CALIFORNIA PUBLIC UTILITIES COMMISSION
Water Division

CONTRACTS AND DEVIATIONS

AND MAIN EXTENSION AGREEMENTS

UNDER GENERAL ORDER 96-B

Standard Practice U-17-W

SAN FRANCISCO, CALIFORNIA
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160492 v.3

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A—PURPOSE AND SCOPE

1. The purpose of this Standard Practice is to provide guidance to water and sewer utilities and to Commission staff on filing and processing requests for deviations to rates and standard contracts. It also contains a history and definition of the Main Extension Rule.

2. Deviations to this Standard Practice require approval of the Director of the Water Division.

B—BACKGROUND

3. Uniform Main Extension Rules have been around since the late 1940s as Rule and Regulation Number 20. Although there were some variations, most rules for individual main extensions required the water company to pay the full cost of facilities if the new mains were extended no more than 100 feet (or 150 feet) per service connection. If the extension were longer, the applicant was required to advance the estimated cost of the excess footage, but did not have to pay for more than a 4 inch main, and nothing for special facilities (additional water supplies, storage capacity or pumping equipment). The advance was subject to refund without interest as other customers were added to the line, in payments equal to the actual cost of 100 feet or 150 feet of main extension, within 90 days after installation of each new service connection, for a period of ten years. Developers were required to advance the full estimated cost of the facilities, subject to adjustment to actual cost for everything but service connections and meters. The advances were refunded at 35% of the revenues received from the new customers for ten years. Under these rules many water companies could not provide the refunds from normal revenues and actually had to borrow money to make the payments. The California Committee on Revision of Water Main Extension Rules and Regulations was formed to address these problems and propose rules that would make the main extensions self supporting.

4. On September 28, 1954, in Decision No. 50580, the Commission standardized the Main Extension Rule. It determined that the applicant for an extension is required to advance the

estimated reasonable cost of the extension to the water company, or, alternatively, a developer could install the facilities if authorized by the water company. The advance was to be refunded without interest for 20 years at the rate of 22 percent of revenue received from the new customers. If 80 percent of the expected new customers actually received service during that time, the company was to repay the entire advance. Special facilities advances were to be refunded to the developer on a pro rata basis as new customers were added. Advances to individuals were at no cost if 50 feet or less of main extension was required (originally D50580, September 28, 1954 said 65 feet, but this was reduced by D.60536, November 8, 1962 in a reopened C.5501). If over 50 feet, the customers had to advance the cost. These customers were paid back for up to ten years as other customers were connected to the extension. Whenever the unrepaid advances plus the next requested advance exceeded 50 percent of the water utility's capitalization, the company had to request authorization from the Commission for new main extensions. Often the Commission would require that the next main extension be contributed.[1]

5. On April 15, 1975, as a result of D.84334 which modified General Order 103 Fire Protection Standards, the Commission opened Case (C.) 9902 to see if updates to the Main Extension Rule were required. This proceeding was amended by D.87507 on June 28, 1977 to consider compensation to a water company when contributed facilities were condemned, and further by D.87934, October 4, 1977, to address the financing of fire protection improvements. Finally C.9902 was modified on November 28, 1978, by D.89695 to address three other issues. D.89695 ordered staff to prepare a report, which was issued on January 29, 1980. The Case was decided by D.81-06-062, January 19, 1982. This decision was appealed by the California Building Industry and Neptune Investment Company on February 18, 1982. The Application for Rehearing was rejected by D.82-04-070. April 8, 1982, but that decision allowed the developer to appeal to the Commission if the requirement to contribute plant was thought to be unreasonable.

C—MAIN EXTENSION RULE

6. D.82-06-062 determined the following:

a. The Free Footage Allowance for water should be eliminated.
b. For Extensions in excess of 100 feet, the cost of 100 feet of Extension should be paid by each new customer hooking into the extension and refunded to the original applicant, for ten years.
c. Extensions for Fire Protection were subject to the Main Extension Rule
d. Utilities were required to notify the Commission whenever advanced contract balances reached 40 percent of total capitalization.
e. "Real estate developer" or "builder" was broadened to include individuals who built and sold individual structures on a continuing basis.
f. Facilities owned by a political subdivision (such as fire hydrants) but used and maintained by the water company were not subject to advance contracts.
g. Utilities could refuse to provide advance contracts and require the facilities be provided as a contribution, but the Commission was concerned that the

[1] D. 82 01 62, January 10, 1982, at 2a

contributions would not qualify for Investment Tax Credit and would not be depreciable for tax purposes.

h. Advance Main Extension Contracts would run for 40 years, with refunds at 2 ½ percent per year.
i. Special Facilities were subject to Advance Contracts and were refunded as a percentage of the total number of lots being served. Subsequent builders would share the cost of special facilities.
j. Advance contracts could be terminated in accordance with a new maximum payment schedule.

