

**FIRST AMENDMENT TO
LAKE DEFOREST RESERVOIR
COST ALLOCATION AGREEMENT**

THIS FIRST AMENDMENT TO THE LAKE DEFOREST COST ALLOCATION AGREEMENT ("Amendment" or "Amended Agreement") is made this 1st day of February, 2014, by and between **United Water New York Inc.**, a corporation organized and existing under the laws of the State of New York, having its principal office at 360 West Nyack Road, West Nyack, New York 10994, and formally known as Spring Valley Water Company ("UWNY" or "SPRING VALLEY"), and **United Water New Jersey Inc.**, a corporation organized and existing under the laws of the State of New Jersey, having its principal office at 200 Old Hook Road, Harrington Park, New Jersey 07640, and formally known as Hackensack Water Company ("UWNJ" or "HACKENSACK").

RECITALS

A. **WHEREAS**, UWNY owns and operates Lake DeForest Reservoir, consisting of the storage reservoir, dam, and treatment works on the Hackensack River in the Town of Clarkstown, State of New York; and

B. **WHEREAS**, UWNY is engaged in the business of supplying water to customers of the Hackensack River Basin in the State of New York, and UWNJ is in the business of supplying water to customers of the Hackensack River Basin in the State of New Jersey, and Lake DeForest Reservoir has served and will continue to serve to conserve and utilize the waters of the Hackensack River for the benefit of the customers of both UWNY and UWNJ; and

C. **WHEREAS**, SPRING VALLEY and HACKENSACK entered into a certain Agreement dated September 24, 1993 (the "Agreement"), which Agreement was a successor to an agreement dated August 4, 1989, which in turn was a successor to the original Lake DeForest Agreement dated August 4, 1954, all of which provided for the allocation of the Annual Operating Charge for the operation of Lake DeForest Reservoir, and the payment by HACKENSACK / UWNJ to SPRING VALLEY / UWNY of an Annual Payment to SPRING VALLEY / UWNY in connection with the operation of such reservoir; and

D. **WHEREAS**, the term of the Agreement dated September 24, 1993 was for twenty (20) years and both UWNY and UWNJ believe that it is in the best interest to extend the Agreement, subject to the amendments made herein, for an additional twenty (20) years, retroactive to September 25, 2013, in order to continue to equitably allocate the cost of maintaining and operating Lake DeForest Reservoir for the benefit of the customers of both companies;

E. **WHEREAS**, the only material change to the September 24, 1993 Agreement is to accommodate for the implementation of a Spill Skimming initiative, that will allow, but not require, UWNY to, on a cost neutral basis, draw certain amounts of additional water from Lake DeForest Reservoir during periods when water is plentiful and pursuant to a protocol prepared in consultation with and approved by the New York State Department of Environmental Conservation (“NYSDEC”) and the New Jersey Department of Environmental Protection (“NJDEP”); and

F. **WHEREAS**, both UWNY and UWNJ acknowledge and agree that this Amendment in no way changes the operating rules for Lake DeForest Reservoir as provided by New York State Department of Environmental Conservation WSA # 2189, nor does it change the riparian rights of any government or private entity, and, finally, that the Spill Skimming initiative does not increase the Safe Yield of Lake DeForest Reservoir and / or UWNY’s system.

NOW THEREFORE:

1. Recitals: The foregoing Recitals are true and correct and are hereby incorporated herein by reference.
2. Incorporation of Spill Skimming Procedure: The attached document labeled “Spill Skimming Procedure” is incorporated into the Agreement as “Exhibit A” thereto. (the “Spill Skimming Procedure”).
3. Definition of SPRING VALLEY’S ALLOCATED AVERAGE ANNUAL DIVERSION (“AAAD”) (Section 3.F): Is amended to add the following sentence at the end of the existing paragraph:

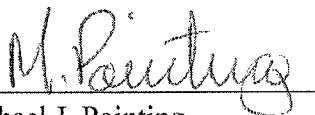
“Notwithstanding, ‘Skim’ water, as defined in the ‘Spill Skimming Procedure’ (Exhibit A) which is hereby incorporated herein by reference, shall not be counted towards the AAAD.”
4. Term: Section 5.A shall be amended to specify that the Amended Agreement shall terminate on September 25, 2033 unless previously terminated in accordance with the Agreement. Notwithstanding anything in the Agreement to the contrary, the Amended Agreement can be terminated by any of the Spill Skimming Stakeholders (as such term is hereinafter defined), and such termination shall be effective at the end of the calendar year, provided that the terminating Spill Skimming Stakeholder has provided at least six (6) months’ prior written notice of such termination to the non-terminating Spill Skimming Stakeholders.
5. Spill Skimming Procedure: The following new Section 5.F shall be added:

