RECEIPT AND ACKNOWLEDGMENT OF COMPENSATION

On this 13th day of April, 2010, the undersigned acknowledges receipt of Check No. 414757 from the City of Bryan, Texas, in the amount of $308,832, said sum representing full and complete compensation for the transfer of customer base, service areas, infrastructure and easements as set forth in that certain Settlement Agreement and Agreement Designating Areas and Customers to Receive Retail Water Utility Service and Sale of Water Utility Property (hereafter, "Agreement Designating Areas") by and between the City of Bryan, Texas and OSR Water Supply Corporation dated August 14, 2006, in Texas Commission on Environmental Quality Docket No. 2002-1147-UCR.

The undersigned further acknowledges that the payment described above represents full and complete compensation for the future conveyance of lines, infrastructure and easements required under paragraph 2.b. of the Agreement Designating Areas following written notice from the City.

OSR WATER SUPPLY CORPORATION

By: _____

STATE OF TEXAS §
§
COUNTY OF BRAZOS §

BEFORE ME, the undersigned authority on this day personally appeared Pete Bienski of OSR WATER SUPPLY CORPORATION, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he/she executed the same for the purposes therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 13th day of April, 2010.

CYNTHIA A. BOWMAN
Notary Public, State of Texas
My Commission Expires
AUGUST 17, 2013

Cynthia A Bowman
Notary Public in and for the State of Texas

Printed Name: Cynthia A. Bowman
My Commission Expires: 8/17/2013

WATER SUPPLY AGREEMENT

WHEREAS, the City of Bryan, Texas ("City") and OSR Water Supply Corporation ("OSR"), collectively the "Parties" have entered into an agreement to resolve their competing claims for service areas in their respective Certificate of Convenience and Necessity ("CCN") amendment applications now pending at the State Office of Administrative Hearings ("SOAH") under SOAH Docket No. 582-03-1248 and TCEQ Docket No. 2002-1147-UCR (the "Settlement Agreement"); and

WHEREAS, the Settlement Agreement provides that some areas currently certificated to OSR will be transferred to the City and that the uncertificated area covered by applications of the City and OSR will be certificated to the respective Parties by agreement pursuant to Tex Water Code §13.248; and

WHEREAS, the City does not currently have water lines and infrastructure in some of the areas currently certificated to OSR that will be transferred to the City; and

WHEREAS, the Settlement Agreement provides that OSR will temporarily retain its lines and infrastructure in some areas transferred to the City and will permanently retain its lines and infrastructure in other areas transferred to the City; and

WHEREAS, the Settlement Agreement provides that OSR shall supply potable water to the City that will be used by the City to provide retail water utility service to City customers connected to lines either permanently retained or temporarily retained by OSR until the City is able to extend its own lines into the area; and

WHEREAS, both the City and OSR agree that the water supply to be provided by OSR that will enable the City to provide retail water utility service to its customers connected to lines to be retained by OSR be memorialized by separate agreement; and

WHEREAS, the purpose of this Water Supply Agreement is to state the terms and conditions under which OSR will provide potable water to the City for its use in providing retail water utility service to its customers connected to lines to be retained by OSR.

NOW, THEREFORE, for and in consideration of the promises and the mutual covenants and promises hereinafter set forth, the Parties represent and agree as follows:

1. **Service Area.** During the term of this Water Supply Agreement, OSR agrees to supply potable water to the City in quantities and at pressures sufficient for the City to provide continuous and adequate retail public water service to customers within the City's amended CCN service areas as depicted in that certain Settlement Agreement executed concurrently with this Water Supply Agreement. Customers to be served by the City using water supplied by OSR are those who were transferred from OSR's CCN service area and/or lines to the City's CCN service area as a part of the Settlement Agreement and those who hereafter are connected to OSR's temporarily or permanently retained service lines and infrastructure pursuant to this Agreement. OSR's water supply shall not be used by the City to provide service to those customers currently served by OSR's lines and infrastructure to be initially conveyed to the City as described in Section 2.a of the Agreement Designating Areas and Customers to Receive Water Utility Service and Sale of Water Utility Property.

2. **Point of Delivery.** The point of delivery for water supplied by OSR to the City under this Agreement shall be at the meter for each individual customer served by the City.

