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MEMORANDUM OF UNDERSTANDING REGARDING PROPOSED SALE OF WATER OR WATER RIGHT

This Memorandum of Understanding (MOU) is made on April 26, 2006 between the Clark Colony Water Company (Clark Colony) and the Marina Coast Water District (MCWD).

RECITALS

A. Clark Colony claims a perfected a pre-1914 surface-water appropriative right to divert up to 13,500 acre feet per year of water from the Arroyo Seco, a tributary of the Salinas River in Monterey County, for irrigation uses within Clark Colony's Service area in and in the vicinity of Greenfield.

B. Clark Colony is considering selling this right, or transferring the water that may be diverted and used under this right, to a third party. Clark Colony has approached MCWD to discuss a potential sale of all or part of this right, or a potential transfer of water that may be diverted and used under this right, to MCWD. Clark Colony also has had and is having similar discussions with other potential purchasers.

C. MCWD is desirous of determining whether such a purchase or transfer may constitute a viable means of augmenting MCWD's water supply from the Salinas River hydrological system.

AGREEMENT

Based on these recitals and the mutual promises made in this MOU, Clark Colony and MCWD agree to work cooperatively according to the following terms:

1. Within 30 days after the effective date of this MOU: (a) MCWD will prepare and deliver to Clark Colony a memorandum that describes the decisionmaking process that MCWD will follow to approve or disapprove the proposed transfer, and any regulatory approvals that MCWD would need to obtain for the proposed transfer; (b) Clark Colony will prepare and deliver to MCWD a memorandum that describes the decisionmaking process that Clark Colony will follow to approve or disapprove the proposed transfer, and any regulatory approvals that Clark Colony would need to obtain for the proposed transfer; and (c) MCWD and Clark Colony will work with the Monterey County Water Resources Agency (MCWRA) to define MCWRA's participation and role in the proposed transfer, and any decisionmaking process that MCWRA would have to follow for the proposed transfer. During this 30-day period, Clark Colony will promptly provide MCWD with any relevant, non-privileged information or documents concerning Clark Colony's water right and the operations of Clark Colony's water system that MCWD requests for its preparation of the memorandum described in 1.(a) above.

2. After the completion of the items described in paragraph 1 above, Clark Colony and MCWD will meet as necessary to discuss the decisionmaking process identified by each party and the role and participation of MCWRA in the proposed transfer. Clark Colony and MCWD will try to reach agreement, in the form of a written amendment to this MOU, regarding the decisionmaking processes, actions and approvals described in paragraph 1 above, including the role and participation of MCWRA. This written amendment to this MOU will describe the preferred legal mechanism for the sale of Clark Colony's water right to MCWD or the transfer of water under this right to MCWD, and the preferred legal and physical mechanisms for MCWD to divert and use water pursuant to this right, including possible exchanges with involving third parties. If Clark Colony and MCWD do not execute such written amendment within 90 days after the effective date of this MOU, then this MOU will terminate unless Clark Colony and MCWD agree otherwise in writing.

3. Within 90 days after the effective date of this MOU, MCWD and Clark Colony will jointly define, and set forth in a written amendment to this MOU, potential alternative points of transfer where the ownership of water might change hands (e.g., at the Clark Colony point of diversion on the Arroyo Seco; downstream on the Salinas River; from various downstream well locations; etc.). When they are preparing this amendment, MCWD and Clark Colony may take into consideration the desirability of the participation of additional parties (e.g. to facilitate exchanges) in the implementation of the proposed transfer. If appropriate based on MCWRA's role defined in pursuant to 1.(c) above, MCWD and Clark Colony will try to reach agreement with MCWRA on the potential alternative points of transfer, and, if they reach such agreement, will describe this agreement in the written amendment to the MOU that is described in this paragraph. If Clark Colony and MCWD do not execute the written amendment to this MOU that is described in this paragraph within 90 days after the effective date of this MOU, then this MOU will terminate unless Clark Colony and MCWD agree otherwise in writing.

4. Within 60 days after the execution of the written amendments to this MOU described in paragraph 2 and 3 above, MCWD and Clark Colony will try to reach agreement, in the form of another written amendment to this MOU, regarding the method by which MCWD's payment or payments to Clark Colony for transfer of Clark Colony's water right to MCWD or for the sale to MCWD of water that may be diverted under this right, would be calculated, and regarding a schedule for the remaining actions that would be necessary to complete the transfer of Clark Colony's water right to MCWD or the sale to MCWD of water that may be diverted under this right. During the negotiations of the written amendment to this MOU described in this paragraph, Clark Colony and MCWD will: (a) attempt to jointly determine the amounts of water that MCWD may be able to divert under different hydrological conditions as a result of the proposed purchase or transfer (based on the provable quantity of the pre-1914 right, transit losses that would be incurred, the impact of any likely intervening environmental requirements and any other relevant factors); (b) consider MCWD's costs to put the purchased water right or transferred water to beneficial uses, future risks, participation by additional parties, and other relevant factors involving MCWD; and (c) consider Clark Colony's costs and risks associated with the proposed transfer and other relevant factors involving Clark Colony. If Clark Colony and MCWD do not execute the written

amendment to this MOU described in this paragraph within 180 days after the effective date of this MOU, then this MOU will terminate unless Clark Colony and MCWD agree otherwise in writing.

5. Each party to this MOU will pay the costs of its own staff, consultants and attorneys. The parties may agree to jointly contract for outside engineering or legal services to carry out some or all of the actions that are contemplated by this MOU. If the parties agree to contract for such outside joint services, then the parties' agreement will specify how the parties will share the costs of such services.

6. Clark Colony or MCWD may terminate this MOU at any time. Clark Colony and MCWD anticipate that, if they execute the written amendment to this MOU that is described in paragraph 4 above, then that amendment also will amend this paragraph 6.

7. While this MOU is in effect, Clark Colony may be involved in negotiations with other potential buyers regarding the transfer of Clark Colony's water right or water to other buyers. However, if Clark Colony is involved in such negotiations, and if they reach the point where Clark Colony and another potential buyer have reached a proposed agreement on a transfer of Clark Colony's water right or water to a third party, then Clark Colony will advise MCWD of the terms of the proposed agreement and give MCWD an opportunity to make its own proposal to Clark Colony. Also, Clark Colony and MCWD anticipate that, if they execute the written amendment to this MOU that is described in paragraph 4 above, then that amendment also will amend this paragraph 7.

8. The parties to this MOU may amend this MOU at any time through a written MOU or agreement signed by representatives of both parties.

Dated: 4/29/06

CLARK COLONY WATER COMPANY

By _____

Dated: 5/8/06

MARINA COAST WATER DISTRICT

By _____

deemed, when attached together, one complete and integrated original document.

WHEREFORE, CCWC and MCWD have caused this Negotiating Agreement to be signed at Monterey County, California, effective on the date first set forth above.

CLARK COLONY WATER COMPANY

By_____

Walter J. Griva, President

By_____

Secretary

MARINA COAST WATER DISTRICT

By_____

Howard Gustafson, President

By_____

Jim Heitzman, Secretary

Approved as to form:

_____

CCWC Legal Counsel

_____

MCWD Legal Counsel

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CCWC Legal Counsel

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MCWD Legal Counsel

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