.3 million for engineering/environmental analysis in connection with the water desalination project. The proposed contract will contain a credit to Fort Bliss monthly water and wastewater bills over 20 years at an interest rate of 4.5%.

4.3 The Parties agree that the PSB shall obtain an easement for the land and rights-of-way from Fort Bliss needed to build and operate the water desalination plant and other required infrastructure. El Paso Water Utility will pay Fort Bliss \$5.46M for the easement. Payments for the easements from the PSB will take the form of credits to monthly water billings over 50 years at an interest rate of 7.5% or \$409,500 per year.

4.4 The Parties agree that the PSB shall purchase rights to withdraw up to 10,420 acre-feet (AF) per year of brackish water, and 3,025 AF of potable water to be used as feedstock for the desalination plant. The PSB will credit the payments for brackish water and potable water to Fort Bliss water and wastewater bills. The brackish water rate shall be \$35 per AF, and the potable water rate shall be \$160 per AF. The brackish water and potable water rates will be renegotiated biennially.

ARTICLE FIVE

5.1 Either Party may terminate this Agreement prior to the execution of the proposed water contract by giving written notice to the other Party no less than 30 days prior to the date of termination.

5.2 Notices required by this Agreement shall be in writing and may be effected by personal delivery or certified mail, return receipt requested, to the following:

For U.S. Army Air Defense Artillery Center and Fort Bliss:

Garrison Commander
Building 1741
Fort Bliss, Texas 79916
Phone No. (915) 568-2833
Fax No. (915) 568-0313

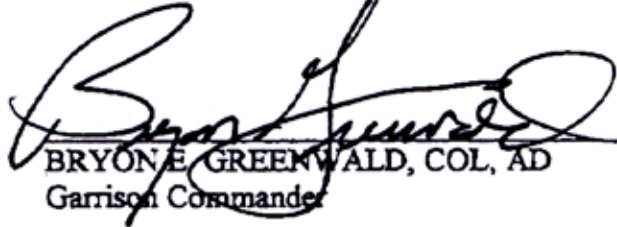
For PSB:

Edmund G. Archuleta, P.E., General Manager
1154 Hawkins Blvd.
El Paso, Texas 79915
Phone No. (915) 594-5501
Fax No. (915) 594-5666

Notices effected by personal delivery shall be deemed to have been received by the Party to whom notice is being given on the day of actual personal delivery. Notices effected by certified mail shall be deemed received by the Party to whom notice is being given on the day immediately following postmark by the U.S. Postal Service.

IN WITNESS WHEREOF, the Parties have executed this Memorandum of Agreement in duplicate counterparts, each of which has full force and effect, effective on the date of the last Party's signature.

U.S. Army Air Defense Artillery Center & Fort Bliss


BRYONE GREENWALD, COL, AD
Garrison Commander

El Paso Water Utilities
Public Service Board


Edmund G. Archuleta, General Manager, El Paso
Water Utilities

APPROVED AS TO FORM:


Robert D. Andron, General Counsel, El Paso Water
Utilities