“Any change to the Spill Skimming Procedure shall be subject to approval UWNY, UWNJ, the NYSDEC, New York State Public Service Commission (“NYSPSC”), the NJDEP, and the New Jersey Board of Public Utilities (“NJBPU”) (the ‘Spill Skimming Stakeholders’). Each Spill Skimming Stakeholder shall have the right to convene a meeting to discuss the Spill Skimming Procedure and, upon 15 days’ written notice, terminate the provisions related to the Spill Procedure contained herein. For the avoidance of confusion, all remaining terms of this Amended Agreement shall remain in full force and effect in the event that the Spill Skimming Procedure is terminated.”

6. Regulatory Approvals: The Amended Agreement shall be subject to the approval of the NYSPSC and the NJBPU, if such approval is necessary, and shall have an effective date of September 25, 2013.
7. No Further Changes: Except as modified herein and by this Amendment, UWNY and UWNJ hereby confirm that all provisions of the Agreement shall and do remain in full force and effect.

IN WITNESS WHEREOF, UWNY and UWNJ have executed this Amended Agreement as of the day and year written below.

United Water New York Inc.



Michael J. Pointing
Vice President & General Manager

United Water New Jersey Inc.



David Stanton
Chief Operating Officer

Spill Skimming Procedure

Discussion

The general intent of the Procedure is to allow United Water New York Inc. (UWNY) to withdraw more than 10 mgd annually when water is plentiful in order to rest some of UWNY's bedrock wells, when possible, to improve their reliability and to maximize the use of surface water when available. This type of program is referred to as conjunctive use. Nothing in this Procedure is intended to change, alter or modify the safe yield of Lake DeForest, Lake Tappan or the Oradell Reservoir, nor is it expected to change the dependable yield from UWNY's bedrock wells. **Spill skimming will be accomplished by increasing production from the Lake DeForest Water Treatment Plant (WTP) when Lake DeForest is spilling at least 25 mgd.** Spillage is water flowing over the top of the dam, not including water released from the Howell Bunger valves, which includes the riparian rights to the State of New Jersey and the Village of Nyack. Under this condition, production from the Lake DeForest WTP can be increased without impacting, modifying or altering the safe yield and reliability of the water supply systems in the Hackensack River watershed.

To properly track the amount of increased production from the Lake DeForest WTP during spill events, the UWNY operators shall record the amount of increased production due to spill skimming. A monthly detailed report will be provided to United Water New Jersey Inc. (UWNJ).

Definitions

Spillage: The quantity of water spilling over the top of Lake DeForest Dam as calculated by the Bascule Gate rating table below.

Skim: The amount of additional water taken via the Lake DeForest WTP when spillage is greater than 25 mgd. This amount is not counted towards the Allocated Average Annual Diversion ("AAAD") of 10 mgd.

Allocated Diversion: The volume of production from the Lake DeForest WTP minus the spill skim volume.

Procedure

- Check elevation of Lake DeForest. The table below summarizes the estimated discharge over the bascule gates under automatic operation. When elevation is greater than 85.24 feet, the spilling rate is at least 25 mgd and skimming is feasible.

Water Surface Elevation (ft)	Discharge over Bascule Gates under Automatic Operation (mgd)
85.00	0
85.05	6
85.10	10
85.15	13
85.20	19
85.25	26
85.30	33
85.35	48
85.40	92
85.45	198
85.50	346

- Make necessary changes in operation within UWNY’s system to facilitate an increase in production from the Lake DeForest WTP. Estimate the amount of additional supply needed and indicate which well(s) will be rested. As there are many factors to consider in deciding whether to implement skimming (e.g., system need, hydraulics, plant conditions, etc.), the decision will be solely at the discretion of UWNY.
- As the previous step may take some time, check again that the trigger condition (reservoir elevation greater than 85.24 feet) is met.
- Increase production at the Lake DeForest WTP as needed and within regulatory limits.
- During the Procedure, daily checks are made at 8 am to confirm that the trigger condition is being met. The skim quantity shall not exceed the spillage minus 25 mgd. For example, if spillage is 27 mgd, then only 2 mgd can be skimmed to prevent spillage from falling below 25 mgd. The practical maximum daily skim volume is contemplated to be 5 MG. SCADA screens will be created and be available to both UWNY and UWNJ operators so both companies can see the “skim” or “no skim” decision as it happens.
- When the trigger is no longer met then terminate spill skimming operations (as determined by the 8 am daily check).
- The amount of increased production during skimming will be tracked separately so it can be deducted from the withdrawals and not counted against the AAAD of 10 mgd. The table below presents an example of how the plant withdrawals will be tracked.