7. It also urged the water utilities to have the local building permitting agencies adopt regulations requiring 3 ½ gallon flush toilets, 3 gallon per minute shower heads and two gallon per minute kitchen and lavatory faucets.[2]

8. The Rule also provided for nonrefundable contributions if the utility considered the main extension to be non-economic.

9. OIR 90-07-004, July 6, 1990, invited comments on whether to amend GO 103 and Water Tariff Rules 15 and 16 to revise funding of water main extension costs, and permit assessment of service connection fees and facilities. It decided, based upon comments, to return the number of feet that would be reimbursed to the customer who paid for the original main extension to 100 feet but made no other changes to the main extension rules.

10. Decision 01-08-059, August 23, 2001 interpreted the refund to the main extension footage slightly. It ordered San Jose Water Company to refund a proportional share ($13,200 per parcel) of the cost of installing a 16 inch main rather than the cost of 100 feet of main, to serve the Campbell Technology Park. This is consistent with Commission policy, however, since the use of 100 feet was based upon the average expected residential lot frontage.

11. Main Extension Contracts. Each Utility has standard adopted fill-in-the-blank Main Extension Contracts in the Forms section of its tariffs. If it uses these standard contracts, it does not need to get Commission approval to enter into the contract. If it deviates from these contracts it should file an advice letter per Contracts and Deviations below.

D—SPECIAL FACILITIES

12. Rule 15 paragraph C.1.b reads:

> "If special facilities consisting of items not covered by Section C.1.a are required for the service requested and, when such facilities to be installed will supply both the main extensions and other parts of the utility system, at least 50 percent of the design capacity (in gallons, g.p.m., or other appropriate units) is required to serve the main extension, the cost of such special facilities may be included in the advance."

[2] D.90-12-005, December 6, 1990, Ordering Paragraph 2

13. In an argument with California Water Service Company (Cal Water), Webb Homes filed a complaint, C.96-11-009, November 12, 1996 that was resolved by a stipulation which assessed the special facilities charge on a per lot basis and applied this process to all developers in Cal Water's Chico district. This method would also "no longer have an incentive to downsize subdivisions in order to avoid paying an advance pursuant to the current Rule."[3] The Commission approved this approach in Conclusion of Law 1 of D.97-09-044, September 3, 1997.

14. By A.02-02-030, February 28, 2002 California American Water Company (CalAm) stated that:

> "In a planned development are as large as Dry Creek, the first developer to proceed would be faced with advancing the cost of shared facilities that must be greatly over-sized to serve both the customers it would bring on the system and those other developers would bring later. The first developer would eventually receive refunds as other developers arrive and advance or contribute their shares, but being first would nonetheless impose a significant financial burden."[4]

15. By D.06-06-054, June 27, 2002 the Commission adopted the utility's proposal and authorized the utility to file appropriate changes to its tariffs. The decision noted that the Special Facilities Fee would be $750, would "cover the net revenue requirements of the associated plant over the life of the facilities, and CalAm would propose future fee adjustments as necessary for variation in the number of services or construction costs."

E—TAXABILITY OF CONTRIBUTIONS IN AID OF CONSTRUCTION

16. When a developer applies to a public utility for a service extension to provide water or sewer service to a new area, under the Main Extension Rule, the developer pays the utility money or property which is termed Contributions in Aid of Construction or CIAC. Prior to October 1986, these CIAC were exempt from Federal income tax and consequently had no effect on either the utility's ratemaking.