3. **Quantity, Quality, and Pressure of Water Supply.** OSR shall supply the City with potable water of sufficient quantity, quality, and pressure for the City to provide retail water utility services to its customers, including a continuous and adequate supply of water for all reasonable consumer uses, consistent with the requirements for public water systems and utilities found in 30 Texas Administrative Code ("T.A.C.") Chapter 290 of the Texas Commission on Environmental Quality's ("TCEQ") rules and regulations. Fire protection services are specifically excluded from the level of services to be provided by OSR for current customers. If during the primary or any renewal term of this Water Supply Agreement, the City shall approve the plat or re-plat of a subdivision or property in the "Affected Area," as hereafter defined, that is supplied water pursuant to this Agreement, and subject to "Adequate Capacity" to do so, as hereinafter defined, OSR shall be required to provide water sufficient to comply with the water supply requirement of the approved plat or replat.

4. **New Customers/Capital Improvements.** Provided it has or will achieve in a timely fashion adequate system capacity, OSR shall supply potable water to the City that will enable the City to provide retail service to new customers within the City's amended CCN service in or near OSR's former CCN service area (the "Affected Area"). OSR shall not be responsible for constructing capital improvements necessary to accommodate requests from the City for additional water supplies to accommodate new customers in the Affected Area unless such improvements are fully financed by the City or, at the City's discretion, the City's potential new customer. The City shall notify OSR in writing if it desires to add a new customer in the Affected Area that would require an increase in the quantity of the potable water to be provided by OSR under this Water Supply Agreement. OSR and the City shall cooperate in evaluating whether OSR has "Adequate

Capacity" to increase the quantity of potable water supplied to the City and in determining what additional capital improvements, if any, are necessary to provide adequate capacity to accommodate the City's request. Any capital improvements of OSR's current water supply system necessary for the City to serve new customer(s) in the Affected Area which involve improvements or construction of infrastructure located within OSR's CCN service area shall remain the sole property of OSR upon termination of this Water Supply Agreement. Any capital improvements established within the City's CCN service area at no cost to OSR necessary for the City to serve new customers in the Affected Area shall remain the sole property of the City upon termination of the Water Supply Agreement.

For purposes of this Water Supply Agreement, the term "Adequate Capacity" shall mean capacity in OSR's system sufficient to enable the City to provide retail service to new customers in the Affected Area such that both OSR and the City would, at the time of such new service, comply with the requirements of 30 T.A.C. Chapter 290. Upon receipt of an application for water utility service by a new customer in the Affected Area, the City shall make a written request to OSR for an initial determination of "Adequate Capacity." The initial determination of "Adequate Capacity" shall be timely made by OSR's designated engineer by performing an analysis of OSR's system capacity in the immediate vicinity of the request taking into account available water supply, water storage, water pressure, existing transmission line sizes/capacities and/or any other factor reasonably considered by a professional engineer in conducting such analysis consistent with TCEQ standards. The reasonable cost for these engineering services shall be billed to the City and made part of monies owed under the compensation provision of this Agreement. Should "Adequate Capacity" be deemed to be lacking, OSR's engineers shall specify in his analysis any system inadequacies and propose

appropriate measures to address any shortfalls in capacity as identified herein. Should capital improvements be required to serve a new City customer, the provisions of the preceding paragraph shall govern such improvements. If the City disputes any of the determinations of OSR or its engineer under this paragraph such dispute shall be subject to the dispute resolution procedures outlined in paragraph 16.

5. **New Service Requests / Terminations.** Except as provided above, OSR shall honor written direction from the City with respect to supplying additional water to the City in order to enable it to add new customers within the Affected Area. OSR shall further have the authority to direct the City to terminate service to any affected customers for reasons established in the TCEQ rules for termination of service. Similarly, OSR will honor written requests from the City to terminate service to any affected customers based on any legal reason provided the City will compensate OSR for these services at OSR's then-existing tariff rates. The City shall assume full responsibility for any refusals of initial service and/or written directives it issues to terminate existing service. OSR will assume full responsibility for terminations of existing service for those service terminations undertaken on its own behest or that may occur to protect the public health, safety, or ensure the integrity of its water supply.

6. **Regulatory Compliance.** OSR shall assume responsibility for regulatory compliance with respect to the water quality, quantity and pressure requirements set forth in Chapter 290 of the TCEQ's rules. Subject to OSR's contractual duties under this agreement the City shall assume responsibility for regulatory compliance with respect to the water utility requirements set forth in Chapter 291 of the TCEQ's rules. Should regulatory compliance issues arise in the future in the affected area, the Parties agree to cooperate and assist each other in bringing about a timely and

proper resolution to any alleged regulatory issue falling within their respective areas of responsibility.