Daily Check At 8am	Planned Production ¹ (mgd)	Water Surface Elevation (ft)	Spillage (mgd)	Skimming Trigger Met?	Spillage above threshold of 25 (mgd)	Actual Production ² (mgd)	Amount Skimmed ³ (mgd)	Allocated Diversion ⁴ (mgd)
Day 1	9.5	84.97	-	N	-	9.6	-	9.6
Day 2	9.5	85.57	628.5	Y	603.5	13.8	4.3	9.5
Day 3	9.5	85.46	227.5	Y	202.5	14.5	5.0	9.5
Day 4	9.5	85.37	65.5	Y	40.5	14.0	4.5	9.5
Day 5	9.5	85.29	31.2	Y	6.2	11.3	1.8	9.5
Day 6	9.5	85.25	26.0	Y	1.0	9.2	0.0	9.2
Day 7	9.5	85.28	29.9	Y	4.9	9.5	0.0	9.5
Day 8	9.5	85.25	26.0	Y	1.0	9.2	0.0	9.2
Day 9	9.5	85.21	20.7	N	-	9.4	-	9.4

1. Same as monthly plan

2. Reflects that Actual Production can deviate from plan

3. Amount Skimmed = Actual Production minus Planned Production if (Spillage Available > 0) and (Actual Production > Planned Production); otherwise, zero

4. Production volume minus spill volume

Additional Releases

Additional water releases to UWNJ from Lake Deforest above 7.75 mgd shall continue to be considered in accordance with the conditions of NYSDEC WSA 2186 - 6th Modifying Decision. However, no such additional releases will be made without first obtaining the concurrence of NYSDEC.



Hackensack Water Company
Spring Valley Water Company INCORPORATED

(Interoffice Correspondence Only)



DATE: September 21, 1993
TO: Distribution
FROM: Harry A. Russo
SUBJECT: Lake DeForest Reservoir Intercompany Contract

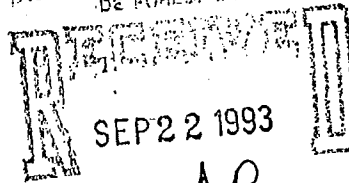
Attached please find copy of the Public Service Commission's Order dated September 16, 1993, approving the Petition of Spring Valley Water Company, Inc. with respect to the Lake DeForest Reservoir Intercompany Contract.

HAR\eob
Attachment:

Distribution:

W. Colford
D. Correll
D. Dugan
F. DeMicco
R. Gerber, Esq.
M. Green
C. Hjelm, Esq.
R. Iacullo
O. Laurino
J. Marino
M. Rothenberg
J. Simunovich
P. Tao
J. Turner

SPRING VALLEY WATER COMPANY, INC.
DE FOREST LAKE



READ BY NR
REFERED TO FILE
ANS. BY _____ DATE _____

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 92-W-0638 - Petition of Spring Valley Water Company, Inc. for approval of the Lake DeForest Reservoir Intercompany Contract.

SAPA NO. 92-W-0638SA1
Effective date of rule:
[] Date of Filing with State
[X] Other: SEPTEMBER 16, 1993

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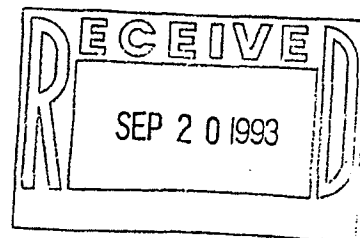
*

I, JOHN J. KELLIHER, Secretary of the New York State Public Service Commission, hereby certify that:

1. The attached Commission action was duly adopted by a unanimous vote of the Commissioners at a session held in the City of Albany on September 9, 1993, pursuant to authority vested in the Commission by the Public Service Law, Section 110(4).
2. Prior notice of the proposed Commission action was published in the State Register on September 23, 1992.
3. Additional prior notice is not required by the Public Service Law or other statutes.