17. In October 1986, Congress passed Public Law 99-514, the Tax Reform Act of 1986 (the Act). The Act changed matters by requiring utilities to include CIAC in income for federal taxation purposes. As a result, unless the CIAC were "grossed-up" to account for the taxable effect of the contribution on the utility, the CIAC would not be adequate to compensate the utility for its construction costs, thereby requiring the utility, and ultimately its ratepayers, to absorb the shortfall. So the Commission instituted Investigation (I.) 86-11-019 to determine "methods to be used to establish the proper levels of expense for ratemaking purposes for public utilities and other regulated entities due to changes resulting from the Act." The investigation resulted in *Re Tax Reform Act of 1986* (1987) 25 CPUC2d 299, (D.87-09-026) which allowed utilities to gross-up the amount of a developer's CIAC to mitigate the ratemaking effect of including the CIAC in the utility's taxable income. By making the total amount of the developer's contribution income tax

[3] D.97-08-044, September 3, 1997 at 3
[4] D.02-06-054, June 27, 2002 at 2

neutral, the Commission made existing customers indifferent to the utility acquiring the additional customers. For water utilities the Commission authorized use of either of two methods to ensure that the collections from the developer were revenue neutral.[5] To achieve this objective the Commission's decision included Conclusion of Law (COL) 12, which provided:

> "If a utility is not in a taxable position in the year that it receives a contribution or refundable advance, there is no tax liability. The tax gross-up received from the contributor under Method 2 or Method 5 should then be refunded to the contributor. If a utility collects a gross-up using an incremental tax rate that is more than its incremental rate, as determined on a ratemaking basis, the difference between what was and what should have been collected should be refunded to the contributor."

Unfortunately, Conclusion of Law 12 did not define the circumstances under which a utility's "taxable position" would preclude the assessment of a gross-up. And the requirement that a utility determine the effect of the CIAC on its incremental tax rate on a "ratemaking basis" added further confusion.

18. On October 4, 1994, Castlerock Estates, Inc. (a developer), Toro Water Service, Inc., and California Utilities Service Inc., filed a petition to modify COL 12 of D.87-09-026. According to the filing, the COL did not take into account that utilities might have a tax loss carry-forward or tax credit that meant that they paid at a lower than normal tax rate or no tax at all. Under the wording of the original COL, the utility would have to refund all of the gross-up for taxes in those years. The Commission clarified COL 12 in D.96-10-037, dated October 9, 1966. It said that, because the tax gross-up should be revenue neutral, the utility's tax loss carry forward and other tax credits should not be used to offset the contributor's tax liability. It ordered COL 12 in D.87-09-026 rescinded and replaced it with language that made the contributor pay gross up based on the incremental tax rate without consideration of those adjustments. It also added the same language to the water utilities' Rule 15.

19. In 1996 the National Association of Water Companies managed to get language into the Small Business Job Protection Act that repealed taxes on CIAC for water and sewerage utilities for amounts received after June 12, 1996. After the State of California conformed its tax rules to mirror the federal law, all water and sewer system utilities filed to take the gross-up provision out of their tariffs.

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[5] The optional methods offered were:

Method 2 provides for complete gross-up by the contributors at the utility's incremental federal tax rate. The grossed-up portion of the contribution would be used to pay the applicable taxes. The amount remaining after taxes are paid would be credited to the appropriate plant account as was done under pre-tax law.

Method 5 places the tax burden on the contributor but mitigates the burden by requiring, in addition to the plant contribution, only the present value and the future tax-burden. The gross-up is calculated by using the utility's incremental federal tax rate. As the payment by the contributor, by definition, does not completely pay the tax, the utility pays the difference, rate bases the tax on the CIAC net of gross-up, and recovers the difference over time in rate of return, thus causing the ratepayers to share the burden of the tax.

Toro selected Method 5, while Cal Utilities selected Method 2. Under Method 5, a developer was obligated to advance a gross-up tax payment of an additional 28% on all CIAC amounts. Under Method 2, a developer was obligated to advance to Cal Utilities an additional 51.5% on all CIAC amounts.

20. In 1998, the IRS announced that it was considering reclassifying CIAC receipts for single-customer service lines (the pipe and fittings from the distribution main, the meter box, and the meter to serve a single customer) as taxable income. Both the NAWC and the National Association of Regulatory Utility Commissioners opposed this change, but, on January 6, 2001, the IRS issued a rule adopting it. Because it had not been clear whether service laterals should be taxed, according to the IRS, the change was not made retroactive.

21. By Resolution W-4263, April 19, 2001, the Commission approved the grossing up of service laterals for income taxes. It added the language in Appendix A to all water utilities' Rule 15. It also added the following language to a main extension contract forms:

> "The utility shall inform Applicant of the final cost of the installation of all service laterals and the resulting tax paid thereon."

and

> "In the event that the Utility collects a gross-up using an incremental tax rate that is more than its incremental tax rate as determined on a taxable year basis, without consideration of a tax credit or tax loss carry forward, the difference between what was and what should have been collected will be refunded to the Applicant."