7. **Compensation.** OSR shall be entitled to compensation for water sales to the City based on meter readings of the City's customers within the Affected Area covered by this Water Supply Agreement. The City or its designee shall read the meters of the customers served pursuant to this Water Supply Agreement on a monthly basis. These meter readings shall occur within the cycle established by the City or its designee, provided that the meter readings are provided to OSR no later than three (3) business days prior to the fifteenth of each month. The City or its designee shall timely provide OSR a meter reading for each individual meter in the Affected Area in either an electronic or written format useable to OSR for its billing purposes. Within 10 days following the receipt of the meter readings, OSR shall calculate the compensation owed utilizing the individual meter readings based on rates identified in its then current tariff on file with the TCEQ and provide such billing to the City. Compensation for these billings shall be due and owing to OSR from the City within thirty (30) days of receipt of such billings. The City, shall bill the individual customers based on the meter readings provided by the City or its designee at rates established by the City. The City shall compensate OSR for potable water it purchases, notwithstanding the City's assumption of responsibility for the billing and collection of any monies owed to the City from the affected customers. Should the procedures outlined above prove to be problematic for either the City or OSR, the Parties shall exercise good faith and their best efforts to develop alternative procedures that are acceptable to both the City and OSR.

8. **Maintenance.** OSR shall maintain all service lines and infrastructure retained by it within the Affected Area at no cost to City. The City shall maintain all service lines and

infrastructure conveyed to it at no cost to OSR. Should any governmental entity or authority require the relocation of service or transmission lines within the Affected Area in a public right-of-way, the cost of such relocations shall be borne by OSR for those lines retained by it pursuant to the Settlement Agreement and shall be borne by the City for those service and transmission lines conveyed or to be conveyed to it pursuant to the Settlement Agreement. Should any governmental entity or authority require the relocation of service or transmission lines within the Affected Area in areas covered by private easements, the requesting entity or authority shall bear the costs of such relocations. If during the course of obtaining meter readings or otherwise, the City or its designee notices apparent leaks, maintenance needs or public health or safety concerns regarding any service line or infrastructure retained by OSR in the affected area, the City shall promptly notify OSR of such conditions. Should the City or its designee determine that the public health or safety of OSR's water supply or the City's customer(s) would reasonably be threatened under such circumstances, the City or its designee shall immediately take action to eliminate or minimize this threat and then promptly notify OSR.

9. **Force Majeure.** The Parties agree that any unforeseeable acts or delays due to strikes or other labor disturbances, civil disturbance, acts of war or terrorism, future orders of any government, court or regulatory body claiming jurisdiction, unavailability of materials or labor through commercially reasonable sources, fire or any other cause beyond the reasonable control of the party by whom performance is required under this agreement, shall not be deemed a breach of this agreement provided the party required to perform promptly notifies the other party and the performing party exercises due diligence to overcome or remove the obstacle to its performance.

10. **Interruptions/Reductions in Service.** OSR shall promptly notify the City in the event of interruptions or reductions of service that may affect City customers being served under this agreement. OSR shall timely undertake all reasonable and prudent measures to minimize, mitigate, and correct conditions causing any such interruptions and/or reductions in service. In the event of a reduction in service due to a drought or any other unforeseen circumstance, OSR shall treat the City's customers served under this Agreement in the same manner and consistent with its policies, procedures, and responsibilities to OSR customers pursuant to its CCN, then current tariff and, as applicable, its drought contingency plan, provided however, in case of a shortage of water resulting from drought, the water to be distributed shall be divided "pro rata" consistent with the provisions of Tex. Water Code §11.039.

11. **Effective Date.** This Agreement becomes effective thirty days following TCEQ's issuance of its order approving the Parties' Agreement Designating Areas and Customers to Receive Retail Water Utility Service and Sale of Water System Property and OSR's issuance of a single membership in its water supply corporation to the City. During the term of this Agreement or any subsequent renewals thereof, the City shall maintain this membership and, in all respects, continue to be a member in good standing in OSR. All water sales and charges under this Agreement shall be expressly contingent upon the City's membership status and all compensation received shall be credited to the City's membership account contemplated under this Agreement.

12. **Term.** The term of this Agreement shall continue until such time that the City constructs facilities and connects all the affected customers to its water supply or a period of five (5) calendar years elapses from the effective date of this Water Supply Agreement, whichever comes first. If not in default, the City may extend the initial term of this Water Supply Agreement for one

five (5) year term by providing written notice to the other party of its election at least ninety (90) days prior to the expiration of the current term.

13. **Renewals/Amendments.** This Water Supply Agreement may be amended or renewed by subsequent written agreement of the Parties at any time during its primary term or any subsequent renewal terms.

