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Real Estate Group, Inc.

March 23, 2009

David R. Dickson, General Manager
Coastside County Water District
766 Main Street
Half Moon Bay, CA 94109

John F. Foley III, Manager
Sewer Authority Mid-Coastside
1000 N. Cabrillo Hwy
Half Moon Bay, CA 94109

Re: Request for Agreement to Provide Recycled Water to Ocean Colony

Dear Messrs. Dickson and Foley,

Over the past several months Ocean Colony Partners LLC ("OCP") has discussed with Coastside County Water District ("CCWD") and the Sewer Authority Mid-Coastside ("SAM") OCP's desire to enter into a long term agreement to acquire recycled water for golf course and landscape irrigation purposes. In connection with these discussions, CCWD and SAM have undertaken significant efforts to achieve the goal of recycled water use by conducting committee meetings to discuss recycled water, preparing studies on potential recycled water uses, and preparing an initial design and exploring permitting requirements for a proposed expansion and upgrade of SAM's existing treatment facility to meet tertiary recycled water standards. The initial phase of SAM's proposed project would allow SAM to provide approximately 600,000 gallons per day of recycled water to OCP for OCP's exclusive use during its irrigation season. We appreciate the efforts you have made to date to facilitate OCP's goal of reducing its use of potable and well water for golf course and landscape irrigation.

By this letter and pursuant to Water Code section 13580(c), OCP respectfully requests that CCWD provide recycled water to OCP. Pursuant to Water Code section 13580.5(a)(2), OCP further requests that CCWD delegate to SAM the authority and responsibility to provide recycled water, so that SAM may deliver recycled water directly to OCP.

We believe this request presents an ideal opportunity for OCP, CCWD and SAM to work together to reduce OCP's use of potable water and thereby assist CCWD in its water conservation efforts during our present drought crisis. Implementation of OCP's request will result in other environmental benefits, including promoting recharge of area aquifers through reduction of OCP's ground water pumping and well use, and also reduce the amount of treated effluent which SAM discharges into the Pacific Ocean.

2450 South Cabrillo Highway, Suite 200
Half Moon Bay, California 94019

phone 650.560.0055
fax 650.560.9198



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We also feel that OCP is in a unique position, given that SAM, with minimal additional capital improvements, can deliver recycled water directly to OCP through OCP's existing privately owned pipeline. Although some repair or upgrading of OCP's existing pipeline would likely be necessary, and SAM would have to install a new approximately 500 foot under creek pipeline to connect SAM's recycled water facility to OCP's pipeline, we believe the repair and upgrade work is feasible from a financial, engineering and environmental perspective. The Water Recycling Law (Water Code section 13500 *et seq.*) encourages this type of design and construction of water delivery systems on private property.

Based on our recent discussions, we understand that CCWD and SAM will likely want to address certain issues, including the non-precedential nature of the delegation and commitments with regard to potable water offsets. To facilitate discussions between CCWD and SAM regarding the terms of the requested delegation, we have prepared the enclosed draft summary of key terms which OCP is prepared to support. We welcome your feedback on the key terms summary and are available at your convenience to discuss further the terms of the requested delegation agreement as well as the terms of a long term recycled water delivery agreement between OCP and SAM.

We look forward to receiving an offer for recycled water service pursuant to Water Code section 13580.7, and continuing discussions regarding the requested delegation agreement between CCWD and SAM.

Very truly yours,



Bruce J. Russell, CEO
Kenmark Real Estate Group, Inc.,
Authorized Agent for OCP

BJR:jg
Enclosure
Cc: Mark Kendall

**SUMMARY OF PROPOSED KEY TERMS FOR
DELEGATION AGREEMENT BETWEEN SAM AND CCWD**

1. CCWD would delegate authority to SAM to allow OCP to obtain the recycled water directly from SAM via OCP's private pipeline and to use such recycled water for golf course and landscape irrigation purposes.
2. SAM and CCWD would agree that the delegation would only cover the provision of recycled water to OCP and would not establish any precedent with respect to any other delegations of authority that SAM or any third party may request in the future.
3. SAM and CCWD would agree to impose a potable water offset on OCP in exchange for delivery of recycled water, subject to certain conditions, consistent with Water Code section 13551, to ensure that OCP does not lose its existing priority potable water rights. Such a requirement would be necessary to comply with the law and to guard against any negative impact to OCP and/or SAM that might result from interruptions in delivery of recycled water to OCP.
4. Following completion of the initial phase of SAM's treatment plant upgrade project, SAM and CCWD would commit to use diligent good faith efforts to explore further opportunities to expand SAM's recycled water facilities with the goal of further reducing customer demands for potable water within CCWD and SAM's service area.
5. To the extent SAM's provision of recycled water to OCP frees up surplus potable water, SAM and CCWD would support use restrictions clarifying that such surplus potable water not be used to justify the issuance of new water permits or otherwise facilitate growth inducing impacts.
6. _____ [other terms to be inserted]