F—CONNECTION AND FACILITIES FEES

22. See **SP U-28-W -- Collecting And Processing Fees And Charges Under General Order 96-B** for the derivation and application of Connection Fees and Facilities Fees. Connection Fees are calculated using the Connection Fee Data Form in the tariff book and are based on average costs to install service connection facilities except that the actual costs of purchasing and installing the meter box and meter shall be charged to the customer per G. O. 103 V. 2. a. (2) and Water Code Section 110. Facilities Fees are established by Commission Resolution or Decision and are explicit in the Tariffs.

F—CONTRACTS AND DEVIATIONS

23. Section 532 of the Public Utilities Code states:

> **532**. Except as in this article otherwise provided, no public utility shall charge, or receive a different compensation for any product or commodity furnished or to be furnished, or for any service rendered or to be rendered, than the rates, tolls, rentals, and charges applicable thereto as specified in its schedules on file and in effect at the time, nor shall any public utility engaged in

> furnishing or rendering more than one product, commodity, or service, charge, demand, collect, or receive a different compensation for the collective, combined, or contemporaneous furnishing or rendition of two or more of such products, commodities, or services, than the aggregate of the rates, tolls, rentals, or charges specified in its schedules on file and in effect at the time, applicable to each such product, commodity, or service when separately furnished or rendered, nor shall any such public utility refund or remit, directly or indirectly, in any manner or by any device, any portion of the rates, tolls, rentals, and charges so specified, nor extend to any corporation or person any form of contract or agreement or any rule or regulation or any facility or privilege except such as are regularly and uniformly extended to all corporations and persons. The commission may by rule or order establish such exceptions from the operation of this prohibition as it may consider just and reasonable as to each public utility.

24. Generally, the request for such authorization is by application, but if the deviation is of a minor nature, such as to a small number of customers, is a modest change from tariff conditions for good reason, or if the deviation is justified by a simple analysis, or is temporary, the request may be by advice letter. The utility files four copies of the advice letter with changes to its List of Contracts and Deviations and Table of Contents tariff sheet and with the contract attached. The utility serves one copy of the advice letter with the contract on each affected customer and the appropriate service list (see Standard Practice U-9-W for a discussion of appropriate service lists).

25. The assigned analyst will evaluate the contract for reasonableness. For example, if the contract is to provide water to a golf course at a lower rate in order to keep the golf course from drilling its own well, the analyst must make sure the contract rate covers all variable costs and provides some additional contribution to revenues. The analyst will always make sure the contract contains the following provisions:

> "This contract shall not become effective until authorization of the Public Utilities Commission of the State of California is first obtained."

and

> "This contract shall at all times be subject to such changes or modifications by the Public Utilities Commission of the State of California as said Commission may, from time to time, direct in the exercise of its jurisdiction."

26. If the contract is not protested and the analyst finds nothing in the contract that adversely affects the remaining customers, the advice letter becomes effective on regular statutory notice. If there are protests or if the impact on other customers or if the reasonableness of the contract is not clear, the advice letter should be disposed of by resolution. The resolution may or may not allow

the contract to become effective pending resolution of these issues and may order the utility to file an application to determine reasonableness.

G—CONTRACT DISPUTES

27. The Commission generally does not adjudicate Main Extension or other contract disputes between a consumer and a utility. Since the Commission has no jurisdiction to award damages, the courts have held that complaints alleging breach of contract should be brought in civil courts. (See, Crystal River Oil and Gas v. Pacific Gas & Electric Co., D.00-10-005; see also Hempy v. Public Utilities Commission (1961) 56 Cal.2d 214).

F—FIRE HYDRANT SERVICE AGREEMENT

28. Fire Hydrant Service Agreement. The Commission encourages all water utilities to provide fire hydrant service by agreement between the utility and the fire protection agency responsible for the use of the hydrants. Each water utility is expected to make all reasonable effort to make or renew agreements advantageous to the utility and its customers. When a written agreement is entered into that requires the utility to be responsible for all or any portion of the capital expenditures or maintenance costs, such costs may be included in the utility's general plant accounts and operating expenses for ratemaking purposes.[6] An example Fire Hydrant Service Agreement is in Appendix B.