14. **Records/Accounts.** During the term of this Water Supply Agreement, the City or its designee shall maintain business records sufficient to demonstrate the meter readings, customer accounts, or any financial record associated with billings from OSR. OSR shall maintain business records sufficient to demonstrate billings, charges and accountings for all charges associated with its supply of water to the City. At all reasonable times, the City, the City's designee (if applicable), and OSR shall have access to each other's business and financial records associated with the sale of water pursuant to this Water Supply Agreement.

15. **Validity/Severability.** This Agreement is expressly contingent on payment of the compensation due pursuant to the terms of the parties' Settlement Agreement. If any provision of this Water Supply Agreement shall be held to be invalid, illegal or unenforceable by a court or other tribunal of competent jurisdiction, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. The Parties shall undertake their best efforts to replace the respective provision of this Water Supply Agreement with legal terms and conditions approximating the original intent of the parties.

16. **Dispute Resolution.** If a dispute arises between the Parties relating to this Water Supply Agreement, the Parties agree to use the following procedures prior to either party pursuing its other remedies:

a. A meeting shall be held promptly between the Parties, attended by individuals with decision-making authority regarding the dispute, to attempt in good faith to negotiate a resolution of the dispute.

b. If within ninety (90) days after such meeting, the Parties have not succeeded in negotiating a resolution of the dispute, the Parties will engage in alternative dispute resolution ("ADR"). Both Parties shall share the costs of ADR and will select a method of ADR from those identified in Title 7 of the Texas Civil Practice and Remedies Code.

c. The Parties agree to participate in good faith in ADR. If not successful in resolving the dispute through ADR or if not able to select an agreed form of ADR, then either party may seek resolution of the dispute through litigation. If the dispute is resolved through litigation, the prevailing party shall be entitled to reasonable attorneys' fees and costs in addition to any other relief to which he may be entitled.

17. Notices.

Any notice required or permitted to be given under this agreement by one party to the other shall be in writing and the same shall be deemed to have been served and given if (i) delivered in person to the address set forth below for the party to whom the notice is given and receipt is acknowledged by written signature of such party; or (ii) placed in United States mail by certified mail, postage paid and return receipt requested, addressed to the party to whom notice is given at the address set forth below. Notice shall be effective upon receipt.

The address for the City of Bryan for all purposes under this agreement and for all notices herein shall be:

City Manager,
City of Bryan
300 South Texas Avenue
Bryan, Texas 77803

The address for OSR for all purposed under this agreement and for all notices herein shall be:

General Manager,
OSR Water Supply Corporation
4118 Greens Prairie Road
P.O. Box 250
Wellborn, Texas 77881

18. Entire Agreement. This Water Supply Agreement is part of the overall Settlement Agreement between the Parties executed concurrently herewith and contains the entire agreement between the Parties and supercedes any and all prior agreements, arrangements or understandings between the Parties relating to the subject matter of this agreement. No oral understandings, statements, promises or inducements contrary to the terms of this Water Supply Agreement exist. This Water Supply Agreement cannot be changed or modified orally as any amendments or modifications must be in writing and agreed to and executed by the Parties herein or their authorized representatives.

19. Successors/Assigns. This Water Supply Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective legal representatives, successors and assigns.

20. Governing Law/Venue. This Water Supply Agreement shall be governed by, construed and enforced in accordance with, and subject to, the laws of the State of Texas. Any action at law or in equity brought to enforce or interpret any provision of this Water Supply Agreement shall be brought in a state court of competent jurisdiction with venue in Brazos County, Texas.

21. Multiple Originals. It is understood that this Water Supply Agreement may be executed in a number of identical counterparts, each of which shall be deemed an original for all purposes.

CITY OF BRYAN, TEXAS

Date: 8/14/06

By: _____
Mayor

Attest: _____
Mary L. Stratta, City Secretary

OSR WATER SUPPLY CORPORATION

Date: August 2, 2006

By: _____
President, Board of Directors

Attest: _____

STATE OF TEXAS §
§
COUNTY OF BRAZOS §

This instrument was acknowledged before me on the 14 day of August, 2006, by Ernie Wentrek, Mayor, on behalf of the City of Bryan, Texas.

CYNTHIA ARCHIBEQUE
Notary Public, State of Texas
My Commission Expires
AUGUST 17, 2009

Cynthia Archibeque
Notary Public, State of Texas

STATE OF TEXAS §
§
COUNTY OF BRAZOS §

This instrument was acknowledged before me on the 2nd day of August, 2006, by Pete Brenski, on behalf of OSR Water Supply Corporation.

BET BATCHELOR
Notary Public, State of Texas
My Commission Expires
NOVEMBER 7, 2006

Bet Batchelor
Notary Public, State of Texas