DATE: SEPTEMBER 16, 1993

s/John J. Kelliher
SECRETARY



FILED SESSION OF SEP - 9 1993

Approved as Recommended
and so Ordered
by the Commission

JOHN J. KELLIHER
Secretary

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

ISSUED &
EFFECTIVE SEP 16 1993

September 1, 1993

TO: THE COMMISSION

FROM: WATER UNIT - ENERGY AND WATER DIVISION

SUBJECT: Case 92-W-0638 - Petition of Spring Valley Water Co., Inc.
for approval of the Lake DeForest Reservoir Intercompany
Contract.

SUMMARY OF PROPOSED ACTION:

Commission approval of a contract between Spring Valley Water Company and Hackensack Water Company to allocate the operating expenses associated with Spring Valley's Lake DeForest Reservoir. The allocation would change from a fluctuating number that was based on Spring Valley's usage to a fixed cost allocation, 56% to Spring Valley and 44% to Hackensack. The fixed allocation is based on the ratio between the minimum amount of reservoir water available to Spring Valley versus the minimum amount of water released downstream for Hackensack's use. As a result of this contract, the annual increase in cost to Spring Valley's customers is approximately \$222,000 (0.6%). The subject of the allocation and resulting cost impacts were issues in the recent Spring Valley rate case, with no parties taking exception. Therefore, Commission approval of this contract would not result in any change in Spring Valley's rates.

* * *

Background

In the early 1950's with the advent of the New York State Thruway and the Palisades Interstate Parkway, there was potential for significant growth in population in the territory served by both Spring Valley Water Company and its parent corporation, Hackensack

Water Company, which serves in northern New Jersey. Spring Valley planned to meet that growth through the installation of wells because it wanted to develop that source while the land was still available and reasonably priced, but Spring Valley also recognized that there was only going to be a limited number of well sites and that ultimately there would be a great benefit to having a reservoir.

Hackensack, however, had as its primary source the Hackensack River. The problem with that supply is it was subject to the vagaries of weather and timing. As a result of the winter runoff, tremendous amounts of water passed by Hackensack's pumping station in the spring when the demand was low, and considerably less passed that station during the summer when the demand was high. The normal course of action is to install dams on the river to create reservoirs and to capture the runoff; the further up the river, the better. In this case, the most appropriate location for the installation of such a reservoir was located in Spring Valley's territory, and so Spring Valley and Hackensack entered into an agreement under which Hackensack would provide most of the financial resources necessary to fund the installation. All of the costs associated with the reservoir were allocated under a formula agreed to by the New York State Public Service Commission and New Jersey Board of Public Utilities (now the New Jersey Board of Regulatory Commissioners). It should be noted that during the earliest years of the contract, there was little benefit to Spring Valley in having the reservoir available, and the formula used to allocate costs recognized that fact.

At the time of the original contract, the New York State Water Power and Control Commission (whose functions are now carried out at the Department of Environmental Conservation) approved Lake DeForest Reservoir as a source of supply and required that 9.75 million gallons a day had to be released from the reservoir so as to ensure a flow in the river below the reservoir. Of that amount, 7.75 million gallons a day are allocated to Hackensack. The original contract, which was approved in 1954, has expired, and Spring Valley and Hackensack have entered into a new agreement which has been reviewed and approved by the New Jersey Board of Regulatory Commissioners. The staffs of the New York State Department of Public Service, the New Jersey Board of Regulatory Commissioners, and the Office of Public Advocate for the State of New Jersey, as well as the two companies, were parties involved in the development of the agreement. The contract is now subject to Commission approval.

Discussion

Since the signing of the original contract, circumstances have changed. For all practical purposes from Spring Valley's perspective, Lake DeForest Reservoir has moved from being a little-needed plant to its primary peaking facility. For its part, Hackensack has developed an alternative source of supply. Hackensack's Wanaque South project brings water from the Passaic River Watershed to the Oradell Reservoir. Hackensack has considerably less need to rely upon the downstream releases from the Lake DeForest Reservoir. The provisions of the new agreement reflect that fact. Under the terms of the new 20 year agreement,

the costs associated with the Lake DeForest Reservoir would be allocated 56% to Spring Valley and 44% to Hackensack. These percentages were derived by ratioing the minimum amount of reservoir water available to Spring Valley versus the minimum amount of water released downstream for Hackensack's use. The remaining provisions of the new agreement with the exception of some minor provisions are similar to the original contract.