[6] General Order 103, Section VIII. 4.

e. Income Tax Component of Contributions and Advances Provision

1. Contributions in Aid of Construction and Advances for Construction shall include, but are not limited to, cash, services, facilities, labor, property, and income taxes thereon provided by a person or agency to the utility. The value of non-cash contributions and advances shall be based on the utility's estimates. Contributions and advances shall consist of three components for the purpose of recording transactions as follows:

   (a) Income Tax Component (ITC), and
   (b) The portion of the contribution or advance attributable to service laterals
   (c) The balance of the contribution or advance.

2. The ITC shall be calculated by multiplying the balance of the service lateral contribution by the tax factor of 28.0% or the service lateral advance by the tax factor of 30.0%.

3. The tax factors are established by using Method 5 as set forth in D.87-09-026 in I.86-11-019.

4. The formula to compute Method 5 includes the following factors:

(a) State Franchise tax rate of	8.84%
(b) Federal Income tax rate of	34.0%
(c) A discount rate of	9.4%
(d) A pre-tax rate of return of	12.75%
(e) Cost of debt of	0.10%
(f) Return on equity of	9%
(g) Capital ratio (debt:equity)	40:60
(h) Net to gross	1.65

5. The ITC tax factor has been derived from the corporate rate and it will remain in effect until the utility's net taxable income changes to the extent that the gross-up rate would increase or decrease by five percentage points or more. When and if that occurs, the utility will file an advice letter showing the new rates and cancel out this sheet.

6. In the event that the Utility collects a gross-up using an incremental tax rate that is more than its incremental tax rate as determined on a taxable year basis, without consideration of a tax credit or tax loss carry forward, the difference between what was and what should have been collected will be refunded to the Applicant.

APPENDIX B

UNIFORM FIRE HYDRANT SERVICE AGREEMENT

A G R E E M E N T

THIS AGREEMENT, was entered into on _____ 20___, between the

_____

_____ a municipal corporation, referred to as "Fire Agency" and

_____ a California public water utility corporation, referred to as "Water Purveyor".

DEFINITIONS

A. "Fire Agency" means the fire department of the city, county, or city and county of the State of California, or of the fire protection district or other political subdivision of the State of California which engages in fire suppression and prevention.

B. "Water Purveyor" means the public utility water corporation indicated above which is subject to the jurisdiction of the Public Utilities Commission of the State of California.

RECITALS

A. Fire Agency desires to secure an adequate level of fire hydrant service and additional fire hydrant service, from time to time, in that portion of Fire Agency's jurisdiction which is within Water Purveyor's service area.

B. Water Purveyor is willing to furnish existing fire hydrant service and additional fire hydrant service to Fire Agency to the extent of its ability.

THEREFORE, the parties agree as follows:

1. Water Purveyor shall furnish to Fire Agency fire hydrant service in Water Purveyor's _____ service area as shown on attached Exhibit "A", in accordance with the terms and conditions of this agreement.

2. Service under this agreement is for public fire hydrants connected directly to Water Purveyor's mains located in named roadways or in areas to which the public generally has access. It is specifically agreed that private fire protection service is notincluded.

3. There shall be no charge for supplying fire hydrant water service or facilities under this agreement.

4. Water supplied at no charge by Water Purveyor for fire hydrants covered by this agreement is to be used by Fire Agency only for fire suppression and training and for no other purpose. For water delivered through fire hydrants for any other purpose, charges will be made at the quantity rate under Water Purveyor's Schedule for General Metered Service.

5. Water Purveyor will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

6. Water Purveyor shall allow additional public fire hydrants to be installed on existing or new mains at the cost of Fire Agency, except as set forth, and at locations to be designated in writing by Fire Agency.

7. The installation of additional fire hydrants shall be mutually agreed upon but shall be done only upon written approval from Fire Agency, designating the number, type, and location of such additional fire hydrants. No extensions to the water mains of Water Purveyor will be required of Water Purveyor for the purpose of servicing fire hydrants in addition to those fire hydrants now installed unless such main extension is paid for by developers or parties other than Water Purveyor.

8. Installation of hydrants to serve land divisions, land developments, or special land uses is the responsibility of the developer at no cost to either Fire Agency or Water Purveyor.

9. Water Purveyor shall notify Fire Agency of any reconstruction, replacement, or relocation by Water Purveyor of its system which may require the relocation, replacement, reconstruction, or reconnection of any existing hydrant. If any such relocation, reconstruction, replacement, or reconnection of any existing hydrant is required, Water Purveyor shall install at its cost fire hydrants approved by Fire Agency at the locations designated by Fire Agency during such relocation, reconstruction, or replacement, including such additional fire hydrants at Water Purveyor's cost as may be mutually agreed upon by Water Purveyor and Fire Agency.

10. In the event that the actions of a public agency other than Water Purveyor or Fire Agency require the relocation of any existing fire hydrant, Water Purveyor shall relocate that fire hydrant, or a fire hydrant of the same type and kind at no cost to the fire Agency.

11. Fire Agency shall be responsible for the cost of only those hydrant installations and upgrades which have been designated in writing by Fire Agency. Fire Agency may elect to contract with Water Purveyor for providing the work, materials, and supervision required in connection with any installations and upgrades designated in the preceding sentence.

12. All public fire hydrant installations installed on the water system shall be the property of Water Purveyor.

13. Water Purveyor will notify Fire Agency when new hydrants ordered by Fire Agency are placed in service by Water Purveyor, and Fire Agency will notify Water Purveyor when hydrants installed by Fire Agency are to be placed in service. Water Purveyor will notify Fire Agency of any fire hydrants that are out of service due to construction or repair of any part of the system.

14. Fire Agency may accomplish such minor maintenance to the fire hydrants as does not require special knowledge or tools. Such maintenance shall only include replacement of hydrant caps, hydrant pentagon nuts, locking nuts, tightening of the packing, removal of weeds around the hydrant, and such other minor maintenance as Fire Agency and Water Purveyor may mutually agree upon.

15. Water Purveyor shall be responsible for the cost of all fire hydrant repairs, including those brought about by traffic accidents, vandalism, or other causes. Repairs shall include damage to all street improvements and any other property. Fire Agency will cooperate with Water Purveyor in the identification of third parties responsible for damage to fire hydrants.

16. Water Purveyor shall maintain, repair, relocate, replace, and remove or cause to be maintained. repaired, relocated, replaced, and removed all fire hydrants installed on the water system, except as otherwise agreed to.

17. Fire Agency shall whenever possible protect Water Purveyor from water loss, or damage to property by water, when fire hydrants are damaged by traffic accidents or other causes.

18. Fire Agency shall annually inspect all fire hydrants within its jurisdiction to ensure that the fire hydrants are mechanically operable and capable of delivering water. Fire Agency shall notify Water Purveyor in writing of any maintenance requirements as soon as possible after such inspections and at any other time it becomes aware of maintenance requirements.

19. Water Purveyor shall have the right to use any fire hydrant for any reasonable use in connection with its business as a public utility, including, without limitation, fire flow tests, flushing, blowing off its distribution system, and delivering construction water. A Fire Agency permit must first be obtained before any construction or irrigation meter is attached to any fire hydrant for use by a person other than Fire Agency or Water Purveyor. Construction and irrigation meters shall be designed so that all hydrant outlets are readily accessible at all times to Fire Agency in the event of a fire.

20. Fire Agency may perform fire flow tests on any hydrant provided it notifies Water purveyor prior to making any such test, furnishes Water Purveyor copies of all data collected, and postpones any such test if Water Purveyor notifies Fire Agency that such test will interfere with the normal operation of the system.

21. Only qualified Fire Agency or Water Purveyor personnel shall operate fire hydrants for fire flow tests.

22. Nothing contained in this agreement shall be construed to require Water Purveyor to install new fire hydrants within any area which shall be included in whole or in part within the area served by any other water entity or within the area of any other fire agency. Water Purveyor may elect to discontinue fire hydrant service under this agreement to any fire hydrants which it may designate in the event those fire hydrants shall be included within the area served by any other fire agency.

23. Additional operating hydrants located within the jurisdiction of Fire Agency which are acquired by Water Purveyor from other entities shall be subject to the provisions of this agreement.

24. This agreement shall remain in effect for a period of one year from the date hereof and shall remain in effect for additional one year periods, unless either party shall, at least 30 days prior to the expiration date of any one year period, notify, in writing, the other party to this agreement that said party desires to cancel this agreement, in which event this agreement shall terminate upon the expiration date of such current one year period.

25. This agreement shall at all times be subject to such changes or modifications by the Commission as the Commission may from time to time direct in the exercise of its jurisdiction.

26. IN WITNESS WHEREOF, the parties have caused this agreement to be executed by their duly authorized officers.

27. By _____

28. Its _____

29. Fire Agency

By ____

Its _____________________________________

Water Purveyor