As a result of this contract, the annual increase in cost to Spring Valley's customers is approximately \$222,000 (0.6%). The allocation and resultant cost impacts were issues in the recent Spring Valley rate case with no parties taking exception. Therefore, Commission approval of this contract would not result in any change in Spring Valley's rates.

Respectfully submitted,



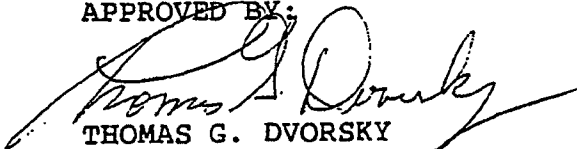
CARL T. ETTER
Associate Valuation Engineer

REVIEWED BY:



VINCENT P. MCGANN
Assistant Director
Water Unit
Energy & Water Division

APPROVED BY:



THOMAS G. DVORSKY
Acting Director
Water Unit
Energy & Water Division

This Agreement dated September 24, 1993 between SPRING VALLEY WATER COMPANY, a corporation organized and existing under the laws of the State of New York, having its principal office at 360 West Nyack Road, West Nyack, New York 10994 ("SPRING VALLEY"), and HACKENSACK WATER COMPANY, a corporation organized and existing under the laws of the State of New Jersey, having its principal office at 200 Old Hook Road, Harrington Park, New Jersey 07640 ("HACKENSACK"); WITNESSETH:

WHEREAS, SPRING VALLEY is engaged in the business of supplying water to inhabitants of the Hackensack River Basin in the state of New York, and HACKENSACK is engaged in the business of supplying water to inhabitants of such basin in the State of New Jersey, and

WHEREAS, SPRING VALLEY owns and operates Lake DeForest Reservoir, consisting of the Lake DeForest outlet works, dam and storage reservoir on the Hackensack River in the Town of Clarkstown, State of New York, which Reservoir has served and will continue to serve to conserve and utilize the waters of the Hackensack River for the benefit of both SPRING VALLEY and HACKENSACK; and

WHEREAS, SPRING VALLEY and HACKENSACK entered into a certain Agreement dated August 4, 1989, which Agreement was a successor to the original Lake DeForest Agreement dated August 4, 1954, and provided for the allocation of the Annual Operating Charge for the

operation of Lake DeForest Reservoir, and the payment by HACKENSACK to SPRING VALLEY of an Annual Payment to SPRING VALLEY in connection with the operation of such reservoir; and

WHEREAS, the said Agreement by its terms provided that it was subject to the approval of the Public Service Commission of the State of New York (PSC) and the Board of Regulatory Commissioners of the State of New Jersey (BRC); and

WHEREAS, after meeting with the PSC Staff, BRC Staff, and Division of Rate Counsel, Department of the Public Advocate, Hackensack and Spring Valley executed a modification in writing to the said August 4, 1989 Agreement on May 21, 1991, which modification was intended to become effective upon approval by the PSC and BRC; and

WHEREAS, after further meeting, discussion and negotiation with the said parties, Hackensack and Spring Valley propose to enter into the Intercompany Agreement more fully set forth herein ("the Agreement"), which fully incorporates the changes agreed upon by the parties, and which Agreement will terminate and cancel the August 4, 1989 Agreement and May 21, 1991 modification thereto;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, HACKENSACK and

SPRING VALLEY (hereinafter sometimes "the parties") agree as follows:

1. In consideration of the benefit of the stream flow releases to be received from the operation of the Reservoir, HACKENSACK will make an Annual Payment in an amount as described herein for each year or fraction thereof the Reservoir is operated by SPRING VALLEY.

2. In consideration of the Annual Payment made by HACKENSACK to SPRING VALLEY, SPRING VALLEY will operate and maintain the Reservoir in an economical and efficient manner and in compliance with applicable law and regulations, so as to maintain the maximum dependable supply of water from the watershed of the Hackensack River above tidewater, consistent with the Rule Curve.

3. Definitions. For purposes of this Agreement, the following definitions shall apply:

A. ANNUAL OPERATING CHARGE ("AOC") - The Annual Operating Charge shall be the aggregate of:

1. All direct costs for labor and material incurred in connection with the operation and maintenance of the Reservoir and chargeable to

operating expense in accordance with the Uniform System of Accounts for Water Corporations of the Public Service Commission of New York.

2. All taxes levied or assessed on or in respect of, the Reservoir, together with any charges and expenses incurred in contesting same. The Annual Operating Charge shall not include any tax liabilities that are based upon or measured by the income of SPRING VALLEY.

3. All costs, if any, chargeable to operating expense in accordance with the Uniform System of Accounts for Water Corporations of the Public Service Commission of New York, not covered by insurance, arising from injury to person or property in connection with the Reservoir.

4. A fair charge by SPRING VALLEY for management and overhead expense properly allocable to the operating expense of the Reservoir.

5. Depreciation of the Reservoir at the rate of 1% per annum (or such other rate as may be approved by the Public Service Commission of New York) of the cost of depreciable property included therein

determined in accordance with the Uniform System of Accounts for Water Works Corporations of the Public Service Commission of New York.

6. Return on Capital Investment - a sum sufficient to provide to SPRING VALLEY that rate of return per annum which SPRING VALLEY may be authorized to earn, before income taxes, from time to time in accordance with the latest decision and order of the Public Service Commission of the State of New York upon HACKENSACK'S Allocable percentage of the Depreciated Cost of the Reservoir for such year. The computation of the amount of income taxes to be reimbursed to SPRING VALLEY shall be based on the actual income and expense associated with the DeForest Reservoir operation. In addition, the tax computation will include a deduction for interest which shall be calculated by multiplying the weighted cost of debt component of the authorized rate of return by the Depreciated Cost of the Reservoir. The Depreciated Cost of the Reservoir for any year shall be the average, as at the beginning and the end of the year in question, of the cost (determined in accordance with the applicable regulation of the Public Service Commission of New York) of the Reservoir, less

accrued depreciation thereon at the rate of 1½ per annum (or such other rate as may be approved by the Public Service Commission of New York) of the cost of depreciable property.

7. Should the Public Service Commission of New York determine that it is appropriate to reflect a consolidated tax adjustment in the revenue requirements of Spring Valley Water Company, the calculation of the DeForest "AOC" will likewise reflect its allocable portion of said consolidated tax adjustment.

B. ANNUAL PAYMENT - The Annual Payment is the portion of the Annual Operating Charge for a given year allocated to HACKENSACK pursuant to this Agreement, calculated in accordance with this Agreement, and paid to SPRING VALLEY by HACKENSACK.

C. SAFE YIELD - The Safe Yield of the Reservoir is defined as that amount of water which can be continuously withdrawn from the Reservoir during a period of drought equivalent to the worst drought of record in the State of New York. For purposes of this contract, the safe yield has been determined to be 19.75 MGD.

D. NYACK ANNUAL DIVERSION ("NAD") - The annual average monthly diversion of the village of Nyack pursuant to the Water Power and Control Commission decision of July 23, 1952, in Water Supply Application No. 2189, and the Settlement Agreement dated November 17, 1972, in Hackensack Water Co. v. The Village of Nyack, U.S.D.C., S.D.N.Y., Docket No. 67, C.V. 2572 and Village of Nyack v. Spring Valley Water Company, Inc., Supreme Court of New York, Rockland County, Index No. 6042-71. For purposes of this agreement, average annual monthly diversions in excess of 2 MGD shall be treated as diversions of 2 MGD by Nyack.

E. RULE CURVE - A statistical model adopted by the State of New York, which governs the operation of the Lake DeForest Reservoir and is intended to safeguard 10 MGD annual average draft to SPRING VALLEY from Lake DeForest, and 9.75 MGD annual average release from Lake DeForest, during the period of the most severe drought of record, all as more fully defined by the State of New York, Department of Environmental Conservation, Water Supply Application No. 2189, Sixth Modifying Decision, dated November 1, 1982.

F. SPRING VALLEY'S ALLOCATED AVERAGE ANNUAL DIVERSION ("AAAD") - SPRING VALLEY'S allocated average annual

diversion ("AAAD") is 10 MGD, the amount reserved to SPRING VALLEY in accordance with the State of New York, Department of Environmental Conservation, Sixth Modifying Decision, November 1, 1982, Application No. 2189. In the event SPRING VALLEY draws more than 10 MGD on an average annual basis, HACKENSACK and SPRING VALLEY agree that this Agreement will be revised to reflect Spring Valley's actual AAAD. Specifically, Hackensack's Annual Payment will be reduced to reflect the actual AAAD.

4. HACKENSACK'S ANNUAL PAYMENT COMPUTATION

A. HACKENSACK's Annual Payment is calculated by first finding the quotient, where the numerator is the Safe Yield (19.75 MGD) less the AAAD (10 MGD) and the NAD (2 MGD), and the denominator is the Safe Yield (19.75 MGD) less the NAD (2 MGD) for the year.

The quotient of the division, expressed as a percentage, and rounded to the nearest whole number (44%), is then multiplied by the AOC.

The product of the multiplication, in dollars, is HACKENSACK'S Annual Payment.

The numbers referred to herein shall be used for the duration of this Agreement, subject to the renegotiation provisions hereof.

B. HACKENSACK'S Annual Payment shall be estimated in December of the previous year, and finally adjusted to actual charges as of December 31 of the year for which the Annual Payment is being made.

5. MISCELLANEOUS:

A. The term of this Agreement shall be twenty years, except that the parties agree that the occurrence of any of the following events shall constitute cause for renegotiation if such event shall occur sooner.

1. A material change in the Safe Yield of the Lake Deforest Reservoir.
2. A change in the Settlement Agreement governing the Nyack Annual Diversion or a substantial change in the Diversion itself.
3. A change in the Rule Curve.

In the event any of the foregoing shall occur, either party may serve notice in writing on the other of an intention to renegotiate this Agreement. Any modifications to this Agreement which result from a

renegotiation shall be subject to the approval of the Public Service Commission of the State of New York, the Board of Regulatory Commissioners of the State of New Jersey and any other regulatory bodies, if any, having jurisdiction in the premises.

B. All covenants and agreements herein by or on behalf of HACKENSACK or SPRING VALLEY shall bind their respective successors and assigns, whether so expressed or not.

C. Nothing herein shall be deemed a waiver by HACKENSACK or SPRING VALLEY of any rights which either of them may have as a riparian owner or any other water rights either may have in the Hackensack River, or any rights either of them may have against the Village of Nyack.


D. In the event that a dispute should arise between SPRING VALLEY and HACKENSACK as to whether SPRING VALLEY is operating the Reservoir in accordance with the terms of this Agreement, the dispute will be referred for determination to a committee, to be composed of one member designated by SPRING VALLEY, one member designated by HACKENSACK, one member who shall be selected by HACKENSACK and SPRING VALLEY, and who shall be a


recognized expert in the area under dispute; one member designated by the New Jersey Board of Regulatory Commissioners; one member designated by the Department of the Public Advocate, Division of Rate Counsel, State of New Jersey, and two members designated by the Public Service Commission of the State of New York.

E. This Agreement shall be subject to the approval of the Public Service Commission of the State of New York, the Board of Regulatory Commissioners of the State of New Jersey and other regulatory bodies, if any, having jurisdiction in the premises. Upon approval of this Agreement by both the New York Public Service Commission and the New Jersey Board of Regulatory Commissioners, the Agreements dated August 4, 1989, and the modification in writing dated May 21, 1991, herein referred to shall be cancelled and terminated.

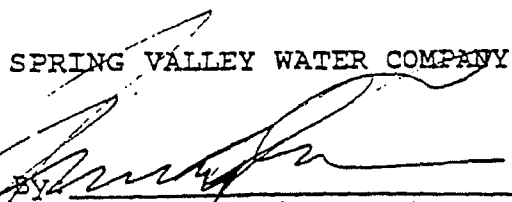
IN WITNESS WHEREOF, SPRING VALLEY and HACKENSACK have caused this Agreement to be executed by their proper officers the day and year first above written.

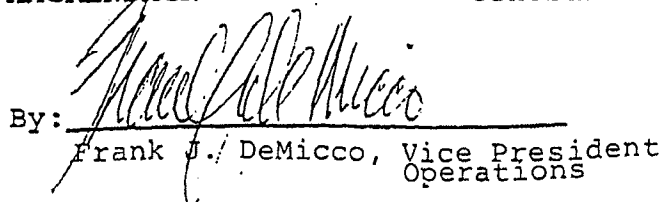
ATTEST:


 Patricia Davidson, Assistant
 ATTEST: Secretary


 Patricia Davidson, Assistant
 Secretary

SPRING VALLEY WATER COMPANY


 By: Mark D. Rothenberg, Vice President &
 HACKENSACK WATER COMPANY General Manager


 By: Frank J. DeMicco, Vice President
 Operations